

Paycheck Protection Program Update & Main Street Lending Program

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The CARES Act

Paycheck Protection Program Update

PAYCHECK PROTECTION PROGRAM (PPP) UPDATE – NEW LEGISLATION

- » Paycheck Protection Program and Health Care Enhancement Act passed in the U.S. Senate
 - Appropriates \$310 billion of additional funds to the PPP
 - Appropriation includes a \$60 billion set-aside for smaller lenders
 - Appropriates \$60 billion of additional funds to the EIDLPP
 - Appropriation includes \$10 billion for advance grants
 - Bill still needs to be approved by the House of Representatives and signed into law by the President
 - The House vote could come as soon as Thursday

PPP – NEXT STEPS

» Prepare Applications

- Clarification of payroll costs (non-cash benefits, FICA)
- Updated guidance on affiliation rules
- Clarification of treatment of partners

» Contact Lenders

- Consider both national banks / smaller lenders

» Multiple Applications

» Banks to Consider



The CARES Act

Main Street Lending Program

OVERVIEW - MAIN STREET LENDING PROGRAM (MSLP)

- » The Federal Reserve will set up a SPV to purchase 95% participations in loans originated by eligible lenders
- » The SPV will purchase up to \$600 billion of loans
- » Eligible lenders may:
 - Originate new loans to eligible borrowers (under the Main Street New Loan Facility); or
 - Increase the size of (“upsized”) existing loans previously made to eligible borrowers (under the Main Street Expanded Loan Facility)
 - Existing loans are loans made prior to April 8, 2020

ELIGIBLE BORROWERS AND LENDERS

» Eligible Borrowers

- Small businesses with fewer than 10,000 employees or less than \$2.5 billion in revenue in 2019
- Businesses must be organized in the U.S., maintain significant operations in the U.S., and have a majority of its employees based in the U.S.
- The Program is intended for businesses that “were in good financial standing before the crisis”

» Eligible Lenders

- Certain U.S. insured depository institutions, U.S. bank holding companies and U.S. savings and loan holding companies

MSLP LOAN TERMS

Minimum Loan Size:	\$1 million
Interest Rate:	Adjustable interest rate equal to the SOFR, plus 250-400 basis points As of April 20, 2020, the SOFR was 0.03% resulting in interest rates of 2.53% to 4.03%
Maturity:	4 year maturity
Deferral:	Amortization of principal and interest deferred for one year
Collateral:	Unsecured (for new loans) Any collateral securing the existing loan (for upsized tranches)

MSLP LOAN TERMS – MAXIMUM LOAN AMOUNTS

» **New Loans** – The lesser of:

- \$25 million, or
- **4x** the borrower's 2019 EBITDA (when combined with the borrower's other existing debt)

» **Existing Loans** – The lowest of:

- \$150 million,
- 30% of the borrower's existing debt, or
- **6x** the borrower's 2019 EBITDA (when combined with the borrower's other existing debt)

BORROWER CERTIFICATIONS

- » **As a condition to a MSLP Loan, each Borrower must attest that it:**
- Requires financing due to the exigent circumstances presented by the COVID-19 pandemic
 - Is eligible to participate in the facility (including compliance with the conflicts of interest prohibition in the CARES Act)
 - Meets the EBITDA leverage conditions (previously described under Maximum Loan Amount)

BORROWER RESTRICTIONS

- » **In addition, each borrower must attest that it will:**
- » Refrain from (i) using the loan proceeds to repay other loan balances and (ii) repaying other debt of equal or lower priority
- » Not seek to cancel or reduce any of its outstanding lines of credit
- » Make “reasonable efforts” to maintain its payroll and retain its employees during the term of the loan
- » Follow restrictions on compensation, stock repurchase and capital distribution set forth in the CARES Act

CARES ACT RESTRICTIONS

- » During the period the loan (or the upsized tranche) is outstanding and for 12 months thereafter, the Borrower must agree to:
 - Refrain from stock buybacks
 - Not pay dividends or make other distributions on its common stock
 - For any employee who earned over \$425,000 in 2019, limit compensation to the amount received in 2019
 - » Not pay severance to any such employee in excess of **2x** his/her 2019 compensation

CARES ACT RESTRICTIONS *(CONT'D)*

- For any employee who earned over \$3 million in the 2019, limit compensation to the sum of:
 - \$3 million; and
 - 50% of the amount by which his/her compensation exceeded \$3 million in 2019

MSLP AND PPP

Eligibility for Both Programs:	The Federal Reserve has indicated that businesses that have taken advantage of the PPP may also take out MSLP loans
No Loan Forgiveness:	Loans under the MSLP are not eligible for forgiveness as PPP loans are
Affiliation Rules:	<p>The SBA's affiliation rules applicable to the PPP do not apply</p> <p>It is unclear whether different (or any) affiliation rules will apply for eligibility under the MSLP</p>

NEXT STEPS

1. The Federal Reserve has indicated that the terms and conditions of the MSLP are subject to modification so please keep an eye out for additional guidance on this program
2. The Federal Reserve has not yet announced when the MSLP will become operational
3. Since many national and regional banks will be eligible lenders, interested businesses are encouraged to contact their regular banking relationships to express their interest in the MSLP



Additional guidance available on the

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QUESTIONS

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