Update Regarding Roll Out of the The Main Street Lending Program

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Main Street Lending Program: Background

- On April 30th, the Fed issued additional guidance concerning implementation of the program. There will be 3 primary facilities.
- As part of the CARES Act, Congress authorized the Treasury Department and Federal Reserve to establish special credit facilities to assist small and medium sized businesses, in addition to the Paycheck Protection Program loans ("PPP Loans").
- Fed will deploy up to $2.3 *trillion* together with $454 billion from Treasury to support the programs through the Main Street Lending Program ("MSLP").
- The Fed solicited comments on the MSLP and companion programs through April 16th.
- A SPV, administered by the Boston Fed, will purchase loans originated by banks.

Main Street Lending Program: Background

- Treasury has released basic terms.
- Continued further guidance is needed to understand how these credit facilities will work in practice.
- Detailed FAQ released on April 30th

  https://www.federalreserve.gov/monetarypolicy/files/main-street lending-faqs.pdf
- 3 core programs:
  - New Loan Facility ("MSNLF")
  - Extended Loan Facility ("MSELF")
  - Priority Loan Facility ("MSPLF")
- Key differences are how facilities address borrower's present debt load.
- SPV may purchase up to $600 billion in loans.
- Program will stop purchasing September 30, 2020.

General Borrower Eligibility Criteria

- Eligible Borrowers:
  - Established prior to March 13, 2020
  - Up to 15,000 employees; or
  - Up to $5 billion in 2019 revenue
  - For profit enterprise
  - NFPs may be allowed to participate but not yet
- Eligible Lenders: Any federally insured lending institution
- Loan Terms:
  - 4 year maturity
  - 1 year deferred P&I, with deferred interest capitalized
  - Rate: LIBOR + 3%
  - No prepayment penalty

General Borrower Eligibility Criteria

- Underwriting:
  - Lender must assess each borrower with their "own underwriting standards." FAQ F.1.
  - If borrower has other loans, must meet "pass" standard under Financial Institutions Examination Council's supervisory rating system.
- Collateral Requirement: Unclear. FAQ G.6 says can be either secured or unsecured.
- Origination Fee: 1% origination fee on the principal of the loan
- Servicing Fee:
  - Up to 1% paid by borrower
  - 0.25% paid by SPV
- Other than a PPP loan, no other CARES Act support.

General Borrower Certifications

- Will not pay balance of other loans until Main Street facility is repaid.
- Will not cancel existing loans.
- Can meet financial obligations for next 90 days.
- Does not expect to file for bankruptcy during next 90 days.
- Will follow other CARES Act requirements, including compensation, and conflict of interest requirements.
- Will make “commercially reasonable” efforts to retain employees.

General Lender Requirements

- Proceeds will not be used to refinance old loans.
- No cancelation of outstanding loan facilities.
- Certification of methodology for calculating EBITDA (i.e. the Fed is not mandating a methodology, but lender must select an appropriate procedure).
- CARES Act conflict of interest rules have been met.

Main Street New Loan Facility

- Borrower must not have existing term loan facilities.
- Loan Size:
  - Minimum: $500,000
  - Maximum: Lesser of (a) $25 million or (b) 4x EBITDA, less committed and available credit.
- No specific collateral requirement.
- MSNLF loans are *not* supposed to be for distressed businesses, grants or forgivable.

  They are for companies that were financially doing well before COVID-19 and were impacted. The intent of the program is to give otherwise healthy companies inexpensive liquidity.
- Borrowers cannot also participate in MSELF or MSPLF.
- Loan originated after April 24, 2020.
- Repayment: No payment year 1; 1/3rd P&I years 2-4.

Main Street Expanded Loan Facility

- Allows borrowers to increase borrowing, with less risk to the lender.
- Borrower must be seeking to upsize a loan made prior to 4/24/2020.
- Loan Size:
    - Minimum : $10 million
    - Maximum: Lesser of (a) $200 million, (b) 35% borrowers outstanding and available credit, or (c) 6x 2019 EBITA, less committed and available credit.
- Collateral Requirements: Any collateral securing the original loan must secure the upsized loan. FAQ D.1.
- Repayment: No payment year 1
    - Interest repayment: 15% in year 2, 15% in year 3, and 70% in year 4.
    - Principal repayment: 1/3rd years 2-4.

Main Street Priority Loan Facility

- Can be used to refinance existing debt from a *different* lender. *See FAQ-H.3*
- Loan Size:
  - Minimum : $500,000.
  - Maximum Loan Size: Lesser of (a) $25 million, (b) 30% borrowers available credit, or (c) 6x 2019 EBITA, less committed and available credit.
- SPV will only buy 85% participation, so lender is at risk for 15% (as opposed to 5%) of the loan.
- Repayment: No payment year 1.
  - Interest repayment: 15% in year 2, 15% in year 3, and 70% in year 4.
  - Principal repayment: 1/3rd years 2-4.

Feds Summary of Programs

Main Street Lending Program Loan Options	New Loans	Priority Loans	Expanded Loans
Term	4 years	4 years	4 years
Minimum Loan Size	$500,000	$500,000	$10,000,000
Maximum Loan Size*	The lesser of $25M or an amount that, when added to outstanding and undrawn available debt, does not exceed 4.0x adjusted 2019 EBITDA	The lesser of $25M or an amount that, when added to outstanding and undrawn available debt, does not exceed 6.0x adjusted 2019 EBITDA	The lesser of $200M, 35% of existing outstanding and undrawn available debt, or an amount that, when added to outstanding and undrawn available debt, does not exceed 6.0x adjusted 2019 EBITDA
Risk Retention	5%	15%	5%
Payment (year one deferred for all)	Years 2-4: 33.33% each year	Years 2-4: 15%, 15%, 70%	Years 2-4: 15%, 15%, 70%
Rate	LIBOR + 3%	LIBOR + 3%	LIBOR + 3%

**Press Release, Federal Reserve Board announces it is expanding the scope and eligibility for the Main Street Lending Program (4/30/2020)

Compensation Limitations (CARES Act)

- Any non-union employee/officer with more than $425,000 in 2019 compensation cannot have their total compensation for any 12-month period exceed their 2019 compensation.
- For any employee/officer/agent with more than $3 million total compensation in 2019, the person's 12-month earnings cannot exceed $3 million plus 50% of the excess he or she earned over $3 million in 2019.

  Example: Jane Goodseller earned $5 million in 2019. For the 12-months following the extension of a MSNLF loan, she cannot earn more than $3 million + 50% of $2 million. Thus, her maximum earnings are $4 million.

- Severance payment cannot exceed two times their 2019 salary.

Take Aways

- With underwriting delegated to bank, it is unclear what criteria will be used to lend.
- Not clear why the MSPLF – the only facility that allows a refinance – would require a new lender.
- Usefulness of MSNLF is unclear, given it requires payment of 1/3rd of loan in years 2-4.
- Essentially, these are all bridge facilities, that will need to be refinanced.
- Prohibition on use by chapter 11 debtors is unfortunate.