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SMARTAlert

Keeping you informed of noteworthy developments with the Paulson Plan/Congressional Bailout

Treasury Announces \$20 Billion Investment to Support Lending Facility for Consumer Asset Backed Securities

November 26, 2008

Sirote Mortgage & Asset Recovery Team (SMART) reports to you on the latest-breaking news concerning the economic bailout plan.

On Nov. 25, 2008, the Treasury announced its plan to use \$20 billion in funds to support a lending facility for the consumer asset-backed securities market. The lending facility will be established by the Federal Reserve Bank of New York, and will be referred to as the Term Asset Backed Securities Loan Facility (TALF). In its press release, the Treasury described the lending facility, stating that it "is intended to assist the credit markets in accommodating the credit needs of consumers and small businesses by facilitating the issuance of asset backed securities and improving ABS market conditions."

Click [here](#) to access the terms sheet for this aspect of the economic bailout plan that is also available on the Treasury website. The general terms include the following:

Through the lending facility, the Federal Reserve Bank of New York will lend up to \$200 billion on a non-recourse basis to holders of newly issued AAA-rated ABS for a term of at least one year.

The Federal Reserve will lend an amount equal to the market value of the ABS less a haircut and will be secured at all times by the ABS.

The U.S. Treasury Department will provide \$20 billion of credit protection to the Federal Reserve in connection with the facility, using its authorities in the Emergency Economic Stabilization Act of 2008.

The underlying credit exposures of eligible securities initially must be newly or recently originated auto loans, student loans, credit card loans or small business loans guaranteed by the U.S. Small Business Administration.

The facility may be expanded over time and eligible asset classes may be expanded later to include other assets, such as commercial mortgage-backed securities, non-agency residential mortgage-backed securities or other asset classes.

Federal Reserve Provides Up To \$600 Billion in Financial Relief

In addition to the \$200 billion that the Federal Reserve Bank of New York has allocated for lending described in the previous section, the Federal Reserve announced on Nov. 25, 2008, that it will purchase as much as \$500 billion in mortgage backed securities (MBS) backed by Fannie Mae, Freddie Mac and Ginnie Mae, as well as \$100 billion in direct debt issued by housing-related government-sponsored enterprises (GSEs) Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. The Federal Reserve will access the funds through an increase in its reserves. MBS purchases may begin before year-end, and will be conducted by asset managers. Direct debt purchases will be conducted by the Federal Reserve's primary dealers through a series of competitive auctions and will begin the first week of December 2008. Both types of purchases are expected to take place over several quarters.

The Federal Reserve described the need for its latest efforts, stating that "[s]preads of rates on GSE debt and on GSE-guaranteed mortgages have widened appreciably of late. This action is being taken to reduce the cost and increase the availability of credit for the purchase of houses, which in turn should support housing markets and foster improved conditions in financial markets more generally."

Sirote Mortgage & Asset Recovery Team (SMART) will continue to keep you informed of breaking news concerning the economic bailout plan.

The Answer Is Sirote.

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