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CORONAVIRUS RESOURCE CENTER

Overview of the Main Street Lending Programs (Key Takeaways and Comparative Chart)

Key Takeaways

The Federal Reserve Board ("FRB") released yesterday (April 30, 2020) updated term sheets for the Main Street New Loan Program (the "MSNLF") and the Main Street Expanded Loan Program (the "MSELF"), as well as a term sheet for the new Main Street Priority Loan Program (the "MSPLF"), as part of the latest efforts to roll out the corporate lending programs envisioned by Title IV of the CARES Act.

- The revised Main Street Loan Programs generally offer attractive terms for much needed liquidity that many sponsored portfolio companies would take advantage of if eligible.

- Importantly, while a borrower's eligibility for borrowing under the Main Street Lending Programs, as well as the maximum amount of loans it may borrow, are conditioned on meeting certain leverage ratios (*i.e.,* 4x under the MSNLF, or 6x under the MSPLF and the MSELF), the revised term sheets have clarified that these ratios will be calculated using adjusted EBITDA. It appears that these ratios will still be calculated taking into account all of a borrower's undrawn and available commitments as if fully drawn, and there is no indication that cash or cash equivalents may be netted.

- However, notwithstanding some beneficial changes, it is likely that the Main Street Loan Programs as currently proposed will be unavailable to many sponsored portfolio companies.

    - Most significantly, the Fed has clarified that it will use the SBA's affiliation rules for purposes of determining a borrower's eligibility based on size (*i.e.*, 15,000 employees or fewer or $5 billion or less in 2019 annual revenues). As a result, many private equity-sponsored companies will be aggregated with their sponsor and its other portfolio companies and will thus find that they are not eligible to participate in the Main Street Lending Programs.

- Other impediments include:
  - The need for debt and lien capacity under existing bond and/or loan facilities, which not all leveraged companies will have without obtaining consent or a waiver from their existing creditor group(s);
  - The required 4 year tenor and meaningful amortization of the Main Street loans, which will run afoul of maturity and weighted average life debt and lien incurrence limitations in many existing bond and loan facilities; and
  - The impact on financial maintenance covenants.

- Even if a portfolio company can run the gauntlet of eligibility while finding covenant flexibility under its existing debt documents, conditions will apply to Main Street Lending Program loans that may be unattractive to sponsored portfolio companies.
  - Of particular note are the limitations, each of which (absent waiver from the Treasury) would continue to apply until 1 year following repayment of the loans, on payment of dividends, certain stock buybacks and employee compensation (although the Main Street Lending Programs now provide for limited exceptions to facilitate tax payments in pass through structures).
  - In addition, borrowers will be prohibited from voluntarily prepaying or cancelling certain of their other existing debt during the life of the loans.
  - Sponsors will need to consider whether the benefits of accessing the Main Street Loan Programs outweigh these restrictions.

- Many (but not all) of the concerns above (*e.g.*, debt and liens capacity and impact on financial maintenance covenants, dividend restrictions) could be ameliorated if loans under the relevant Main Street Loan Program could be incurred at a holdco level. However, it is still unclear whether the Fed would treat new Main Street loans to an unencumbered holdco as "eligible". The programs certainly do not contemplate PIK interest for the life of a loan to accommodate such a structure.

Overview of the Main Street Lending Programs

	Main Street New Loan Facility (MSNLF)	Main Street Priority Loan Facility (MSPLF)	Main Street Expanded Loan Facility (MSELF)[1]
Program Size and Structure			
SPV Structure	• The Federal Reserve Bank of Boston will commit to lend to a new SPV on a recourse basis • U.S. Treasury will make a $75 billion equity investment in the SPV		
Participation by SPV	• SPV will purchase a 95% (or 85% in the case of the MSPLF) participation in an Eligible Loan at par value • Eligible Lender will retain 5% (or 15% in the case of the MSPLF) of the Eligible Loan • SPV and Eligible Lender will share risk on a *pari passu* basis		
Total Size	SPV will purchase up to $600 billion of participations in Eligible Loans		
Availability	SPV will cease purchasing participations on September 30, 2020, unless extended by the Fed or the Treasury		
Eligible Lenders	U.S. federally insured depository institutions (including banks, savings associations and credit unions), U.S. branches or agencies of foreign banks, U.S. bank holding companies, U.S. savings and loan holding companies, U.S. intermediate holding companies of foreign banks, or U.S. subsidiaries of any of the foregoing • Additionally in the case of the MSELF, an Eligible Lender must be a lender of the underlying Eligible Loan at the time of the upsize ➢ *Comment: It appears likely that "direct lenders" that do not have a regulated bank affiliate will be unable to act as Eligible Lenders*		

[1] Except where noted below, the terms applicable to the MSNLF / MSPLF generally apply only to the upsized term loan tranche of an Eligible Loan provided under the MSELF

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Overview of the Main Street Lending Programs

	Main Street New Loan Facility (MSNLF)	Main Street Priority Loan Facility (MSPLF)	Main Street Expanded Loan Facility (MSELF)[1]
Eligible Borrowers			
Date of Establishment	Must be established prior to March 13, 2020		
SBA Ineligible Businesses	Must not be one of certain types of businesses that are ineligible for SBA loans (e.g. finance, real estate development, life insurance, private clubs, lobbyists) ➢ *Comment: Based on new SBA regulations that the term sheets incorporate, hedge funds and private equity firms also are ineligible businesses*		
Size	Must have 15,000 employees or fewer **or** $5 billion or less in 2019 annual revenues ➢ *Comment:* ➢ *Frequently Asked Questions (the "FAQs") published together with the new term sheets have clarified that the SBA's affiliation rules will apply; therefore sponsored portfolio companies must aggregate employees and revenue of affiliated portfolio companies in accordance with SBA rules to determine eligibility* ➢ *The FAQs also state that SBA rules will apply to determining who counts as an employee for these purposes*		
U.S. Business	Must be created or organized in the United States or under U.S. law **and** have significant operations in **and** a majority of employees based in the United States ➢ *Comment: The new term sheets suggest that U.S. entities may not be rendered ineligible simply because they sit within an international corporate structure*		
Participation in Other Programs	• Participants in the MSNLF **may not** also participate in the MSPLF or MSELF (or vice versa) • Participants in the MSNLF, MSPLF or MSELF **may not** also participate in the Primary Market Corporate Credit Facility • Recipients of PPP loans **may** also participate in the MSNLF, MSPLF or MSELF • Participants in the MSNLF, MSPLF or MSELF **may not** have received direct U.S. Treasury loans under the CARES Act		

Overview of the Main Street Lending Programs

<table>
<tr><th></th><th>Main Street New Loan Facility (MSNLF)</th><th>Main Street Priority Loan Facility (MSPLF)</th><th>Main Street Expanded Loan Facility (MSELF)[1]</th></tr>
<tr><td>Eligible Loans</td><td colspan="2">New term loan originated after April 24, 2020

Any other loans Eligible Borrower had with the Eligible Lender as of December 31, 2019 must have had an internal risk rating equivalent to a “pass” in the Federal Financial Institutions Examination Council’s supervisory rating system</td><td>Upsized term loan tranche of an existing term loan or revolving credit facility originated on or before April 24, 2020 with a remaining maturity of at least 18 months

The Eligible Loan must have had an internal risk rating equivalent to a “pass” in the Federal Financial Institutions Examination Council’s supervisory rating system as of December 31, 2019

➢ Comment: The existing loan may be a multilender facility as long as the Eligible Lender holds an interest in the loan at the date of upsizing</td></tr>
<tr><td>Security and Priority</td><td>May be unsecured or secured, but must not be contractually subordinated in terms of payment priority to any of Eligible Borrower’s other debt</td><td colspan="2">May be unsecured or secured, but must be senior to or pari passu with, in payment priority and security, Eligible Borrower’s other debt (other than mortgage debt)</td></tr>
<tr><td></td><td colspan="3">➢ Comments:
  ➢ Note need for debt and, potentially, liens capacity under any existing facilities (unless MSNLF or MSPLF loans could be incurred at a holdco level, although it is not clear whether such a structure would be permitted under these programs)
  ➢ Note also the impact on leverage ratios, including maintenance covenants</td></tr>
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Overview of the Main Street Lending Programs

	Main Street New Loan Facility (MSNLF)	Main Street Priority Loan Facility (MSPLF)	Main Street Expanded Loan Facility (MSELF)[1]
Minimum Principal Amount	$500,000		$10 million
Maximum Principal Amount	Lesser of (i) $25 million or (ii) an amount that, when added to Eligible Borrower's existing outstanding and available undrawn debt, does not exceed **4x** adjusted 2019 EBITDA	Lesser of (i) $25 million or (ii) an amount that, when added to Eligible Borrower's existing outstanding and available undrawn debt, does not exceed **6x** adjusted 2019 EBITDA	Lesser of (i) $200 million, (ii) 35% of Eligible Borrower's existing outstanding and undrawn debt that is *pari passu* in priority with the Eligible Loan and equivalent in secured or unsecured status, or (iii) an amount that, when added to Eligible Borrower's existing outstanding and available undrawn debt, does not exceed **6x** 2019 EBITDA
	Adjusted EBITDA is to be calculated using lender's underwriting methodology for its loans made to the Eligible Borrower or similarly situated borrowers on or before April 24, 2020		Adjusted EBITDA is to be calculated using lender's underwriting methodology under the Eligible Loan on or before April 24, 2020
	➢ *Comments:* ➢ *We expect leverage will be calculated on a gross basis, without any netting of cash or cash equivalents* ➢ *Note that available undrawn amounts (e.g., under revolvers or delayed draw commitments) generally are counted toward a borrower's existing outstanding debt as if fully drawn*		
Maturity	4 years ➢ *Comment: Incremental and other baskets for additional debt, particularly if secured on a* pari passu *basis, often require such additional debt to have a maturity no earlier than, and a weighted average life to maturity no shorter than, the outstanding term loans*		
Amortization	End of year 2: 33 1/3% End of year 3: 33 1/3% Balance of 33 1/3% due at maturity	End of year 2: 15% End of year 3: 15% Balance of 70% due at maturity	

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	Main Street New Loan Facility (MSNLF)	Main Street Priority Loan Facility (MSPLF)	Main Street Expanded Loan Facility (MSELF)[1]
Interest Rate	LIBOR (1 or 3 month) + 300 bps		
Deferral	Principal and interest payments deferred for one year (but deferred interest will be capitalized)		
Prepayment	Permitted without penalty		

Required Certifications and Covenants by Borrower	Eligible Borrower must certify and covenant with respect to an Eligible Loan that it:
	• Will not repay any principal or interest on other debt until Eligible Loan is first paid in full, unless such principal or interest payments are mandatory and due
	    • The MSPLF alone includes an exception for Eligible Borrower to refinance existing debt owed to a lender other than the Eligible Lender
	• Will not cancel or reduce any outstanding lines of credit with Eligible Lender or any other lender
	• Reasonably believes that, as of the date of origination of the Eligible Loan and after giving effect to such loan, it can meet its financial obligations for at least the next 90 days and does not expect to file for bankruptcy during that time period
	• Will follow the restrictions summarized below under “Other Terms – Limitations on Restricted Payments” and “Other Terms – Limitations on Employee Compensation”
	• Is not ineligible to participate, including under the prohibition on participation by any entity in which the President, Vice President, head of an executive department, or a member of Congress (or a family member of any of them) directly or indirectly holds a controlling interest
	➢ *Comments:*
	    ➢ *The first two requirements limit the ability of borrowers to manage their cost of capital or deleverage (e.g., by refinancing costly debt or buying back debt at a discount with the proceeds of Eligible Loans)*
	    ➢ *Per the FAQs, these limitations would not prohibit normal course pay-downs of credit lines or refinancing maturing debt. The limitations also would not prohibit or taking on and repaying other normal course obligations, such as inventory and equipment financing that are secured by the newly acquired property and are of equal or lower priority than the Eligible Loans*		

	Eligible Borrower should also make commercially reasonable efforts to maintain payroll and retain employees while the Eligible Loan is outstanding		

<table>
<tr><th></th><th>Main Street New Loan Facility (MSNLF)</th><th>Main Street Priority Loan Facility (MSPLF)</th><th>Main Street Expanded Loan Facility (MSELF)[1]</th></tr>
<tr><td>Required Certifications and Covenants by Lender</td><td colspan="3">Eligible Lender must certify and covenant with respect to an Eligible Loan that it:
• Will not ask Eligible Borrower to pay principal or interest on existing other debt made by Eligible Lender to Eligible Borrower until Eligible Loan is first paid in full, unless such principal or interest payments are mandatory and due or in case of default or acceleration
• Will not cancel or reduce any committed lines of credit to Eligible Borrower except in an event of default
• Calculated adjusted EBITDA using the methodology it previously used for the Eligible Borrower (if it previously extended credit to the Eligible Borrower) or similarly situated borrowers on or before April 24, 2020 (or in the case of the MSELF, the same methodology as used for the underlying Eligible Loan)
• Is not ineligible to participate, including under the prohibition on participation by any entity in which the President, Vice President, head of an executive department, or a member of Congress (or a family member of any of them) directly or indirectly holds a controlling interest</td></tr>
<tr><td>Other Terms</td><td colspan="3">The following terms are generally applicable to loans made by the Federal Reserve pursuant to the CARES Act:</td></tr>
<tr><td>Limitations on Restricted Payments</td><td colspan="3">Until 12 months after repayment of the Eligible Loans (absent waiver from Treasury):
• Eligible Borrower and its affiliates may not buy back any equity security that is listed on a national securities exchange of the eligible business or any parent company (except to the extent required under contractual obligation in effect as of March 27, 2020)
• Eligible Borrower may not pay dividends or make other capital distributions with respect to its common stock
    • However, the Main Street programs provide an exception for pass through entities to pay dividends reasonably required to cover an owner’s tax liability in respect of the Eligible Borrower’s earnings
➢ Comment: While the addition of the exception for dividends to pay taxes on earnings is helpful, the lack of broader “care and feeding” exceptions to the dividends restriction for other tax and overhead payments could be problematic for many below investment grade companies, which often have stacks of holding companies above the credit group</td></tr>
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	Main Street New Loan Facility (MSNLF)	Main Street Priority Loan Facility (MSPLF)	Main Street Expanded Loan Facility (MSELF)[1]
Limitations on Employee Compensation	Until 12 months after repayment of the Eligible Loans (absent waiver from Treasury): • Total compensation for officers and employees who received more than $425,000 in 2019 will be limited for any 12-consecutive-month period to the total compensation received in 2019, and any severance payable to those officers and employees may not exceed two times the amount of total compensation in 2019 • Total compensation for any 12-month period for officers and employees who received more than $3,000,000 in 2019 will be capped at the sum of $3,000,000 plus 50 percent of total 2019 compensation in excess of $3,000,000 ➢ *Comment: While all of the limitations that survive repayment of the loans may be problematic in the context of a future sale of the borrower group, the limitations on executive compensation could prove particularly troubling when severance payments could be triggered*		
Fees			
Transaction Fee	100 basis points of the principal amount of the Eligible Loan, payable by Eligible Lender to SPV; Eligible Lender may require Eligible Borrower to pay this fee		75 basis points of the principal amount of the upsized tranche of the Eligible Loan, payable by Eligible Lender to SPV; Eligible Lender may require Eligible Borrower to pay this fee
Loan Origination / Upsizing Fee	100 basis points of the principal amount of the Eligible Loan, payable by Eligible Borrower to Eligible Lender		75 basis points of the principal amount of the upsized tranche of the Eligible Loan, payable by Eligible Borrower to Eligible Lender
Loan Servicing Fee	25 basis points of the principal amount of SPV's participation in the Eligible Loan per annum for loan servicing, payable by SPV to Eligible Lender		

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