Report to Congress Pursuant to Section 13(3) of the Federal Reserve Act:
Main Street Priority Loan Facility
May 7, 2020

Overview

On April 30, 2020, the Board of Governors of the Federal Reserve System (the Board), by the unanimous vote of its five members and with the approval of the Secretary of the Treasury, authorized the Federal Reserve Bank of Boston (Reserve Bank) to establish and operate the Main Street Priority Loan Facility (MSPLF) under section 13(3) of the Federal Reserve Act (12 U.S.C. § 343(3)). The MSPLF is intended to facilitate lending to small and medium-sized businesses by eligible lenders.

Under the MSPLF, the Main Street New Loan Facility (MSNLF), and the Main Street Expanded Loan Facility (MSELF), the Reserve Bank will commit to lend on a recourse basis to a single common special purpose vehicle (SPV). For the MSPLF, the SPV will purchase 85 percent participations in eligible loans from eligible lenders. Eligible lenders would retain 15 percent of each eligible loan.

Background on the MSPLF

Recent events have significantly and adversely impacted global financial markets. The spread of the coronavirus disease 2019 (COVID-19) has halted economic activity in many countries, including the United States. The disruption has impacted many different sectors of the financial system. In general, the availability of credit has contracted for small and medium-sized businesses, while, at the same time, the disruptions to economic activity (including disruptions due to the closure of nonessential businesses in many jurisdictions) have heightened the needs for businesses to obtain financing in order to manage cash flows and sustain themselves until economic conditions normalize.

In these circumstances, the Board determined that unusual and exigent circumstances existed and approved the establishment of the MSPLF to help facilitate access to credit so that small and medium-sized businesses are better able to manage the period of disruption related to the pandemic. The Department of the Treasury, using funds appropriated to the Exchange Stabilization Fund under section 4027 of the Coronavirus Aid, Relief, and Economic Security Act (CARES

Act), will make a $75 billion equity investment in the single common SPV in connection with the MSPLF, MSNLF, and the MSELF.

Structure and Basic Terms

Under the MSPLF, the Reserve Bank will commit to lend, on a recourse basis, to the SPV, which will purchase 85 percent participations in eligible loans from eligible lenders. Eligible lenders would retain 15 percent of each eligible loan. The Reserve Bank will be secured by all of the assets of the SPV. The MSPLF is not yet operational.

The term sheet for the MSPLF is available to the public on the Board's website, and more detailed terms and conditions will be available when finalized.[1] The discussion below summarizes the terms and conditions for the MSPLF approved by the Board on April 30, 2020. These terms and conditions may be modified as the Board and the Department of the Treasury determine appropriate.

Eligible Lenders. Eligible lenders are 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 banking organizations, and U.S. subsidiaries of any of the foregoing.

Eligible Borrowers. An eligible borrower is a Business[2] that (1) was established prior to March 13, 2020; (2) is not an Ineligible Business;[3] (3) has 15,000 employees or fewer or had 2019 annual revenues of $5 billion or less; (4) is created or organized in the United States or under the laws of the United States

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[1] For term sheets for all 13(3) facilities, see the Federal Reserve's website at https://www.federalreserve.gov/funding-credit-liquidity-and-loan-facilities.htm.

[2] For purposes of the MSPLF, a Business is an entity that is organized for profit as a partnership; a limited liability company; a corporation; an association; a trust; a cooperative; a joint venture with no more than 49 percent participation by foreign business entities; or a tribal business concern as defined in 15 U.S.C. § 657a(b)(2)(C), except that "small business concern" in that paragraph should be replaced with "Business" as defined herein. Other forms of organization may be considered for inclusion as a Business under the MSPLF at the discretion of the Federal Reserve.

[3] For purposes of the MSPLF, an Ineligible Business is a type of business listed in 13 CFR 120.110(b)-(j) and (m)-(s), as modified by regulations implementing the Paycheck Protection Program established by section 1102 of the CARES Act ("PPP") on or before April 24, 2020. The application of these restrictions to the MSPLF may be further modified at the discretion of the Federal Reserve.

with significant operations in and a majority of its employees based in the United States; (5) does not also participate in the MSNLF, the MSELF, or the Primary Market Corporate Credit Facility; and (6) has not received specific support pursuant to the Coronavirus Economic Stabilization Act of 2020 (Subtitle A of Title IV of the CARES Act).

Eligible Loans. An eligible loan is a secured or unsecured term loan made by an eligible lender(s) to an eligible borrower that was originated after April 24, 2020, provided that the loan has the following features: (1) four-year maturity; (2) principal and interest payments deferred for one year, with unpaid interest capitalized; (3) adjustable rate of the London Interbank Offered Rate (1 or 3 month) plus 300 basis points; (4) principal amortization of 15 percent at the end of the second year, 15 percent at the end of the third year, and a balloon payment of 70 percent at maturity at the end of the fourth year; (5) minimum loan size of $500,000; (6) maximum loan size that is the lesser of (i) $25 million or (ii) an amount that, when added to the eligible borrower's outstanding and undrawn available debt, does not exceed six times the eligible borrower's 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA); (7) at the time of origination and at all times the eligible loan is outstanding, the eligible loan is senior to or pari passu with, in terms of priority and security, the eligible borrower's other loans or debt instruments, other than mortgage debt; and (8) prepayment is permitted without penalty.

Loan Classification. If the eligible borrower had other loans outstanding with the eligible lender as of December 31, 2019, such loans must have had an internal risk rating equivalent to a "pass" in the Federal Financial Institutions Examination Council's supervisory rating system on that date.

Assessment of Financial Condition. Eligible lenders are expected to conduct an assessment of each potential borrower's financial condition at the time of the potential borrower's application.

Loan Participations. The SPV will purchase an 85 percent participation in an eligible loan at par value, and the eligible lender will retain 15 percent of the eligible loan. The SPV and the eligible lender will share risk in the eligible loan on a pari passu basis. The eligible lender must retain its 15 percent of the eligible loan until it matures or the SPV sells all of its participation, whichever comes first. The sale of a participation in the eligible loan to the SPV will be structured as a "true sale" and must be completed expeditiously after the eligible loan's origination.

Transaction Fee. An eligible lender will pay the SPV a transaction fee of 100 basis points of the principal amount of the eligible loan purchased by the SPV. The eligible lender may require the eligible borrower to pay this fee.

Loan Origination and Servicing Fees. An eligible borrower will pay an eligible lender an origination fee of up to 100 basis points of the principal amount of the eligible loan at the time of origination. The SPV will pay an eligible lender 25 basis points of the principal amount of its participation in the eligible loan per annum for loan servicing.

Termination Date. The SPV will cease purchasing participations in eligible loans on September 30, 2020, unless the Board and the Department of the Treasury extend the MSPLF. The Reserve Bank will continue to fund the SPV after such date until the SPV's underlying assets mature or are sold.

Retaining Employees. Each eligible borrower that participates in the MSPLF should make commercially reasonable efforts to maintain its payroll and retain its employees during the time the eligible loan is outstanding.

Requirements Imposed on Recipients. Under the MSPLF, in addition to certifications required by applicable statutes and regulations, the following certifications and covenants will be required:

- The eligible lender must commit that it will not request that the eligible borrower repay debt extended by the eligible lender to the eligible borrower, or pay interest on such outstanding obligations, until the eligible loan is repaid in full, unless the debt or interest payment is mandatory and due, or in the case of default and acceleration.
- The eligible lender must certify that the methodology used for calculating the eligible borrower's adjusted 2019 EBITDA for the leverage requirement in section 6(ii) of the eligible loan paragraph above is the methodology it has previously used for adjusting EBITDA when extending credit to the eligible borrower or similarly situated borrowers on or before April 24, 2020.
- The eligible lender must commit that it will not cancel or reduce any existing committed lines of credit to the eligible borrower, except in an event of default.
- The eligible borrower must commit that it will not seek to cancel or reduce any of its committed lines of credit with the eligible lender or any other lender.

- The eligible borrower must commit to refrain from repaying the principal balance of, or paying any interest on, any debt until the eligible loan is repaid in full, unless the debt or interest payment is mandatory and due. However, the eligible borrower may, at the time of origination of the eligible loan, refinance existing debt owed by the eligible borrower to a lender that is not the eligible lender.
- The eligible borrower must certify that it has a reasonable basis to believe that, as of the date of origination of the eligible loan and after giving effect to such 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 time period.
- The eligible borrower must commit that it 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 entity that is an eligible borrower may make distributions to the extent reasonably required to cover its owners' tax obligations in respect of the entity's earnings.
- Each eligible lender and eligible borrower will be required to certify that it is eligible to participate in the MSPLF, including in light of the conflicts of interest prohibition in section 4019(b) of the CARES Act.

Expected Costs to Taxpayers. The Federal Reserve and the Department of the Treasury, through its equity investment, will bear the risk of loss on the participations purchased by the SPV under the MSPLF. The MSPLF includes features that are intended to mitigate risk to the Federal Reserve and taxpayers. For example, the MSPLF will receive interest payments and facility fees, the maximum loan size and borrower leverage will be limited, eligible lenders will be required to keep a portion of each loan, and each eligible borrower must commit to refrain from repaying the principal balance of, or paying any interest on, any debt until the eligible loan is repaid in full, unless the debt or interest payment is mandatory and due. In addition, the Department of the Treasury will make a $75 billion equity investment in the SPV. As a result, the Board does not expect at this time that the MSPLF will result in losses to the Federal Reserve.