

**Alert | Health Emergency Preparedness Task Force:
COVID-19 Economic Stimulus**



May 18, 2020

Federal Reserve Releases New Information on the TALF

On May 12, 2020, the Board of Governors of the Federal Reserve System (the Federal Reserve) announced [additional information](#) and [FAQs](#) on its Term Asset-Backed Securities Loan Facility (TALF). The goal of the TALF is to help consumers and businesses access affordable credit during and in the aftermath of the Coronavirus Disease 2019 (COVID-19) pandemic by lending to holders of recently generated asset-backed securities (ABS) collateralized by certain types of consumer and business loans. The Federal Reserve will make up to \$100 billion in loans available under the TALF. The Federal Reserve originally announced the program on March 23, and we discussed it in a [previous GT Alert](#). On April 9, and again on May 12, the Federal Reserve expanded the class of assets that can qualify as TALF collateral.

Public Disclosures

The Federal Reserve announced it will make the following public disclosures for the TALF:

- For each participant:
 - Name of the participant
 - Names of each participant's material investors (owners of 10% or more of its outstanding securities)
 - Amount borrowed

- Interest rate charged
- Type and value of pledged collateral
- The program’s overall:
 - Costs
 - Revenues
 - Fees

TALF Borrower Eligibility

To be an eligible TALF borrower, a business must be a holder of eligible securities and

- be created or organized in the United States or under the laws of the United States (including a U.S. subsidiary or U.S. branch or agency of a foreign bank),
- have significant operations in and a majority of its employees based in the United States, and
- maintain an account relationship with a TALF agent.

A TALF agent is a primary dealer that is party to the New York Federal Reserve’s master loan and security agreement and will service the TALF loans. There are currently 24 primary dealers selected by the Federal Reserve. A TALF borrower may not have any material investor that is a foreign government and must continuously monitor that this condition is met throughout the term of the loan. Pursuant to Section 13(3) of the Federal Reserve Act, a TALF borrower must certify that it is unable to obtain adequate credit accommodations from other banking institutions and that it is not insolvent. Lack of access to adequate credit may be based on market disruptions and inability to obtain credit at prices and with conditions that would be found in a normal and well-functioning market.

TALF Collateral Eligibility

ABS are eligible to be used as TALF collateral if they:

- are denominated in cash in U.S. dollars (no synthetic exposures)
- have a credit rating in the highest long-term or, if no long-term rating is available, the highest short-term investment-grade rating category from at least two eligible nationally recognized statistical rating organizations (NRSROs)
- do not have a credit rating below the highest investment-grade rating category from an eligible NRSRO
- contain eligible underlying assets

Further, with the exception of three asset classes, eligible ABS must be issued on or after March 23, 2020. CMBS must be issued before March 23, 2020, to be eligible, and SBA Pool Certificates or Development Company Participation Certificates must be issued on or after Jan. 1, 2019.

Eligible underlying assets must:

- be originated by U.S.-organized entities (for newly issued asset-backed securities), or have a lead or a co-lead arranger that is a U.S.-organized entity (for collateralized loan obligations), and

- be to U.S.-domiciled obligors or with respect to real property located in the United States (including U.S. territories).

Eligible categories of securities include auto loans and leases, student loans, credit card receivables (consumer and corporate), equipment loans and leases, floorplan loans, premium finance loans for property and casualty insurance, certain small business loans that are guaranteed by the SBA, leveraged loans, and commercial mortgages.

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.

Floating-rate ABS benchmarked to LIBOR must have adequate fallback language for when LIBOR is no longer available.

SBA Pool Certificates (7(a) loans) and Development Company Participation Certificates (504 loans) that include PPP loans in the underlying collateral pool are eligible ABS. Securities backed by SBA loans that are backed by the full faith and credit of the U.S. government do not need an explicit credit rating.

For a collateralized loan obligation to be eligible collateral, the underlying leveraged loans must be current on principal and interest, senior secured, meet additional portfolio limitations and an overcollateralization test, and the pool must be static (no revolving period or ramp up period).

Interest Rates

Type of Collateral	Rate
SBA 7(a) loans	top of the federal funds target range plus 75 basis points
SBA 504 loans	three-year fed funds overnight index swap rate plus 75 basis points
Collateralized loan obligations	30-day average SOFR plus 150 basis points
All other ABS with a weighted average life less than two years	two-year overnight index swap rate plus 125 basis points
All other asset ABS with a weighted average life of two years or greater	three-year overnight index swap rate plus 125 basis points

Haircut Schedule

Sector	Subsector	ABS Average Life (years)*							
		0-<1	1-<2	2-<3	3-<4	4-<5	5-<6	6-<7	
Auto	Prime retail lease	10%	11%	12%	13%	14%			
Auto	Prime retail loan	6%	7%	8%	9%	10%			
Auto	Subprime retail loan	9%	10%	11%	12%	13%			
Auto	Motorcycle/ other recreational vehicles	7%	8%	9%	10%	11%			
Auto	Commercial and government fleets	9%	10%	11%	12%	13%			
Auto	Rental fleets	12%	13%	14%	15%	16%			

Credit Card	Prime	5%	5%	6%	7%	8%		
Credit Card	Subprime	6%	7%	8%	9%	10%		
Equipment	Loans and Leases	5%	6%	7%	8%	9%		
Floorplan	Auto	12%	13%	14%	15%	16%		
Floorplan	Non-Auto	11%	12%	13%	14%	15%		
Premium Finance	Property and casualty	5%	6%	7%	8%	9%		
Small Business	SBA Loans	5%	5%	5%	5%	5%	6%	6%
Student Loan	Private	8%	9%	10%	11%	12%	13%	14%
Leveraged Loans	Static	20%	20%	20%	20%	20%	21%	22%
Commercial Mortgages	Legacy, Conduit	15%	15%	15%	15%	15%	16%	17%

* For auto, credit card, equipment, floorplan, and premium finance ABS, the weighted average life must be five years or less. For other new-issue eligible collateral, haircuts will increase by one percentage point for each additional year (or portion thereof) of average life beyond five years. For legacy CMBS with average lives beyond five years, base dollar haircuts will increase by one percentage point of par for each additional year (or portion thereof) of average life beyond five years. No securitization may have an average life beyond ten years.

For more information and updates on the developing situation, visit [GT's Health Emergency Preparedness Task Force: Coronavirus Disease 2019](#) or [GT's COVID-19 Economic Stimulus Team](#).

Authors

This GT Alert was prepared by:

- [Lee Ann Anderson](#) | +1 202.331.3128 | andersonle@gtlaw.com
- [Carl A. Fornaris](#) | +1 305.579.0626 | fornarisc@gtlaw.com
- [Barbara A. Jones](#) | +1 310.586.7773 | jonesb@gtlaw.com
- [Emily M. Wassermann](#) | +1 305.579.0799 | wassermanne@gtlaw.com

Albany. Amsterdam. Atlanta. Austin. Boca Raton. Boston. Chicago. Dallas. Delaware. Denver. Fort Lauderdale. Germany.~ Houston. Las Vegas. London.* Los Angeles. Mexico City.+ Miami. Milan.* Minneapolis. Nashville. New Jersey. New York. Northern Virginia. Orange County. Orlando. Philadelphia. Phoenix. Sacramento. San Francisco. Seoul.∞ Shanghai. Silicon Valley. Tallahassee. Tampa. Tel Aviv.^ Tokyo.* Warsaw.~ Washington, D.C.. West Palm Beach. Westchester County.

*This Greenberg Traurig Alert is issued for informational purposes only and is not intended to be construed or used as general legal advice nor as a solicitation of any type. Please contact the author(s) or your Greenberg Traurig contact if you have questions regarding the currency of this information. The hiring of a lawyer is an important decision. Before you decide, ask for written information about the lawyer's legal qualifications and experience. Greenberg Traurig is a service mark and trade name of Greenberg Traurig, LLP and Greenberg Traurig, P.A. ~Greenberg Traurig's Berlin office is operated by Greenberg Traurig Germany, an affiliate of Greenberg Traurig, P.A. and Greenberg Traurig, LLP. *Operates as a separate UK registered legal entity. +Greenberg Traurig's Mexico City office is operated by Greenberg Traurig, S.C., an affiliate of Greenberg Traurig, P.A. and Greenberg Traurig, LLP. »Greenberg Traurig's Milan office is operated by Greenberg Traurig Santa Maria, an affiliate of Greenberg Traurig, P.A. and Greenberg Traurig, LLP. ∞Operates as Greenberg Traurig LLP Foreign Legal Consultant Office. ^Greenberg Traurig's Tel Aviv office is a branch of Greenberg Traurig, P.A., Florida, USA. #Greenberg Traurig Tokyo Law Offices are operated by GT Tokyo Horitsu Jimusho, an affiliate of Greenberg Traurig, P.A. and Greenberg Traurig, LLP. ~Greenberg Traurig's Warsaw office is operated by Greenberg Traurig Grzesiak sp.k., an affiliate of Greenberg Traurig, P.A. and Greenberg Traurig, LLP. Certain partners in Greenberg Traurig Grzesiak sp.k. are also shareholders in Greenberg Traurig, P.A. Images in this advertisement do not depict Greenberg Traurig attorneys, clients, staff or*

facilities. No aspect of this advertisement has been approved by the Supreme Court of New Jersey. ©2020 Greenberg Traurig, LLP. All rights reserved.