Fed Announces Unlimited Bond Purchases, Will Buy Apartment CMBS

Regulators have also granted banks more leeway to make short-term modifications on loans.

By Erika Morphy | March 23, 2020

(https://images.globest.com/contrib/content/uploads/sites/304/2016/03/Federal-Reserve-Bank-.jpg) The Federal Reserve Bank

WASHINGTON, DC—In an extraordinary move to keep credit lines open, the Federal Reserve announced Monday morning that it would not put a cap on its purchases of Treasury and mortgage securities.

It also said that it would begin purchasing CMBS that are issued by the GSEs, keeping the flow of capital to apartment buildings open. This is the first time in history that the Fed's Open Market Operations will also purchase agency multifamily CMBS, CREFC said in a research note. "Aggressive efforts must be taken across the public and private sectors to limit the losses to jobs and incomes and to promote a swift recovery once the disruptions abate," the Fed said as it made the announcement.

It is also launching three new lending facilities that will support consumer and business credit markets, dusting off from its 2008 playbook its Term Asset-Backed Securities Lending Facility, or TALF, which will support investors that are buying securities backed by consumer debt as well as corporate credit markets.

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, according to CREFC. However the Fed did say that “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, CREFC said. TALF initially will make up to $100 billion in loans available.

Its other two facilities will support credit to large employers – the Primary Market Corporate Credit Facility for new bond and loan issuance and the Secondary Market Corporate Credit Facility to provide liquidity for outstanding corporate bonds. The Primary Market Corporate Credit Facility will provide bridge financing for four years and borrowers may elect to defer interest and principal payments during the first six months of the loan, extendable at the Federal Reserve’s discretion, in order to have additional cash on hand that can be used to pay employees and suppliers. The Secondary Market Corporate Credit Facility will purchase in the secondary market corporate bonds issued by investment grade US companies and US-listed exchange-traded funds.

An additional measure of relief came Sunday night when the Fed, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corp., and other regulators gave banks more leeway in modifying loans for borrowers hit by the coronavirus without having to label the loan as a “troubled debt restructuring.”

“Short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not TDRs,” the regulators said in the statement.