

Term Asset-Backed Securities Loan Facility

Facility: The TALF is a credit facility authorized under section 13(3) of the Federal Reserve Act intended to help meet the credit needs of consumers and small businesses by facilitating the issuance of asset-backed securities (“ABS”) and improving the market conditions for ABS more generally. The TALF will serve as a funding backstop to facilitate the issuance of eligible ABS on or after March 23, 2020.

Under the TALF, the Federal Reserve Bank of New York (“Reserve Bank”) will commit to lend to a special purpose vehicle (“SPV”) on a recourse basis. The Department of the Treasury will make an equity investment of \$10 billion in the SPV in connection with the Facility, as described below.

The TALF SPV initially will make up to \$100 billion of loans available. The loans will have a term of three years; will be nonrecourse to the borrower; and will be fully secured by eligible ABS.

Eligible Borrowers: 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 would be defined as 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.

Eligible Collateral: Eligible collateral includes U.S. dollar denominated cash (that is, not synthetic) ABS that have a credit rating in the highest long-term or the highest short-term investment-grade rating category from at least two eligible nationally recognized statistical rating organizations (“NRSROs”) and do not have a credit rating below the highest investment-grade rating category from an eligible NRSRO. All or substantially all of the credit exposures underlying eligible ABS must have been originated by a U.S. company. Eligible ABS must be issued on or after March 23, 2020.

Eligible collateral must be ABS where the underlying credit exposures are one of the following:

- 1) Auto loans and leases;
- 2) Student loans;
- 3) Credit card receivables (both consumer and corporate);
- 4) Equipment loans;
- 5) Floorplan loans;
- 6) Insurance premium finance loans;
- 7) Certain small business loans that are guaranteed by the Small Business Administration; or
- 8) Eligible servicing advance receivables.¹

Eligible collateral will not include ABS that bear interest payments that step up or step down to predetermined levels on specific dates. In addition, the underlying credit exposures of eligible collateral must not include exposures that are themselves cash ABS or synthetic ABS.

To be eligible collateral, all or substantially all of the underlying credit exposures must be newly issued.

The feasibility of adding other asset classes to the facility will be considered in the future.

Collateral Valuation: 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. This haircut schedule will be published in the detailed terms and conditions and will be roughly in line with the haircut schedule used for the TALF Facility established in 2008.

¹ The detailed terms and conditions will further define the eligible underlying credit exposures for purposes of the TALF. The definitions are expected to be broadly consistent with the defined terms used for purposes of the TALF established in 2008.

Pricing: For eligible ABS with underlying credit exposures that do not have a government guarantee, the interest rate will be 100 basis points over the 2-year LIBOR swap rate for securities with a weighted average life less than two years, or 100 basis points over the 3-year LIBOR swap rate for securities with a weighted average life of two years or greater.² The pricing for other eligible ABS will be set forth in the detailed terms and conditions.

Fees: The SPV will assess an administrative fee equal to 10 basis points of the loan amount on the settlement date for collateral.

Maturity: Each loan provided under this facility will have a maturity of three years.

Investment by the Department of the Treasury: The Department of the Treasury, using the Exchange Stabilization Fund, will make an initial equity investment of \$10 billion in the SPV.

Non-Recourse: Loans made under the TALF are made without recourse to the borrower, provided the requirements of the TALF are met.

Prepayment: Loans made under the TALF will be pre-payable in whole or in part at the option of the borrower, but substitution of collateral during the term of the loan generally will not be allowed.

Program Termination: No new credit extensions will be made after September 30, 2020, unless the TALF is extended by the Board of Governors of the Federal Reserve System.

Other Terms and Conditions: More detailed terms and conditions will be provided at a later date, primarily based off of the terms and conditions used for the 2008 TALF. In addition, the Federal Reserve reserves the right to review and make adjustments to these terms and conditions – including size of program, pricing, loan maturity, collateral haircuts, and asset and borrower eligibility requirements – consistent with the policy objectives of the TALF.

² If necessary, the pricing structure would be updated to account for the expected industry transition away from LIBOR.