

## Main Street Lending Program (“MSLP”) Summary Program Update

### BACKGROUND

On July 17, 2020, the Federal Reserve announced the expansion of the Main Street Lending Program (“MSLP”) with the addition of eligibility of Not-for-Profit Organizations (“Nonprofit Organizations”). This follows the Federal Reserve’s initial announcement of proposed eligibility of Nonprofit Organizations on June 15, 2020 followed by the solicitation and receipt of comments thereafter. As a reminder, the MSLP was established by the Federal Reserve to support lending to small and mid-sized businesses and, now, nonprofit organizations that were in sound financial condition before the onset of the COVID-19 pandemic. HJ Sims provided summaries of the MSLP in a two prior publications: 1) Priorities White Paper, published on April 16, 2020 and 2) Capital Market Update, published on May 14, 2020. This HJ Sims update is intended to provide additional information regarding the MSLP as reflected in communications from the Federal Reserve on July 17, 2020, drawing particularly from the latest version of a [MSLP-FAQ](#).

### Highlights

#### → General:

Nonprofit Organizations are now currently eligible for financing under the MSLP, as presented in the MSLP-FAQ referenced above and summarized below. However, time is limited to access this financing - similar with the MSLP financing facilities for small and mid-sized businesses, the Federal Reserve’s credit commitment of MSLP financing for Nonprofit Organizations, via the Special Purpose Vehicle mechanism summarized below, will be in place through September 30, 2020, unless otherwise extended.

#### → Credit Arrangements Under the MSLP:

Consistent with existing provisions of the MSLP for small and mid-sized businesses, borrowers may finance via new credit arrangements or increase in existing credit facilities. More specifically, for Nonprofit Organizations, credit arrangements are distinguished, based on whether for: 1) a new financing (“Nonprofit Organization NEW Loan Facility (“NONLF”)”) or 2) additional financing under an existing term loan or revolving credit facility (“Nonprofit Organization EXPANDED Loan Facility (“NOELF”)”). As is the case for the MSLP for small and mid-sized businesses, loans to Nonprofit Organizations under the MSLP are full-recourse loans and are not forgivable.

#### → Federal Reserve’s Purchase of Loans:

With respect to each of the credit arrangements, the Federal Reserve Bank of Boston will create a special purpose vehicle (“SPV”) to purchase participations in bank loans issued pursuant to the MSLP. With respect to the NONLF, the SPV will purchase 95% of the new loan, leaving 5% to remain with the lender. With respect to the NOELF, the SPV will purchase 95% of the upsized/increased loan, leaving 5% to remain with the lender. Further, any collateral securing the existing Eligible Loan must also secure the upsized portion on a pro-rata basis.

#### → Borrower Eligibility:

For both the NONLF and NOELF loans, key borrower eligibility requirements include:

- up to 15,000 employees or 2019 revenues of up to \$5 billion;
- at the time of loan origination, a ratio of liquid assets to average daily expenses over the previous year  $\geq$  60 days;

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- ratio of 2019 earnings before interest, depreciation and amortization (“EBIDA”) to 2019 operating revenue  $\geq 2.00\%$  - with operating revenue defined as unrestricted operating revenue, excluding funds committed to be spent on capital, along with a “proxy” for endowment income in place of unrestricted investment gains/(losses);
- at the time of loan origination, a ratio of liquid assets to existing outstanding and undrawn debt plus the amount of any MSLP Loan  $> 55\%$ ;
- has not received specific support under the CARES Act. However, for avoidance of doubt, Nonprofit Organizations that have received Paycheck Protection Program Loans are permitted to borrow under the MSLP; and
- additional requirements for each loan type are outlined in [NONLF](#) and [NOEFL](#) Term Sheets, respectively.

### Loan Details:

Highlights of the terms for the NONLF and NOELF loans are included below:

LOAN DETAIL	NONPROFIT ORGANIZATION <u>NEW LOAN FACILITY</u>	NONPROFIT ORGANIZATION <u>EXPANDED LOAN FACILITY</u>
<b>TERM</b>	5 years	5 years
<b>INTEREST RATE</b>	Libor + 3.00%	Libor + 3.00%
<b>PAYMENT &amp; AUTHORIZATION</b>	Payment is deferred over the first two years, then the borrower pays 15% for years 3 and 4, and 70% for year 5. May be repaid anytime at par. Interest payments are deferred for one year (with unpaid interest capitalized).	Payment is deferred over the first two years, then the borrower pays 15% for years 3 and 4, and 70% for year 5. May be repaid anytime at par. Interest payments are deferred for one year (with unpaid interest capitalized).
<b>MINIMUM LOAN SIZE</b>	\$250,000	\$10,000,000
<b>MAXIMUM LOAN SIZE</b>	The lesser of (1) \$35M or (2) an amount that does not exceed the Borrower’s average 2019 quarterly revenue	The lesser of (1) \$300M or (2) an amount that does not exceed the Borrower’s average 2019 quarterly revenue
<b>PRIORITY / SECURITY</b>	Loan cannot be contractually subordinated in terms of priority to any of the borrower’s other loans or debt instruments (for additional information concerning priority and security, please see pages 10-11 of the Federal Reserve’s FAQ for Nonprofit Organizations)	Loan must be senior to or pari passu with, in terms of priority and security, the borrower’s other loans or debt instruments, other than mortgage debt (for additional information concerning priority and security, please see pages 14-15 of the Federal Reserve’s FAQ for Nonprofit Organizations)

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### → Borrower Certifications & Covenants:

There are a number of certifications and covenants required from Borrowers, including:

- Borrower must commit to refrain from repaying the principal balance of, or paying interest on, any debt until the MSLP debt is repaid in full, unless the debt or interest payment is mandatory and due;
- Borrower must commit to not seek to cancel or reduce any committed lines of credit with MSLP lender or any other lender during the time that the MSLP loan is outstanding; and
- Borrower shall make reasonable efforts to maintain its payroll and retain its employees during the time that the MSLP loan is outstanding.

### Closing

Expansion of the MSLP to include financing for Nonprofit Organizations represents a positive development for these organizations and those whom they serve. However, the extent to these programs are utilized remains to be seen – with key determinants including the duration of program availability (through September 30, 2020, as of now); borrower eligibility requirements; maximum loan amount; interest rate; amortization and maturity along with required borrower certifications and covenants. As with the other COVID-19 federal relief and related programs, the details of this program are subject to further refinement.

*This summary has been created based on information available to date, and the information provided herein may change in accordance with additional government and/or regulatory interpretation and guidance. For additional information about these programs, please visit: <https://www.federalreserve.gov/monetarypolicy/mainstreetlending.htm>.*

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# Priorities

Sensible, essential financial wisdom.

JULY 30, 2020

