

## **UNDERSTANDING THE “TALF”**

(UPDATED MARCH 30, 2009)

### **Background**

- Dealers rely on floorplan financing to buy vehicles from the manufacturers. The average floorplan loan for a dealer is \$ 4.9 million, and dealers collectively hold approximately \$100 billion in floorplanned inventory.
- These floorplan loans are obtained from a variety of sources: captive finance companies, national banks, regional banks, credit unions, etc.
- In order to extend this credit, the floorplan lenders need capital, and they obtain it from a variety of sources as well.
- One key source of capital for the floorplan lenders is the floorplan securitization market. To access capital through this market, floorplan lenders bundle dealer floorplan loans together into what are called asset-backed securities (or ABSs) and then sell these ABSs to institutional investors.

### **The Problem**

- Until last fall, the floorplan securitization market was operating quite well, providing very efficiently priced capital for floorplan lenders. Floorplan securitizations were good investments and attracted a lot of buyers. In fact, floorplan securitizations were generally rated AAA.
- However, when the liquidity crisis hit, the floorplan securitization market froze up just like a lot of other credit markets. Institutional investors stopped buying floorplan securitizations or offered to buy them only at prices at which the floorplan lenders could not afford to sell.
- This caused many floorplan lenders to run out of the cash they needed both to extend new floorplan financings and to roll over existing floorplan financings, which, in turn, contributed significantly to the distress that many dealers are now facing.

### **The TALF**

- The TALF is an effort to address this problem.
- TALF stands for “**T**erm **A**sset-backed securities **L**oan **F**acility.”
- The TALF is a \$200 billion to \$1 trillion dollar credit program designed to facilitate the issuance and sale of a variety of ABSs, including three of great importance to dealers.

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- The TALF will work by providing liquidity to the buyers and sellers of ABSs.
- The ABS asset classes included within the TALF that are of importance to dealers are as follows:
  - Securities backed by SBA guaranteed loans – these are ABSs that provide capital to banks who make working capital loans to small businesses like dealerships.
  - Securities backed by retail auto financings – these are ABSs that provide capital to lenders who extend credit to consumers who buy cars.
  - Securities backed by retail auto leases – these are ABSs that provide capital to lenders who lease cars to consumers.
  - Securities backed by dealer floorplan loans – these are ABSs that provide capital to lenders who make loans to auto dealers for their inventory financing.
- The Treasury Department announced on November 25, 2008 that the Federal Reserve Board would be establishing the TALF. At the time the TALF was announced, it expressly extended to both securities back by SBA guaranteed loans and securities backed by retail auto financings. However, it was unclear at that time whether the TALF would also include securities backed by auto dealer floorplan loans. That uncertainty was removed on Dec. 19 when the Federal Reserve Board confirmed that auto floorplan securitizations would be eligible for the TALF.
- It is important to note that the TALF is *not* a source to which dealers can apply to obtain floorplan loans directly.
- Nonetheless, it is hoped that the TALF will give dealers significant help by reopening the floorplan securitization market and thereby providing capital to the traditional floorplan lenders who will then have the resources they need to once again extend floorplan financing to dealers.
- The TALF began funding securitizations on March 25, 2009. Unfortunately, because the funding is limited to AAA-rated securitizations and many dealer floorplan securitizations were recently downgraded below AAA, the initial funding of the TALF is not expected to significantly enhance the availability of credit for floorplan loans. Nevertheless, the initial funding is assisting in the availability of retail auto credit. Moreover, the FRB could modify the eligibility criteria for floorplan securitizations in subsequent fundings of the TALF, and NADA and many finance sources are working tirelessly to ensure that those eligibility criteria changes are made as soon as possible.

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