The Federal Reserve Board on Friday announced that, starting in June, commercial mortgage-backed securities (CMBS) and securities backed by insurance premium finance loans will be eligible collateral under the Term Asset-Backed Securities Loan Facility (TALF).

The CMBS market came to a standstill in mid-2008. The inclusion of CMBS as eligible collateral for TALF loans will help prevent defaults on economically viable commercial properties, increase the capacity of current holders of maturing mortgages to make additional loans, and facilitate the sale of distressed properties. CMBS accounted for almost half of new commercial mortgage originations in 2007.

More than 1.5 million insurance premium finance loans are extended to small businesses each year so they can obtain property and casualty insurance. The loans are often funded through the asset-backed securities (ABS) market and have become more expensive and more difficult to obtain since the shutdown of that market last fall. The inclusion of insurance premium ABS as TALF-eligible collateral will facilitate the flow of credit to small businesses.

The Board also authorized TALF loans with maturities of five years. Currently, all TALF loans have maturities of three years. TALF loans with five-year maturities will be available for the June funding to finance purchases of CMBS, ABS backed by student loans, and ABS backed by loans guaranteed by the Small Business Administration. The Board indicated that up to $100 billion of TALF loans could have five-year maturities; it will continue to evaluate that limit. Some of the interest on collateral financed with a five-year loan may be diverted toward an accelerated repayment of the loan, especially in the fourth and fifth years.

The Board authorized the TALF on November 24, 2008, under section 13(3) of the Federal Reserve Act. Under the TALF, the Federal Reserve Bank of New York extends loans secured by AAA-rated ABS backed by newly and recently originated loans. On February 10, 2009, the Board announced that it is prepared to undertake a significant expansion of the TALF. Friday's announcement marks another step along that expansion.

A new term sheet and a frequently-asked-questions document, specific to the CMBS collateral expansion, are attached. Also attached is a revised frequently-asked-questions document for the TALF program, including a description of the premium finance ABS collateral expansion as well as other changes.

Terms and conditions: TALF CMBS

Frequently asked questions: TALF CMBS
Frequently asked questions: TALF