SPEECH

A Preliminary Assessment of the TALF

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I thank you for this opportunity to speak to you today about what we at the Federal Reserve have been doing to improve market function and credit market access. Since August of 2007, the Fed has introduced a wide range of special facilities designed to improve market functioning, increase the availability of credit and bring down borrowing costs for households and businesses.

Today, I am going to focus my comments on the Term Asset-Backed Securities Loan Facility (TALF), which in my view is one of our most innovative programs. This facility is a complement to the Public-Private Investment Program efforts being undertaken by the Federal Deposit Insurance Corporation and the Treasury, which are the primary focus of today's conference.

In what follows, I would remind you that my comments reflect my own views and opinions and not necessarily those of the Federal Open Market Committee or the Federal Reserve System. I will discuss how the securitization markets broke down last fall creating the need for TALF, how the TALF works and what it already has accomplished, where we see it evolving going forward, and finally, some preliminary thoughts on the future of securitization markets.

As you know, one of the origins of this crisis was the poor lending standards and lax risk controls that led to significant losses among many of the firms that dominate the financial industry. As the magnitude and widespread nature of these problems became evident in the early part of 2007, there was an abrupt loss of confidence and a sharp and sustained increase in risk aversion among investors. Liquidity in short-term funding markets seized up as concerns over the viability of many bank and non-bank financial institutions increased. Many of the Federal Reserve's early efforts—including the Term Auction Facility, Term Securities Lending Facility and the Primary Dealer Credit Facility—were directly aimed at restoring the ability of financial firms to obtain access to liquidity. And while it is still too soon to declare victory on this front, there have been significant improvements in interbank financing markets.

The next leg of policy intervention focused more directly on shoring up the strength of our financial institutions with programs such as the Treasury's Capital Purchase Program and the FDIC's Temporary Liquidity Guarantee Program, and here too there has been progress in a number of dimensions. Most notably, perhaps, is that in the wake of the release of the results of the recent stress test, the largest U.S. bank holding companies have shown an increased ability to raise capital and issue debt without government support. The major securities firms have deleveraged and have built up significant liquidity buffers.

Although conditions in interbank funding markets and capital markets more broadly have shown signs of improvement, securitization markets are still significantly impaired. This is particularly true of the asset-backed securities markets, in which much of household and business credit is intermediated between borrowers and investors.