

Main Street Lending Program Becomes Operational

On June 15, 2020, through the Federal Reserve Bank in Boston, the Main Street Lending Program commenced.

Borrowers under the Program must meet certain eligibility requirements to qualify under the Program:

- The borrower must be a business established before March 13, 2020.
- The borrower must be a business eligible to receive loans from the Small Business Administration.
- The borrower must be a business that has 15,000 or fewer employees, or has had revenues of \$5 billion or less.
- The borrower must be a business created or organized in the United States of America or under the laws of the United States of America with significant operations and the majority of employees based in the United States of America.
- The borrower does not participate in the Federal Reserve's Primary Market Corporate Credit Facility.
- The borrower must be a business that has not received specific support pursuant to the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020.

The Federal Reserve will operate three separate mutually exclusive lending programs under the Program:

- The Main Street New Loan Facility (NLF)
- The Main Street Priority Loan Facility (PLF)
- The Main Street Expanded Loan Facility (ELF)

Under these programs, the Federal Reserve Bank of Boston will commit to lend to a single common special purpose vehicle (SPV) on a recourse basis. The SPV purchases from eligible lenders 95% participations in eligible loans, with the eligible lenders retaining 5% of each loan. The SPV is also funded by a \$75 billion equity investment by the U.S. Department of the Treasury appropriated under the CARES Act. These programs have been designed to provide for approximately \$600 billion of total participation capacity.

Currently, the Main Street Lending Program is available to for-profit businesses, however, the Federal Reserve is requesting public comment on extending the Main Street Lending Program eligibility to nonprofit

organizations. Loan terms under the proposed expansion would be the same as for the Main Street Lending Program loans to for-profit businesses. Under the Federal Reserve's proposal, eligible 501(c)(3) and 501(c)(19) entities that have between 50 and 15,000 employees; that meet financial thresholds based on operating performance, liquidity, and ability to repay debt; that have been operational for at least five years; and that hold endowments of no more than \$3 billion would qualify. Comments to the Federal Reserve are due by June 22, 2020.

Main Street Lending Programs Loan Sizes			
Program	Main Street New Loan Facility (NLF)	Main Street Priority Loan Facility (PLF)	Main Street Expanded Loan Facility (ELF)
Min. loan size	\$250,000	\$250,000	\$10,000,000
Max. loan size	The lower of \$35 million or an amount that when added to the borrowers existing outstanding and undrawn available debt does not exceed four times the borrowers 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA).	The lower of \$50 million or an amount that when added to the borrowers existing outstanding and undrawn available debt does not exceed six times the borrowers 2019 EBITDA.	The lower of \$300 million or an amount that when added to the borrowers existing outstanding and undrawn available debt does not exceed six times the borrowers 2019 EBITDA.

Under the NLF and the PLF programs, lenders will pay the SPV a transaction fee at the time of loan origination equivalent to 100 basis points of the loan principal. Under the ELF program the fee is equivalent to 75% of the upsized tranche. For each of the programs, the lender may pass this cost on to the borrower. Also, under the NLF and the PLF programs, borrowers will pay an origination fee up to 100 basis points of the loan principal to the lender, and under the ELF program the origination fee paid by the borrower to the lender is equivalent to 75% of the upsized tranche. For all lending programs under the Main Street Program, the SPV will pay the lender 25 basis point of the principal of its participation loan balance on a per annum basis for loan servicing.

Loans under the Main Street Lending Program may be made on either a secured or unsecured basis and must be originated after April 24, 2020 (though for the ELF program the credit facility should have been originated on or before April 24, 2020, that has a remaining maturity of at least 18 months, including any adjustments to maturity made to the arrangement after April 24, 2020).

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Loans to eligible borrowers under these programs will have the following characteristics:

- Five year term to maturity;
- Principal payments deferred for two years and interest payments deferred for one year with the unpaid interest capitalized into the loan;
- Adjustable rate of interest being one or three month London Inter-Bank Offered Rate (LIBOR) plus 300 basis points;
- Principal amortization of 15% at the end of each of the third and fourth year of the term to maturity, with a balloon payment of 70% at maturity at the end of year five;
- Loans under the program cannot be subordinated to other debt; and
- Prepayment of the loans is permitted without penalty.

Borrowers qualified under the Program must also comply with the following certifications and covenants of the above lending programs:

- The borrower must commit to refrain from repaying the principal balance of, or paying any interest on, any debt until the Main Street loan is repaid in full, unless the debt or interest payment is mandatory and due (however, borrowers under the Main Street Priority Loan Facility program may, at the time of origination of the loan, refinance existing debt owed by the borrower to a lender that does not qualify as an eligible lender).
- The borrower must commit that it will not seek to cancel or reduce any of its committed lines of credit with the Main Street Program lender or any other lender.
- The borrower must certify that it has a reasonable basis to believe that, as of the date of origination of the Main Street loan and after giving effect to such loan, it has the ability to meet its financial obligations for at least the next 90 days and does not expect to file for bankruptcy during that time period.
- The borrower must commit that it will follow compensation, stock repurchase, and capital distribution restrictions that apply to direct loan programs under the CARES Act, except that an S corporation or other tax pass-through entity that is a borrower may make distributions to the extent reasonably required to cover its owners' tax obligations in respect of the entity's earnings.
- The borrower must certify that it is eligible to participate in the Program, including compliance with all laws and regulations applicable to the Program.

In addition, borrowers under the Program should make commercially reasonable efforts to maintain payroll

and retain employees during the time that the Main Street lending arrangement is outstanding.

In order to become eligible to lend within the Program, financial institutions must register and qualify through an application process with the Federal Reserve through the Federal Reserve Bank of Boston. Eligible lending institutions are expected to evaluate the risks of lending to the eligible borrowers utilizing prudent underwriting standards, and if the eligible borrowers have had loans with the eligible lending institution as of December 31, 2019, the lending institutions internal risk rating for those loans must be equivalent to a "pass" rating as defined in the Federal Financial Institutions Examination Council's supervisory rating system.

Qualified lenders within the Program must comply with the following certifications and covenants of the above lending programs:

- The lender must commit that it will not request that the borrower repay debt extended by the lender to the borrower, or pay interest on such outstanding obligations, until the Main Street loan is repaid in full, unless the debt or interest payment is mandatory and due, or in the case of default and acceleration.
- The lender must commit that it will not cancel or reduce any existing committed lines of credit to the borrower, except in an event of default.
- The lender must certify that the methodology used for calculating the borrower's adjusted 2019 EBITDA for the leverage requirement of the credit facility is the methodology it has previously used for adjusting EBITDA when extending credit to the borrower or similarly situated borrowers on or before April 24, 2020.
- The lender must certify eligibility to participate in the Program, including compliance with all laws and regulations applicable to the Program.

Under the Program, the SPV will cease purchasing participations in the Main Street Lending Program loans on September 30, 2020, unless the Federal Reserve Board and the U.S. Department of the Treasury extend the Program. The Federal Reserve will continue to fund the SPV until the SPV's underlying assets mature or are sold.

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