
THE LOYOLA FAMILY BUSINESS CENTER PRESENTS
MAIN STREET LENDING
THE NEXT FRONTIER
A PRACTICAL GUIDE FOR FAMILY BUSINESSES
THURSDAY, JULY 16, 2020
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LOYOLA UNIVERSITY CHICAGO
QUINLAN SCHOOL of BUSINESS

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Main Street Lending Program

Hosted by: **Dan Murphy**
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July 16, 2020

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Agenda

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2. Summary of Program Terms
3. Eligibility Requirements for Businesses
4. Borrower Certifications and Covenants
5. “Application Process”
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Program Overview

- In April 2020, the Federal Reserve Board ("FRB") announced the Main Street Lending Program ("MSLP"), authorized under section 13(3) of the Federal Reserve Act, which are intended to facilitate lending to small and medium-sized businesses by eligible lenders.

- 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 $75Bn equity investment into a single common special purpose vehicle ("SPV"), creating a total program size of $600Bn.

- The SPV will cease purchasing participations in loans on September 30, 2020, unless the FRB and the Department of the Treasury extend the program.

- Under these programs, a Federal Reserve Bank will commit to lend to the SPV on a recourse basis.

- The SPV will purchase 95% participations, with the lender retaining 5%.

- The SPV and the lender will share risk in the loan on a pari passu basis.

- MSLP is intended to help companies that were in sound financial condition prior to the onset of the COVID-19 pandemic maintain their operations and payroll until conditions normalize.

Summary of Program Terms

	New Loan	Priority Loan	Expanded Loan[1]
Term	5 years		
Minimum Loan Size	$250,000		$10,000,000
Maximum Loan Size	The lesser of $35M or 4.0x adjusted EBITDA	The lesser of $50M or 6.0x adjusted EBITDA	The lesser of $300M or 6.0x adjusted EBITDA
Risk Retention	5% Lenders / 95% Federal Reserve SPV		
Principal Repayment	Principal deferred for 2 years, years 3-5: 15%, 15%, 70%		
Prepayments Allowed	Yes, without penalty		
Interest Payments	Deferred for 1 year		
Rate	LIBOR (1 or 3 month) + 3%		
Origination Fee	Up to 100 basis points		Up to 75 basis points
Transaction Fee	Up to 100 basis points		Up to 75 basis points
Use of Proceeds	Support business operations. No prepayment or cancellation of existing debt.	Support business operations. Refinance existing debt owed to a lender that is not the Eligible Lender.	Support business operations. No prepayment or cancellation of existing debt.
Priority and Security	Is not contractually subordinated in terms of priority to any of the borrower's other debt	Is senior to or pari passu with, in terms of priority and security, the borrower's other debt, other than mortgage debt and equipment financings	

1) The Expanded Loan is an increase to an existing loan, and as such, requires a borrower to apply for the facility with an existing lender that originated or participated in the loan on or before April 24, 2020.

Eligibility Requirements for Businesses

- **Was established prior to March 13, 2020;**
- **Is not an Ineligible Business;**
  - Ineligible Businesses include Businesses listed in 13 CFR 120.110(b)-(j), (m)-(s), as modified and clarified by SBA regulations per recent interim final rules 85 Fed. Reg. 20811, 85 Fed. Reg. 21747, 85 Fed. Reg. 23450, 85 Fed. Reg. 36717, and 85 Fed. Reg. 38301.
- **Meets at least one of the following two conditions: (i) has 15,000 employees or fewer, or (ii) had 2019 revenue of $5 billion or less;**
- **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;**
- **Does not participate in more than one MSLP Facility or the Primary Market Corporate Credit Facility;**
- **Has not received specific support pursuant to the Coronavirus Economic Stabilization Act of 2020 (Subtitle A of Title IV of the CARES Act), other than PPP or EIDL; and**
- **Must be able to make all the certifications and covenants required under the Program.**

Borrower Certifications and Covenants

- **The borrower must commit to refrain from repaying the principal balance of, or paying any interest on, any debt until the loan is repaid in full, unless the debt or interest payment is mandatory and due.**
  - Specific to the Priority Loan Facility, the borrower may, at the time of origination of the loan, refinance existing debt owed by the borrower to a lender that is not the eligible lender.

- **The borrower must commit that it will not seek to cancel or reduce any of its committed lines of credit with the eligible lender or any other lender.**

- **The borrower must certify that it has a reasonable basis to believe that, as of the date of origination of the loan and after giving effect to such loan, 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.**

- **The borrower must commit 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, except that an S corporation or other tax pass-through entity that is an borrower may make distributions to the extent reasonably required to cover its owners' tax obligations in respect of the entity's earnings.**

- **The borrower must certify that it is eligible to participate in the Facility, including in light of the conflicts of interest prohibition in section 4019(b) of the CARES Act.**

- **The borrower must be able to attest "Yes" to all the points in the Borrower Certifications and Covenants.**

“Application Process”

➢ **Unlike Payroll Protection Program which had a standard application and process, MSLP will look unique for each borrower and lender. The below should be taken as general guidelines on what to expect, not a step by step process.**

Evaluate interest and eligibility	Apply with eligible lender	Document and fund transaction	Origination and ongoing reporting
• Evaluate your business’s eligibility, considering the purpose and requirements of the program • Determine loan size you are interested in, within the program parameters • Confirm ability to attest “Yes” to all Borrower Certifications and Covenants	• Lenders will conduct typical due diligence and determine credit appetite • Borrowers and lenders will ensure eligibility within the program parameters as well as the specific lender’s credit appetite • Program eligibility are minimum requirements, not a guarantee to lend	• Once a loan is approved by a lender, borrowers and lenders will complete legal documentation including a credit agreement and applicable additional form MSLP loan documentation • Executed documents will be submitted to the SPV • Lender and SPV will fund the loan	• Borrowers will be required to provide substantial financial reporting at close • Similar information will be required to be provided on a quarterly and annual basis • Appendix C of the Federal Reserve FAQs outlines these requirements

Program Considerations

- **Borrower that participates in the program should make commercially reasonable efforts to maintain its payroll and retain its employees during the time the loan is outstanding**

- **Compensation Restrictions**
  - Employees receiving total compensation of $425,000 – $3,000,000 in calendar year 2019 may not receive compensation that exceeds the 2019 level while the loan is outstanding + 12 months
  - Employees receiving total compensation exceeding $3,000,000 in calendar year 2019 may not receive compensation that exceeds $3,000,000 + 50% of the excess over $3,000,000 in 2019 while the loan is outstanding + 12 months

- **Repurchases of Equity Securities Restrictions**
  - In many cases borrowers are not permitted to repurchase its own shares or shares of its parent company while the loan is outstanding + 12 months

- **Distribution Restrictions**
  - Borrowers are not permitted to make any dividends or other capital distributions (except certain distributions for tax purposes) while the loan is outstanding + 12 months

In Summary

- **The Main Street Lending Program provides attractive terms for borrowers that are "unable to secure adequate credit accommodations from other banking institutions"**
  - 5 year committed term loan
  - 2 year principal deferral
  - 1 year interest deferral
  - Interest rate of LIBOR + 3%

- **Unlike the Payroll Protection Program, Main Street loans are not grants and cannot be forgiven**
  - This results in a more typical underwriting process vs a "check the box" application process like in PPP
  - Borrowers should expect this process to take several weeks, unlike the several day turnaround in PPP

- **Participating in MSLP requires borrowers to make certain certifications and comply with ongoing reporting requirements and restrictions**
  - Reference the Borrower Certifications and Covenants for upfront attestations to qualify for a loan
  - Reference Appendix C of the Federal Reserve FAQs for ongoing reporting requirements
  - Many of the restrictions detailed in the FAQ, and per the CARES Act, apply not only throughout the life of the loan but for an additional 12 months

- **The Main Street Lending Program can be somewhat complex, and this presentation does not capture all of its nuances. So if you are interested in the program, it is important to consult your advisors to work through the details.**

Further Resources

- **Federal Reserve Board – Main Street Lending Program**
  https://www.federalreserve.gov/monetarypolicy/mainstreetlending.htm
  - Federal Reserve Term Sheets for each facility can be found at this link. These are summary terms provided by the FRB. Lenders will provide borrowers with their own term sheets
  - Main Street Lending Program Frequently Asked Questions can also be found here

- **Federal Reserve Bank of Boston – Main Street Lending Program Forms and Agreements**
  https://www.bostonfed.org/supervision-and-regulation/supervision/special-facilities/main-street-lending-program/information-for-lenders/docs.aspx
  - All of the necessary legal forms and agreements for borrowers and lenders can be found here
  - Borrowers should pay particular attention to the “Facility Borrower Certifications and Covenants”

Thank you for joining us!

To learn more about Loyola's Family Business Center
visit us at LUC.edu/FBC

Speaker Bio: Dan Murphy

Dan Murphy currently serves as a Director in the BMO Harris Corporate Advisory ("BHCA") practice at BMO. Dan specializes in providing corporate finance advisory services to privately held businesses and family offices on a variety of topics, including mergers & acquisitions and complex financing structures, among other corporate finance topics. Dan has been at BMO for 8 years and has 12 years of experience in finance and consulting.

Dan previously served as an Associate within the Commercial-Mid Market group of the bank. In this role, he managed a portfolio of 25+ clients, acting as the primary touchpoint for nearly all credit and legal aspects. Dan joined BMO Harris Bank in 2012 through the bank's Commercial Analyst Development Program.

Prior to BMO, Dan spent 4 years as a management consultant at Galt & Company, a boutique management consulting firm, where he worked on a number of deep-dive corporate strategy engagements, specializing in corporate transformations of Fortune 500 companies. While at Galt, Dan spent 1 year working on an engagement for Marshall & Isley, prior to the bank's acquisition by BMO.

Dan holds an MBA from The University of Chicago, Booth School of Business and a BBA in Finance from University of Notre Dame.

A native of the Chicagoland area, Dan relocated to Dallas in November 2019, representing BHCA and helping to grow BMO's presence throughout Texas and the Southwest.