STRUCTURED FINANCE ASSOCIATION

Supporting Consumers & Small Businesses by Expanding TALF

April 20, 2020

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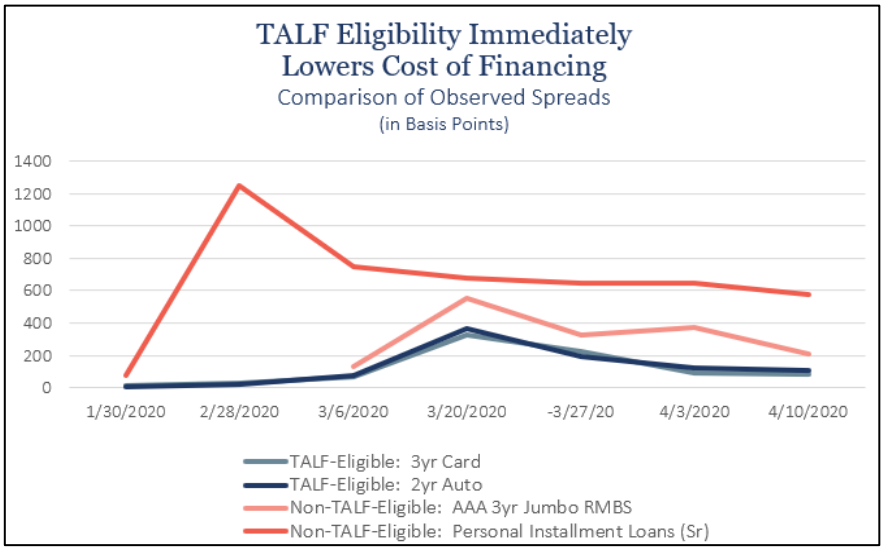
Background: The TALF supports the ecosystem of lending activities financed by securitization

On March 23, 2020 the Federal Reserve ("Fed") announced the establishment of the Term Asset-Backed Securities Loan Facility ("TALF") in response to economic distress caused by the COVID-19 pandemic.

- Through securitization, individuals and businesses have access to essential credit, seamlessly and at a lower price. Securitization provides lenders with the capital needed to make loans to consumers buying homes and cars, financing student loans, starting a business, and using credit cards for daily purchases.
  - Securitization provided $13.1 trillion in financing and funded more than 50% of U.S. household debt last year; 69% of residential mortgage debt is funded by securitization
- The Fed's announcement of the establishment of the TALF has already improved market liquidity to eligible asset classes, even though the facility is not yet operational. The impact of the TALF announcement is observable by monitoring "credit spreads". A "credit spread" is additional yield required by investors for purchasing a corporate bond instead of a same maturity government bond that are considered risk-free.
  - Asset classes that are TALF-eligible (like credit cards and autos) have seen spreads tighten, while spreads on non-TALF-eligible asset classes (like private mortgages and personal installment loans) have languished
  - Spreads tightening translates to lower cost of funds for financing loans

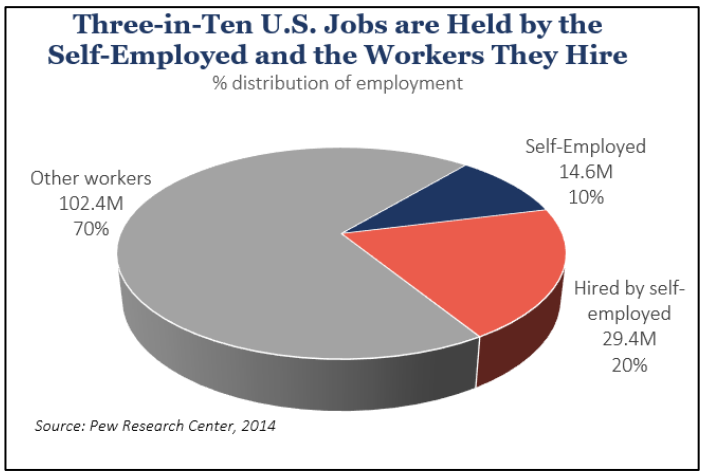


- **TALF results in access to less expensive capital borrowing.** Declaring all critical asset classes as TALF-eligible will allow lenders to originate new loans to consumers and small businesses that would otherwise be inaccessible or too expensive.
  - As a result of the COVID-19 pandemic, a lower appetite to lend demonstrated by traditional banks is shrinking consumer and small business access to credit

Critical asset classes serving consumers & small businesses are not TALF-eligible

About 30% - or 44 million - working Americans are self-employed, a size that is growing as more Americans become freelancers in the "gig economy". Greater income volatility and lack of standard documentation requires lenders to rely on alternative documentation to analyze income and assess ability to pay. For these reasons, generally **self-employed borrowers have more difficulty gaining access to credit**.

- Non-federally backed private mortgages ("private mortgages") serve creditworthy homebuyers who cannot access credit through a GSE or Federal program. These borrowers include these underserved self-employed borrowers as well as "jumbo loan" borrowers.
  - Policymakers place limits on the dollar-amount of Federally backed mortgages, causing borrowers in more expensive areas to rely on private mortgages; for example, half the homes in California exceed this limit – commonly referred to as "jumbo loans"
  - **Federally backed mortgages are supported by several newly established Fed emergency lending programs, yet private mortgages are excluded**



- **Personal installment loans – also not TALF-eligible - are used by Americans to finance their small businesses, consolidate debt, and to cover unexpected large expenses like auto repairs and medical bills.** In most cases, the interest rate on personal installment loans is lower than alternative options like credit cards and pay-day loans.
  - According to a 2016 Fed survey, at least half of small businesses with revenues of less than $1 million failed to receive the full amount of credit requested on bank loan applications
  - In the first 5 years of a small business, 3 out of 10 rely on personal installment loans

Supporting all critical asset classes sets a level playing field

By providing leverage to the Fed and private capital, every $1 of Treasury support to the TALF for critical asset classes would deliver $10 to consumers and small business. **Expanding TALF eligibility to include critical asset classes – such as personal installment loans and private mortgages - will transmit benefits to a greater number of impacted consumers, and help ensure that a wider range of business owners will have access to critical credit upon which they urgently need to manage their household and business cashflows during this period of extended health crisis and through our economic recovery**.

About the Structured Finance Association

The Structured Finance Association (SFA) is the leading securitization trade association representing over 360 members companies from all sectors of the securitization market. Our core mission is to support a robust and liquid securitization market and help its members and public policymakers grow credit availability and the real economy in a responsible manner. SFA provides an inclusive forum for securitization professionals to collaborate and, as industry leaders, drive necessary changes, advocate for the securitization community, share best practices and innovative ideas, and offers professional development for industry members through conferences and other programs. For more information, visit www.structuredfinance.org.

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