

PRODUCTS

HNWI interest prompts flurry of TALF-related products

Wealth managers in the US are optimistic about the second incarnation of the Federal Bank of New York's Term Asset Backed Securities Loan Facility (TALF) following interest in the initial programme among HNWIs.

The attraction of TALF 1 to investors was its ability to provide leveraged exposure to income from asset-backed securities (ABS) while maintaining as much as 95 percent backing from the US government through so-called non-recourse loans.

The measures were introduced by the US government to kickstart the ailing securitisation market, which came to a standstill last year following the collapse in confidence in the subprime mortgage market. The loans are not based on mark-to-market value, so investors do not get margin calls if the value of the debt declines beyond their initial stake.

The initial TALF programme focused on auto and student loans, credit cards, business equipment loans and insurance receivables. The second will have more of a focus initially on commercial real estate and could also be extended to residential property.

The investments are tax effective for overseas investors who invest through platforms like the one operated by [NuVerse Advisors](#),

the US wealth and investment banking boutique. It allows investors to invest through a limited liability company registered in Delaware, which means they are not subject to pay any withholding tax on portfolio interest.

[NuVerse](#) partners Ariel Salama and Steve Saali, speaking to *PBI*, said its TALF 1 fund had assets under management of \$400 million. They said 95 percent of the investors in the fund had been HNWI clients of theirs, while two-thirds of those had been international clients looking for exposure to dollar-denominated fixed income in a tax effective manner.

Salama said [NuVerse](#) recommended clients put between 5 percent and 10 percent of their portfolios in the TALF 1 fund, which matures within three years.

The TALF 2 product may have less appeal to individual investors because it has a longer maturity – up to five years – more aligned with institutional investors' investment horizons.

"It is a good way to invest in the US real estate market, particularly for international investors," said Salama. "It provides interest income on a TALF 2 securities portfolio, whereas if they invested directly in real estate

they'd be subject to a full income tax on gains realised."

[NuVerse](#) has relationships with around 100 families, including some outside the US. Its asset threshold for new investors is \$1 million for individuals and \$25 million for families. Asked how the company ensured its advisory service was aligned with clients rather than the promotion of in-house products, Saali said the managing partners had significant investments of their own in the business's products.

"We're very conservative in outlook and the focus is on capital preservation," said Saali. "What we like about the TALF product is the AAA ratings of the securities supported by the non-recourse loan from the Fed, which makes it a great opportunity to invest in quality paper and with leverage that investors are rarely able to get."

Initially there was slow uptake in the government's TALF funds. Under the first phase of the programme \$200 billion in loans were made available until the end of 2009, but only \$10.5 billion were requested by investors in its first two months. Since then the program has grown to \$46 billion. ■

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