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CARES ACT WEBINAR SERIES

Update on Main Street Lending Program and Primary Market Corporate Credit Facility

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WEBINAR

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Update on Main Street Lending Program and Primary Market Corporate Credit Facility

- Overview and Status of Main Street Lending Program
- Terms of the Main Street Loan Facilities
- Borrower Eligibility
- Borrower Restrictions/Requirements
- Eligible Lenders
- Loan Participations and Fees
- Overview and Status of Primary Market Corporate Credit Facility
- Overview and Status of Secondary Market Corporate Credit Facility

Main Street Lending Program– Overview

- Created by the Federal Reserve (“Fed”) to provide liquidity to small and medium-sized businesses
- CARES Act authorized $454 billion to provide support to Fed programs for businesses, states and municipalities
- Treasury will make a $75 billion equity investment in a single common special purpose vehicle (“Main Street SPV”) in connection with the Main Street Loan Facilities
- These funds will be levered by the Fed to provide up to $600 billion in loans
- Consists of three credit facilities: the Main Street New Loan Facility (“New Loan Facility”), the Main Street Priority Loan Facility (“Priority Loan Facility”) and the Main Street Expanded Loan Facility (“Expanded Loan Facility”)

Main Street Lending Program– Status

- Main Street Lending Program has not yet officially launched
- Updates regarding the Main Street Lending Program, including the official launch date and the time and date at which the Main Street SPV will begin purchasing participations in the three Main Street Loan Facilities, will be made available on the Federal Reserve’s Main Street page
- Borrowers should contact an Eligible Lender for more information on whether the Eligible Lender plans to participate in the Program and to request more information on the application process
- Borrowers will submit applications through an Eligible Lender

Main Street Loan Facilities - Terms

- The Main Street Lending Program consists of the following three facilities:
  - New Loan Facility
  - Priority Loan Facility
  - Expanded Loan Facility
- Eligibility criteria for Eligible Lenders and Eligible Borrowers are the same for all three Main Street Loan Facilities
- Each facility has the same term, interest rate, deferral period and lack of prepayment penalty
- Primary differences between the Main Street Loan Facilities are the Eligible Loan types available and how such Eligible Loans interact with an Eligible Borrower’s existing debt

Main Street Loan Facilities - Terms

All three of the Main Street Loan Facilities have the following terms:

- Four-year maturity
- No payments of principal and interest for the first year
- Interest for the first year is capitalized (no ability to PIK interest after year one)
- An adjustable rate of LIBOR (1 or 3 month) + 300 basis points
- Loan may be prepaid without penalty
- Full recourse
- Not forgivable

Main Street New Loan Facility - Terms

- New term loan originated after April 24, 2020 (“New Loan”)
- Minimum loan size of $500,000
- Maximum loan size that is the ***lesser*** of (i) $25 million or (ii) an amount that, when added to the Borrower’s existing outstanding and undrawn available debt, does not exceed ***four*** times the Borrower’s *adjusted* 2019 EBITDA
- Principal will be payable in thirds over three years beginning with the second year
- Can be unsecured or secured
- May not be contractually subordinate in terms of priority to the Borrower’s other loans or debt instruments

Main Street Priority Loan Facility - Terms

- New term loan originated after April 24, 2020 (“Priority Loan”)
- Minimum loan size of $500,000
- Maximum loan size that is the ***lesser*** of (i) $25 million or (ii) an amount that, when added to the Borrower’s existing outstanding and undrawn available debt, does not exceed ***six*** times the Borrower’s *adjusted* 2019 EBITDA
- Amortization payments equal to 15% of the principal amount are required for the second and third years, followed by a balloon payment of 70% in the fourth year
- Must be senior to or *pari passu* with, in terms of priority and security, the Borrower’s other loans or debt instruments, other than mortgage debt

Main Street Expanded Loan Facility - Terms

- New term loan tranche ("Upsized Tranche") of an existing term loan or revolving credit facility originated on or before April 24, 2020 with a remaining maturity of at least 18 months
- Minimum loan size of $10 million
- Maximum loan size that is the ***lesser*** of (i) $200 million, (ii) 35% of the Borrower's existing outstanding and undrawn but available debt that is *pari passu* in priority with the Upsized Tranche and equivalent in secured status (i.e., secured or unsecured), or (iii) an amount that, when added to the Borrower's existing outstanding and undrawn available debt, does not exceed ***six*** times the Borrower's *adjusted* 2019 EBITDA
- Amortization payments equal to 15% of the principal amount are required for the second and third years, followed by a balloon payment of 70% in the fourth year
- Must be senior to or *pari passu* with, in terms of priority and security, the Borrower's other loans or debt instruments, other than mortgage debt
- Secured by the same collateral as the existing credit facility being upsized

Main Street Loan Facilities – Determining EBITDA and Existing Debt

- Lenders must use the same methodology for determining adjusted 2019 EBITDA as it used when extending credit to the Borrower or similarly situated borrowers on or prior to April 24, 2020 (and for an Upsized Tranche must be consistent with methodology used in originating or amending the underlying loan)
- All amounts borrowed under any loan facility, regardless of whether the debt is secured or unsecured, the lender is a bank or a nonbank lender, or the debt was issued as a publicly issued bond or a private placement should be included in calculating "existing outstanding and undrawn available debt."
- Excludes (i) backup lines of credit for commercial paper issuances, (ii) any undrawn commitment that is used to finance receivables (including seasonal financing of inventory), (iii) undrawn commitments that cannot be drawn without additional collateral and (iv) any other undrawn commitment that is no longer available due to a change in circumstances.

Main Street Loan Facilities – Use of Proceeds

- Proceeds of the loans may not be used to repay or refinance preexisting loans or lines of credit made by the Lender.
- However, a Borrower may, solely at the time of origination of a loan under the Main Street Priority Loan Facility, refinance existing debt owed by the Borrower to a lender that is not the Eligible Lender.

Borrower Eligibility – Key Requirements

- The business must have been established prior to March 13, 2020
- The business must not be an “Ineligible Business,” which is a type of business listed in 13 CFR 120.110(b)-(j) and (m)-(s), as modified by the regulations implementing the Paycheck Protection Program under the CARES Act on or prior to April 24, 2020
- The business must have no more than 15,000 employees, or 2019 annual revenues of $5 billion, or less (note that affiliation applies and CARES Act waivers are not applicable)
- The business must have significant operations, and a majority of employees based, in the United States
- The business must have been in sound financial condition prior to the onset of the COVID-19 pandemic

Borrower Eligibility – Key Requirements

- Prior to obtaining a New Loan or Priority Loan, any existing loan the borrower had outstanding with an eligible lender as of December 31, 2019, must have had an internal risk rating that was equivalent to a "pass" in the Federal Financial Institutions Examination Council's rating system (Pass Rating)
- Prior to an Eligible Borrower obtaining an Upsized Tranche, the underlying facility must have had a Pass Rating
- The business may only participate in one of the Main Street Loan Facilities and cannot participate in the Primary Market Corporate Credit Facility. Businesses that receive Paycheck Protection Program loans remain eligible

What Constitutes a "Business"

- A "business" is an entity that is organized for-profit as a partnership, limited liability company, corporation, association, trust, cooperative, joint venture with no more than 49% participation by foreign business entities, or certain tribal business concerns (other forms of businesses may be considered for inclusion at the discretion of the Federal Reserve)
- Must be created or organized under the laws of the United States, one of the several states, the District of Columbia, any of the territories and possessions of the United States, or an Indian Tribal government
- Non-profit entities do not qualify as a business under the Main Street Loan Facilities, but it was noted that the Federal Reserve is evaluating a separate approach to meet non-profit needs

Ineligible Businesses – Includes:

- Banks and businesses primarily engaged in the business of lending
- "Passive businesses" such as real estate developers, property rental (subject to some exclusions), and owners of shopping centers and office salons
- Businesses whose 2019 gaming revenue did not exceed $1 million, and comprised less than 50% of the business' 2019 total revenue
- Businesses engaged in illegal activity (including "direct" marijuana businesses and indirect marijuana businesses (e.g., businesses that provide testing services, or sell or install specialized equipment or that advise or counsel such businesses on specific legal, financial/accounting, policy, regulatory or other issues associated with establishing, promoting, or operating a marijuana business)

Ineligible Businesses – Includes:

- Businesses that have incurred prior losses to the government or who have delinquent federal debt
- Businesses engaged in “speculation” - in business for the “sole purpose of purchasing and holding an item until the market price increases,” or “engaging in a risky business for the chance of an unusually large profit.” Examples cited in SBA guidance include oil wildcatting, dealing in stocks, bonds, commodity futures, and other financial instruments, mining for gold or silver other than in established fields, research and development and building homes for future sale

Counting Employees and Revenue - Affiliation

Ref.	Rule
121.301(f)	Entities are affiliates of each other when one controls or has the power to control the other, or a third party or parties controls or has the power to control both. It does not matter whether control is exercised, so long as the power to control exists
121.301(f)(1)	A concern is an affiliate of entity that owns or has the power to control more than 50% of the entity's voting equity. If no one is controls, the Board, President or CEO (or other officers, managing members, or partners who control management) will control of the concern. A minority owner will control if it has the ability to prevent a quorum or otherwise block action by the board of directors or shareholders
121.301(f)(2)	Stock options, convertible securities, and agreements to merge (including agreements in principle) are deemed to have a present effect (as if exercised or consummated) unless incapable of fulfillment, speculative, conjectural, or unenforceable or where the probability of the transaction (or exercise of the rights) is extremely remote
121.301(f)(3)	Affiliation arises where: • the CEO or President (or other officers, managing members, or partners who control management) also controls the management of one or more other concerns • a single entity that controls the Board or management of one concern also controls the Board or management of one of more other concerns • a single individual, concern or entity controls the management of the applicant through a management agreement
121.301(f)(6)	Consideration is given to all connections between the concern and a possible affiliate
121.301(f)(8)	Gross income/receipts and employees (all full, part time and temporary employees are counted) and all of its domestic and foreign affiliates, regardless of whether the affiliates are organized for profit

Borrower Restrictions/Requirements

- It will use commercially reasonable efforts to maintain its payroll and retain its employees during the term of the loan
- Commit not to repay the principal balance of, or make payments of interest on, any debt until the loan is repaid in full, unless the debt or interest payment is mandatory and due.
- Neither the Lender nor the Borrower may cancel or reduce any existing lines of credit outstanding, except in an event of default.

CARES Act Restrictions

Borrower must follow compensation, stock repurchase and capital distribution restrictions under Section 4003(c)(3)(A)(ii) of the CARES Act, during the term of the loan and for 12 months following repayment

- Borrower may not repurchase an equity security that is listed on a national securities exchange of either the Borrower or any parent company, except to the extent required under a contractual obligation that was in effect on March 27, 2020
- Borrower is not permitted to pay dividends or make other capital distributions with respect to its common stock (other than tax distributions for pass-through entities)
- Limitation on compensation for executives and employees making in excess of $425,000

Eligible Lenders

Eligible Lenders are:

- US federally insured depository institutions (including banks, savings associations, or credit unions)
- US branch or agency of a foreign bank
- US bank holding companies
- US savings and loan holding companies
- US intermediate holding company of a foreign banking organization
- US subsidiary of any of the foregoing.
  - Non-bank financial institutions are not eligible but the Fed is considering adding additional Eligible Lenders in the future

Lender Underwriting & Certification

Lenders have an obligation to evaluate borrower creditworthiness

- Borrower eligibility criteria are the “minimum requirements” for the program
- Lenders must assess a borrower’s financial condition at the time of the borrower’s application
- Lenders must apply “their own underwriting standards” in evaluating the creditworthiness of the potential borrower

Lenders are also required to make certifications regarding the following:

- Repayment of existing debt
- Non-cancellation or reduction of existing lines of credit
- Methodology for EBITDA calculation
- Eligibility

Loan Participations

- Main Street SPV will purchase 95% participations in Eligible Loans under the New Loan Facility and the upsized tranche under the Expanded Loan Facility, with lenders retaining 5% interest
- Main Street SPV will purchase 85% participations in Eligible Loans under the Priority Facility, with lenders retaining 15% interest
- Lenders are prohibited from assigning of the loans until the loan matures or Main Street SPV sells its entire participation interest (whichever comes first)
  - With respect to an upsized tranche, prohibition on assignments applies to both the upsized tranche and the underlying loan

Primary Market Corporate Credit Facility – Overview and Status

- Primary Market Corporate Credit Facility (“PMCCF”) provides a funding backstop for purchases of newly issued corporate debt from eligible issuers:
  - may purchase eligible corporate bonds with a maturity of 4 years or less as the sole investor in a bond issuance
  - may purchase portions of syndicated loans or bonds with a maturity of 4 years or less of eligible issuers at issuance, but no more than 25 percent of any loan syndication or bond issuance
- Facility fee of 100 basis point; market pricing
- Only available to investment grade issuers, and “fallen angels”
- The PMCCF is not yet operational, but is expected to be operational fairly soon
- Additional details on timing will be made available from the Fed

Secondary Market Corporate Credit Facility – Overview and Status

— The Secondary Market Corporate Credit Facility (“SMCCF”) will support market liquidity for corporate debt by purchasing individual corporate bonds of eligible issuers and exchange-traded funds (ETFs) in the secondary market.

- The SMCCF is expected to begin purchasing eligible ETFs in May
- The SMCCF is expected to begin purchasing eligible corporate bonds soon thereafter
- Additional details on timing will be made available from the Fed

Questions

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