

The September 2020 Senior Credit Officer Opinion Survey on Dealer Financing Terms

Summary

The September 2020 Senior Credit Officer Opinion Survey on Dealer Financing Terms collected qualitative information on changes in credit terms and conditions in securities financing and over-the-counter (OTC) derivatives markets. In addition to the core questions, the survey included two sets of special questions. The first set asked about market functioning, funding terms, and demand for funding for commercial mortgage-backed securities (CMBS), and the second set asked about dealer funding terms for commercial mortgage real estate investment trusts (commercial mREITs). The 23 institutions participating in the survey account for almost all dealer financing of dollar-denominated securities to non-dealers and are the most active intermediaries in OTC derivatives markets. The survey was conducted during the period between August 11, 2020, and August 24, 2020. The core questions asked about changes between mid-May 2020 and mid-August 2020.¹

Core Questions

(Questions 1–79)²

Responses to the core questions in the September survey offered a few insights into recent changes in the terms under which dealers facilitate their clients' securities and derivatives transactions. With regard to the **credit terms applicable to, and mark and collateral disputes with, different counterparty types across the entire range of securities financing and OTC derivatives transactions**, responses to the core questions revealed the following:

- Price and nonprice terms on securities financing transactions and OTC derivatives were generally unchanged across most classes of counterparties. A small net fraction of dealers reported easing of price terms offered to mutual funds, exchange-traded funds (ETFs), and separately managed accounts. However, with regard to trading REITs, about one-fifth of dealers, on net, indicated tightening of price terms and about two-fifths indicated tightening of nonprice terms (see the exhibit “Management of Concentrated Credit Exposures and Indicators of Supply of Credit”).³ In addition, about one-third of respondents, on net, indicated an increase in resources and attention devoted to managing concentrated credit exposure to dealers and central counterparties.
- The volume and duration of mark and collateral disputes remained basically unchanged over the past three months for most counterparty types, although about one-third of

¹ For questions that ask about credit terms, net percentages equal the percentage of institutions that reported tightening terms (“tightened considerably” or “tightened somewhat”) minus the percentage of institutions that reported easing terms (“eased considerably” or “eased somewhat”). For questions that ask about demand, net fractions equal the percentage of institutions that reported increased demand (“increased considerably” or “increased somewhat”) minus the percentage of institutions that reported decreased demand (“decreased considerably” or “decreased somewhat”).

² Question 80, not discussed here, was optional and allowed respondents to provide additional comments.

³ Trading REITs invest in assets backed by real estate rather than directly in real estate assets.

dealers, on net, indicated a reduction in the volume and one-fifth a reduction in the duration of such disputes with mutual funds and ETFs.

With respect to **clients' use of financial leverage**, on net, dealers indicated little change over the past three months (see the exhibit "Use of Financial Leverage") for all classes of counterparties with the exception of trading REITs, for which about two-fifth of dealers, on net, reported a decrease in the use of financial leverage.

With regard to **OTC derivatives markets**, responses to the core questions revealed the following:

- Initial margin requirements on OTC derivatives were basically unchanged, on net, for average and most-favored clients.
- The volume and duration of mark and collateral disputes remained largely unchanged over the past three months for most types of contracts. About one-fifth of respondents, on net, indicated a decrease in the volume of mark and collateral disputes for credit referencing securitized products, and the same net fraction of dealers reported a decrease in the duration and persistence of mark and collateral disputes for commodity contracts.

With respect to **securities financing transactions**, respondents indicated the following:

- Demand for funding remained largely unchanged for most asset classes. A net fraction of approximately one-third of dealers reported increased demand to fund equities, and similar net fractions of dealers reported increased demand for term funding of non-agency residential mortgage-backed securities (RMBS) and CMBS (see the exhibit "Measures of Demand for Funding and Market Functioning").
- Terms under which various types of securities are funded have eased for most asset classes since the previous survey, with a substantial portion of dealers reporting easing of funding terms for various types of securities. Most notably, for high-yield corporate bonds and consumer asset-backed securities (ABS), about one-half of respondents indicated easing of funding terms with respect to haircuts and collateral spreads for both average and most-favored clients.
- About two-thirds of respondents, on net, indicated improved market liquidity and functioning for consumer ABS. In other markets, such improvement was reported by about one-half of dealers for CMBS and non-agency RMBS, about two-fifths for high-grade and high-yield corporate bonds, and about one-fourth for agency RMBS (see the exhibit "Measures of Demand for Funding and Market Functioning").⁴
- The volume and duration of mark and collateral disputes remained unchanged, on net, across most collateral types. A net fraction of one-fourth of respondents indicated a decrease in the volume, and one-fifth reported a decrease in the duration and persistence of disputes for consumer ABS.

⁴ Note that survey respondents were instructed to report changes in liquidity and functioning in the market for the underlying collateral to be funded through repurchase agreements and similar secured financing transactions, not changes in the funding markets themselves. This question was not asked with respect to equity markets in the core questions.

Special Questions on Market Functioning and Funding of Commercial Mortgage-Backed Securities and Funding Terms for Commercial Mortgage Real Estate Investment Trusts

(Questions 81–92)

In the first set of special questions, dealers were asked about changes since mid-March in market functioning and funding of Term Asset-Backed Securities Loan Facility (TALF)-eligible non-agency CMBS and TALF-ineligible non-agency CMBS.⁵ The second set of special questions asked about changes in price and nonprice terms of funding offered to commercial mREITs relative to mid-February pre-pandemic levels and to mid-March levels.

With respect to demand for funding and funding terms of **TALF-eligible non-agency CMBS and TALF-ineligible non-agency CMBS**, dealers reported the following:

- On net, dealers reported easing of funding terms since mid-March of both TALF-eligible and TALF-ineligible non-agency CMBS. About one-half of respondents indicated easing of collateral spreads for TALF-eligible and TALF-ineligible non-agency CMBS; about one-third reported easing of terms referring to the maximum amount of funding and maximum maturity for both TALF-eligible and TALF-ineligible non-agency CMBS; and about one-fourth reported easing of terms referring to haircuts for TALF-ineligible non-agency CMBS.
- Since mid-March, demand for funding remained largely unchanged, on net, for both TALF-eligible and TALF-ineligible non-agency CMBS.
- About one-third of dealers, on net, reported an improvement in liquidity and market functioning for TALF-eligible non-agency CMBS, whereas liquidity and market functioning were reported to be roughly unchanged for TALF-ineligible non-agency CMBS when compared with mid-March levels.

With respect to **price and nonprice terms of funding offered to commercial mREITs**, dealers reported the following:

- About one-half of dealers reported tightening since mid-February pre-pandemic levels of both price and nonprice terms of funding offered to commercial mREITs.
- All of the dealers that reported tightening of funding terms since mid-February pointed to deterioration in current or expected financial strength of counterparties, most of the dealers pointed to worsening of general market liquidity and functioning, and about two-thirds pointed to reduced willingness to take on risk as among the most important reasons for the change.
- On net, dealers reported no substantial change since mid-March levels in price and nonprice terms of funding offered to commercial mREITs, with about one-fourth of dealers reporting tightening and about one-fifth reporting easing of price and nonprice terms.

⁵ See the TALF term sheet for TALF eligibility criteria:

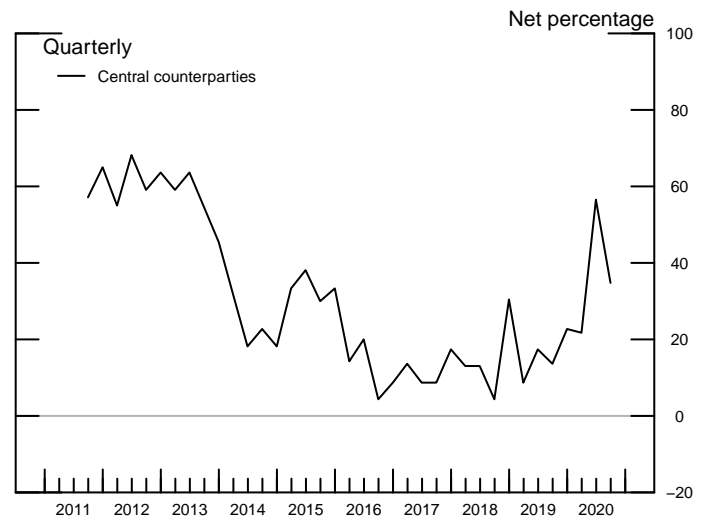
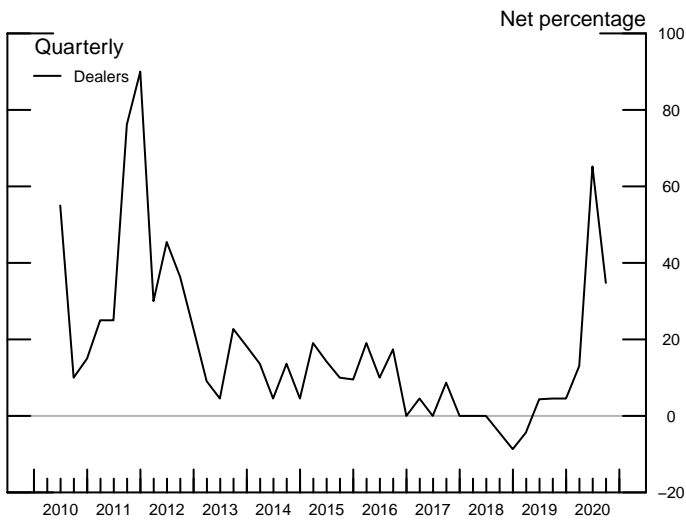
<https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200728a6.pdf>.

- All of the dealers that reported tightening of funding terms since mid-March pointed to the deterioration in the current or expected financial strength of counterparties as one of the most important reasons for the change. Most of these dealers also pointed to worsening of general market liquidity and functioning.
- Most of the dealers that reported easing of funding terms since mid-March pointed to improvement of general market liquidity and functioning attributed to Federal Reserve 13(3) facilities or Federal Reserve purchases of agency CMBS as one of the most important reasons for the change.

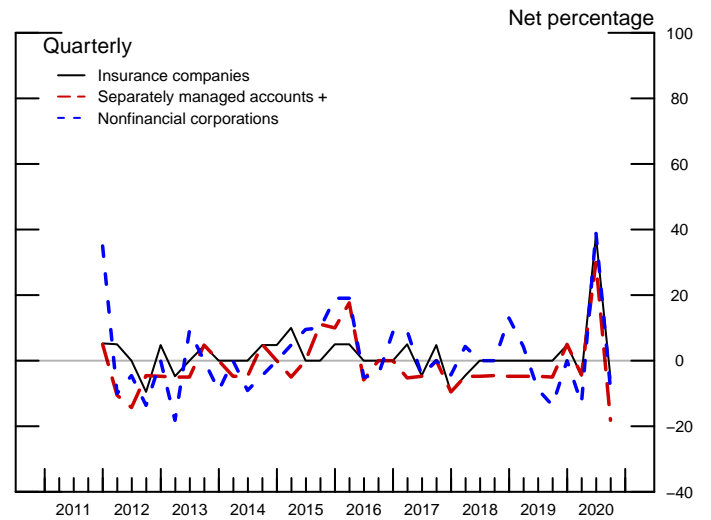
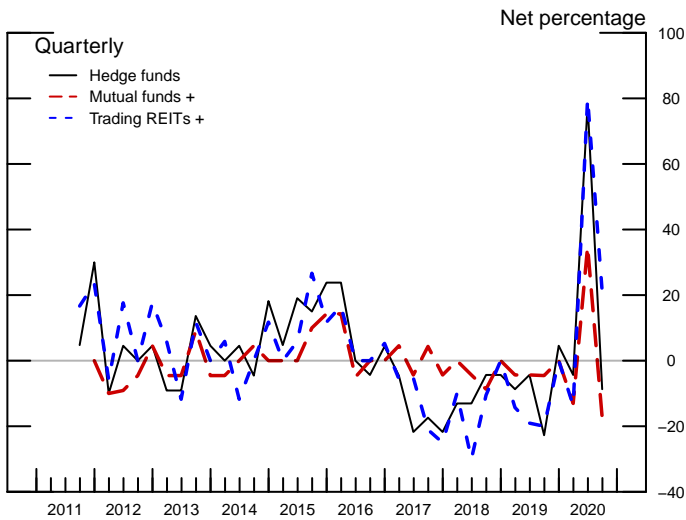
This document was prepared by Pawel Szerszen, Division of Research and Statistics, Board of Governors of the Federal Reserve System. Assistance in developing and administering the survey was provided by staff members in the Capital Markets Function, the Statistics Function, and the Markets Group at the Federal Reserve Bank of New York.

Management of Concentrated Credit Exposures and Indicators of Supply of Credit

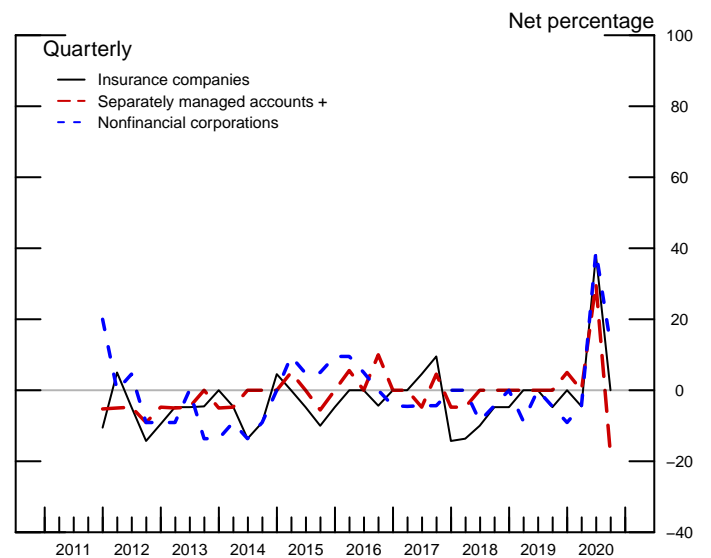
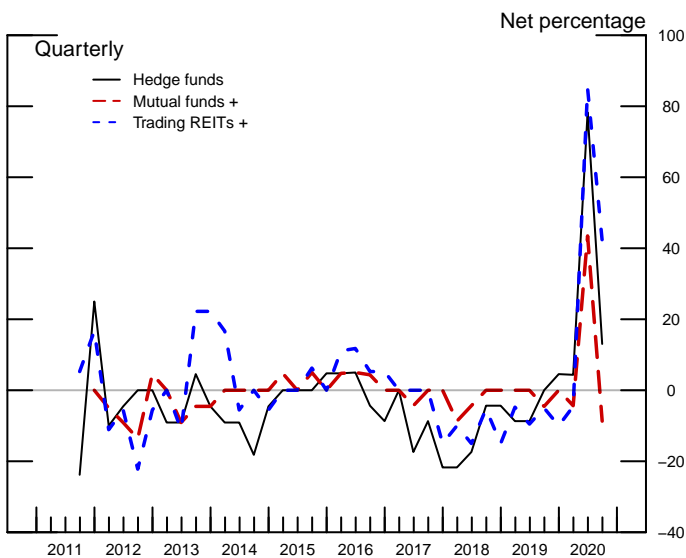
Respondents increasing resources and attention to management of concentrated exposures to the following:



Respondents tightening price terms to the following:



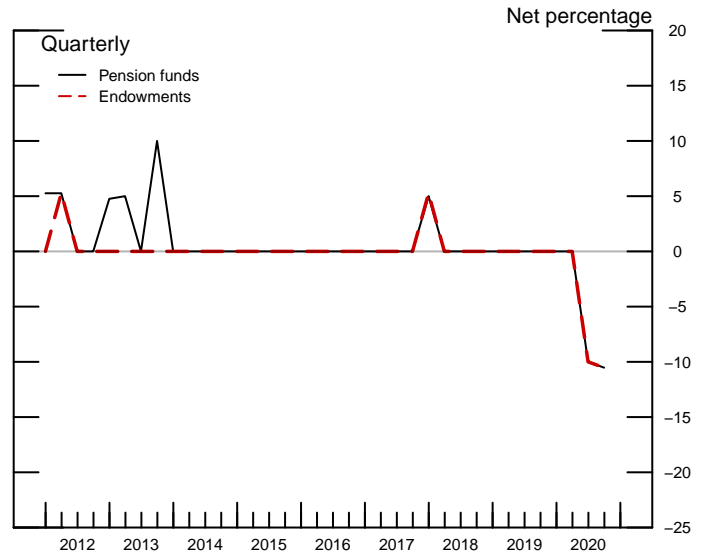
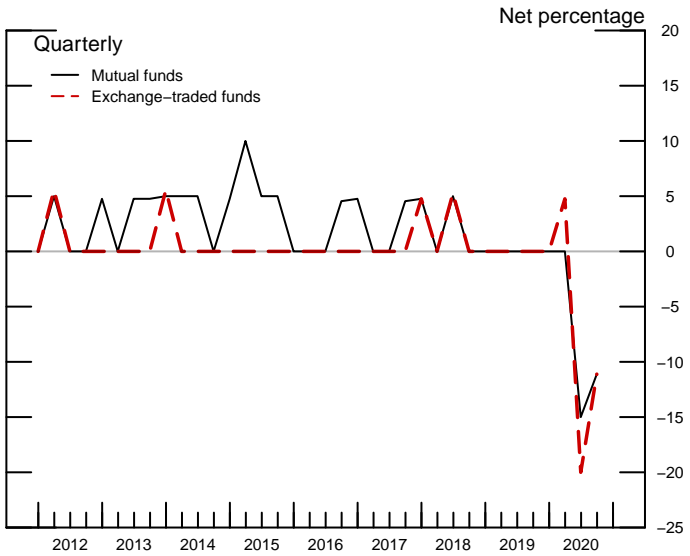
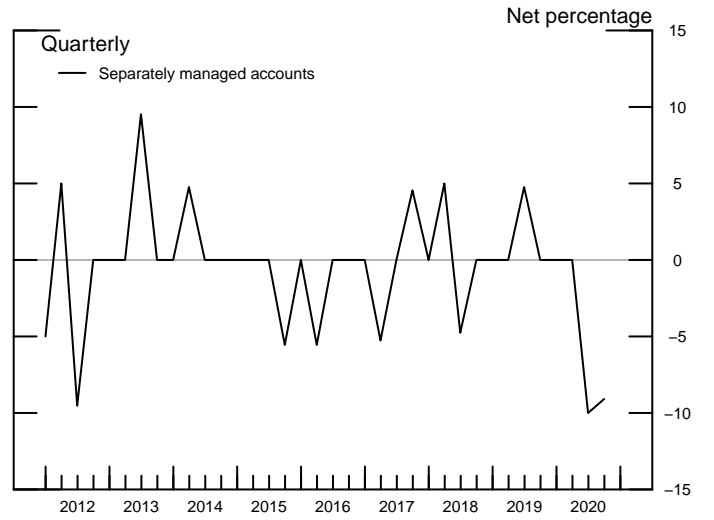
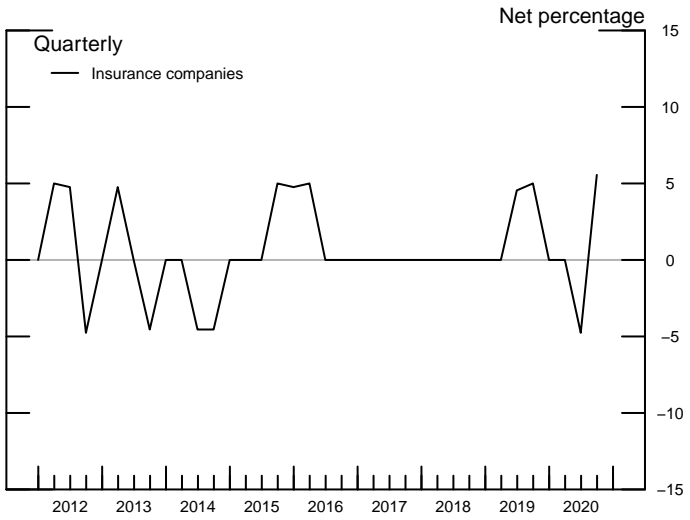
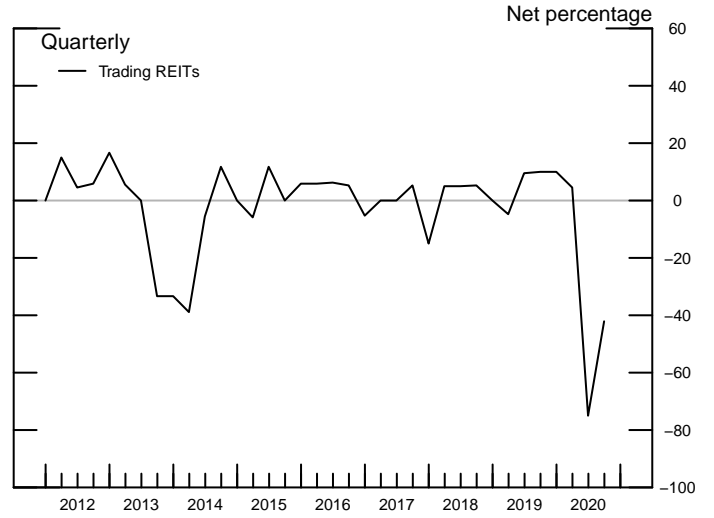
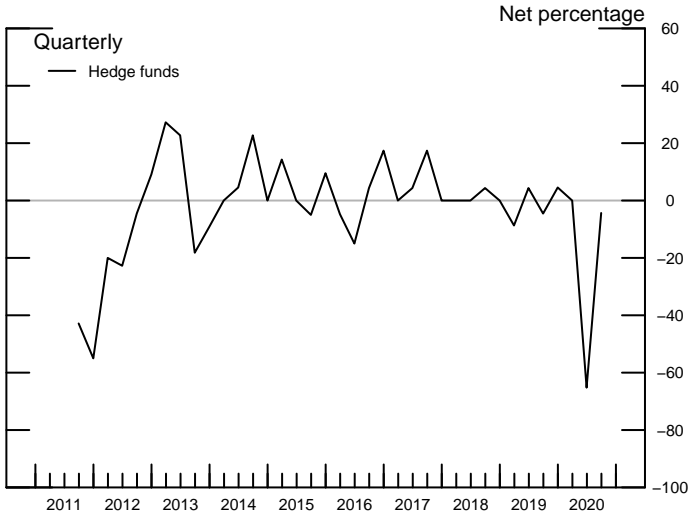
Respondents tightening nonprice terms to the following:



+ The question was added to the survey in September 2011.
Note: REIT is real estate investment trust.

Use of Financial Leverage

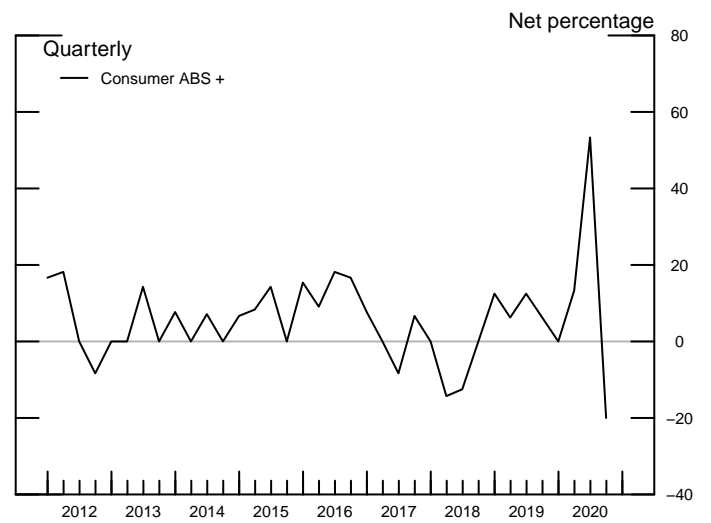
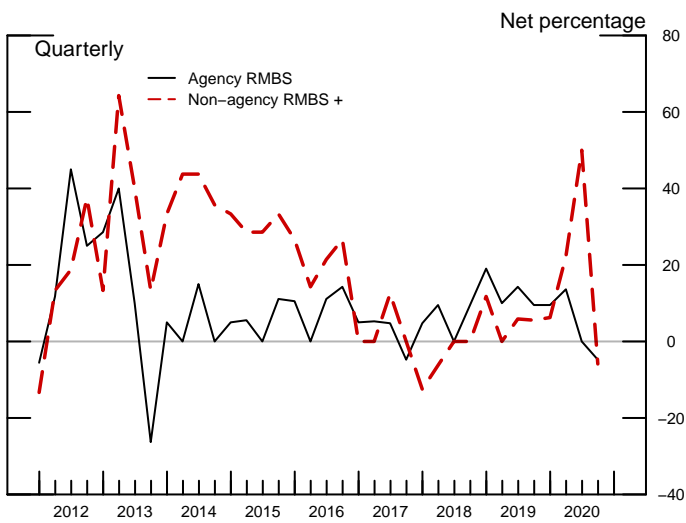
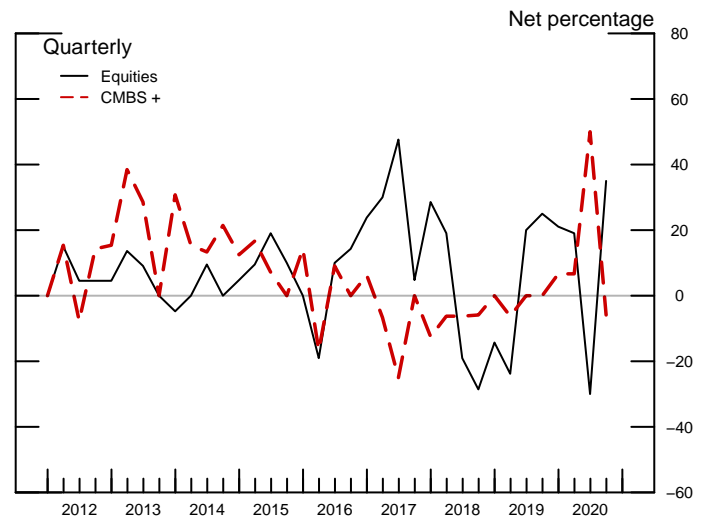
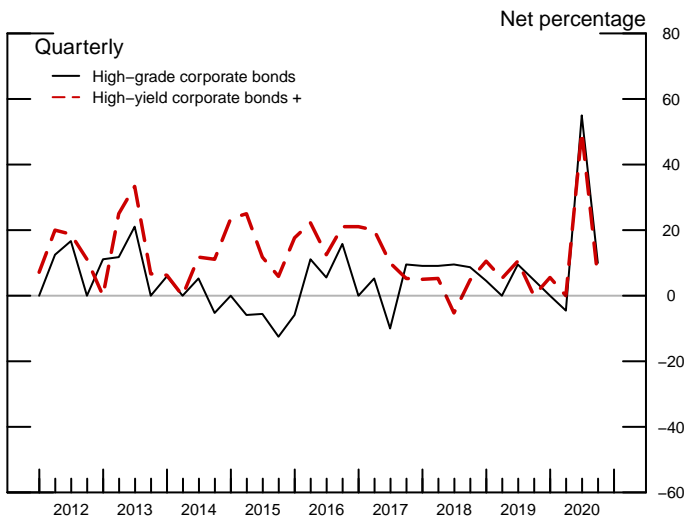
Respondents reporting increased use of leverage by the following:



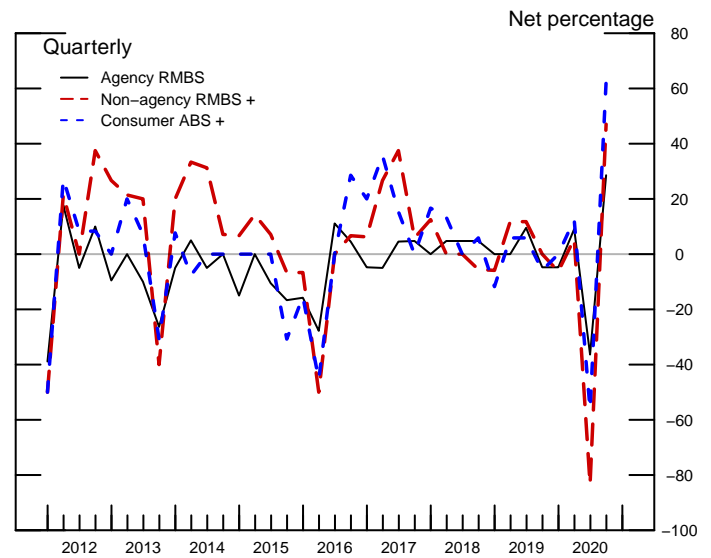
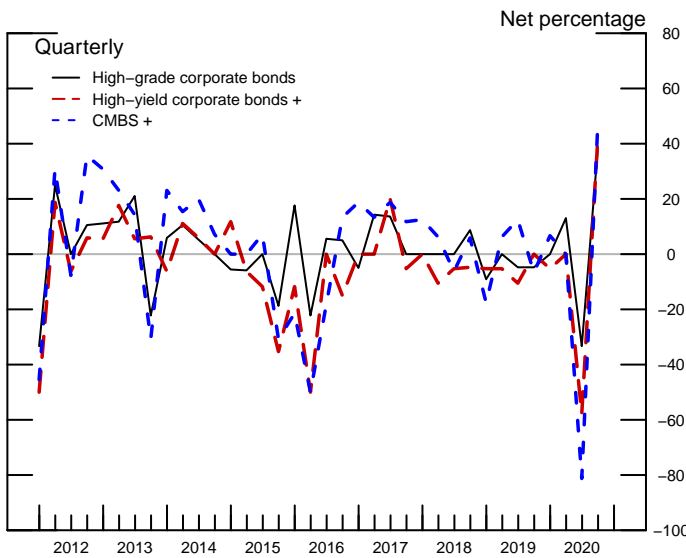
Note: REIT is real estate investment trust.

Measures of Demand for Funding and Market Functioning

Respondents reporting increased demand for funding of the following:



Respondents reporting an improvement in liquidity and functioning in the underlying markets for the following:



+ The question was added to the survey in September 2011.

Note: CMBS is commercial mortgage-backed securities, RMBS is residential mortgage-backed securities, and ABS is asset-backed securities.