Fed Reintroduces Term Asset-backed Securities Loan Facility

By Aidan Lawson

On March 23, the Federal Reserve reintroduced the Term Asset-Backed Securities Loan Facility (TALF), one of its many programs used in the Global Financial Crisis (GFC), to further support households, businesses, and the U.S. economy overall.

The Fed used its authority under Section 13(3) of the Federal Reserve Act to implement the new program (see here). Section 13(3) allows the Fed to lend to any "individual, partnership or corporation" when the Federal Reserve Board determines there are "unusual and exigent circumstances" with the Treasury Secretary's approval. The Treasury used the Exchange Stabilization Fund (ESF) to make a $10 billion equity investment to the new TALF.

Under the new TALF, the Fed, "to help meet the credit needs of consumers and small businesses" will use a special purpose vehicle (SPV) to make a total of $100 billion in three-year nonrecourse loans to U.S. companies that own eligible asset-backed securities (ABS). The SPV will be funded by a recourse loan from the Reserve Bank of New York and the Treasury's equity investment. The new TALF is to be open through September 30, 2020, unless the Fed extends it.

The terms and conditions of the new TALF mostly follow the language of the $200 billion TALF that was announced in November 2008 and in operation in March 2009 during the GFC. However, while the 2008 TALF progressed to include newly issued and legacy commercial mortgage-backed securities, the 2020 TALF only includes non-mortgage asset-backed securities, such as those backed by student loans, small business loans guaranteed by the Small Business Administration (SBA), and automobile loans, among others.

The Fed also continues to purchase Treasury securities and agency mortgage-backed securities as part of its open market operations. On March 23, the Fed expanded these operations to include the purchase of agency commercial mortgage-backed securities and increased their purchases from a total of $700 billion to an amount "needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions and the economy" (see here). Loans will be priced based on the collateral pledged with the appropriate LIBOR swap rate, and haircuts will be applied based on sector, weighted average life, and historical volatility of the ABS (see here).