



TALF Loan Valuations

Interactive Data Pricing and Reference Data now provides valuations for loans made available by the Federal Reserve Bank of New York in connection with the Term Asset-Backed Securities Loan Facility (TALF) through an exclusive agreement with Prism Valuation.

Launched in March 2009, the TALF is designed to increase credit availability and stimulate the securitization markets by providing up to \$200 billion in loans to finance the purchase of eligible new, and certain legacy, highly rated securities backed by consumer loans, business loans, student loans, and commercial mortgage loans (hereinafter “ABS/CMBS”). Some of the basic terms of the TALF are described below. More details on the TALF are available from the Federal Reserve Bank of New York at: <http://www.newyorkfed.org/markets/talf.html>.

General Description of the TALF

- Loans are secured by new and legacy ABS/CMBS meeting certain eligibility requirements.
- Loans are for the face value of the collateral ABS/CMBS less a haircut ranging from 5-16% based on the expected life of the ABS/CMBS and the nature of the assets underlying the ABS/CMBS.
- The interest rate payable on the loans is determined by the average life of the ABS/CMBS and the nature of the assets underlying the ABS/CMBS, and can be either fixed or floating, but is without reference to the credit quality of the borrower. The interest rates are generally determined using a spread over a LIBOR swap rate at the loan origination date.
- Interest and principal from the ABS/CMBS collateral are deposited directly into a master TALF collateral account. ABS/CMBS interest payments are applied to pay the monthly interest due on the TALF loan. Principal repayments are applied to pay down the outstanding principal of the TALF loan at a rate commensurate with the initial haircut (for example, if the haircut is 6% then 94% of principal repayments go to the Fed) as well as any shortfalls in TALF interest payments. The borrower receives any excess cash flows from the ABS/CMBS collateral after the TALF interest and principal payments.
- TALF loans are generally only recourse to the ABS/CMBS used to secure the loan.

- Ratings downgrades on eligible collateral after origination will generally have no effect on the terms of the TALF loan.
- Borrowers are not subject to margin calls due to declines in the value of the posted ABS/CMBS collateral.
- Borrowers are not required to comply with the Troubled Asset Relief Program (TARP) executive compensation restrictions in order to participate in the TALF program.
- If the borrower fails to repay interest or principal when due, the Fed can take possession of the ABS/CMBS used as collateral.

Valuation Considerations

The limited recourse features and prepayment provisions of the loan have an economic effect similar to an American-style put option. During the life of the TALF loan, there is generally no incentive to walk away from the loan until such time as the cash flows from the underlying ABS/CMBS are not sufficient to cover the interest and principal payments of the TALF loan. At the maturity date of the TALF loan, the outstanding loan principal will either be repaid or the ABS/CMBS securing the loan surrendered depending on whether the outstanding loan principal is greater or less than the current market value of the ABS/CMBS collateral.

Consequently, it is necessary to model the forward values of the ABS/CMBS. TALF-eligible ABS/CMBS value is affected by four principal factors:

1. Historic defaults and prepayments on the asset pool
2. Expected future defaults and prepayments
3. Current interest rate levels
4. Current ABS/CMBS spread levels

Given these factors, the primary drivers of the volatility of the ABS/CMBS value (and, hence, the option value) will be the interest rate and ABS/CMBS spread volatilities. Accordingly, the Prism Valuation methodology for valuing the TALF loans is as follows:

Valuation Methodology

- **Prepayment assumptions** – the same prepayment rate assumptions which are used by Interactive Data to determine evaluations on the underlying ABS/CMBS security are used to model the future principal amounts of the TALF loan.
- **Discount rates** – the loan cash flows (principal and interest) are discounted on a curve with spread equal to the most recently observed TALF loan spread for the appropriate class of ABS/CMBS.
- **Valuing the option** – the value of the American-style put option is modeled using a joint stochastic credit / stochastic interest rates model, utilizing correlated Hull-White processes for the credit spread and the swap curve. The parameters for the swap curve model are calibrated to the current interest rate swap curve and to market swaption and cap data. The credit model is calibrated to the current credit spread associated with Interactive Data's evaluation for the underlying ABS/CMBS security, as well as to historic volatility of this spread. The correlation between the two processes is also determined by historic analysis.
- **Loan valuation** – finally, the resulting TALF loan valuation combines the present value (negative) of

About Interactive Data

Interactive Data Corporation (NYSE: IDC) is a leading global provider of financial market data, analytics and related solutions to financial institutions, active traders and individual investors. The Company's businesses supply real-time market data, time-sensitive pricing, evaluations and reference data for millions of securities traded around the world, including hard-to-value instruments. Many of the world's best-known financial service and software companies subscribe to the Company's services in support of their trading, analysis, portfolio management and valuation activities. Interactive Data, headquartered in Bedford, Mass., has approximately 2,400 employees in offices located throughout North America, Europe, Asia and Australia.

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the future loan cash flows, plus the value of the American-style put option (positive)

Empirical Studies of the Option Value

Analysis of historical ABS/CMBS spread data shows that the time value of the option is likely to be non-negligible in many cases. Therefore, an alternative approach of simply enforcing the boundary condition of the American-style put option (in other words, capping the value of the loan at the current value of the ABS/CMBS) may significantly underestimate the value of the option.

About Prism Valuation

Founded in 2006, Prism Valuation provides services that replicate the pricing and risk analysis capabilities of a structured products dealer, with an emphasis on hard-to-value assets. Their valuation philosophy is built on three pillars "People – Data – Models".

The underlying modeling framework is based on numerical models from NumeriX, one of the foremost global providers of cross asset pricing and risk analytics for exotic derivatives and structured products. Using this foundation, Prism Valuation's quantitative analysts develop and extensively test appropriate structured product valuation engines.

Interactive Data's Pricing and Reference Data business provides global securities pricing, evaluations and reference data designed to support financial institutions' and investment funds' pricing activities, securities operations, research and portfolio management. Interactive Data collects, edits, maintains and delivers data on more than 6 million securities, including daily evaluations for approximately 2.8 million fixed income and international equity issues. Interactive Data specializes in 'hard-to-get' information and evaluates many 'hard-to-value' instruments. Pricing, evaluations and reference data are provided in the U.S. through Interactive Data Pricing and Reference Data, Inc. and internationally through Interactive Data (Europe) Ltd. and Interactive Data (Australia) Pty Ltd.

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