



# Federal Support for Credit Markets and Commercial Real Estate Finance

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**“Hi, we are from the government and we are here to help you!”**



# Table of Contents

- I. Term Asset-Backed Securities Loan Facility (TALF)
- II. Public – Private Investment Program (PPIP)
- III. Existing CMBS – The Final Frontier

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## Term Asset-Backed Securities Loan Facility (TALF)

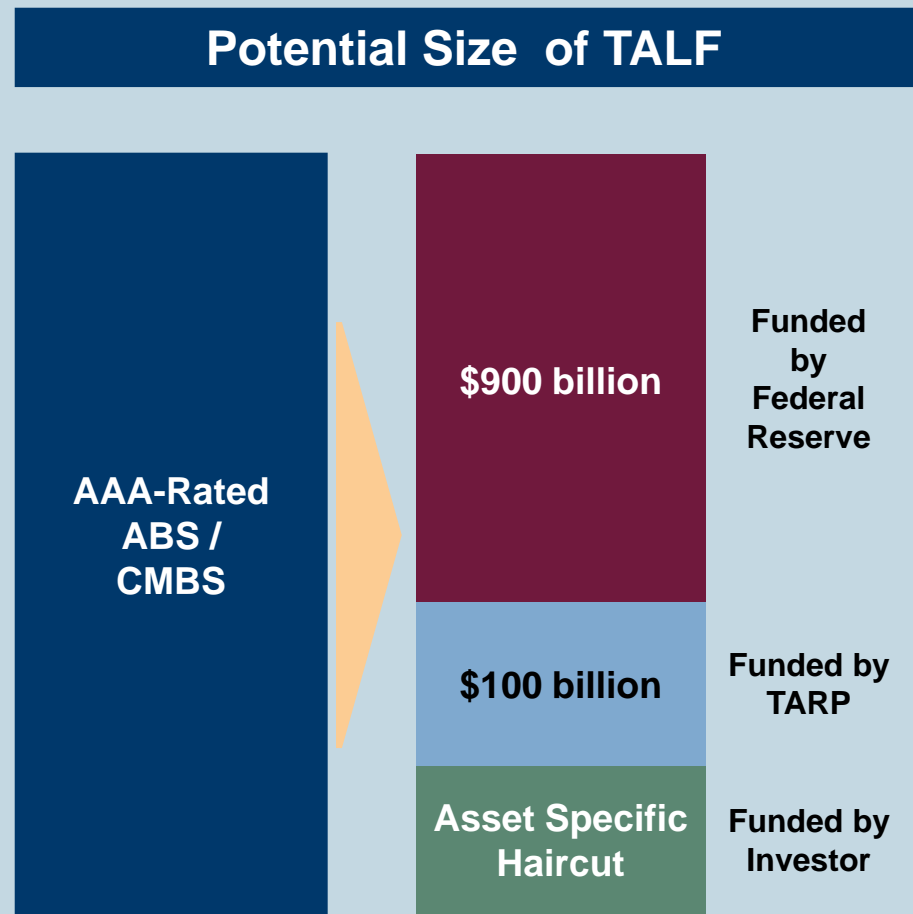


# TALF – Overview

- Announced November 25, 2008
- The government's objective is to lend up to \$1 trillion to revive the Asset Backed Securities (ABS) market and consumer lending
- On March 3<sup>rd</sup>, the Federal Reserve announced it is prepared to expand eligible collateral to include newly issued AAA CMBS collateral ("TALF 2.0")
- On March 23<sup>rd</sup>, further expansion plans announced, to include "legacy" AAA-rated RMBS / CMBS as eligible collateral ("TALF 3.0")
- TALF was officially launched on March 17<sup>th</sup>
- TALF will stop lending on December 31<sup>st</sup>, 2009

# TALF – Objectives

- TALF supports revival of credit markets
- Significant investment opportunity for levered funds
- Helps drive new issuance of consumer ABS
- Simultaneously tighten spreads
- Allow companies to resume borrowing
- Credit flows to consumers (car, student and small business loans)



# Transactions Completed Involving TALF



**Huntington Auto Loan  
Trust 2009-1**  
\$830,377,000  
TALF Eligible

Sole Book runner and  
Structuring Agent  
March 19, 2009

- HBAN's first auto transaction since 6/2008
- Deal priced at E+276 bps
- 56% of the transaction was purchased by investors using TALF



**Citibank Credit Card  
Issuance Trust  
2009-A1**  
\$3,000,000,000  
TALF Eligible

Co-Manager  
March 19, 2009

- The first credit card new issue since 9/2008
- Priced at 1mL + 175 bps
- Transaction was mostly purchased by investors using TALF



**Ford Credit Auto  
Owner Trust 2009-A**  
\$2,954,100,000  
TALF Eligible

March 19, 2009

- Ford's first deal since their massive \$5.3 billion transaction in May 2008
- Priced at E+295 bps
- About 30% of the transaction was purchased by investors using TALF



**Nissan Auto  
Receivables Owner  
Trust 2009-A**  
\$1,369,522,000  
TALF Eligible

March 19, 2009

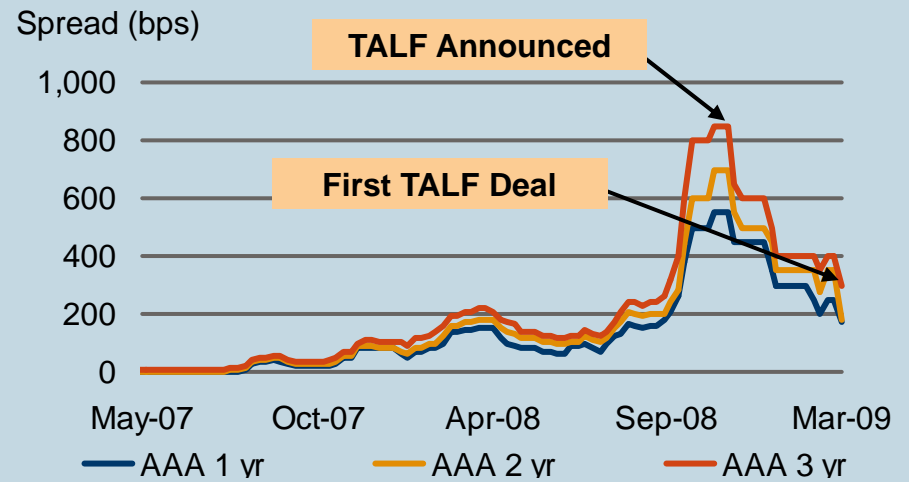
- Heavily oversubscribed
- Priced 25 bps through the tight end of guidance
- The transaction featured heavy participation from investors not using TALF

Source: Barclays Capital

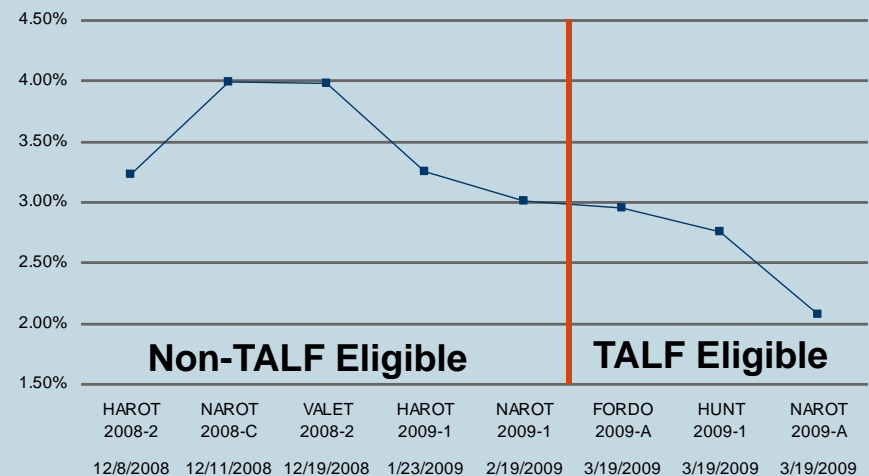
# TALF – Impact on Auto ABS Spreads

- The announcement and anticipation of TALF has driven auto ABS spreads in from the all-time wides experienced in November 2008
- The implementation of TALF further tightened credit spreads as shown by the differential between TALF and non-TALF eligible credit spreads
- Combined with low-rate financing by the Federal Reserve, TALF has cut the cost of auto ABS financing significantly

## Historical AAA Auto Spreads



## WA Credit Spread



Source: Barclays Capital Live, IFR Markets



# TALF – Main Features

## General

- TALF will provide coterminous loans on a non-recourse/non-mark to market basis, with securitized assets as collateral
- TALF financing equals the value of the ABS less an asset-specific haircut
  - ▶ Haircut dependant on asset type and “average life”
  - ▶ Borrower does not impact valuation
- Borrower pays an administrative fee

# TALF – Main Features

## Loans

- \$10 million minimum per loan
- The Loans are non-recourse and there is no cross-collateralization between the loans
- Loans are payable in monthly installments, will be either fixed or floating rates
  - ▶ Initially, fixed rate notes are 105 bps over the swap rate
  - ▶ Initially, floating rate notes are 105 bps over the one-month LIBOR

# TALF – Main Features

## **The role of primary dealers**

- The whole process must be effected through primary dealers
- The Dealer acts as the borrower's agent

## **Eligible Collateral**

- TALF has expanded to include newly issued ABS as well as legacy AAA-rated ABS
- Receive highest investment grade rating (AAA)
  - ▶ The ABS cannot be on review for downgrade
- Dollar denominated cash ABS (not synthetic)
- 95% U.S. obligors

# Impact on CMBS

- Single borrower or pool of assets
- Positive impact on:
  - ▶ Mortgage rates
  - ▶ Unsecured REIT debt
  - ▶ Valuations
  - ▶ Existing security levels

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## Public – Private Investment Program (PPIP)



# PPIP

## Overview

- On March 23<sup>rd</sup>, PPIP was launched in an effort to facilitate the injection of new capital into the market
- Primary Objectives
  - ▶ Facilitate price discovery
  - ▶ Re-start lending and restore liquidity through unlocking capital
- Two programs
  - ▶ Legacy Loans Program: FDIC and Treasury will establish Public-Private Investment Funds (“PPIFs”) to cleanse bank balance sheets of distressed loans and other assets
  - ▶ Legacy Securities Program: Federal Reserve and Treasury will establish PPIFs to address troubled securities

# Legacy Loans Program

## Overview

- Banks Identify pools of loans to be sold
- FDIC, banking regulators and Treasury determine eligible assets
  - ▶ FDIC determines amount it is willing to finance, up to 6-to-1 leverage
  - ▶ FDIC will conduct an auction for the pools
    - The highest bidder will have access to 50% of the equity funding by the Public-Private Investment Fund
  - ▶ PPIFs created with 1:1 equity contribution from private investors and the Treasury
- Private partners retain asset management control
- The government receives interest on money lent and shares profits and losses on the equity portion

# Legacy Loans Program

## Allocation

- Total Allocation for the Legacy Loans Program is \$75-100 billion in TARP capital
  - ▶ 50% of the funds are allocated to the Legacy Loans Program
- Allocation for Legacy Loans Program
  - ▶ \$50bn Treasury capital + \$50bn private capital
    - Private investors will retain control of assets management subject to FDIC oversight
  - ▶ With FDIC funding of up to 6:1 leverage, total buying power of the Legacy Loan Program is \$700 billion



# Legacy Loans Program

## Merits and Considerations

### Merits

- The government's subsidy is meant to provide investors with low cost financing to bridge the gap between buyers and sellers of legacy assets
- Will help set a market price for these assets
- Will help financial institutions to get non performing loans off their balance sheet

### Considerations

- Pricing may not be high enough to induce banks to sell assets
  - ▶ Initial focus may be non-performing loans
- Investors are concerned about future compensation restrictions for participating in any bailout program
  - ▶ Currently there are no compensation restrictions associated with this program

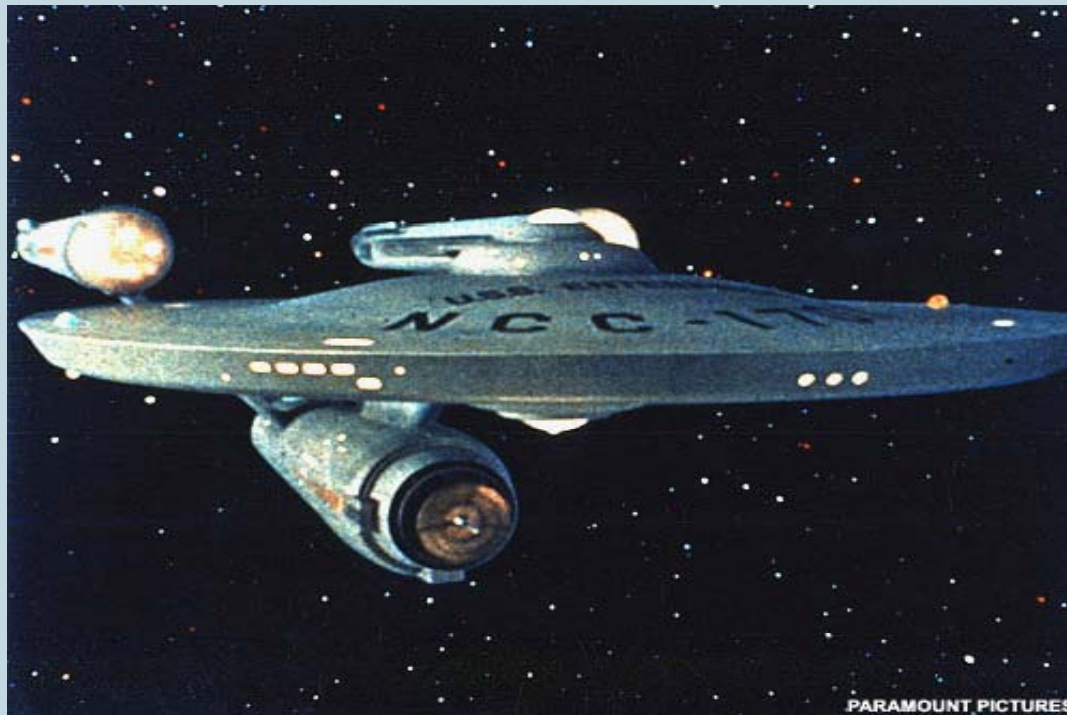
# Legacy Loans Program

## Open Questions

- What is the appropriate leverage?
- What is the appropriate term?
- What is the appropriate Rate?
- What are the reservation prices for potential sellers?
- What are the target returns for potential investors?

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## Existing CMBS – The Final Frontier



# Existing CMBS

## The Final Frontier

- Following the footsteps of TALF 1.0 and 2.0, government announced its plan to facilitate the sale of legacy securities to private investors
- Two programs
  - ▶ Expanding TALF to include legacy AAA-rated RMBS/CMBS (“TALF 3.0”)
    - Valuation process, details, and terms have not been released yet
  - ▶ Legacy Securities Program

# Legacy Securities Program

## Overview

- Legacy Securities Program
  - ▶ Legacy Securities Program intends to invest in pre-2009 RMBS/CMBS original AAAs
  - ▶ Five (or more) fund managers to be selected
  - ▶ Treasury will match every dollar of private capital raised by the fund manager
    - Fund manager puts up 50% of the equity
    - With Treasury financing of 50% of total equity, that implies 33% leverage
  - ▶ Treasury will consider increasing financing up to 100% of total equity
  - ▶ Managers could also take advantage of the expanded TALF financing once it is launched

# Legacy Securities Program

## Rationale

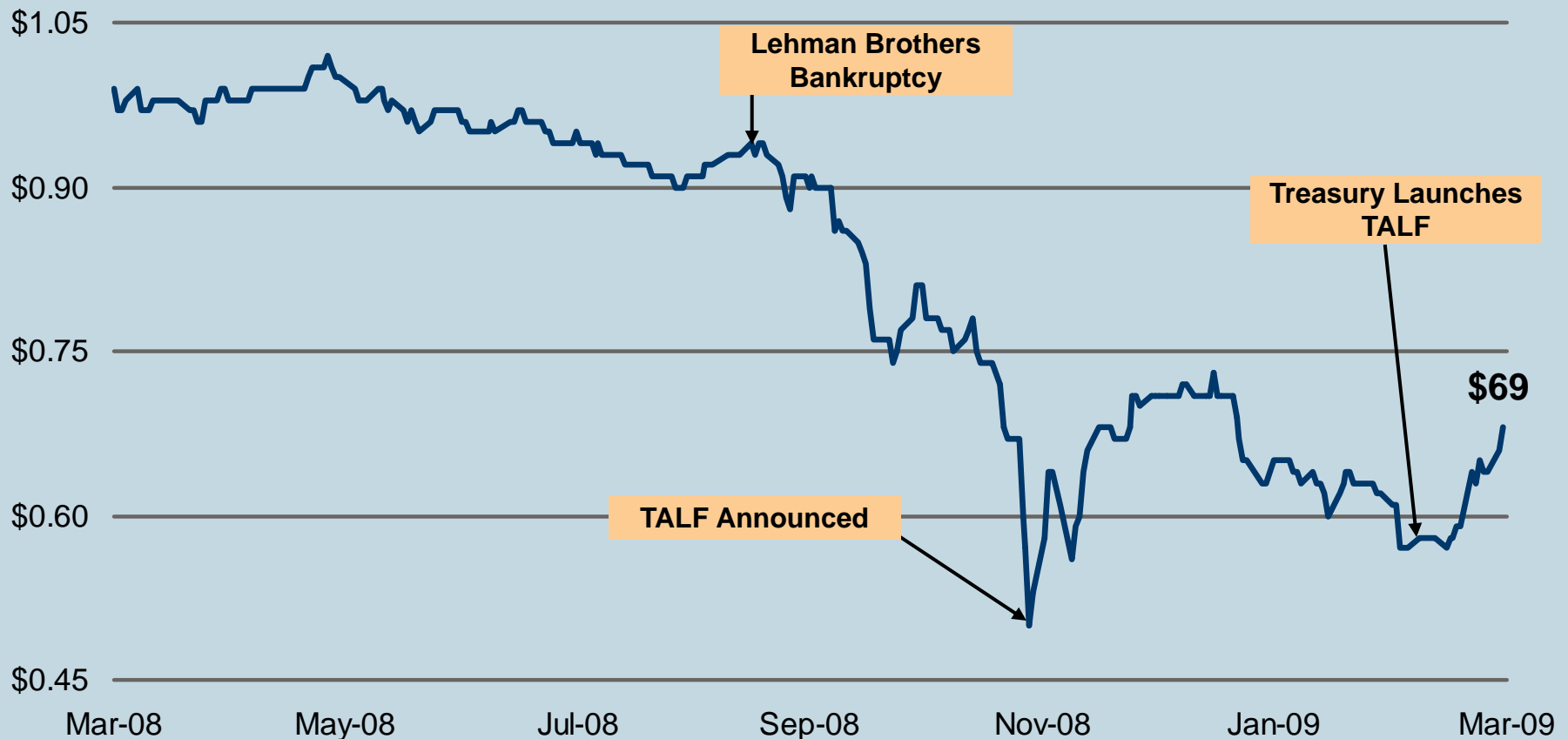
- Facilitating the sale of legacy securities could restore liquidity and price discovery
  - ▶ A healthy secondary market is a pre-condition for a robust primary market
  - ▶ Market confidence would improve along with asset prices as they re-price to their fundamental values
  - ▶ Price discovery would enable financial institutions to consistently mark asset values

# Legacy Securities Program – Performance

Volume has returned to AAA CMBS “Dupers”, which have already appreciated \$0.10/\$ and likely to increase additional \$0.10/\$–0.20/\$ in the near future

## Long Dated AAA “Dupers” Historical Prices

Price as cents/ \$



Source: Barclays Capital.

# Final Thoughts

There is a light at the end of the tunnel....

