Davis Polk

Fed Establishes a Term Asset-Backed Securities Loan Facility

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1 The term sheet notes that the pricing would be updated to account for the expected industry transition away from LIBOR.

- **Size.** TALF will initially make up to $100 billion in secured loans.
- **Eligible Borrowers.** Eligible borrowers include all U.S. companies that own eligible collateral and maintain an account relationship with a primary dealer.
  - U.S. company means a company organized under the laws of the United States, including a U.S. subsidiary of a foreign entity, or a U.S. branch or agency of a foreign bank.
- **Eligible Collateral.** Eligible collateral:
  - consists of U.S. dollar denominated cash (not synthetic) ABS issued on or after March 23, 2020 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;
  - the underlying credit exposures of the ABS are initially limited to:
    - auto loans and leases;
    - student loans;
    - credit card receivables (both consumer and corporate);
    - equipment loans;
    - floorplan loans;
    - insurance premium finance loans;
    - certain small business loans that are guaranteed by the Small Business Administration; or
    - eligible servicing advance receivables.
  - must be issued on or after March 23, 2020;
  - all or substantially all of its underlying credit exposures must be newly issued;
  - must not bear interest payments that step up or step down to predetermined levels on specific dates;
  - the underlying credit exposures must not themselves be cash or synthetic ABS; and
  - expansion of the eligible collateral will be considered in the future.
- **Haircuts.** Collateral will be subject to a haircut that is based on sector, weighted average life, and historic volatility.
- **Pricing.** Pricing for eligible ABS with underlying credit exposures that do not have a government guarantee will be 100 bp over the 2-year LIBOR[1] swap rate for securities with a weighted average life less than two years, or 100 bp over the 3-year LIBOR swap rate for securities with a weighted average life of two years or greater. The detailed terms and condition will provide pricing for other ABS.
- **Fee.** The SPV will charge a fee of 10 basis points of the loan amount on the settlement date for collateral.
- **End Date.** Unless TALF is extended, the program will stop providing new credit extensions after September 30, 2020.
- **Prepayment and Collateral Substitution.** Loans are pre-payable in whole or in part, but collateral substitution is generally not permitted.