

BOSTON FED RELEASES UPDATED FAQs, FORMS AND AGREEMENTS RELATED TO THE MAIN STREET LENDING PROGRAM

Jun 18, 2020

On June 8, the Federal Reserve Bank of Boston (the “Boston Fed”) released updated and revised Frequently Asked Questions regarding the Federal Reserve’s Main Street Lending Program (“MSLP”). On June 11, the Boston Fed released updated and revised documentation with respect to the MSLP.

For Lenders: On June 15, the MSLP Program went live for lender registration.

Definitions:

1. “New Loans” are those MSLP loans originating on or after April 24, 2020 in a minimum principal amount of \$250,000 up to a maximum principal amount that is the lesser of (i) \$35 million or (ii) an amount that, when added to the borrower’s existing outstanding and undrawn available debt, is less than or equal to 4.0x the borrower’s 2019 adjusted EBITDA.
2. “Priority Loans” are those MSLP loans originating on or after April 24, 2020 in a minimum principal amount of \$250,000 up to a maximum principal amount that is the lesser of (i) \$50 million or (ii) an amount that, when added to the borrower’s existing outstanding and undrawn available debt, is less than or equal to 6.0x the borrower’s adjusted 2019 EBIDTA.
3. “Expanded Loans” are those upsized tranches of the borrower’s existing loans (those loans originated before April 24, 2020) ranging from a minimum principal amount of \$10 million up to a maximum principal amount that is the lesser of (i) \$300 million or (ii) an amount that, when added to the borrower’s existing outstanding and undrawn available debt, is less than or equal to 6.0x the borrower’s adjusted 2019 EBIDTA.

Significant Revised Terms in the Updated Forms include:

1. Five year terms for New, Priority and Expanded Loans (up from the original four year term);
2. The Boston Fed intends to purchase 95% participations in each MSLP loan submitted for purchase (up from 85% for Priority Loans);

3. Principal payments are deferred for two years (up from one year);
4. The minimum loan size for New and Priority Loans is \$250,000 (down from the previous minimum of \$500,000); and
5. The maximum loan amounts for (i) New Loans is \$35 million (up from \$25 million), (ii) Priority Loans is \$50 million (up from \$25 million), and (iii) Expanded Loans is \$300 million (up from \$200 million).
6. Clarification that MSLP loans previously originated will be considered to be in compliance with the newly revised terms, if they were in compliance with the terms in place at the time of origination.
7. Clarification that if a borrower is the only business applying for an MSLP loan in that borrower's affiliated group, only the borrower's and its subsidiaries' EBIDTA will be counted for terms of lending.

Summary of MSLP Terms and Requirements:

The table below provides a summary of the updated terms and requirements for MSLP loans.

		MSNLF / "New" Loans	MSPLF / "Priority" Loans	MSELF / "Expanded" Loans
Term		5 years <i>(previously 4 years)</i>		
Origination		After April 24, 2020	After April 24, 2020	An upside tranche after April 24, 2020 to an existing loan that closed on or before April 24, 2020 (with a remaining maturity of at least 18 months)
Minimum Loan Size		\$250,000 (previously \$500,000)	\$250,000 (previously \$500,000)	\$10,000,000
Maximum Loan Size is the lesser of:		• \$35,000,000 (previously \$25,000,000); and, when added to outstanding and undrawn available debt, ≤4.0x adjusted EBITDA	• \$50,000,000 (previously \$25,000,000); and • an amount that, when added to outstanding and undrawn available debt, ≤6.0x adjusted EBITDA	• \$300,000,000 (previously \$200,000,000); and an amount that, when added to outstanding and undrawn available debt, ≤6.0x adjusted EBITDA
Payment	Year 1	All principal and interest payments deferred (unpaid interest will be capitalized)		
	Year 2	All principal payments deferred		
	Year 3	15%	15%	15%
	Year 4	15%	15%	15%
	Year 5	70%	70%	70%
Interest Rate		LIBOR (1 or 3 month) + 3%		
Priority		Cannot be contractually subordinated in terms of priority to other loans or debt instruments	Must be senior to or pari passu with, in terms of priority and security, other loans or debt instruments, other than mortgage debt	
Eligible Lender's Risk Retention		SPV and the Eligible Lender would share in any losses on a pari passu basis		
		5%	5% (previously 15%)	5%
Transaction Fee		An Eligible Lender will pay the SPV a transaction fee of: <ul style="list-style-type: none">• 100 basis points of the principal amount for MSNLF and MSPLF loans, and• 75 basis points on the principal amount of the upsized tranche for MSELF loans. The Eligible Lender may require the Eligible Borrower to pay this fee.		
Loan Origination/Upsizing and Servicing Fees		An Eligible Borrower will pay an Eligible Lender: <ul style="list-style-type: none">• an origination fee of up to 100 basis points of the principal amount for MSNLF and MSPLF loans, or		

	<p>MSLP and MSPLF loans, or</p> <ul style="list-style-type: none"> an origination fee of up to 75 basis points of the upsized tranche for MSELF loans. <p>The SPV will pay an Eligible Lender 25 basis points of the principal amount of its participation per annum for loan servicing.</p>
Prepayment Penalty	None
Loan Classification	Required to be equivalent to a "pass" in the Federal Financial Institutions Examination Council's supervisory rating system
Assessment of Financial Condition	Eligible Lenders are expected to conduct an assessment of each potential borrower's financial condition at the time of application.
Retaining Employees	Each Eligible Borrower must make commercially reasonable efforts to maintain its payroll and retain its employees while the loan is outstanding.
Required Lender Certifications and Covenants	The Eligible Lender must commit that it will not: (1) request that the Eligible Borrower make principal or interest payments on other debt (except mandatory principal or interest payments, or defaulted/accelerated debt), until the MSLP loan is repaid in full; or (2) cancel or reduce any existing committed lines of credit to the Eligible Borrower, except in an event of default.
Required Borrower Certifications and Covenants	See below for methodology to calculate EBITDA.
	The Eligible Lender must certify that it is eligible to participate in the MSLP, including in light of the conflicts of interest prohibition in section 4019(b) of the CARES Act.
	<p>The Eligible Borrower must commit to refrain from repaying the principal balance of, or paying any interest on, any debt until the MSLP loan/upsized tranche is repaid in full, unless the debt or interest payment is mandatory and due.</p> <p>In the case of MSPLF loans only, the Eligible Borrower may, at the time of origination of the loan, refinance existing debt owed to a different lender.</p>
	The Eligible Borrower must commit that it will not seek to cancel or reduce any of its committed lines of credit.
	The Eligible 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 Eligible Borrower must commit that it will follow compensation, ¹ 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 Eligible Borrower may make distributions to the extent reasonably required to cover its owners' tax obligations in respect of the entity's earnings.
	The Eligible Borrower must certify that it is eligible to participate in the MSLP, including in light of the conflicts of interest prohibition in section 4019(b) of the CARES Act.
	The Eligible Borrower must certify that it is unable to secure adequate credit accommodations from other banking institutions. See FAQ H.9 for the Fed's discussion of this requirement.

For those interested, please see the Fed's [updated MSLP term sheets](#). The [revised documentation](#) is subject to further Fed revision. In addition, our earlier alerts regarding the MSLP can be found at the following links: [June 2](#), [May 7](#) and [April 15](#).

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