

Report to Congress Pursuant to Section 13(3) of the Federal Reserve Act: Main Street Expanded Loan Facility

Overview

On April 8, 2020, the Board of Governors of the Federal Reserve System (the Board), by the unanimous vote of its five members and with the approval of the Secretary of the Treasury, authorized the establishment and operation of the Main Street Expanded Loan Facility (MSELF) under section 13(3) of the Federal Reserve Act (12 U.S.C. § 343(3)). The MSELF is intended to facilitate lending to small and medium-sized businesses by eligible lenders.

Under the MSELF and the Main Street New Loan Facility (MSNLF), the Federal Reserve Bank of Boston (Reserve Bank) will commit to lend on a recourse basis to a single common special purpose vehicle (SPV). The SPV will purchase 95 percent participations in the upsized tranche of eligible loans from eligible lenders. Eligible lenders would retain 5 percent of the upsized tranche of each eligible loan.

Background on the MSELF

Recent events have significantly and adversely impacted global financial markets. The spread of the coronavirus disease 2019 (COVID-19) has halted economic activity in many countries, including the United States. The disruption has impacted many different sectors of the financial system. In general, the availability of credit has contracted for small and medium-sized businesses, while, at the same time, the disruptions to economic activity (including disruptions due to the closure of nonessential businesses in many jurisdictions) have heightened the needs for businesses to obtain financing in order to manage cash flows and sustain themselves until economic conditions normalize.

In these circumstances, the Board determined that unusual and exigent circumstances existed and approved the establishment of the MSELF to help facilitate access to credit so that small and medium-sized businesses are better able to manage the period of dislocations related to the pandemic. The Department of the Treasury, using funds appropriated to the Exchange Stabilization Fund under section 4027 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), will make a \$75 billion equity investment in the single common SPV in connection with the MSELF and the MSNLF.

Structure and Basic Terms

Under the MSELF, the Reserve Bank will commit to lend, on a recourse basis, to the SPV, which will purchase 95 percent participations in eligible loans

from eligible lenders. Eligible lenders would retain 5 percent of each eligible loan. The Reserve Bank will be secured by all of the assets of the SPV. The MSELF is not yet operational.

The term sheet for the MSELF is available to the public on the Board's website, and more detailed terms and conditions will be available when finalized.¹ As indicated in the Board's announcement of the MSELF, the Board and the Department of the Treasury are continuing to seek input from lenders, borrowers, and other stakeholders to make sure the program supports the economy as effectively and efficiently as possible while also safeguarding taxpayer funds. The Board and the Department of the Treasury are accepting feedback on the MSELF and MSNLF until April 16.

The discussion below summarizes the terms and conditions for the MSELF approved by the Board on April 8, 2020. These terms and conditions may be modified in light of comments received from stakeholders and as the Board and the Department of the Treasury determine appropriate.

Eligible Lenders. Eligible lenders are U.S. insured depository institutions, U.S. bank holding companies, and U.S. savings and loan holding companies.

Eligible Borrowers. Eligible borrowers are businesses with up to 10,000 employees or up to \$2.5 billion in 2019 annual revenues. Each eligible borrower must be a business that is created or organized in the United States or under the laws of the United States with significant operations in and a majority of its employees based in the United States. Eligible borrowers that participate in the MSELF may not also participate in the MSNLF or the Primary Market Corporate Credit Facility.

Eligible Loans. An eligible loan is a term loan made by an eligible lender(s) to an eligible borrower that was originated before April 8, 2020, provided that the upsized tranche of the loan has the following features: (1) four-year maturity; (2) amortization of principal and interest deferred for one year; (3) adjustable rate of secured overnight financing rate plus 250-400 basis points; (4) minimum loan size of \$1 million; (5) maximum loan size that is the lesser of (i) \$150 million, (ii) 30 percent of the eligible borrower's outstanding and committed but undrawn bank debt, or (iii) an amount that, when added to the eligible borrower's outstanding and committed but undrawn debt, does not exceed six times the eligible borrower's 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA); and (6) prepayment permitted without penalty.

¹ For term sheets for all facilities, see the Federal Reserve's website at <https://www.federalreserve.gov/funding-credit-liquidity-and-loan-facilities.htm>.

Loan Participations. The SPV will purchase a 95 percent participation in the upsized tranche of the eligible loan, provided that it is upsized on or after April 8, 2020, at par value. The SPV and the eligible lender will share risk in the upsized tranche on a pari passu basis. Any collateral securing an eligible loan, whether such collateral was pledged under the original terms of the eligible loan or at the time of upsizing, will secure the loan participation on a pro rata basis.

Loan Upsizing and Servicing. An eligible borrower will pay an eligible lender a fee of 100 basis points of the principal amount of the upsized tranche of the eligible loan at the time of upsizing. The SPV will pay an eligible lender 25 basis points of the principal amount of its participation in the upsized tranche of the eligible loan per annum for loan servicing.

Termination Date. The SPV will cease purchasing participations in eligible loans on September 30, 2020, unless the Board and the Department of the Treasury extend the MSELF. The Reserve Bank will continue to fund the SPV after such date until the SPV's underlying assets mature or are sold.

Requirements Imposed on Recipients. Under the MSELF, in addition to certifications required by applicable statutes and regulations, the following attestations will be required with respect to the upsized tranche of each eligible loan:

- The eligible lender must attest that the proceeds of the upsized tranche of the eligible loan will not be used to repay or refinance pre-existing loans or lines of credit made by the eligible lender to the eligible borrower, including the pre-existing portion of the eligible loan.
- The eligible borrower must commit to refrain from using the proceeds of the upsized tranche of the eligible loan to repay other loan balances. The eligible borrower must commit to refrain from repaying other debt of equal or lower priority, with the exception of mandatory principal payments, unless the eligible borrower has first repaid the eligible loan in full.
- The eligible lender must attest that it will not cancel or reduce any existing lines of credit outstanding to the eligible borrower. The eligible borrower must attest that it will not seek to cancel or reduce any of its outstanding lines of credit with the eligible lender or any other lender.
- The eligible borrower must attest that it requires financing because of the exigent circumstances presented by the COVID-19 pandemic, and that, using the proceeds of the upsized tranche of the eligible loan, it will make reasonable efforts to maintain its payroll and retain its employees during the term of the upsized tranche of the eligible loan.

- The eligible borrower must attest that it meets the EBITDA leverage condition stated in section 5(iii) of the paragraph above specifying required features of eligible loans.
- The eligible borrower must attest that it will follow compensation, stock repurchase, and capital distribution restrictions that apply to direct loan programs under section 4003(c)(3)(A)(ii) of the CARES Act.
- Eligible lenders and eligible borrowers will each be required to certify that the entity is eligible to participate in the MSELF, including in light of the conflicts of interest prohibition in section 4019(b) of the CARES Act.

Expected Costs to Taxpayers. The Federal Reserve and the Department of the Treasury, through its equity investment, will bear the risk of loss on the participations purchased by the SPV under the MSELF. The MSELF includes features that are intended to mitigate risk to the Federal Reserve and taxpayers. In particular, the MSELF will receive interest payments and facility fees, the maximum loan size will be limited, and the eligible borrower must commit not to repay other debt of equal or lower priority (with the exception of mandatory principal payments) unless it has first repaid the eligible loan in full. In addition, the Department of the Treasury will make a \$75 billion equity investment in the SPV. As a result, the Board does not expect at this time that the MSELF will result in losses to the Federal Reserve.