

**Davis Polk**

# **Fed Establishes a Term Asset-Backed Securities Loan Facility**

March 23, 2020 | Client Update | 3-minute read

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

**John Baner**

+1 212 450 4116  
john.baner@davispolk.com

**Gabriel D. Rosenberg**

+1 212 450 4537  
gabriel.rosenberg@davispolk.com

*This communication, which we believe may be of interest to our clients and friends of the firm, is for general information only. It is not a full analysis of the matters presented and should not be relied upon as legal advice. This may be considered attorney advertising in some jurisdictions. Please refer to the firm's privacy notice for further details.*

- <sup>1</sup> The term sheet notes that the pricing would be updated to account for the expected industry transition away from LIBOR.
- o **Size.** TALF will initially make up to \$100 billion in secured loans.
  - o **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.
  - o **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.
  - o **Haircuts.** Collateral will be subject to a haircut that is based on sector, weighted average life, and historic volatility.
  - o **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<sup>1</sup> 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.
  - o **Fee.** The SPV will charge a fee of 10 basis points of the loan amount on the settlement date for collateral.
  - o **End Date.** Unless TALF is extended, the program will stop providing new credit extensions after September 30, 2020.
  - o **Prepayment and Collateral Substitution.** Loans are pre-payable in whole or in part, but collateral substitution is generally not permitted.