To further support market liquidity and credit flow, on April 9, 2020, Federal Reserve announced an expansion of Term Asset-Backed Securities Loan Facility (TALF 2.0) program to include outstanding non-agency commercial mortgage-backed securities (CMBS) and collateralized loan obligations (CLOs). The original scope of the program only covers credit card, auto, student loans, and other consumer ABS assets. Now AAA-rated outstanding private-label CMBS and new issue CLO papers also become eligible collateral assets for the program.

Here we provide a quick summary of terms and conditions of the program regarding to CMBS and CLOs.

**Facility**

Based on the term sheet for TALF 2.0, the initial size of the loan facility will be $100 billion, with $10 billion equity investment from the Department of Treasury. The loans will have a three-year term, and are non-recourse to borrowers. Partial or full prepayment is allowed. The program is currently scheduled to terminate on September 30, 2020 unless extended by Fed and Treasury.

**Eligibility**

Loan borrowers must be U.S. companies that own eligible collaterals and maintain an account relationship with a primary dealer. The collateral securities...
must be rated AAAs by at least two eligible nationally recognized statistical rating organizations ("NRSROs"), and must not have a rating below AAA from any of these rating agencies. Eligible collaterals include U.S. CMBS AAAs issued before March 23, 2020 (no new issues), and CLO AAAs issued on or after March 23, 2020 (no legacy issues).

For CMBS, the underlying credit exposures must be tied to real properties located in the United States or its territories.

No securities can have an average life over ten years.

Single-asset single-borrower (SASB) CMBS and commercial real estate collateralized loan obligations (CRE CLOs) are not eligible.

For CLOs, only static CLOs are eligible.

**Haircuts**

Loans under the program will be extended in amounts equal to the market value of the collateral security less a haircut. The size of haircut depends on asset class and average life. For average life beyond five years, haircuts will increase by one percentage point for each additional year. The maximum average life is ten years.

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<th>TALF 2.0 Haircut Schedule for CMBS and CLOs</th>
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<tr>
<td>Avg Life (0, 1)</td>
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<tr>
<td>CMBS</td>
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<td>CLO</td>
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Source: Federal Reserve

**Pricing and Fees**

For CLOs, the loan rate will be 150 basis points over the 30-day average secured overnight financing rate (SOFR).

For CMBS, the loan rate will be 125 basis points over the 2-year OIS rate for securities with a WAL less than two years, or 125 basis points over the 3-year OIS rate for securities with a WAL of two years or greater.

The loans will have an administrative fee equal to 10 basis points of the loan amount.

Conduit CMBS and static CLOs are eligible, while SASB CMBS, CRE CLOs, and actively managed CLOs don’t qualify.
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<th>EMEA</th>
<th>Asia-Pacific</th>
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<td>Hong Kong +852 2164 3333</td>
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