Client Alert

June 2020

Federal Reserve Releases Updated, Detailed Terms of Main Street Lending Program

On June 8, 2020, the Federal Reserve updated its Main Street Lending Program to permit more small and medium-sized businesses to receive support. Notably, however, asset-based businesses, such as mortgage companies, may be disappointed that the Federal Reserve did not announce an alternative metric to EBITDA. Still, the update included an announcement that lenders could begin making loans under the Main Street Lending Program once the lenders complete registration requirements.

The term sheets, FAQs and form documentation for the Main Street Lending Program are available here. Potential lenders and borrowers should carefully review the term sheets, FAQs and documentation. This summary is not a comprehensive review of the Main Street Lending Program and is only focused on the changes released by the Federal Reserve on June 8, 2020.

Key Changes to Main Street Lending Program announced on June 8, 2020 (new/current terms in bold)			
	New Facility	Priority Facility	Expanded Facility
Repayment Term	~~4 years~~ **5 years**	~~4 years~~ **5 years**	~~4 years~~ **5 years**
Principal Payment Deferral	~~1 year~~ **2 years**	~~1 year~~ **2 years**	~~1 year~~ **2 years**
Principal Amortization	~~33.33% due in years 2 through 4 of loan term~~ **15% (years 3 and 4), 70% (year 5)**	~~15% (years 2 and 3), 70% (year 4)~~ **15% (years 3 and 4), 70% (year 5)**	~~15% (years 2 and 3), 70% (year 4)~~ **15% (years 3 and 4), 70% (year 5)**
SPV Participation Percentage (of each Eligible Loan)	**95%**	~~85%~~ **95%**	**95%**
Maximum Loan Size	Lesser of (i) ~~$25mm~~ **$35mm**, or (ii) an amount when added to existing and undrawn debt that does not exceed 4x adjusted EBITDA	Lesser of (i) ~~$25mm~~ **$50mm**, or (ii) an amount when added to existing and undrawn debt that does not exceed 6x adjusted EBITDA	Lesser of (i) ~~$200mm~~ **$300mm**, (ii) an amount when added to existing and undrawn debt that does not exceed 6x adjusted EBITDA, or ~~(iii) 35% of the Eligible Borrower's existing outstanding and undrawn available debt that is *pari passu* in priority with the upsized tranche of the Eligible Loan and equivalent in secured status (i.e., secured or unsecured)~~

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Minimum Loan Size	~~$500,000~~ **$250,000**	~~$500,000~~ **$250,000**	**$10mm (upsized tranche)**

Background

The Main Street Lending Program is referred to under Title IV of the Coronavirus Aid, Relief and Economic Security Act (**CARES Act**) and is designed to provide support to small and medium-sized businesses that were in a sound financial position prior to the COVID-19 pandemic. The Main Street Lending Program will provide this support through the Federal Reserve's (through an **SPV** operated by the Federal Reserve Bank of Boston) purchase of up to $600 billion in participations in loans (**Eligible Loans**) to "Eligible Borrowers" from "Eligible Lenders."

The Main Street Lending Program consists of three distinct facilities authorized under section 13(3) of the Federal Reserve Act:

- the Main Street New Loan Facility (the **New Facility**),
- the Main Street Priority Loan Facility (the **Priority Facility**), and
- the Main Street Expanded Loan Facility (the **Expanded Facility**).

The New Facility, Priority Facility, and the Expanded Facility are collectively referred to as the **Main Street Facilities**.

Loan Term and Interest Payment Deferral; Repayment Terms

The most significant change to the payment terms of Eligible Loans made under Main Street Facilities is that all principal payments of Eligible Loans are deferred for two years. Previously, all Eligible Loans included a one-year deferral of both principal and interest payments. The June 8, 2020 update extends the principal deferment to two years while maintaining the one-year deferral of interest payments (unpaid interest will be capitalized during this period). This change will allow Eligible Borrowers greater shorter-term certainty by avoiding principal payment obligations for a full two years from the date of origination of the Eligible Loan.

In connection with the newly announced two-year deferral of principal payments on all Eligible Loans, all Eligible Loans made under a Main Street Facility will have a 5-year term which is an increase from the previously announced 4-year term.

The deferral and term extensions also led to changes in the repayment terms under each of the Main Street Facilities. Under the New Facility, principal will be amortized as follows: 15% at the end of the third year of the loan term; 15% at the end of the fourth year of the loan term, and a balloon payment of 70% at maturity at the end of the loan term. Previously, principal would be amortized at 33.3% in each of years two through four of the loan term.

The repayment terms of the Priority and Expanded Facilities are structurally unchanged, but the June 8, 2020 update causes the prior repayment dates to each be "pushed" back one year. Principal under the Priority and Expanded Facility will now be amortized as follows: 15% at the end of the third year of the loan term; 15% at the end of the fourth year of the loan term, and a balloon payment of 70% at maturity at the end of the loan term.

Minimum Loan Size

Some small businesses may have been excluded from availing themselves of Eligible Loans under a Main Street Facility because of the previously announced minimum loan sizes. In response to this problem, the Federal Reserve reduced the minimum loan size under the New and Priority Facilities from

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$500,000 to $250,000. The minimum upsized tranche size that can be added to an Eligible Loan under the Expanded Facility remains $10 million. More small businesses should be able to borrow under the Main Street Facilities because of these smaller minimum loan sizes.

Maximum Loan Size

In another bit of good news, the maximum loan size under each Main Street Facility is larger than previously announced.

For Eligible Loans made under the New Facility, the maximum loan size is an amount equal to the lesser of (i) $35 million, or (ii) an amount that, when added to the Eligible Borrower's existing outstanding and undrawn available debt[1] (as of the date of the loan application), does not exceed four times the Eligible Borrower's adjusted 2019 EBITDA[2]. The EBITDA portion of this measurement remains unchanged in the June 8, 2020 update, but the $35 million maximum is an increase from the previously announced $25 million.

For Eligible Loans made under the Priority Facility, the maximum loan size is an amount equal to the lesser of (i) $50 million, or (ii) an amount that, when added to the Eligible Borrower's existing outstanding and undrawn available debt (as of the date of the loan application), does not exceed six times the Eligible Borrower's adjusted 2019 EBITDA. The EBITDA portion of this measurement remains unchanged in the June 8, 2020 update, but the $50 million maximum is an increase from the previously announced $35 million.

For Eligible Loans made under the Expanded Facility, the maximum loan size is an amount equal to the lesser of (i) $300 million, or (ii) an amount that, when added to the Eligible Borrower's existing outstanding and undrawn available debt (as of the date of the loan application), does not exceed six times the Eligible Borrower's adjusted 2019 EBITDA. The EBITDA portion of this measurement remains unchanged in the June 8, 2020 update, but the $300 million maximum is an increase from the previously announced $200 million. Further, the June 8, 2020 update removes an additional maximum threshold measurement standard that was included in the April 30, 2020 Expanded Facility term sheet: 35% of the Eligible Borrower's existing outstanding and undrawn available debt that is *pari passu* in priority with the upsized tranche of the Eligible Loan and equivalent in secured status (i.e., secured or unsecured). This threshold has been removed and is no longer applicable to Eligible Loans made under the Expanded Facility.

The increases in maximum loan size will be a welcome development for mid-sized businesses that sought greater relief from Eligible Loans under the Main Street Facilities. Eligible Lenders will also be able to offer greater loan sizes to both new and existing borrowers.

Risk Retention

The June 8, 2020 update announced that the Federal Reserve's SPV will now purchase a 95% participation in all Eligible Loans made under the Priority Facility. This is an increase from the previously announced 85% participation purchase in Eligible Loans made under the Priority Facility. This change

[1] As used in the term sheet for each Main Street Facility, "existing and undrawn available debt" includes all amounts borrowed under any loan facility, including unsecured or secured loans from any bank, non-bank financial institution or private lender, as well as any publicly issued bonds or private placement facilities. It also includes all unused commitments under any loan facility, excluding (i) any undrawn commitment that serves as a backup line for commercial paper issuance, (ii) any undrawn commitment that is used to finance receivables (including seasonal financing of inventory), (iii) any undrawn commitment that cannot be drawn without additional collateral, or (iv) any undrawn commitment that is no longer available due to a change in circumstances. Eligible Borrowers or Eligible Lenders with specific questions related to existing debt should consult the FAQs for further detail.

[2] The term sheets for each Main Street Facility allow for the use of "adjusted" EBITDA, which is commonly used by borrowers for reporting under existing facilities. "Adjusted" EBITDA for purposes of the New Facility and the Priority Facility must be a methodology previously used by the Eligible Lender for determining EBITDA when extending credit to the Eligible Borrower or to similarly situated borrowers on or before April 24, 2020.

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means that the Federal Reserve's SPV will purchase a 95% participation in all Eligible Loans made under all Main Street Facilities. This change should make the Expanded Facility a more attractive proposition for Eligible Lenders.

Next Steps

Eligible Borrowers should contact their existing lenders and bankers to understand their lenders' registration status with regards to the Main Street Lending Program and to begin the underwriting process. Eligible Lenders should continue to review the form documentation available on the Federal Reserve's website and begin the registration process to participate in the Main Street Lending Program.

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