AMERICAN SENIORS HOUSING ASSOCIATION
Living Longer Better

CARES Act/Federal Reserve Lending Programs

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Main Street Lending Program

On April 30, 2020, the Federal Reserve announced revised terms for the Main Street Lending Program (MSLP) now comprised of three facilities. The MSLP is intended to provide financing for eligible borrowers that were in sound financial condition before the COVID-19 pandemic and to enable them to maintain their operations and payroll until conditions normalize. The start date of the program has not yet been announced but in its recent announcement, the Federal Reserve added a third financing facility titled the Main Street Priority Loan Facility (MSPLF), expanding the scope of available loan options and pool of eligible borrowers. The Federal Reserve also made some modifications to its previously announced Main Street New Loan Facility (MSNLF) and the Main Street Expanded Loan Facility (MSELF). Essentially, these facilities will buy 95% (or 85% for the MSPLF) of the eligible loans from the eligible lenders to incentivize them to provide loans to borrowers. The combined size of these three facilities under the MSLP will be up to $600 billion.

- The Main Street "New" Loan Facility is intended to provide eligible borrowers with new loans originated after April 24, 2020.
- The Main Street "Priority" Loan Facility is intended to provide eligible borrowers that are more highly leveraged with new loans originated after April 24, 2020.
- The Main Street "Expanded" Loan Facility is intended to "upsize" existing term loans or revolving credit facilities made to eligible borrowers on or before April 24, 2020, and that have a remaining maturity of at least 18 months.

Who is eligible?

- Businesses established prior to March 13, 2020
- For-profit businesses created or organized in the U.S.
- Businesses with 2019 revenues of $5 billion or less <u>or</u> up to 15,000 employees (businesses should count their own revenues/employees and the revenues/employees of their affiliates)
- May only participate in one of the three loan facilities
- Businesses not considered "ineligible business" under 13 CFR 120.110(b)
- A business that has not received specific support pursuant to Title IV of the CARES Act (so PPP is fine since it is under Title I of the CARES Act)

Terms

Eligible loans must have the following loan terms, among others:

- 4-year maturity,

- principal and interest payments deferred for one year,
- an adjustable rate of LIBOR plus 300 basis points,
- minimum loan size of $500,000 for MSNLF and MSPLF, and $10 million for MSELF, and
- no prepayment penalty.

Leverage Test and Examples

Maximum loan size is likely to be the gating item for most potential borrowers because one of the limitations is a leverage test where the size of the loan plus existing debt cannot exceed a multiple of 2019 earnings. (The revised term sheets clarified that EBITDA will be calculated using the same methodology previously used by the lender.)

- **MSNLF** (unsecured term loans originated after April 24): the maximum loan size is the lesser of (i) $25 million or (ii) an amount that, when added to the eligible borrower's existing outstanding and committed but undrawn debt, does not equal or exceed <u>four times</u> the eligible borrower's 2019 EBITDA (earnings before interest, taxes, depreciation, and amortization).

Example: if a borrower had $10 million in 2019 EBITDA and $35 million in outstanding debt, then the maximum loan size for MSNLF would be $5 million (($10M x 4) - $35M).

But if a borrower had $10 million in 2019 EBITDA and $40 million in outstanding debt, then the maximum loan size is zero and the borrower could not take out a loan under the MSNLF or the MSPLF.

- **MSPLF** (unsecured term loans originated after April 24 - main difference between the MSPLF and the MSNLF above is that the MSPLF will allow 6x EBITDA but the lender has to keep 15% of the loan instead of 5%): the maximum loan size is the lesser of (i) $25 million or (ii) an amount that, when added to the eligible borrower's existing outstanding and committed but undrawn debt, does not equal or exceed <u>six times</u> the eligible borrower's 2019 EBITDA.

Example: if a borrower had $10 million in 2019 EBITDA and $35 million in outstanding debt, then the maximum loan size for MSPLF would be $25 million (($10M x 6) - $35M).

But if a borrower had $10 million in 2019 EBITDA and $60 million in outstanding debt, then the maximum loan size is zero and the borrower could not take out a loan under the MSPLF.

- **MSELF** (term loans originated on or before April 24, 2020): the maximum loan size is the lesser of (i) $200 million, (ii) 35% of the eligible borrower's existing outstanding and committed but undrawn debt, or (iii) an amount that, when added to the eligible borrower's existing and outstanding and committed but undrawn debt does not exceed <u>six times</u> the eligible borrower's 2019 EBITDA.

Example: if a borrower had $10 million in 2019 EBITDA and $35 million in outstanding debt, then the maximum loan size for MSELF would be $25 million (($10M x 6) - $35M).

But if a borrower had $10 million in 2019 EBITDA and $60 million in outstanding debt, then the maximum loan size is zero and the borrower could not take out a loan under the MSELF.

Attestations

The eligible borrower must provide a number of attestations, including:

- the loan proceeds will not be used to repay existing debt,
- the eligible borrower will not seek to cancel or reduce any of its committed lines of credit with any lender,
- the eligible borrower has reasonable basis to believe that after receiving the 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 period, and
- The eligible borrower will follow the compensation, stock repurchase, and capital distribution restrictions in Title IV of the CARES Act, with the exception made in this recent announcement that an S corporation or other tax pass-through entity may make distributions to the extent reasonably required to cover its owners' tax obligations with respect to the entity's earnings).

In the revised term sheets, the Federal Reserve also added that the borrower "should make commercially reasonable efforts" to maintain its payroll and retain its employees during the term of the loan.

Facility Termination: The facilities will cease purchasing eligible loans on September 30, 2020, unless the Federal Reserve and the Treasury Department extend the facilities.

Main Street Lending Program Resources (further guidance is anticipated, and instructions will be issued by the Federal Reserve before the Main Street lending Program is officially launched)

- Federal Reserve's announcement
- Main Street New Loan Facility Term Sheet (Federal Reserve, April 30, 2020)
- Main Street Priority Loan Facility Term Sheet (Federal Reserve, April 30, 2020)
- Main Street Expanded Loan Facility Term Sheet (Federal Reserve, April 30, 2020)
- Frequently Asked Questions (Federal Reserve, April 30, 2020)