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The Revival of TALF–TALF 2020 (or TALF 2.0)

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In response to the current credit crisis triggered by the COVID-19 pandemic, on March 23, the Federal Reserve Bank of New York (the Federal Reserve) revived the Term Asset-Backed Securities Loan Facility (TALF) first established in 2008. TALF was created to increase consumer access to business and consumer loans by providing a source of liquidity for certain newly issued asset-backed securities (ABS) backed by such loans. Potential ABS investors under TALF could receive loans from the Federal Reserve to invest in ABS and then pledge that ABS as collateral for the loan. The increase in ABS purchases, due to the liquidity from TALF, resulted in business and consumer loan originators issuing additional ABS. The issuance of the additional ABS provided business and consumer loan lenders with liquidity to keep originating loans.

The Federal Reserve communicated that the TALF 2020 facility (TALF 2020) will primarily be based on the 2008 TALF (TALF 2008) terms and conditions. The initial aggregate size of the facility is up to $100 billion. As with TALF 2008, a borrower of a TALF loan must be a United States person or company. The loan amount will equal the market value of the pledged collateral less a haircut and administration fee. As with TALF 2008, the haircut will be identified in a schedule based on sector, weighted average life (WAL), and historic volatility of the ABS.

Collateral securing the TALF loan must be ABS issued on or after March 23, with a credit rating in the highest investment grade category from at least two rating agencies and backed by substantially all newly originated loans. The eligible underlying asset classes are substantively in line with TALF 2008, with the exception that TALF 2020 currently excludes commercial mortgage-backed securities (CMBS) and includes auto loans and leases, student loans, credit card receivables, equipment loans, floor plan loans, insurance premium finance loans, certain small business loans, and eligible servicing advance receivables.

A TALF 2020 loan backed by eligible ABS without a government guarantee will bear interest at a rate equal to 100 basis points over the two-year LIBOR swap rate for securities with a WAL of less than two years, or 100 basis points over the three-year LIBOR swap rate for securities with a WAL of two years or more. A TALF 2020 loan will have a maturity date of three years. The TALF term sheet is available here. The Federal Reserve has yet to announce the applicable haircuts, public/private offering criteria, and bond trading criteria, or whether an auditor attestation will be required, but noted that more details are soon to follow and the Federal Reserve reserves the right to review and make adjustments to the terms and conditions noted herein.

The Structured Finance Association and other industry groups and leaders are calling for an expansion of TALF 2020 to include other asset classes such as CMBS, credit risk transfers, private-label residential mortgage-backed securities, unsecured personal loans, and reperforming and seasoned mortgages, among others. Industry members are asking the Federal Reserve to reduce or eliminate time-consuming requirements from TALF 2008 and for greater flexibility than there was with TALF 2008—for example, with the maximum loan maturity date.

Whether the Federal Reserve will revise the TALF term sheet to address issues raised by the industry remains to be seen. But one thing is certain: The industry is eager to get the TALF 2020 ball rolling.

We will be updating this article periodically as new developments occur in the structured finance market with respect to the response to the COVID-19 pandemic.

Visit our COVID-19 Mortgage & Structured Finance Resource page here. To see our prior alerts and other material related to the pandemic, please visit the Coronavirus/COVID-19: Facts, Insights & Resources page of our website by clicking here.

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