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The Main Street Lending Program – Updated Overview and Status as of July 2020

Structure and General Overview. The Federal Reserve established the Main Street Lending Program (the Program) to support lending to small and medium-sized businesses that were in sound financial condition before the onset of the COVID-19 pandemic. The Program opened for lender registration in June 2020 and became fully operational on July 6, 2020.

- To implement the Program, the Federal Reserve Bank of Boston created a special purpose vehicle (the SPV) to purchase 95% participations in loans (or upsized tranches) extended by eligible lenders. The SPV will cease purchasing participations on Sept. 30, 2020, unless the Federal Reserve opts to extend this deadline.

- The Treasury Department will contribute $75 billion of its appropriation under the Coronavirus Aid, Relief and Economic Stability Act (the CARES Act) to offset potential losses and support the SPV's purchase up to $600 billion of newly issued and upsized loans under the Program.

- The Program will operate through the three following facilities, each authorized under Section 13(3) of the Federal Reserve Act:

  - Main Street New Loan Facility (the MSNLF):
    - Eligible lenders originate new loans made to eligible borrowers.
    - MSNLF loans may not be junior in priority (contractually subordinated) in bankruptcy to a borrower's other loans or debt instruments. This does not prevent a second lien term loan or an unsecured term loan with an existing secured credit facility in place.

  - Main Street Priority Loan Facility (the MSPLF):
    - Eligible lenders originate new loans made to eligible borrowers.
    - The MSPLF targets more highly leveraged borrowers than the MSNLF (maximum loan size of 6x EBITDA as opposed to 4x), and unlike the MSNLF, permits the usage of the loan proceeds to refinance existing indebtedness with third party lenders at origination.
    - At all times, the loan must be either senior to, or pari passu with, borrower's other loans or debt instruments, other than mortgage debt.

  - Main Street Expanded Loan Facility (the MSELF):
    - The MSELF targets the largest class of borrowers, with the highest minimum and maximum loan amounts of $10 million and $300 million, respectively.
    - Eligible lenders upsize existing loans originated on or before April 24, 2020, that are currently outstanding with eligible borrowers.

- The Federal Reserve will disclose the names of lenders and borrowers participating in these facilities, as well as certain terms of each loan (including loan amount, pricing, fees and overall costs).

Borrower Eligibility. Borrower eligibility is identical across each of the three facilities of the Program. Full criteria for borrower eligibility is available on the first page of the term sheet of each of the facilities, available on the Federal Reserve's main webpage for the Program (https://www.federalreserve.gov/monetarypolicy/mainstreetlending.htm). The main eligibility criteria include the following:

- The borrower must be a U.S. business formed on or prior to March 13, 2020, which is not an ineligible business.
  - To qualify as a U.S. business, the borrower must:
    - have been formed as a for-profit organization under the laws of the U.S., or one of the states, districts, territories or certain other possessions of the U.S.; and
    - have "significant operations" in the U.S. (as set forth in Section 4003(c)(3)(C) of the CARES Act). This determination largely weighs whether the borrower and its subsidiaries have greater than 50% of their business operations within the U.S. (including assets, income and revenues, expenses and employees). Domestic borrowers that are subsidiaries of a foreign company may qualify if the loan is used solely for the benefit of the domestic subsidiary.
  - Ineligible businesses include those listed in the Small Business Administration's (the SBA) eligibility criteria set forth in 13 CFR §120.110 (and as modified by the SBA in connection with the Paycheck Protection Program (the PPP)) and certain other businesses, such as private equity funds (though a portfolio company of a private equity fund may qualify if it meets all other SBA qualifications after the aggregation of employees and revenues of all affiliates).
- The borrower must have 15,000 or fewer employees or 2019 annual revenue of $5 billion or less.
  - The calculation of the number of employees follows the SBA framework (https://ecfr.io/cgi-bin/text-idx?SID=150fceacc26bbd98972ba3b555e80084&mc=true&node=se13.1.121_1106&rgn=div8). The average number of full-time, part-time and seasonal workers of the borrower and its affiliates for each pay period over the twelve-month period prior to loan origination are counted as employees, while independent contractors and volunteers are excluded.
  - For calculation of revenue, borrowers may use their 2019 "revenue" calculated in accordance with GAAP or their annual receipts, as reported to the IRS.
- The borrower may not participate in more than one facility in the Program, and also may not apply if it already participates in the Primary Market Corporate Credit Facility.
- A borrower is not eligible to participate if it has received specific support under Title IV of the CARES Act, which provides support to passenger and cargo air carriers and related businesses and businesses deemed critical to national security.
  - If a borrower or its affiliates have received a PPP Loan, that borrower is permitted to borrow under one of the Program facilities.
- If a prospective borrower is eligible under the above criteria, it may apply for a loan under one of the three facilities directly with a registered lender. An index of registered lenders is available at https://www.bostonfed.org/supervision-and-regulation/supervision/special-facilities/main-street-lending-program/information-for-borrowers.aspx#map.

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Loan Terms. Full term sheets are available on the Federal Reserve's Program webpage (https://www.federalreserve.gov/monetarypolicy/mainstreetlending.htm), and links to each facility's term sheet are in the heading of each facility's respective column in the table below.

- Generally Applicable Terms and Conditions – the below terms apply to loans made under all of the three facilities:
  - Secured or unsecured term loan.
  - Five-year maturity (for MSELF loans, this maturity applies to the upsized tranche; underlying loan maturity must have at least 18 months remaining).
  - Pricing: LIBOR (one or three month) + 300bps. LIBOR fallback language is recommended, but an official benchmark has not been published.
  - Deferral of principal payments for two years and interest payments for one year.
  - Principal amortization of 15% at the end of the third year, 15% at the end of the fourth year, and a balloon payment of 70% at maturity.
  - No prepayment penalty.
  - Use of proceeds is for general business purposes, subject to CARES Act limitations.

- Lenders must pay a transaction fee to the SPV equal to 1% of the loan amount, which can be charged to the borrower.
- Lender risk retention of 5% (see below table for additional details). Risk will be shared on a pro-rata basis between the SPV purchasing a participation in each loan and the originating lender.
- If the borrower had other loans outstanding with the lender as of Dec. 31, 2019 (or, in the case of MSELF loans, the underlying loan at the time of upsizing), such loans must have had an internal risk rating equivalent to a "pass" in the Federal Financial Institutions Examination Council's supervisory rating system on that date.
- Lenders are to conduct an assessment of each prospective borrower's financial condition at the time of application.
- Borrowers must make commercially reasonable efforts to retain employees during the term of the loan (or for MSELF borrowers, the duration of the upsized tranche).
- Both lenders and borrowers must certify that they are eligible to participate in the facility, including the conflicts of interest prohibition in section 4019(b) of the CARES Act.

• Facility Specific Terms – the below table sets forth terms (other than the above generally applicable terms) for each of the three facilities:

Term	MSNLF	MSPLF	MSELF
Minimum Loan Size	$250,000	$250,000	$10,000,000
Maximum Loan Size: lesser of (i) or (ii)	(i)$35,000,000 or (ii) 4x 2019 adjusted EBITDA	(i) $50,000,000 or (ii) 6x 2019 adjusted EBITDA	(i)$300,000,000 or (ii) 6x 2019 adjusted EBITDA
Origination / Upsizing and Annual Servicing Fees	Origination: up to 1% of the loan amount Servicing: .25% of the loan amount	Origination: up to 1% of the loan amount Servicing: .25% of the loan amount	Origination: up to 0.75% of the upsized tranche amount Servicing: .25% of the upsized tranche amount
Subordination	Loan is not, at the time of origination or at any time during the term of the Eligible Loan, contractually subordinated in terms of priority to any of the borrower's other loans or debt instruments.	At the time of origination and at all times the loan is outstanding, the loan is senior to, or pari passu with, for both priority and security, the borrower's other loans or debt instruments, other than mortgage debt.	At the time of upsizing and at all times, the upsized tranche is outstanding, the upsized tranche is senior to, or pari passu with, for both priority and security, the borrower's other loans or debt instruments, other than mortgage debt.
Participations / Risk Retention	SPV will purchase 95% of the loan in a true sale. Lender must retain 5% of the loan until the earlier of the maturity date or the date on which the SPV sells all of its participation.	SPV will purchase 95% of the loan in a true sale. Lender must retain 5% of the loan until the earlier of the maturity date or the date on which the SPV sells all of its participation.	SPV will purchase 95% of the upsized tranche in a true sale. Lender must retain 5% of the upsized tranche and its underlying loan interest until the earlier of the maturity of the upsized tranche or the loan, or the date on which the SPV sells all of its participation. Any collateral securing the underlying loan must secure the upsized tranche on a pro rata basis.

- Required Lender Representations and Covenants – for each loan, the lender must:
  - commit that it will not request that the borrower repay debt or interest (unless mandatory and due, or accelerated via default) extended by the lender to the borrower until the loan (or upsized tranche of the loan for MSELF loans) is repaid in full.
  - commit that it will not cancel or reduce any existing committed lines of credit to the borrower, except in an event of default.
  - certify that the methodology used for calculating the borrower's adjusted 2019 EBITDA for the leverage requirement is the methodology it previously used for adjusting EBITDA when extending credit to a borrower or similarly situated borrowers (or, in the case of MSELF lenders, when originating or amending the loan to be upsized) on or before April 24, 2020.

- Required Borrower Representations and Covenants – for each loan, the borrower must:
  - not make any optional prepayments (excluding permitted refinancing at origination for MSPLF borrowers) in respect of any outstanding indebtedness until the loan (or for MSELF borrowers, the upsized tranche) is repaid in full.
  - commit that it will not seek to cancel or reduce any of its committed lines of credit with any lender.
  - certify that it has a reasonable basis to believe that, as of the date of origination (or for MSELF borrowers, the upsizing of the loan) and after giving effect to such origination (or upsizing), 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.
  - commit that it will follow compensation, stock repurchase, and distribution restrictions under section 4003(c)(3)(A)(ii) of the CARES Act, with exceptions for certain tax distributions.

Lender Registration and Eligibility

- Eligibility for lenders is currently limited to U.S. federally-insured depository institutions, U.S. branches or agencies of foreign banks, U.S. bank and savings and loan holding companies, U.S. intermediate holding companies of foreign banks or any U.S. subsidiary of the foregoing.
  - Affiliates of eligible lenders may register as eligible lenders.
  - As of the latest guidance published on June 26, 2020, nonbank financial institutions are not considered eligible lenders. The Federal Reserve is considering options to expand the criteria for eligible lenders in the future.
  - Prospective lenders may apply to participate in the Program through the following link (https://www.bostonfed.org/supervision-and-regulation/supervision/special-facilities/main-street-lending-program.aspx).

- Lenders are to view borrower eligibility requirements as minimum requirements for participation in the Program. Eligible lenders accepted into the Program are encouraged to apply their own underwriting criteria and use their standard loan documentation, subject to certain documentation requirements and standard terms contained in Appendices A and B here (https://www.bostonfed.org/mslp-faqs).

Status as of July 2020

- As of July 8, 2020, save for Bank of America, which is the only bank registered and open in all 50 states and the District of Columbia, many of the nation's largest banks have yet to sign up for the MSNLF and MSPLF to accept new borrowers. Several of the larger banks (measured by assets) such as Truist, Citizens, BBVA, Fifth Third and Zions are accepting new borrowers in multiple states. The Federal Reserve has not released a list of banks participating in the MSELF to service existing borrowers.
- Thus far, borrower demand for the Program has been relatively low, with some lenders citing the popularity of the programs offered by the SBA, such as PPP loans, robust reporting requirements, and compensation limits as potential reasons for the disinterest.

- An official from the Federal Reserve projected an increase in demand for loans from the Program due to the fact that continued problems with infections will cause continued business disruption.

- As of July 17, 2020, the Federal Reserve had purchased $12 million in loans.

- On July 17, the Federal Reserve announced a proposal to extend participation in the Program to qualifying nonprofit organizations with endowments under $3 billion.

- Given the projection that demand will increase for Program loans in the future, the Federal Reserve should consider extending the current expiration date of Sept. 30, 2020, particularly for the MSNLF and MSPLF loans. A new borrower/lender relationship requires several weeks to establish due to the time required for underwriting, KYC protocols, the establishment of accounts and cash management, and negotiation of terms and documentation, all of which need to occur prior to the Sept. 30, 2020 cutoff for the SPV to purchase participations.