United States Senate
WASHINGTON, DC 20510

June 2, 2020

The Honorable Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave. NW
Washington, DC 20551

The Honorable Steven T. Mnuchin
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Chairman Powell and Secretary Mnuchin:

We write regarding the Federal Reserve's Term Asset-Backed Securities Loan Facility (TALF) to support the flow of credit to consumers and businesses and to urge you to expand the program to best help COVID-19 affected lending sectors as the pandemic continues to harm America's borrowers and small businesses. TALF has already been successful in lowering credit spreads, allowing for borrowers and small businesses to access credit at a time when it is needed most. Despite this initial success, we believe that to maximize the benefits for a larger section of borrowers and businesses impacted by COVID-19, the TALF program should be expanded to accept all essential lending sectors of senior-most asset backed securities (ABS) as eligible collateral.

We support the Federal Reserve's April 9, 2020 expansion of the TALF program demonstrating the Federal Reserve and Treasury's commitment to adjusting the program to reflect today's markets. However, there are still essential lending products that should be included to assist borrowers, including personal installment loan backed securities (PLBS) and non-agency residential mortgage backed securities (RMBS).

According to a study by the St. Louis Fed, in the fourth quarter of 2019, about 20 million American consumers had personal installment loans with balances reaching approximately $160 billion.[i] Middle-class and underserved Americans rely on personal loans to help cover unexpected expenses and as an alternative to more expensive debt – both of these uses are crucial now with household budgets tightening. Personal loans are also important to small businesses, especially freelancers and the self-employed in the expanding "gig economy," two of the fastest growing segments of the American workforce and among the hardest hit by this pandemic. Small businesses rely particularly on personal loans during natural disasters, according to research by the Federal Reserve Banks of New York, Dallas, Richmond, and San Francisco.[ii] Federal Reserve research has also found that fintech personal installment loans often provide a source of credit in areas where bank branch offices may be less accessible and the local economy faces more challenges.[iii]

Non-agency mortgage lenders also serve an important segment of homeowners that fall outside the qualifying limitations of the government supported mortgage market – accounting for roughly 36% of all mortgage originations in 2019. From the burgeoning segment of non-W-2 freelancers, to the underbanked communities across our country, access to credit for these borrowers is essential to maintaining a healthy housing market. Including these loans as eligible collateral would free up the mortgage credit markets and make new loans more easily available to the full spectrum of aspiring, credit worthy homeowners. With relatively low default risk and markedly different terms and credit quality, this market bears no resemblance to the subprime market that dominated the private market in 2008.

As a result of the impact that COVID-19 has had on the credit markets that support lending to individuals and small businesses, PLBS and non-agency RMBS should be included as eligible collateral for TALF to ensure that lenders can continue to provide adequate financing to borrowers. Congress made a significant amount of funding available in support of the Federal Reserve's liquidity facilities "to make loans, loan guarantees, and other investments." This should include credit access for households and businesses.

Given the unprecedented nature of this crisis, we appreciate the willingness of both the Federal Reserve and the Treasury to take a diverse, systemic approach to address access to credit for consumers and to stabilize markets. The actions taken to date have been imperative to maintain the stability of the financial system and support the flow of credit to hardworking American families and businesses.

These are just two additional measures the Federal Reserve and Treasury can take immediately without the need for another multitrillion-dollar fiscal stimulus.

Sincerely,

Jerry Moran

Jerry Moran
United States Senator

Martha McSally

Martha McSally
United States Senator

Thom Tillis

Thom Tillis
United States Senator

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[i] https://www.stlouisfed.org/publications/regional-economist/second-quarter-2019/unsecured-personal-loans-fintech#1

[ii] https://www.newyorkfed.org/medialibrary/media/smallbusiness/2017/SBCS-Report-on-Disaster-Affected-Firms.pdf

[iii] https://www.philadelphiafed.org/-/media/research-and-data/publications/working-papers/2018/wp18-13.pdf