March 24, 2020

Federal Reserve Responds to Industry Concerns on Market Deterioration

On March 23, 2020, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, and the Federal Housing Finance Agency announced another round of extraordinary measures to provide further support for the mortgage markets, including Agency commercial mortgage-backed securities (CMBS).

Last night, CREFC and other trade associations sent letters to the Fed and various other government bodies seeking immediate emergency support for the mortgage markets that, thus far, have continued to deteriorate despite extensive monetary policy and other support for this and other markets earlier in the crisis. Please see CREFC’s log of regulatory actions and story about remediation measures taken to date.

Below are summaries of regulator actions responsive to CREFC’s concerns:

- **Purchasing Agency Single-Family and Multifamily MBS**: The Fed will provide unlimited support for Agency single-family and multifamily MBS through its Open Market Operations (OMO) group and the System Open Market Account (SOMA). This is the first time in history that the OMO will also purchase Agency multifamily CMBS.

- **Facility to Purchase ABS**: The Fed established a Term Asset-Backed Securities Loan Facility (TALF) that will be authorized to lend against ABS backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration (SBA), and certain other assets. Currently, the TALF term sheet does not include private label CMBS, though the original TALF program during the previous crisis allowed legacy CMBS financing in later iterations after it was originally formed. In its press release today, the Fed notes, “the feasibility of adding other asset classes to the facility will be considered in the future.” The eligible collateral announced today must be new issue (March 23rd or later) and have the highest investment-grade rating by two rating agencies. TALF initially will make up to $100 billion in loans available.

  - CREFC’s letter submitted to the Federal Reserve, Treasury, and FHFA, asked for all investment-grade, legacy and new-issue Agency and private-label CMBS to be made eligible. We also sought relief for credit risk transfer instruments under the TALF. CREFC will continue to pursue this important addition with the above entities this week and going forward and welcome input and market color from or members that move this issue forward.

- **GSE Dollar Roll Transactions**: FHFA also authorized Fannie and Freddie to enter into additional dollar roll transactions, which provide MBS investors with short-term financing of their positions. Eligible collateral is limited to Agency MBS and the transactions must be undertaken via an auction or similar mechanism to ensure that they occur at a fair market price.

- **Flexibility on Troubled Debt Accounting**: The Fed, FDIC, and OCC clarified that they will not direct banks to automatically categorize COVID-19 loan modifications as troubled debt restructurings (TDRs).
The Fed and Treasury also took other actions, which are listed below:

- Introduced new Primary Market Corporate Credit Facility (PMCCF) for new bond and loan issuance.
- Introduced new Secondary Market Corporate Credit Facility (SMCFF) to provide liquidity for outstanding corporate bonds.
- Treasury will use the Exchange Stabilization Fund (ESF) to provide equity to facilities established by the Fed, (PMCCF, SMCFF, and TALF).
- Expand the Money Market Mutual Fund Liquidity Facility to include a wider range of securities.
- Expand the Commercial Paper Funding Facility (CPFF) to include high-quality, tax-exempt commercial paper as eligible securities. In addition, the pricing of the facility has been reduced.

Relief on Troubled Debt Restructurings

Lastly, but importantly, the prudential regulatory agencies (FRB, FDIC, OCC, NCUA), as well as the Consumer Finance Protection Bureau and the Conference of State Banking Supervisors issued the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus". This statement encourages banks to continue to work prudently with their borrowers and commits the following of the supervisors: “The agencies will not criticize financial institutions that mitigate credit risk through prudent actions consistent with safe and sound practices.”

CREFC has been in dialogue with the agencies and the Financial Standards Accounting Board regarding the strains of new reserve accounting requirements (current expected credit loss), as well as the interim pressures related to modifications and troubled debt restructurings (TDRs). We welcome the agencies’ supervisory relief on TDRs in order to allow banks to maintain lending arrangements without forcing credit-worthy borrowers into work-outs during this time.

CREFC’s Government Relations team, is continuing to elevate its members concerns to the regulators, the Administration, and Congress. Please contact Justin Ailes, Christina Zausner, or David McCarthy with input or questions.