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Fed Announces \$2.3 Trillion in Lending. Will It Save The Mortgage Market?

The Fed announced new lending programs totaling \$2.3 trillion this morning. The Fed had recently alluded to "additional tools" at its disposal to support the economy even after it had announced the latest round of Treasury/MBS purchases on March 15th. An announcement on March 23rd unveiled (or reintroduced) several of these tools. Today's announcement merely expands their scope.

What are the tools in today's announcement?

- MMLF - Money Market Mutual Fund Liquidity Facility, which helps mutual funds meet demand for cash withdrawals ([read more](#))
- MSLF/MSELF - Main Street (Expanded) Loan Facility, which helps "small" businesses keep the doors open
- PPPLF - Paycheck Protection Program Liquidity Facility, which helps banks continue participating in the PPP offered through the rescue bill
- PMCCF/SMCCF - Primary and Secondary Market Corporate Credit Facilities, which is like the main street facility except for mega businesses
- TALF - Term Asset-Backed Securities Loan Facility, which allows firms to use loans they've made as collateral
- CPFF - Commercial Paper Funding Facility, which allows more firms to borrow short-term money they would otherwise be borrowing from each other

Which of these tools were already announced?

- Actually, all of them! The Fed's contribution to the PPP wasn't officially announced, but they had indicated they would be announcing programs to complement the SBA's efforts. They coined the term Main Street Lending Program, which today was unveiled as the MSLF/MSELF

So what's the big deal?

- For people outside the mortgage market, the biggest news here is simply that the main street tools have arrived. That's it. To a lesser extent, markets are responding to expanded potency in pre-existing tools (either with more money or more collateral availability). That said, the Fed's promise to provide as much liquidity as needed is well understood.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.68	+0.27
MBS GNMA 5.5	99.98	+0.13
10 YR Treasury	4.1958	-0.0474
30 YR Treasury	4.4523	-0.0305

Pricing as of: 7/26 5:59PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.86%	-0.05	0.00
15 Yr. Fixed	6.31%	-0.02	0.00
30 Yr. FHA	6.32%	-0.06	0.00
30 Yr. Jumbo	7.04%	-0.03	0.00
5/1 ARM	6.53%	-0.02	0.00
Freddie Mac			
30 Yr. Fixed	6.78%	-0.08	0.00
15 Yr. Fixed	6.07%	-0.09	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.00%	-0.03	0.60
15 Yr. Fixed	6.63%	+0.07	0.61
30 Yr. FHA	6.87%	-0.03	0.92
30 Yr. Jumbo	7.13%	+0.02	0.38
5/1 ARM	6.22%	-0.16	0.60

Rates as of: 7/26

Does this mean anything for the mortgage market?

- At the risk of being the bearer of bad news, today's updates to the TALF term sheet actually look WORSE for the residential loan servicing market, at least at first glance. Whereas the last version specified "eligible servicing advance receivables," and even included "residential mortgages" in a list of collateral types, the new version has no such verbiage. That was really the only line item that held significant promise for servicers. Today's update instead focused on commercial mortgages and leveraged loans. Don't believe it? Here's the 2009 haircut table:

Sector	Subsector	ABS Average Life (years)						
		0- <1	1- <2	2- <3	3- <4	4- <5	5- <6	6- <7
Auto	Prime retail lease	10%	11%	12%	13%	14%		
Auto	Prime retail loan	6%	7%	8%	9%	10%		
Auto	Subprime retail loan	9%	10%	11%	12%	13%		
Auto	Motorcycle/ other recreational vehicles	7%	8%	9%	10%	11%		
Auto	Commercial and government fleets	9%	10%	11%	12%	13%		
Auto	Rental fleets	12%	13%	14%	15%	16%		
Credit Card	Prime	5%	5%	6%	7%	8%		
Credit Card	Subprime	6%	7%	8%	9%	10%		
Equipment	Loans and Leases	5%	6%	7%	8%	9%		
Floorplan	Auto	12%	13%	14%	15%	16%		
Floorplan	Non-Auto	11%	12%	13%	14%	15%		
Premium Finance	Property and casualty	5%	6%	7%	8%	9%		
Servicing Advances	Residential mortgages	12%	13%	14%	15%	16%		
Small Business	SBA Loans	5%	5%	5%	5%	5%	6%	6%
Student Loan	Private	8%	9%	10%	11%	12%	13%	14%
Student Loan	Gov't guaranteed	5%	5%	5%	5%	5%	6%	6%

Contrast that to the updated versions today:

Sector	Subsector	ABS Average Life (years)*							
		0-<1	1-<2	2-<3	3-<4	4-<5	5-<6	6-<7	
Auto	Prime retail lease	10%	11%	12%	13%	14%			
Auto	Prime retail loan	6%	7%	8%	9%	10%			
Auto	Subprime retail loan	9%	10%	11%	12%	13%			
Auto	Motorcycle/ other recreational vehicles	7%	8%	9%	10%	11%			
Auto	Commercial and government fleets	9%	10%	11%	12%	13%			
Auto	Rental fleets	12%	13%	14%	15%	16%			
Credit Card	Prime	5%	5%	6%	7%	8%			
Credit Card	Subprime	6%	7%	8%	9%	10%			
Equipment	Loans and Leases	5%	6%	7%	8%	9%			
Floorplan	Auto	12%	13%	14%	15%	16%			
Floorplan	Non-Auto	11%	12%	13%	14%	15%			
Premium Finance	Property and casualty	5%	6%	7%	8%	9%			
Small Business	SBA Loans	5%	5%	5%	5%	5%	6%	6%	
Student Loan	Private	8%	9%	10%	11%	12%	13%	14%	
Leveraged Loans	Static	20%	20%	20%	20%	20%	21%	22%	
Commercial Mortgages	Legacy, Conduit	15%	15%	15%	15%	15%	16%	17%	

So that's it? We're doomed?

Not exactly... While it does seem fairly clear that the Fed intentionally closed a door that had previously been open for mortgage servicers, we have to ask ourselves why. There are two great reasons I can think of. The first is that mortgage servicers are very far down the list of those in most immediate financial need due to coronavirus fallout. Money markets and main street needed money almost immediately whereas mortgage servicers won't even be able to count their boat loads of delinquent payments for almost a month. From an outside perspective, that makes the mortgage industry a low priority for now, even if officials understand that it will be a big priority soon.

The other side of the coin is that the access for residential MBS was removed because the Fed is aware of another solution in the works. We certainly know both they and the Treasury have been talking about it and hearing about it.

The only thing I worry about is the extent to which policymakers understand the immediacy of the impact on servicers due to the requirement that a predetermined portion of mortgage payments are advanced to bondholders even if homeowners aren't paying. Powell's comments today suggested he might not be fully aware of that. It's also notably absent from the [best example of advocacy we've seen](#) from actual members of Congress.

All that having been said, the fact that Powell said he is watching mortgage servicers carefully as a key market and the [Warner letter linked above](#) offer proof of concept. Industry advocacy has reached its intended target. The [TBAC is involved](#), and is mentioning the same \$454 bln stabilization fund as the Warner letter. That's one possibility. We could also see an entirely new facility pop up specifically for mortgage servicers and it wouldn't be a surprise. All we know right now is that we don't know what the solution will be yet, but that all signs continue pointing toward a solution not only being likely, but according to Powell, systemically necessary.

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