Farewell to Fed Program That Really Worked

David Ellis

https://elischolar.library.yale.edu/ypfs-documents2/3092
Farewell to Fed program that really worked

By David Ellis, staff writer March 25, 2010: 11:18 AM ET

NEW YORK (CNNMoney.com) -- One of the Federal Reserve's most successful financial rescue programs is headed for the history books. Later this month, the Term Asset-Backed Securities Loan Facility, will formally come to a close.

TALF, which was launched a little more than a year ago to help thaw the market for consumer loans, is one of the few Fed initiatives that hasn't attracted a lot of criticism.

By offering cheap financing to investors through the program, the Fed managed to get banks and other finance companies to keep extending credit to consumers and small businesses.

Still, few experts are questioning the Fed's decision to wind down the program -- even though the economy is still in the early stages of a recovery. And that's mainly because TALF has worked so well.

Sellers of securities backed by consumer and business loans, including banks, credit card companies and small business lenders, are no longer having to pay sky-high rates to investors to issue new debt.

Buyers, on the other hand, have become comfortable enough with the health of the securitization market that they have forgone the cheap financing offered by the Fed through the TALF program in recent months.

In fact, of the more than $21 billion in student, auto and credit card loans that have been issued so far this month, more than two thirds have been done without the assistance of the government's TALF program, according to Thomson Reuters data.

"Over the course of the last six months, there has been a pretty significant shift from TALF-eligible deals to non-TALF, which is a pretty strong signal that the market has returned to near normal levels," said Tom Deutsch, executive director for the American Securitization Forum, an industry group which represents both lenders and investors.

Under the program, the Fed effectively served as a matchmaker between the two groups. When regulators finally launched the program last March, they indicated that TALF had the potential to handle up to $1 trillion worth...
The Fed's TALF program is about to end - Mar. 25, 2010

Only $100 billion in securities were actually issued under the program through. Some securities issuers were reluctant to participate in TALF given the overwhelming number of regulatory hurdles participants were reportedly expected to clear.

"The Fed had to do things it hadn't done before to get the markets going again. At the same time it did not want to incur a loss. It had to act cautiously," said Brian Lancaster, head of mortgage, commercial mortgage and asset-backed strategy at Stamford, Conn.-based RBS Securities.

The decision to expand the program to include commercial real estate also did not provide much of an increase in the volume of loans issued under TALF.

Investor skittishness about that portion of the program, which is not scheduled to expire until late June, was one reason TALF did not have an even bigger impact than it might have, said Jim Harrington, senior portfolio manager at New York-based Ryan Labs Asset Management, which helped investors participate in the program.

"With commercial [mortgages] we never even got off the launching pad," he said.

Central bankers still think TALF is poised to be a winner, however. Earlier this month, William Dudley, the president and CEO of the Federal Reserve Bank of New York, which helped run the program, declared in an interview with Dow Jones that TALF was a success. He added that the government could return a profit on the program.

Yet, it remains possible that some companies could feel a bit of a pinch once TALF finally dissolves.

Analysts at rating agency Moody's warned earlier this month that student lender Sallie Mae (SLM, Fortune 500) and automaker Ford (F, Fortune 500), which relied on the program to make so-called "floor plan loans," or extend credit to dealerships looking to buy vehicles, may have to pay more for any future securities they issue outside of TALF.

But Deutsch said investors shouldn't expect more turmoil in the credit markets once the program finally goes away.

"The expiration of TALF should be relatively minimal," he said.

An earlier version of this incorrectly stated that the TALF program helped stabilize the secondary mortgage market and ultimately bring down rates for some home loans. The Fed's mortgage-backed security purchase program was responsibility for the changes in the mortgage market.
Facebook now lets you comment with a video

21 states sue Delaware over millions in uncashed checks

76 million Americans are struggling financially or just getting by

How to shop in Nigeria: Use your ears

Training Albuquerque’s Native American youth to code

Want to clean up India? Turn trash into free Wi-Fi

New Jersey retirees won’t get pension increases

What college didn’t teach you about money

Making: Now she’s about to launch her own brand.

Drones, robots, DIY toys shine at Toy Fair

Products simplify your financial life.

More

More

More

More

More

More

More

More

More

More