TALF funding expected to flow by mid/late May; further expansion seen as likely

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Funding from the Federal Reserve's new TALF program should start flowing in mid-to-late May, according to an investor, two lawyers and a financial advisor. Several of the sources agreed that the program is likely to be expanded to include more assets.

Fouad Onbargi, managing director at EA Markets and a former Barclays Capital and KGS-Alpha origination executive, has heard talk that 15 May could be the program's launch date.

A Fed spokesperson declined to comment on the Fed's future plans for the Term Asset-Backed Securities Loan Facility.

The Fed's TALF Term Sheet has already been expanded once. Its initial version, announced on 23 March, included financing for only bonds backed by auto, student and credit card loans; equipment and dealer floorplan loans; insurance premium finance loans; SBA-guaranteed small business loans and some servicing advance receivables. The 9 April expansion included conduit CMBS and corporate loan assets. All of the ABS bonds must have AAA ratings.

While the term sheet details which asset classes are included in the program, it is scant on details about how to get TALF financing or when it will be available. "The Federal Reserve provided little detail about the procedures for obtaining loans under TALF 2020, but did promise the issuance of more detailed terms and conditions," wrote lawyers from Chapman and Cutler in a 24 March "client alert" after the Fed announced the program.

Jared Gianatasio, a partner with Kleinberg, Kaplan, Wolff & Cohen, said his clients are eager to get involved in the program.

"The Fed needs to add a little meat to the bone in terms of what the documentation looks like," Gianatasio said.

Gianatasio is "cautiously optimistic" that assets such as residential mortgages, rail car and aircraft receivables will soon be added to the program. He based his assessment in part on the speed with which the Fed has already expanded the TALF to include commercial mortgage and corporate loan assets. The hedge funds and private equity players getting involved in TALF investments are those already involved in TALF-eligible ABS and MBS markets, the lawyer said.

An investment bank analyst also expects residential mortgages to be included.

"I would think that anything that is subject to securitization could be included," said the second lawyer.

However, further TALF expansion would be less likely if there is more spread tightening and steadier markets, Onbargi said. "If the market returns and companies can still make money where credit spreads are they won't need this [expansion] but on the other hand, if we're still in a dicey environment and the Fed checks to consumers weren't enough … then there will be a lot of pressure" for expansion to other assets, he said.

Structured finance markets — including assets that aren't TALF-eligible such as non-agency RMBS and CMBX indices — have rallied from their mid-March lows on the initial TALF announcement and the follow-up expansion, as reported.

Kleinberg Kaplan is receiving a lot of inquiries from clients who are "kicking the tires" on the TALF program, Gianatasio said.

Since the Fed announced the new TALF program on 23 March, Onbargi has seen an immediate rise in interest from investors in setting up funds to buy TALF-eligible assets. He's been working with private equity firms, group family offices and others who are interested in taking the steps to become TALF asset buyers.

Industry groups including the Structured Finance Association and the CRE Finance Council are pushing the Fed to expand the program to include non-agency residential mortgage assets, ABS backed by unsecured consumer loans, single-asset/single-borrower CMBS and CRE CLOs.

by Al Yoon, Diana Asatryan, Maura Sadovi and John Wilen

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