

HJ Sims' Overview of the Main Street Lending Program ("MSLP")

INTRODUCTION

This up to \$600 billion loan program is designed to provide support to small and medium sized businesses (**with no explicit exclusion of not-for-profit organizations**) that have up to 10,000 employees or 2019 revenues of up to \$2.5 billion. The MSLP was established pursuant to Section 13(3) of the Federal Reserve Act, and will be aided by an equity investment by the Treasury Department from funds under the Exchange Stabilization Fund ("ESF") included under the CARES Act. While less formulaic than the Paycheck Protection Program created pursuant to the CARES Act, borrowers under the MSLP must attest that they will "make reasonable efforts to maintain [their] payroll and retain [their] employees during the term of the [loan]."

Loan Highlights

Under this program, loans may be new credit arrangements ("Main Street NEW Loan Facility") or increases in existing credit facilities ("Main Street EXPANDED Loan Facility"). The loans may not be used to refinance or repay existing debt. In addition, borrowers must agree to not repay other debt with equal or lower priority, other than mandatory principal payments, until the MSLP debt is fully repaid.

→ Loan Amount

Loan amounts, with a minimum of \$1 million, are sized as follows:

- Main Street NEW Loan Facility: the maximum loan size is the **lesser of**: i) \$25 million or ii) an amount that, when added to borrower's outstanding debt (and committed, but undrawn debt), does not exceed four times (4x) the borrower's 2019 EBITDA.

- Main Street EXPANDED Loan Facility: the maximum upsized credit facility is the **lesser of**: i) \$150 million, ii) 30% of borrower's outstanding debt (and committed, but undrawn debt), or iii) an amount that, when added to borrower's outstanding debt (and committed, but undrawn debt), does not exceed six times (6x) the borrower's 2019 EBITDA.

→ Loan Terms

Loan terms include: i) an adjustable rate of SOFR + 2.50%-4.00% (Current SOFR = .01%), ii) a four year term with amortization of principal and interest deferred for one year (no forgiveness provision, as currently proposed), iii) no prepayment penalty, and iv) new loans structured as unsecured term loans.

→ Origination Fees and Lenders

Borrowers must pay an origination fee of 1.00% to lenders, which may include US insured depository institutions, US bank holding companies, and US savings and loan holding companies.

→ Funds Under Multiple Programs

While borrowers that have participated in the Small Business Administration's ("SBA") Paycheck Protection Program may seek funds under the MSLP, borrowers may not receive funds under both the Main Street NEW Loan Facility and Main Street EXPANDED Loan Facility.

On April 9, 2020, the Federal Reserve Board published details and term sheets in connection with the MSLP, and will continue to solicit comments until April 16, 2020. For additional information, please see <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm>

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Paycheck Protection Program ("PPP") Update

This program authorizes up to \$349 billion in forgivable loans, and was primarily designed to aid businesses in retaining workers and paying related costs throughout the COVID-19 pandemic. Eligible borrowers were able to apply starting on April 3, and on April 10, the SBA reported that approximately 630,000 loans have been dispensed through this program for roughly \$161 billion through 4,282 lenders – 472 of which were new to the SBA¹. Despite the fact that funding has been fully committed to date, proposed legislation to increase PPP funding is currently under consideration in Congress; however, the prospects for approval and timing are uncertain².

HJ Sims's Views and Recommendations

To date, it appears that market participants have had varied experiences with this program, ranging from relatively smooth, with applications submitted/accepted and approved, and some initial funding received during the week of April 6, to challenges in application submission and acknowledgement of acceptance/status. While there will continue to be exceptions, it is anticipated that there will be greater clarity relating to the application process and improved communication of application status and acceptance in this second week of implementation. Further, to the extent that funding is still lagging, it is hoped that this will come up to pace to quickly follow application approval.

Consistent recommendations include:

- Pursuing financing through a commercial bank, with existing SBA lending authorization and with which the applying organization has an existing banking relationship.

- Not filing multiple applications; if submitted and accepted, funding may be delayed/disallowed. In a case where multiple applications have been filed, if one application is accepted, immediately withdraw any others that have been filed.
- In preparation for approval/receipt of financing, confirm the ability to incur this new debt, understanding that some or all of it may ultimately be forgiven, subject to terms of the program. *See below for further commentary regarding additional debt incurrence.*

Economic Injury Disaster Loan Program ("EIDL") Update

The EIDL program, as amended by the CARES Act, is intended to help small businesses recover after substantial economic injury as a result of a disaster. Loans are up to a \$2 million cap combined with, if necessary, an immediate \$10,000 emergency grant. Late last week, the U.S. Chamber of Commerce reported that while the typical loan request is \$200,000, it has learned that the SBA has communicated to businesses that loan amounts will be limited to only \$15,000 per applicant. "PPP is on target to reach its \$349 billion limit," the Chamber said. "In the one week since PPP launched, 250,000 small businesses and sole proprietorships have sought in excess of \$100 billion. [As of April 10,] independent contractors, many gig economy workers, and self-employed individuals – a group that makes up over 80% the small business population – are able to access PPP. Without an infusion of resources, PPP is unlikely to meet outstanding needs for a large number of small businesses."³ The SBA has announced that it is unable to accept additional applications for EIDL loans or advances at this time based on available appropriations funding.

¹Sources: [Click here](#) and [here](#). ²Source: [Click here](#). ³Source: [Click here](#).

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Additional Considerations

Debt Incurrence Provisions

While the new loans under the MSLP and PPP are structured on an unsecured basis and, in the case of PPP, may be forgivable, they all constitute indebtedness. Accordingly, borrowers must satisfy any limitations related to the incurrence of additional debt contained in existing financing agreements.

The process for and complexity of additional debt incurrence compliance varies depending particularly on the specifics of the borrower's additional debt tests and proposed financing amount. The additional debt test may be objective (formulaic in nature) or, alternatively, require consent of the borrower's lender(s). In this latter case, or in the event that the borrower is unable to meet an objective test, the borrower must obtain consent from their lender(s) and/or bondholders.

Continuing Disclosure & Continuing Communications

Considerations related to Continuing Disclosure, to investors and the public, include both requirements under federal securities laws (Rule 15c2-12), formalized in many cases under debt financing documentation (Continuing Disclosure Agreements), as well as prudent/best business practices. Under current circumstances, particularly relevant disclosure items include factors related to the COVID-19 virus itself as well as the impact on borrower's operations, customers/residents and operating/financial performance and position and financing programs outlined above.

The most relevant continuing disclosure requirements, among others, relate to events or conditions that may impact repayment of a debt obligation, particularly: i) entrance into a financial

obligation or agreement and ii) default, event of acceleration, termination event, modification of terms or other similar events under the terms of a financial obligation, any of which reflect financial difficulties. Further, to the extent that a Borrower's debt is rated by one of the three major rating agencies, similar communications with the rating agency will be necessary.

How HJ Sims Can Help

As noted in our April 3, 2020 overview,⁴ HJ Sims can help you analyze your eligibility to receive funding under these various programs and, if needed help you connect with eligible lenders. As part of financing implementation, HJ Sims can assist in the analysis of the interplay of such funding with your existing financing obligations. This may include providing guidance related to Debt Incurrence, Continuing Disclosure and Communications to Bondholders/Banks and Rating Agencies as well as addressing implications for outstanding debt and/or future capital needs. Moreover, with longer-term considerations in mind, HJ Sims can provide assistance in assessing your credit profile as well as debt incurrence-project financing capacity, reflecting what may be changed business conditions, financial performance and financing market conditions resulting from COVID-19.

This summary has been created based on information available to date, and the information provided herein may change in accordance with additional government and/or regulatory interpretation and guidance. For additional information about these programs, please visit <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm> and <https://www.sba.gov/page/coronavirus-covid-19-small-business-guidance-loan-resources>.

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Priorities

Sensible, essential financial wisdom.

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