



Term Asset-Backed Securities Loan Facility
TALF Overview

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In response to the economic dislocation brought on by the COVID-19 pandemic, the Federal Reserve resurrected the Term Asset-Backed Securities Loan Liquidity Facility (TALF) to support the flow of credit to consumers and businesses.

Overview

On March 23, 2020, the Federal Reserve announced the establishment of the Term Asset-Backed Securities Loan Facility (“TALF”) and provided a preliminary term sheet. The TALF is designed to increase liquidity and credit availability by facilitating the issuance of certain asset-backed securities (“ABS”). The TALF was first created in 2008 as one of the Federal Reserve’s measures to stabilize the U.S. economy during the 2008 financial crisis. An April 9 short form term sheet brought with it the expansion of commercial mortgage backed securities (“CMBS”) and collateralized loan obligations (“CLOs”) as eligible collateral. The Fed is expected to release additional information, including more detailed program terms and conditions, as the facility is launched.

SFA applauds the reestablishment of the TALF to support the flow of credit within the national markets. Furthermore, SFA recommends the program be expanded to include not only all types of ABS that were previously permitted as collateral under the TALF, but other classes of critical lending that were not prominent parts of the ABS market or were structured differently than when the TALF program was originally created in 2009.

Background on the TALF

In the fall of 2008, at the height of the financial crisis, interest rate spreads on ABS skyrocketed to historical highs (see “TALF’s Impact on AAA ABS Spreads” on pg. 3) reflecting unusually large liquidity and risk premiums. As a result, issuance of ABS drastically slowed in September and October, significantly limiting the availability of credit for small businesses and households further weakening the U.S. economy.

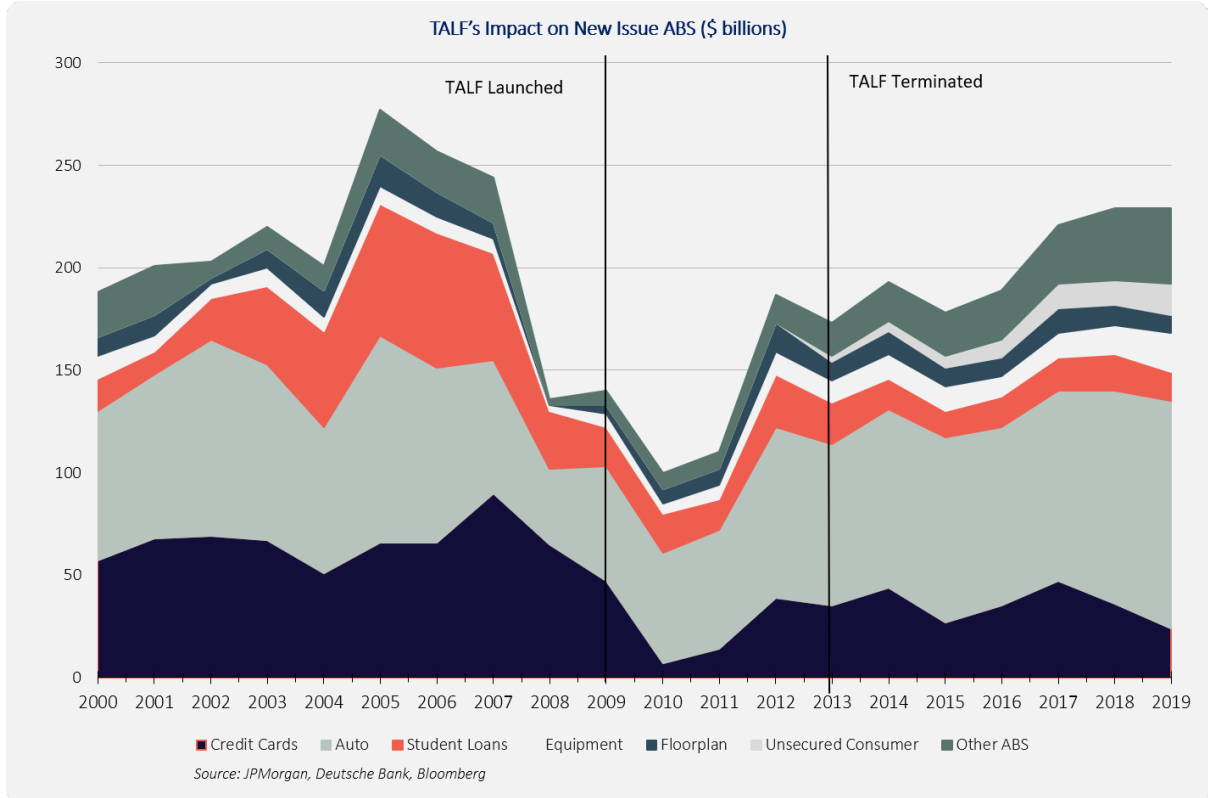
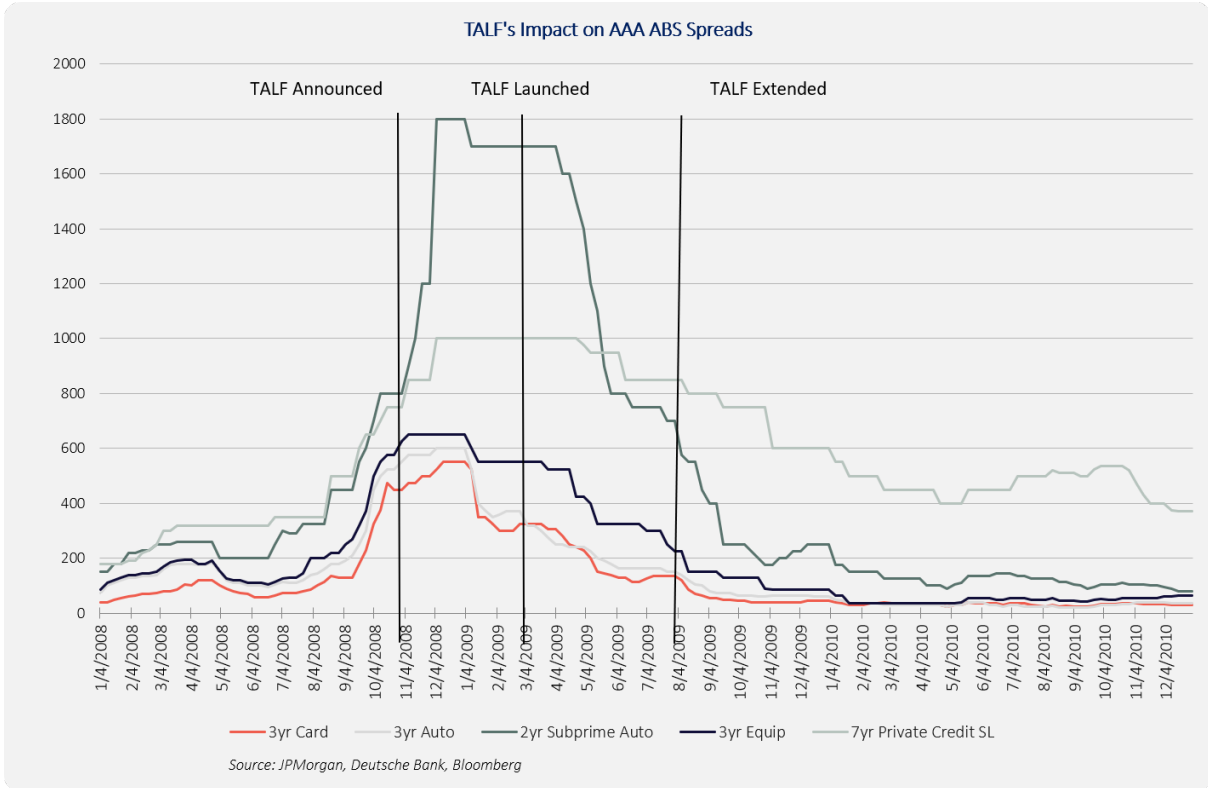
On November 25, 2008, the Federal Reserve announced the creation of the TALF. This program was designed to meet the credit market needs of households and small businesses by facilitating the issuance of ABS collateralized by newly originated auto loans, student loans, credit card loans, and loans guaranteed by the SBA. The aim of the program was to stimulate demand for ABS in order to lower the cost and increase the availability of new credit. Under the program, the New York Fed

would lend up to \$200 billion to holders of AAA-rated ABS, backed by newly originated loans from the designated sectors.

Specifically, the New York Fed would lend an amount equal to the principal amount of the ABS minus a fraction of their value, called a “haircut.” The haircuts served as a form of credit protection and minimized the risk that the purchaser would not repay the loan if the assets that they pledged for collateral declined in value. These non-recourse loans had a term of [three or five] years and were secured by the ABS. The TALF would stop making new loans on December 31, 2009, unless the Fed found it necessary to extend the program. In addition, Treasury provided \$20 billion as an additional form of credit protection to the New York Fed to protect against the possibility that the loans would not be repaid and the underlying ABS collateral securing the loans experienced credit losses.

The TALF was significantly expanded in subsequent months:

- **February 10, 2009:** The Fed announced it was considering expanding the size of the TALF to as much as \$1 trillion and potentially broadening the eligible collateral to include other types of newly issued AAA-rated asset-backed securities.
- **March 19, 2009:** The Fed announced starting in April 2009, the set of eligible collateral for the TALF loans would be expanded to include ABS backed by loans or leases related to business equipment, leases of vehicle fleets, floorplan loans, and mortgage servicing advances.
- **March 23, 2009:** The Fed and Treasury announced plans to expand the list of eligible collateral for the TALF loans to include previously issued securities or “legacy securities.” Eligible securities were expected to include outstanding commercial mortgage-backed securities and ABS rated AAA.
- **May 1, 2009:** The Fed announced starting in June 2009, newly issued CMBS and securities backed by insurance premium finance loans would be eligible collateral under the TALF. The Fed also authorized TALF loans with maturities of five years to finance purchases of CMBS, ABS backed by student loans, and ABS backed by loans guaranteed by the Small Business Administration.
- **May 19, 2009:** The Fed announced starting in July 2009, certain high-quality CMBS issued before January 1, 2009 (legacy CMBS) would become eligible collateral under the TALF. Eligible newly issued and legacy CMBS were required to have at least two AAA ratings from a list of approved ratings agencies and must not have a rating below AAA from any of the approved rating agencies. The Fed also announced that it was formalizing procedures for determining rating agencies whose ratings would be accepted for various types of eligible collateral.
- **August 17, 2009:** The Fed and the Treasury announced that they were planning to suspend any further expansion in the types of collateral eligible for the TALF.

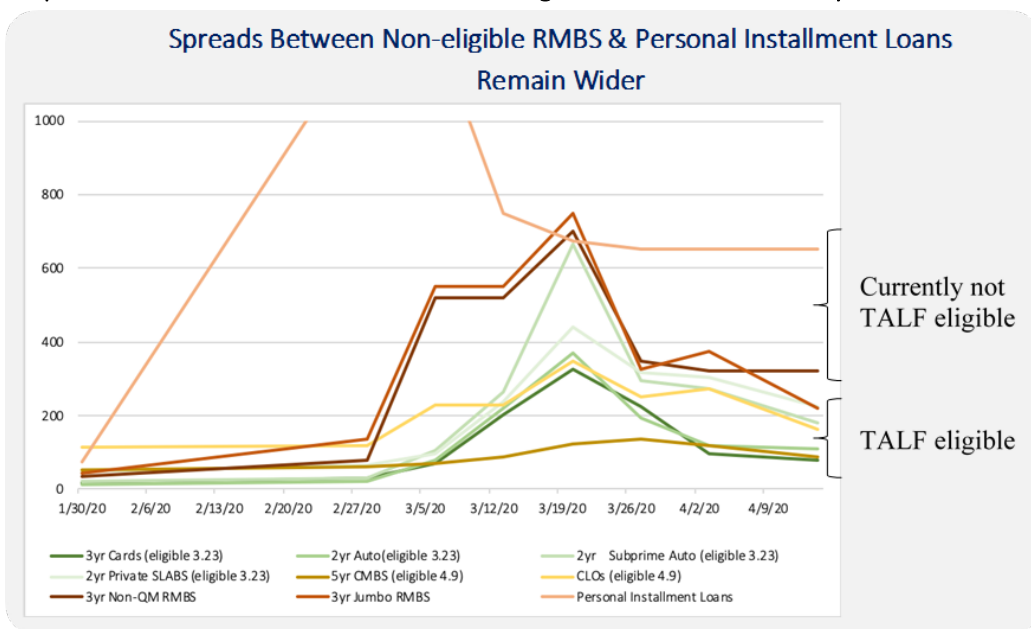


Expansion of eligible asset classes for the TALF 2.0

Liquid and well-functioning ABS markets help keep credit flowing freely between consumers and business borrowers, lenders and capital market investors who fund a wide range of lenders. Through expanding the banking and specialty finance industries' lending capacity the ABS market provides an important source of funding for consumers and businesses. The original TALF program succeeded in helping restart the securitization market and supported nearly 3 million auto loans, more than 1 million student loans, nearly 900,000 small business loans, and about 150,000 other business loans. Given the economic distress caused by the COVID-19 pandemic was not driven by concerns about the underwriting quality of ABS collateral, SFA recommends expanding assets permitted as collateral for the new TALF program to meet the needs of today's consumer and business borrowers and prevent the broader U.S. economy from sinking even further into distress.

As currently structured, the Fed's revamp of the TALF has led to a divide between eligible and ineligible asset classes, with the ineligible left behind as markets attempt to recover. Since the TALF's announcement last month, the handful of markets that are TALF eligible have already recouped some of their losses, and in turn, reassured investor confidence for those particular asset classes. For the ineligible asset classes, however, the pace is much slower, and the growing disparity is adding pressure to investors and consumers.

SFA and our members support the continued expansion of eligible asset classes for the TALF in order to aid in the markets returning to normal functioning and ensure all critical consumers and business lending receives the same support so that no segments of our nation and economy are unintendedly left out. **Doing so will extend 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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