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Coronavirus / COVID-19 Response Team

1

Update on Main Street Lending Program

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3

Main Street Lending Program – The Numbers

- The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") provides the U.S. Treasury with $725 billion to make loans, loan guarantees and other investments in Federal Reserve programs and facilities to support eligible businesses, States and municipalities.
- On April 9, 2020, the Federal Reserve announced its commitment to purchase up to $600 billion in loans through the Main Street Lending Programs ("MSLPs").
- The Department of Treasury, using funds appropriated to it under the CARES Act, will provide $75 billion in initial equity funding to the Main Street Lending Program.

4

New Loan v. Expanded Loan Programs

- Main Street New Loan Program:
  - This program will provide new secured or unsecured loan facilities to Eligible Borrowers.
- Main Street Expanded Loan Program:
  - This program will provide Eligible Borrowers and Eligible Lenders with secured or unsecured loan facilities in place prior to April 24, 2020 with new financing to "upsize" existing loan facilities.
  - No requirement to pledge additional collateral, but the Fed's term sheet does allude to the possibility.

Today's Topics

- On April 30, 2020, the Federal Reserve issued revised term sheets for the Main Street New Loan Facility ("MSNLF") and the Main Street Expanded Loan Facility ("MSELF") and a term sheet for the new Main Street Priority Loan Facility ("MSPLF").
- Main Street Priority Loan Facility:
  - This program will provide new secured or unsecured loan facilities to Eligible Borrowers subject to a higher EBITDA multiple cap than the MSNLF.

MSPLF: Unique Features

- The SPV will purchase 85% participation in Eligible Loans issued by Eligible Lenders.
- The Eligible Borrower may, at the time of origination, use an MSPLF loan to refinance existing debt owed by the Eligible Borrower to a lender that is not the Eligible Lender.

7

Eligible Borrowers

- Businesses with not more than 15,000 employees **or** not more than $5 billion in 2019 annual revenues are eligible Program.
  - In determining whether a business qualifies, the business must aggregate its employees and revenues with those of its affiliates.
  - SBA regulations will determine affiliation.
  - Employee count based on 12-month average prior to loan origination / expansion.
  - Revenues based on 2019 GAAP-compliant audited financial statements or fiscal year 2019 receipts reported to the IRS.

8

Eligible Borrowers

- An eligible borrower may not:
  - participate in multiple MSLPs; or
  - participate in the Federal Reserve's Primary Market Corporate Credit Facility.
- However, an eligible borrower may participate in the Paycheck Protection Program (PPP).

Ineligible Borrowers

- Businesses deemed ineligible under SBA's business loan program and businesses that have certain support under Subtitle A of Title IV of the CARES Act (e.g., airlines) are prohibited from participation.
- Businesses that have other outstanding loans with the Eligible Lender as of December 31, 2019 and such loans do not have an internal risk rating equivalent to a "pass" in the Federal Financial Institutions Examination Council's supervisory rating system on that date are ineligible.

Eligible Borrowers' Attestations

- Eligible Borrowers are required to make the following attestations:
  - The Eligible Borrower will refrain from repaying the principal balance of, or paying any interest on, any debt, except for payments that are mandatory and due and other limited exceptions;
    - Recall, however, that an Eligible Borrower may use a MSPLF loan to refinance any existing debt at the origination of the MSPLF loan (except debt owed to the Eligible Lender).
  - The Eligible Borrower will not seek to cancel or reduce any of its committed lines of credit with the Eligible Lender or any other lender;

11

Eligible Borrowers' Attestations (Cont.)

- Eligible Borrowers are required to make the following attestations:
  - The Eligible Borrower has a reasonable basis to believe that, as of the origination date and following receipt of the loan, it has the ability to meet its financial obligations for at least 90 days and does not expect to file for bankruptcy during that period;
  - The borrower 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 entities may make tax distributions; and

12

Eligible Borrowers' Attestations (Cont.)

- Eligible Borrowers are required to make the following attestations:
  - The borrower satisfies all of the eligibility requirements of the MSLPs, including in the conflicts of interest prohibition in Section 4019(b) of the CARES Act.
    - Senior federal government official conflict of interest rules.
- Eligible Borrowers are also required to exercise commercially reasonable efforts to maintain its payroll and retain its employees while the loan is outstanding.
- No longer required to attest to "exigent circumstances" resulting from COVID-19 resulting in loan need

Eligible Lenders

- Eligibility has slightly expanded to now include: U.S, branches or agencies of foreign banks, U.S. intermediate holdings companies of foreign banks, and U.S. subsidiaries of any otherwise eligible lenders.
- These new eligible lenders are in addition to the previously eligible lenders.

Eligible Lenders' Attestations

- Eligible Lenders are required to make the following attestations:
  - The Eligible Lender will not request that the Eligible Borrower repay debt owed by the Eligible Borrower to the Eligible Lender, except for payments that are mandatory and due, or in the case of default and acceleration;
  - The Eligible Lender will not cancel or reduce any existing lines of credit outstanding to the Eligible Borrower, except following an Event of Default; and

15

Eligible Lenders' Attestations

- Eligible Lenders are required to make the following attestations:
  - The methodology used for calculating the Eligible Borrower's adjusted 2019 EBITDA is the methodology it has previously used for adjusting EBITDA when extending credit to the Eligible Borrower (for expanded loans) or similarly situated borrowers on or before April 24, 2020 (for new loans); and
  - The borrower satisfies all of the eligibility requirements of the MSLPs, including in the conflicts of interest prohibition in Section 4019(b) of the CARES Act.
    - Senior federal government official conflict of interest rules.

16

Underwriting

- Lenders should apply their own underwriting standards and may demand additional documentation or information from borrowers.
- Applying their own standards, lenders have the ability to deny loan applications even if the borrower satisfies the minimum requirements set from in the Program guidance.

Loan Sizes: MSNLF

Prior Min. MSNLF Loan	Current Min. MSNLF Loan
$1 Million	$500,000

- Maximum loan size under the Main Street New Loan Program must be the lesser of:
  - $25 million; or
  - an amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed **4x** the borrower's *adjusted* 2019 EBITDA. (Problematic if negative EBITDA.)

Loan Sizes: MSPLF

- Minimum loan size under the MSPLF is $500,000.
- Maximum loan size under the MSPLF must be the lesser of:
  - $25 million; or
  - an amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed **6x** the borrower's *adjusted* 2019 EBITDA. (Problematic if negative EBITDA.)

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19

Loan Size: MSELF

Prior Min. MSELF Loan	Current Min. MSELF Loan
$1 Million	$10 Million

- Maximum loan size under the Main Street New Loan Program must be the lesser of:
  - $ 200 million (up from $150 million);
  - 35% of the borrower's existing outstanding and committed but undrawn bank debt that is *pari passu in priority with the loan and equivalent in secured status*; or
  - an amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed **6x** the borrower's *adjusted* 2019 EBITDA. (Problematic if negative EBITDA.)

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20

Loan Terms

- Loans must have an adjustable rate of LIBOR (1 or 3 months) plus 300 basis points.
  - It was previously mandated as SOFR plus 250-400 basis points.
- Loans cannot be contractually subordinated in terms of priority to any of the borrower's other loans or debt instruments.
  - MSNLF loans can be of any priority (and secured and unsecured), even if the borrower has existing loans that are of higher priority or that are secured, but the borrower may not incur any subsequent debt with a higher priority than the MSNLF loan.

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21

Loan Terms (Cont.)

- While the loan terms continue to be four years, with principal and interest payments deferred for one year, amortization schedules have now been mandated as follows:
  - MSNLF: Principal amortizes in one-third installments at the end of each of the second, third, and fourth years.
  - MSELF & MSPLF: Principal amortizes 15% at the end of the second year, 15% at the end of the third year, and a balloon payment of 70% at the end of the fourth year.

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22

Public Disclosure

- The Federal Reserve will disclose, among other information, the names of participating lenders and borrowers, the amounts borrowed and interest rates charged, and overall costs, revenues and other fees

23

MSELF: Specific Changes

- Eligible Loans
  - Expanded to include upsized tranches of revolving credit facilities.
- Syndicated Loans
  - Underlying loans that have been syndicated to multiple lenders, some of which are not eligible lenders under MSELF, does not disqualify the underlying loan from MSELF so long as the lender from the qualifying syndicate provided the MSELF upsized tranche.

24


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25