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THE WEEKLY UPDATE ON WORLDWIDE SECURITIZATION

TALF Funds Free to Proceed

Investors who rushed to set up funds that would borrow from the **Federal Reserve's** Term Asset-Backed Securities Loan Facility are breathing a sigh of relief.

Many of those firms had been concerned that they would be unable to proceed, pointing to language that TALF financing only would be available to entities with both significant operations in the U.S. and a majority of their employees located in the States. The reason: The funds themselves have no standalone operations or personnel.

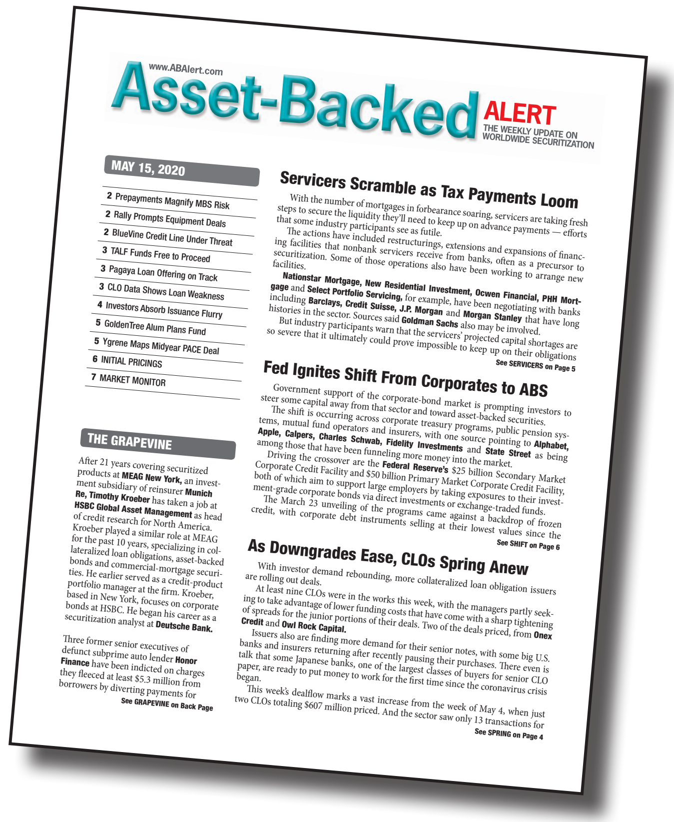
But a May 12 update clarified that the requirement doesn't apply to funds, but rather to the managers that run them.

The Fed further clarified that "significant operations" means greater than 50% of consolidated assets, consolidated net income, consolidated net operating revenues or consolidated operating expenses. Moreover, the Fed won't take into account the cashflows of parent or sister organizations under that test.

"That's definitely good news for the investment fund community," said **Greg Cioffi,** a partner at law firm **Seward & Kissel** whose firm has helped numerous fund operators set up vehicles that would finance their investments through TALF.

The latest update also introduces a requirement for TALF borrowers: They must be able to certify that they are unable to secure "adequate credit accommodations" from banks. That doesn't imply a complete lack of credit, however. Rather, it conveys that financing may be available but with prices or terms that are inconsistent with a well-functioning market.

Nevertheless, "the market consensus is that it would be difficult to ascertain the level of due diligence a TALF borrower would be required to conduct for this certification. Would it require borrowers to engage lenders to confirm this? In addition, what parameters would a borrower use to confirm prevailing rates with a 'well-functioning market?' " Cioffi said. ❖



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MAY 15, 2020

THE GRAPEVINE

After 21 years covering securitized products at **MEAG New York,** an investment subsidiary of reinsurer **Munich Re, Timothy Kroeber** has taken a job at **HSBC Global Asset Management** as head of credit research for North America. Kroeber played a similar role at MEAG for the past 10 years, specializing in collateralized loan obligations, asset-backed bonds and commercial-mortgage securities. He earlier served as a credit-product portfolio manager at the firm. Kroeber, based in New York, focuses on corporate bonds at HSBC. He began his career as a securitization analyst at **Deutsche Bank.**

Three former senior executives of defunct subprime auto lender **Honor Finance** have been indicted on charges they fleeced at least $5.3 million from borrowers by diverting payments for

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Servicers Scramble as Tax Payments Loom

With the number of mortgages in forbearance soaring, servicers are taking fresh steps to secure the liquidity they'll need to keep up on advance payments — efforts that some industry participants see as futile.

The actions have included restructurings, extensions and expansions of financing facilities that nonbank servicers receive from banks, often as a precursor to securitization. Some of those operations also have been working to arrange new facilities.

Nationstar Mortgage, New Residential Investment, Ocwen Financial, PHH Mortgage and **Select Portfolio Servicing,** for example, have been negotiating with banks including **Barclays, Credit Suisse, J.P. Morgan** and **Morgan Stanley** that have long histories in the sector. Sources said **Goldman Sachs** also may be involved.

But industry participants warn that the servicers' projected capital shortages are so severe that it ultimately could prove impossible to keep up on their obligations

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Fed Ignites Shift From Corporates to ABS

Government support of the corporate-bond market is prompting investors to steer some capital away from that sector and toward asset-backed securities.

The shift is occurring across corporate treasury programs, public pension systems, mutual fund operators and insurers, with one source pointing to **Alphabet, Apple, Calpers, Charles Schwab, Fidelity Investments** and **State Street** as being among those that have been funneling more money into the market.

Driving the crossover are the **Federal Reserve's** $25 billion Secondary Market Corporate Credit Facility and $50 billion Primary Market Corporate Credit Facility, both of which aim to support large employers by taking exposures to their investment-grade corporate bonds via direct investments or exchange-traded funds.

The March 23 unveiling of the programs came against a backdrop of frozen credit, with corporate debt instruments selling at their lowest values since the

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As Downgrades Ease, CLOs Spring Anew

With investor demand rebounding, more collateralized loan obligation issuers are rolling out deals.

At least nine CLOs were in the works this week, with the managers partly seeking to take advantage of lower funding costs that have come with a sharp tightening of spreads for the junior portions of their deals. Two of the deals priced, from **Onex Credit** and **Owl Rock Capital.**

Issuers also are finding more demand for their senior notes, with some big U.S. banks and insurers returning after recently pausing their purchases. There even is talk that some Japanese banks, one of the largest classes of buyers for senior CLO paper, are ready to put money to work for the first time since the coronavirus crisis began.

This week's dealflow marks a vast increase from the week of May 4, when just two CLOs totaling $607 million priced. And the sector saw only 13 transactions for

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