

Federal Reserve Board Extends TALF to Commercial Real Estate

By Allen Kenney

(May 1)—The Federal Reserve Board revealed the details on May 1 of its hotly anticipated plan to stimulate financing for commercial real estate.

Beginning June 1, commercial mortgage-backed securities (CMBS) will qualify as eligible collateral for five-year loans under the federal government's Term Asset-Backed Securities Loan Facility (TALF). The move should stave off defaults on loans for performing properties, boost lending activity and catalyze transactions involving distressed properties, according to the Board.

Additionally, the Board said up to \$100 billion in TALF funds will immediately be eligible for loans with five-year maturities. Previously, the terms of the loans had been limited to three years. Now, borrowers will have the option to set loan maturities at three or five years. A three-year TALF loan will bear interest at a fixed rate per annum equal to 100 basis points over the three-year LIBOR swap rate. A five-year TALF loan is expected to bear interest at a fixed rate per annum equal to 100 basis points over the five-year LIBOR swap rate.

The TALF program, which was instituted in November, allows the Federal Reserve Bank of New York to make loans secured by asset-backed securities rated AAA. Also, in the case of CMBS, the securities must be backed by mortgages originated on or after July 1, 2008.

Sam Chandan, president and chief economist of Real Estate Economics LLC, noted that investors' responses to earlier phases of the TALF program had been "muted," part of which he attributed to the limit on the length of loans to three years. He called the decision to extend the durations of the loans to a maximum of five years a "necessary condition" for commercial real estate to benefit from the program.

Steven Wechsler, president and CEO of NAREIT, said the announcement marked "an important step in helping to begin to re-establish confidence in commercial real estate finance and investment."

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