The Main Street Lending Program: What Borrowers Need to Know

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Main Street: Financing of Last Resort

- Designed to help larger companies
- Attempts to respond to perceived failures in the last wave of bailouts
- Empowers greater leverage, at lower costs, than would otherwise be available
- Structure makes the loans very unattractive
  - Time horizon of repayment
  - Subordination issues will create challenges
    - Structural subordination permitted to new loan program
    - Other programs require senior position
  - Strings, particularly on compensation, will further limit use

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Background

CARES ACT, Title IV: Background

- Economic stabilization and assistance
- Allocates $500 billion to create four pools of funds for the Treasury to use for loans, loan guarantees, and other investments, to provide liquidity to eligible businesses
- Direct Treasury loans:
  - $25B for airlines
  - $4B for air cargo companies
  - $17B for companies that are critical to national security
- These loans are administered by Treasury, special programs

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CARES ACT, Title IV: Background (cont.)

- The remaining pool ($454 billion plus any funds left over from pools 1-3) is designated for programs and facilities established by the Federal Reserve Board
- To date, the Federal Reserve has established 7 different programs for which Treasury has committed to invest CARES Act funds, including the following:
  - The Main Street Lending Program (MSLP) (small/mid-size businesses)
    - Three different credit facilities
    - With $75B from Treasury into Special Purpose Vehicle (SPV)
  - The Primary Market Corporate Credit Facility (PMCCF) (large businesses)
  - The Secondary Market Corporate Credit Facility (SMCCF) (large businesses)

Summary of loan terms

Three Main Street Facilities

- The Federal Reserve created three facilities that will each purchase loan participations on largely the same terms
- Each facility is targeted at a different type of borrower:
  - *Main Street New Loan Facility ("New Loans")*—Generally targeted at a smaller borrower with relatively little or no existing leverage
  - *Main Street Priority Loan Facility ("Priority Loans")*—Generally targeted at a somewhat larger borrower that has existing leverage and that is seeking a loan from a bank with which it does not have an existing loan
  - *Main Street Expanded Loan Facility ("Expanded Loans")*—Generally targeted at a larger borrower that has existing leverage and that is seeking to upsize an existing loan with its current lender

Loan Terms – Who Is Eligible?

Borrowers must meet *each of the following requirements*:

- Existing (as of March 13, 2020) business organization with either:
  - 15,000 or fewer employees —or—
  - 2019 annual revenues of $5 billion or less
- Created or organized in the U.S.
- Significant operations in and majority of employees based in the U.S.
- Not an "ineligible" type of business
- No participation in other Main Street facilities or Federal Reserve's PMCCF
- Did not receive specific Title IV CARES Act support

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Loan Terms – Summary

	New Loan	Priority Loan	Expanded Loan
Min. Loan Size	$500,000	$500,000	$10 million
Max. Loan Size	The lesser of: • $25 million • 4x 2019 adj'd EBITDA	The lesser of: • $25 million • 6x 2019 adj'd EBITDA	The lesser of: • $200 million • 35% of outstanding and undrawn available debt • 6x 2019 adjusted EBITDA
Term / Rate	4 years / LIBOR + 3.0%		
Collateral	Secured -or- unsecured		
Deferral Period	1 year		
Deferred Interest	Capitalized		
Amortization (yrs. 2 / 3 / 4)	33.3% / 33.3% / 33.3%	15.0% / 15.0% / 70.0%	
Prepayment Penalty	None		
Loan Origination Fee	Up to 1.0%		Up to 0.75%
SPV Transaction Fee	1.0%		0.75%

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Loan Terms – Subordination

- Implications of the subordination terms are discussed later in this presentation
- Open questions include:
  - Are split-lien structures impossible?
  - Do these terms make the loans unworkable for borrowers with existing debt?

New Loan	In terms of *priority*: may **<u>not</u>** be contractually subordinated to borrower's other debt In terms of *security*: may be junior to borrower's other debt in lien position
Priority Loan	In terms of *priority* and *security*: must be senior to or *pari passu* with borrower's other debt (other than mortgage debt)
Extended Loan	In terms of *priority* and *security*: must be senior to or *pari passu* with borrower's other debt (other than mortgage debt)

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Loan Terms – Borrower Commitments

- Refrain from repaying the principal balance of, or paying any interest on, any debt until the Main Street loan is repaid in full—unless debt or interest is mandatory and due
- Do not seek to cancel or reduce any committed lines of credit
- Have a reasonable basis to believe that, after giving effect to the Main Street loan, you have the ability to meet your financial obligations for at least 90 days and do not expect to file bankruptcy during that time
- Comply with the “strings” (as discussed elsewhere in this presentation)
- Be eligible to participate

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Loan Terms – Other Considerations

- Full recourse
- No forgiveness
- No use of proceeds restrictions
- Employee retention with "commercially reasonable efforts"
- Federal Reserve public disclosure (and public relations)
- Facility Termination – September 30, 2020

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Relationship to banks

Bank Process – Where Can You Get a Loan?

Eligible Lenders

- U.S. bank, savings association, or credit union
- U.S. branch of a foreign bank
- U.S. agency of a foreign bank
- U.S. bank holding company
- U.S. savings and loan holding company
- U.S. intermediate holding company of a foreign banking organization
- Any subsidiary of any of these entities

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Bank Process – What to Expect

- Documentation
- Underwriting
  - Creditworthiness – Loan classification and financial condition
  - Banks otherwise must apply own underwriting standards
- Benefits of existing commercial relationships

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Bank Process – What the Lender Cannot Do

Lender must certify that it will not:

- Request repayment of existing debt owed the lender or payment of interest on the debt until the Main Street loan is repaid in full—unless mandatory and due or in an event of default and acceleration
- Cancel or reduce any existing committed lines of credit—except in an event of default
- Change its methodology used for calculating borrower's adjusted 2019 EBITDA from what it used on or before April 24, 2020

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Strings Attached

Borrower must

- Freeze compensation for employees with between $425K and $3M
  - Limits on severance and termination benefits at 2× 2019 compensation
- Cap compensation for employees making more than $3M
- Not repurchase borrower's or borrower's parent's stock
- Refrain from dividends or other capital distributions
- ALL FOR LIFE OF LOAN PLUS ONE YEAR

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When could this program be helpful?

- When anticipating short-term, extreme disruption
- When existing lender is eager to have some of its risk taken off the table
- When added leverage could empower strong turnaround
- When all other resources have been exhausted

What if I am interested?

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Assess Existing Debt and Ability to Extend

- For practical reasons, obtaining a Main Street loan from an existing lender would be less complicated than bringing in a new lender
- Consider carefully your ability to service new debt
  - Sustainability
  - Other restructuring strategies available
- Understand current credit agreements
  - Provisions limiting ability to borrow funds
  - Covenants that may be violated
- Discuss options with current lenders
- Obtain any required consents before moving forward

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Explore Alternatives

- Assess business capital needs and err on the conservative side
  - Model capital needs with a cushion
- Exhaust relief from other programs for which you may be eligible
  - Paycheck Protection Program
  - Various state and federal grant programs
  - Significant tax advantages
- Depending upon specific needs, the Main Street loan may simply be a non-starter

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Engage with Existing Lenders

- Participation in Main Street, even with third-party funding, will require the cooperation of existing lenders
- Seek better loan terms and reasonable concessions from current lenders
- Explore forbearance agreements and understand how new debt fits with existing obligations

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Questions?

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