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Federal Reserve's Term Asset-Backed Securities Loan Facility

Released by the Federal Reserve on April 9, 2020[1]

On April 9, 2020, the Board of Governors of the Federal Reserve System (Federal Reserve Board) unveiled additional information on the Term Asset-Backed Securities Loan Facility (TALF), adding to the growing list of government actions aimed at rehabilitating the US economy through an unprecedented $2.3 trillion in loans, loan guarantees, and other investments. This announcement provided additional details on the new lending program, which the Federal Reserve Board first announced on March 23, 2020, and Congress referenced and funded in the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

The TALF is intended to help meet credit needs of consumers and businesses by facilitating the issuance of asset-backed securities. The Federal Reserve Bank of New York (Reserve Bank) will commit to lending to a special purpose vehicle (SPV) on a recourse basis. The Treasury approved expansion of the TALF, which will now include highly rated and newly issued collateralized loan obligations as well as legacy commercial mortgage-backed securities as eligible collateral. TALF will continue supporting the issuance of asset-backed securities that fund various types of lending, including student, auto and credit card loans.

The Treasury will make an equity investment of $10 billion in the SPV. The TALF SPV will initially make up to $100 billion of loans available. Loans will have a term of three years, will be nonrecourse to the borrower and will be fully secured by eligible asset-backed securities.

No new credit extensions will be made after September 30, 2020 unless the TALF is extended by the Federal Reserve and Treasury.

Below is a checklist outlining the core requirements for the TALF.

Eligible Borrower	Eligible Borrowers (Borrowers) are businesses that: • Own eligible collateral and maintain account relationships with a primary dealer • Were created or organized in the US or under the laws of the US with significant operations in and a majority of its employees based in the US

[1] This checklist is based on information available as of April 9, 2020. It is intended to provide information on developments in the law only. It is not legal advice and does not constitute an opinion of Norton Rose Fulbright US LLP. These terms can be adjusted at the discretion of the Federal Reserve Board and the Secretary of Treasury.

Eligible Collateral	Eligible collateral (Collateral) includes US dollar denominated cash (not synthetic) asset-backed securities (ABS) that: • Have a credit rating in the highest long-term investment-grade rating category from at least two eligible nationally recognized statistical rating organizations (NRSRO). • In the case of non-mortgage backed ABS, have a credit rating in the highest short-term investment-grade rating category from at least two eligible NSROs. • Do not have a credit rating below the highest investment-grade rating category from an eligible NRSRO. • All or substantially all credit exposures underlying eligible ABS must have been originated by a US company. • The issuer of Collateral must be a US company. • Eligible ABS must have been issued on or after March 23, 2020 (with exception of commercial mortgage-backed securities (CMBS)). • All or substantially all credit exposures must be newly issued, except for legacy CMBS. • For CMBS, the underlying credit exposures must be to real property located in the US or its territories. • Collateral must be in the form of ABS where underlying credit exposures are: — Auto loans and leases — Student loans — Credit card receivables (consumer and corporate) — Equipment loans and leases — Floorplan loans — Insurance premium finance loans — Certain small business loans guaranteed by the Small Business Administration (SBA) — Leveraged loans — Commercial mortgages
Non-Eligible Collateral	Collateral may not include the following: • ABS that bear interest payments that step up or down to pre-determined levels on specific dates • Single-asset single-borrower CMBS • Commercial real estate collateralized loan obligations (CLO) • Non-static CLOs
CARES Act Conflicts of Interest Attestation by Eligible Issuers and Borrowers	The eligible issuer and the Borrower must attest that the president, vice president, an executive department head, member of Congress, or any of such individual's spouse, child, son-in-law, or daughter-in-law does not hold directly or indirectly, at least 20% of any class of equity interest in its business. • Applicable equity interests include: — Shares (regardless of whether they are transferable or classified as stock or anything similar) — Capital or profit interests in a limited liability or company or partnership; and Warrants or rights (other than a right to convert) to purchase, sell, or subscribe to a share or interest

Collateral Valuation	Haircut schedule is consistent with the scheduled used for the TALF established in 2008. That schedule can be found here.
Pricing	For collateralized loan obligations: • Interest rate will be 150 basis points over the 30-day average secured overnight financing rate. For SBA Pool Certificates (7(a) loans): • Interest rate will be the top of the federal funds target range + 75 basis points. For SBA Development Company Participation Certificates (504 loans): • Interest rate will be 75 basis points over the three-year fed funds overnight index swap (OIS) rate. For other eligible ABS with underlying credit exposures without government guarantee: • Securities with weighted average life less than two years—125 basis points over the two-year OIS rate • Securities with weighted average life of two years or greater—125 basis points over the three-year OIS rate
Fees	The SPV will assess an administrative fee equal to 10 basis points of the loan amount on the settlement date for collateral.
Prepayment	Loans made under TALF will be pre-payable in whole or in part at the option of borrower. Substitution of collateral during the loan term generally will not be allowed.