Main Street Lending Program: The Federal Reserve announces additional details

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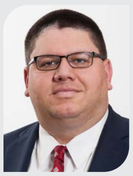

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On April 9, 2020, the Federal Reserve System (Federal Reserve) announced additional details on its plans to provide $2.3 trillion in loans to support the economy in light of the consequences of the 2019 novel coronavirus (COVID-19), including loans through its Main Street Lending Program. The Main Street Lending Program will provide relief for a broader scope of businesses than the Coronavirus, Aid, Relief, and Economic Security Act (CARES Act) by focusing on not only small businesses, but also on mid-sized businesses. The Federal Reserve is seeking comments on this program until April 16, 2020, and consequently, the terms are subject to change. Specific timing information and other details about the application processes have not yet been released.

Through two facilities, the Main Street Lending Program makes $600 billion available for loans to companies employing up to 10,000 workers or having up to $2.5 billion in 2019 annual revenues. The Main Street New Loan Facility (MSNLF) will provide for newly originated loans to eligible businesses, while a second facility, the Main Street Expanded Loan Facility (MSELF), will allow companies to upsize existing loans. Notably, unlike loans under the Small Business Administration's (SBA's) Paycheck Protection Program (PPP), loans under the Main Street Lending Program will not be eligible for full or partial forgiveness.

Businesses will apply for loans under the Main Street Lending Programs through U.S. insured depository institutions, U.S. bank holding companies, and U.S. savings and loan holding companies. The lenders will retain a five percent share of the loans, with the remaining 95 percent share sold to a Federal Reserve special purpose vehicle. The Federal Reserve press release states that eligible borrowers must have been in "good financial standing before the crisis," although specific details regarding this requirement have not yet been released.

Loan features

Loans under the facilities are required to reflect the following features:

- **Term:** Four-year maturity
- **Deferment period:** Principal and interest payments deferred for one year
- **Rate:** Adjustable rate of SOFR + 250-400 basis points
- **Prepayment:** Permitted without penalty

Loan size

The maximum loan size is different for each facility:

MSNLF	MSELF
Minimum: $1 million **Maximum**: The lesser of: 1. $25 million 2. An amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed four times the borrower's 2019 EBITDA	**Minimum**: $1 million **Maximum**: The lesser of: 1. $150 million 2. Thirty percent of the borrower's existing outstanding and committed, but undrawn, bank debt 3. An amount that, when added to the borrower's existing outstanding and committed, but undrawn, bank debt, does not exceed six times the borrower's 2019 EBITDA

Loan conditions

Both lending facilities rely on funds appropriated to the Exchange Stabilization Fund through the CARES Act, so the loans are subject to the conditions detailed in the CARES Act, as well as certain attestation requirements, each as described below:

1. Borrowers must follow the compensation, stock repurchase and dividend restrictions that apply to direct loan programs under the CARES Act
2. Borrowers must attest, in part, that:
    a. Proceeds will not be used to repay other loan balances
    b. The borrower will refrain from repaying other debt of equal or lower priority with the exception of mandatory principal payments
    c. The borrower will not seek to cancel or reduce existing lines of credit
    d. The borrower requires financing due to the exigent circumstances presented by COVID-19
    e. The borrower will "make reasonable efforts to maintain its payroll and retain its employees" during the loan term

Eligibility for other programs

Participation in the Main Street Lending Program does not prohibit companies from participating in the SBA's PPP. Companies cannot, however, participate in both of the Main Street Lending Program facilities, and are not able to participate in the Federal Reserve's Primary Market Corporate Credit Facility.

Loan fees

Loans under the Main Street Lending Program are subject to following fees:

1. **Facility fee:** For new loans made under the MSNLF, the lender is required to pay a facility fee of 100 basis points of 95 percent of the principal amount, which the lender may pass through to the borrower

2. **Origination fee:** For both new and upsized loans, the borrower is required to pay an origination fee of 100 basis points of the principal amount of the new loan or of the upsized tranche

3. **Servicing fee:** For loan servicing, the Federal Reserve will pay the lender 25 basis points of the principal amount of the lender's participation for per annum

Loan collateral

New loans under the MSNLF will be unsecured. Existing collateral on upsized loans under the MSELF will secure the upsized loan on a pro rata basis.

Private equity portfolio companies may be eligible

The Federal Reserve programs may provide a funding avenue for private equity portfolio companies limited by the SBA's affiliation rules applicable to loans under the PPP. Eligibility under the Federal Reserve programs is expanded to companies employing up to 10,000 workers, and there has been no indication that the SBA's affiliation rules will apply.

Actions to take *now*

Businesses interested in taking advantage of the Main Street Lending Program should consider taking the following actions now:

Evaluate options through existing lender relationships

Depending on your relationship with your current lender(s), upsizing an existing loan may be the faster route to improving your cash position because of the established relationship. While the maximum loan size depends on a number of factors, including your existing debt levels, the preliminary term sheets indicate you may be eligible for a larger total loan size by upsizing an existing loan.

Contact your lender

If you have not already, contact your lender now to discuss your company's financial position, potential funding needs, existing debt structure and which Federal Reserve program might best satisfy your company's specific needs. Review with your lender and advisors the terms of your existing credit facilities for any covenants that may restrict your participation, including limitations imposed on incurring additional debt.