**Report to Congress Pursuant to Section 13(3) of the Federal Reserve Act: Term Asset-Backed Securities Loan Facility**

## Overview

On March 22, 2020, the Board of Governors of the Federal Reserve System (the Board), by the unanimous vote of its five members and with the approval of the Secretary of the Treasury, authorized the Federal Reserve Bank of New York (Reserve Bank) to establish and operate the Term Asset-Backed Securities Loan Facility (TALF) under section 13(3) of the Federal Reserve Act (12 U.S.C. § 343(3)). Under the TALF, the Reserve Bank will lend to a special purpose vehicle (SPV), which will make loans to U.S. companies secured by certain investment grade asset-backed securities (ABS) backed by recently originated consumer and business loans. The TALF is intended to support the provision of credit to consumers and businesses by enabling the issuance of ABS backed by private student loans, auto loans and leases, consumer and corporate credit card receivables, certain loans guaranteed by the Small Business Administration, and certain other assets.

## Background on the TALF

Recent events have significantly and adversely impacted global financial markets. The spread of the coronavirus disease 2019 (COVID-19) has halted economic activity in many countries, including the United States. In particular, sudden disruptions in financial markets have significantly disrupted ABS markets, as evidenced by a rise in interest rate spreads on highly rated tranches of ABS to levels not seen since the 2008–09 financial crisis, reflecting unusually high liquidity and risk premiums. At the same time, the disruptions to economic activity have heightened the need for companies to obtain financing to sustain themselves until economic conditions normalize.

Since the ABS markets historically have funded a substantial share of credit to consumers and businesses, continued disruption of these markets could further squeeze the liquidity and balance sheet capacity of financial institutions, thereby significantly limiting the availability of credit to households and businesses of all sizes and amplifying the current economic disruption. In these circumstances, the Board determined that unusual and exigent circumstances existed and approved the establishment of the TALF to help facilitate the issuance of ABS and stabilize ABS markets. The Department of the Treasury, using the Exchange Stabilization Fund, will make an initial $10 billion equity investment in the SPV.

## Structure and Basic Terms

Under the TALF, the Reserve Bank will lend, on a recourse basis, to an SPV that will lend, on a non-recourse basis, to holders of certain AAA-rated ABS backed by newly and recently originated consumer and small business loans. The TALF is not yet operational.

The term sheet for the TALF is available to the public on the Board's website, and the more detailed terms and conditions will be available when finalized. The discussion below summarizes these terms and conditions. The TALF's structure is very similar to the Term Asset-Backed Securities Loan Facility that was established in March 2009. The Board and Reserve Bank continue to monitor the affected financial markets and to consult with market participants and, accordingly, the terms and conditions governing the TALF may be modified in the future as appropriate.

***Borrower Eligibility.*** All U.S. companies that own eligible collateral and maintain an account relationship with a primary dealer are eligible to borrow under the TALF. A U.S. company means a U.S. business entity organized under the laws of the United States or a political subdivision or territory thereof (including such an entity that has a non-U.S. parent company), or a U.S. branch or agency of a foreign bank. To participate, eligible borrowers must comply with the terms and conditions set forth by the Reserve Bank.

***Collateral Eligibility and Valuation.*** Loans under the TALF are secured by a pledge of eligible ABS. Eligible ABS would be AAA-rated ABS for which all or substantially all of the underlying credit exposures are newly or recently originated exposures to U.S. borrowers. The underlying credit exposures of eligible ABS would be: (1) retail loans and leases relating to cars, light trucks, or motorcycles; (2) private student loans; (3) consumer and business credit card receivables; (4) equipment loans; (5) floorplan loans; (6) insurance premium finance loans; (7) certain SBA-guaranteed small business loans; and (8) eligible servicing advance receivables. The pledged eligible collateral will be valued and assigned a haircut according to a schedule based on its sector, the weighted average life, and historical volatility of the ABS.

***Pricing and Fees.*** For eligible ABS with underlying credit exposures that do not have a government guarantee, the interest rate will be 100 basis points over the two-year LIBOR swap rate for securities with a weighted average life less than two years, or 100 basis points over the three-year LIBOR swap rate for securities with a weighted average life of two years or greater. If necessary, the pricing structure would be updated to account for the expected industry transition away from LIBOR. The pricing for other eligible ABS will be set forth in the detailed terms and conditions. The SPV will assess an administrative fee equal to 10 basis points of the loan amount on the settlement date for collateral.

***Term.*** Each loan made under TALF will have a three-year maturity.

***Termination Date***. No new TALF credit extensions will be made after September 30, 2020, unless it is extended by the Board.

***Requirements Imposed on Recipients***. The TALF will not impose any new requirements on borrowers with respect to employee compensation, distribution of dividends, or any other corporate decision in exchange for the assistance.

***Expected Costs to Taxpayers***. As TALF credit is non-recourse to the borrower, the Federal Reserve and the Department of the Treasury, through its equity investment, will bear the risk of loss on the collateral. To mitigate this risk, the program is limited to collateral that is AAA-rated. In addition, ABS are supported by the assets collateralizing the security. The pledged eligible collateral will be valued and assigned a haircut according to a schedule based on its sector, the weighted average life, and historical volatility of the ABS. The rates charged on loans under the program will be based on the type of collateral and its weighted average life, and the SPV will assess an administrative fee. As a result, the Board does not expect at this time that the TALF will result in losses in excess of the Department of the Treasury's equity investment. Accordingly, the TALF is not expected to result in losses to the Federal Reserve or the taxpayer.