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Victoria Prussen Spears

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The Exit Ramp for the Main Street Lending Program: FAQ M.6 and the Boston Fed's Sale of Participation Interests

*By Justin F. Paget, Jennifer E. Wuebker and Olivia "Liv" Maier**

In this article, the authors discuss the updated Main Street Lending Program Post-Termination Frequently Asked Questions published recently by the Federal Reserve.

The Main Street Lending Program (MSLP), launched in 2020 as part of the federal response to the COVID-19 pandemic, provided billions in liquidity to small- and medium-sized businesses facing unprecedented economic disruption. MSLP loans ranged from a few hundred thousand dollars up to \$50 million or more and had a five-year term, with principal amortization beginning in year three and a 70 percent balloon payment due at maturity. The MSLP closed to new lending on January 8, 2021, meaning that the original maturity date for the last loans occurred in January 2026.

Through a special purpose entity (Main Street SPV), the Federal Reserve Bank of Boston (Boston Fed) purchased a 95 percent participation interest in each eligible MSLP loan, while originating lenders retained a 5 percent interest and continued to service and administer the loans.

The Federal Reserve recently published an updated Main Street Lending Program Post-Termination Frequently Asked Questions, effective April 27, 2026.¹ In particular, FAQ M.6 addresses MSLP closure plans and the sale of Main Street SPV's remaining participation interests through an auction process.²

FAQ M.6 indicates that the disposition of the Fed's remaining interests is no longer hypothetical, and the relevant question is what happens when Main Street SPV sells its participation interests while the originating lender remains in place under the existing loan structure.

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¹ See Post-Termination FAQs (April 27, 2026) (PDF), available at <https://www.bostonfed.org/-/media/Documents/special-lending-facilities/mslp/legal/frequently-asked-questions-faqs-post-termination.pdf>.

² See *id.* at 50.

Upon the effectiveness of a sale of the participation interests, the Participation Agreement becomes the critical document.³ Until any later Elevation occurs, a bank continues to hold title to the loan for the benefit of the purchaser of Main Street SPV's participation interest, and the Participation Agreement continues to define the parties' respective rights and obligations. At this juncture, banks should be reviewing the Participation Agreement in light of a possible change in participant ownership.

FAQ M.6

FAQ M.6 confirms that, as of early January 2026, all MSLP loans had reached their original maturity date. It further states that, while the vast majority of borrowers fully repaid their loans, some borrowers did not.

Against that backdrop, FAQ M.6 explains that, in order to close the MSLP in a pragmatic and commercially reasonable manner consistent with applicable statutory limitations, Main Street SPV will proceed with a competitive auction process to sell all of its outstanding 95 percent participation interests.

FAQ M.6 indicates that those remaining interests generally consist of defaulted, non-performing loan participations with an outstanding balance due to Main Street SPV. FAQ M.6 also provides that eligible lenders with interests in outstanding MSLP loans have been notified and will have the ability to participate in the auction process.

For banks servicing these loans, the significance of FAQ M.6 is as much practical as legal: the bank may remain the lender of record and servicer under the loan documents even as the identity of the 95 percent participant changes through the auction process, from Main Street SPV—an entity owned by the Federal Reserve Bank of Boston—likely to a private party that might not be a bank or regulated entity.

THE TECHNICAL PART: THE PARTICIPATION INTEREST SALE IS A PRE-ELEVATION TRANSFER

The Participation Agreement distinguishes between a transfer of the participation before Elevation and a lender-level transfer after Elevation.⁴ That distinction matters because, before Elevation, the originating lender remains in

³ See Participation Agreement Under the Main Street Lending Program: Standard Terms and Conditions (Participation Agreement), available at <https://www.bostonfed.org/-/media/Documents/special-lending-facilities/mslp/legal/loan-participation-agreement-standard-terms-and-conditions-historic-July312020.pdf>.

⁴ The Participation Agreement defines “Elevation” as the step by which Main Street SPV or an assignee becomes a lender under the Credit Agreement with respect to all or any part of the Transferred Rights; the “Elevation Date” is the date on which that occurs. See *id.* at §15.1.

place as the servicer and holder of legal title to the loan under the loan documents. After Elevation, the holder of the 95 percent participation interest becomes a co-lender holding a share of legal title to the loan. At that point, the Participation Agreement effectively terminates, thereby relieving the bank of certain reporting and other obligations. The transfer of the associated rights through Elevation is documented through the required assignment under the co-lender agreement or credit agreement.

The Participation Agreement provides that lender consent is not required for a Pre-Elevation transfer if a loan is in default. This means that Main Street SPV can sell its participation interests through the process outlined in FAQ M.6 without first seeking consent from the banks servicing the loans.

CAN A PURCHASER OF MAIN STREET SPV'S PARTICIPATION INTEREST SUBSEQUENTLY ELEVATE?

An important question for banks administering MSLP loans is whether a purchaser of Main Street SPV's participation interest could subsequently exercise the right to elevate the loan.

The language of the Participation Agreement suggests that a purchaser of Main Street SPV's participation interest steps into the shoes of Main Street SPV and retains the right to elevate the loan. As with a Pre-Elevation sale, consent may be less significant in practice where payment default already has occurred.

Whether a purchaser would *choose* to exercise that right and take on servicing responsibilities for a loan remains an open question. Banks should be prepared to continue to perform their responsibilities under the Participation Agreement even after Main Street SPV sells its participation interest unless and until an Elevation occurs.

THE PARTICIPATION AGREEMENT REQUIRES LENDERS TO CONTINUE PROVIDING SOME LEVEL OF SERVICING

Section 8 of the Participation Agreement makes clear that the bank's cash-management role continues notwithstanding a sale of the Main Street SPV's participation interest. If the bank receives a distribution in respect of the participation post-sale, for example, it must accept and hold that distribution for the account and sole benefit of the buyer; it has no equitable or beneficial interest in it, and it must deliver the distribution promptly to the buyer, generally within two business days in the case of cash distributions.

Section 2.1(b) reinforces that structure by providing that, until the Elevation Date, if any, the bank remains responsible for retained obligations and continues to hold title to the loans for the benefit of the buyer to the extent of the participation.

Accordingly, after a sale by Main Street SPV, those same remittance and pass-through mechanics remain in place, but they run for the benefit of the buyer that succeeds Main Street SPV, rather than for Main Street SPV itself.

The same is true of the agreement's related payment provisions. Sections 8.4 and 8.5 address withholding, late-payment interest, and the notice, funding and refund mechanics applicable to agent expense amounts. Those provisions continue to govern the bank's payment relationship with the buyer post-sale.

The Servicing Agreement, to which each bank is a party along with Main Street SPV, terminates upon the assignment of Main Street SPV's participation interest. Banks will no longer earn servicing fees under that agreement and will no longer be obligated to provide "Enhanced Reporting Services."

REPORTING AND RECORDKEEPING OBLIGATIONS CONTINUE AS WELL

Following a sale of the Main Street SPV's participation interest, Section 9.2 of the Participation Agreement will continue to require the bank, prior to any Elevation, to furnish written information and documents it receives as lender to the buyer or its designee, and Section 9.4 will continue to require the bank to maintain payment records and make them available for inspection on reasonable prior notice.

As a practical matter, that means a sale by Main Street SPV does not eliminate the bank's reporting and recordkeeping obligations; it simply changes the party for whose benefit those obligations are performed.

REIMBURSEMENT RIGHTS SURVIVE, BUT THE PAYOR CHANGES

A sale of Main Street SPV's participation interest does not eliminate the bank's contractual right to reimbursement for certain expenses it may continue to incur in administering the loan. Section 7.3 requires Main Street SPV to reimburse the bank, promptly upon request, for its applicable pro rata share of out-of-pocket expenses and disbursements, including reasonable counsel fees, incurred in connection with administration of the participation, the transferred rights, the credit documents, and related enforcement or protection efforts.

Section 9.2 separately requires Main Street SPV, prior to any Elevation, to reimburse the bank for reasonable out-of-pocket expenses incurred in furnishing required written information and documents, and Section 15.4 preserves reimbursement rights for agent transfer fees in connection with a later Elevation, subject to the agreement's \$5,000 cap.

Accordingly, when Main Street SPV exits, the reimbursement right does not disappear; the payment obligation shifts to the purchaser that succeeds to Main Street SPV's position.

THE BANK REMAINS OPERATIONALLY IN FRONT, BUT NOT FOR CORE RIGHTS MATTERS

A sale of Main Street SPV's participation interest does not displace the bank from its borrower-facing role. Until any later Elevation, the bank continues to hold title to the loans for the benefit of the buyer to the extent of the participation.

At the same time, certain actions of the bank will continue to be subject to approval by the participant. Section 11.1 of the Participation Agreement provides that the seller must seek instructions from the buyer before taking, or refraining from taking, any of the enumerated "Core Rights Acts" with respect to a MSLP loan. By contrast, amendments, waivers, and other modifications involving non-Core Rights Acts remain within the lender's discretion.

Once the participation is sold, the practical consequence is that the purchaser succeeds to Main Street SPV's position in that instruction-giving role. Accordingly, the bank may continue to administer the loan on a day-to-day basis, but for major modification, waiver, enforcement, or workout decisions that constitute Core Rights Acts, for which it should expect to take direction from the new buyer to the same extent it previously sought direction from Main Street SPV.

LOOKING AHEAD

As the Main Street Lending Program nears its conclusion, banks with remaining Main Street exposure should prepare for a more active transition period with some uncertainty about their future role.

For originating banks, FAQ M.6 indicates that the immediate issue is less whether a sale may occur and more how the post-sale relationship will function while the Participation Agreement remains in place and the bank must continue to perform its obligations thereunder (unless and until a later Elevation occurs).

In the near term, banks should focus on understanding their continuing obligations under the Participation Agreement, including the provisions governing transfers, remittance of distributions, information sharing, and reimbursement. Banks that previously expressed deference to Main Street SPV as an entity owned by the Federal Reserve Bank of Boston may want to re-familiarize themselves with the specific terms of the Participation Agreement as a private party that may not be a bank or regulated entity potentially steps into Main Street SPV's shoes. Purchasers of Main Street SPV's interests may have different objectives and targeted outcomes concerning the loans than Main Street SPV. Of course, by allowing banks to participate in the Main Street SPV auction, the Boston Fed is giving banks the option of avoiding these issues by purchasing the participation interests themselves.