**Model Policy 7437: Main Street Lending (Federal Reserve Program)**

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| **Model Policy Revised Date: 12/18/2020**  **General Policy Statement**  The Main Street Lending Program (MSLP) was created to support lending to small and medium-sized businesses that were in sound financial condition before the onset of the COVID-19 pandemic and were either unable to access the SBA’s Paycheck Protection Program or that still require additional financial support.  [[CUname]] (Credit Union) will participate in the Main Street Lending Program as outlined within this policy.   **Structure**  The Federal Reserve is responsible for operating the MSLP.  The Treasury Department is making funds available through a Special Purpose Vehicle (Main Street SPV) in connection with the program and with funds appropriated by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).  The Main Street SPV will purchase participations in eligible loans from the Credit Union through three facilities:   * The Main Street New Loan Facility (MSNLF) * The Main Street Priority Loan Facility (MSPLF) * The Main Street Expanded Loan Facility (MSELF)   Each above Facility uses the same Eligible Lender and Eligible Borrower criteria and have many of the same features, including the same maturity, interest rate, deferral of principal and interest for one year, and the ability of the borrower to prepay without penalty.  Other features of the loan extended in connection with each Facility differ and are further outlined within this policy.  **Definitions**   1. **Eligible Lenders.**  As a federally insured depository institution, the Credit Union is considered an eligible lender. 2. **Eligible Borrowers.**  An eligible borrower is a business that:    1. Was established prior to March 13, 2020;    2. Is not an ineligible business (13 CFR 120.110(b) – (j) and (m) – (s));    3. Meets at least one of the following two conditions (totals must be aggregated with affiliated entities):       1. has 15,000 employees or less, or       2. had 2019 annual revenues of $5 billion or less;    4. Is created or organized in the U.S. or under the laws of the U.S. with significant operations in and a majority of its employees based in the U.S.;    5. Only participates in ONE MSLP loan, or the Primary Market Corporate Credit Facility; and    6. Has not received specific support pursuant to the CARES Act. 3. **Eligible Loans.** An eligible loan is a secured or unsecured term loan made by an eligible lender to an eligible borrower that was originated after April 24, 2020, with the additional features described within this policy.   **Main Street Facilities and Features**  The borrower may participate in **ONLY ONE** of the Main Street Facilities (MSNLF, MSPLF, or MSELF).  Borrowers using a Main Street Facility **MAY NOT** also participate in the Primary Market Corporate Credit Facility (PMCCF).  Borrowers who have received loans under the CARES Act’s Paycheck Protection Program (PPP) may also take out one of the Main Street Loans.   1. **Main Street New Loan Facility (MSNLF).** This facility originates new loans.    1. **Minimum Loan Amount.** $100,000    2. **Maximum Loan Amount.**  The lesser of:       1. $35 million, or       2. an amount that, when added to the borrower’s existing outstanding and undrawn available debt, does not exceed four times (4.0x) the borrower’s adjusted 2019 EBITDA    3. **Maturity.** 5 years    4. **Interest Rate.** Libor (1 or 3 month) + 300 basis points    5. **Principal and Interest.** Principal payments deferred for two years and interest payments deferred for one year (unpaid interest will be capitalized)    6. **Prepayment Allowed.**  Permitted without penalty.    7. **Principal Amortization Schedule.**  15% at the end of the third year, 15% at the end of the fourth year, and a balloon payment of 70% at maturity at the end of the fifth year.    8. **Security/Priority Requirements.** Must not (at the time of origination or any time during the term of the eligible loan) be contractually subordinate in terms of priority to any of the borrower’s other loans or debt instruments    9. **Transaction Fee.**  If the loan is $250,000 or greater, the Credit Union will pay the SPV a transaction fee of 100 basis points of the principal amount of the loan at the time of origination.  The Credit Union may require the borrower to pay this fee. No transaction fee will be imposed if the initial principal amount of the loan is less than $250,000.    10. **Loan Origination and Servicing Fees.**  If the principal amount of the loan is $250,000 or greater, the borrower will pay the Credit Union an origination fee of up to 100 basis points of the principal amount of the loan at the time of origination and the SPV will pay the Credit Union 25 basis points of the principal amount of its participation in the loan per annum for loan servicing.  If the initial principal amount of the loan is less than  $250,000, the borrower will pay the Credit Union an origination fee of up to 200 basis points of the principal amount of the loan at the time of origination and the SPV will pay the Credit Union 50 basis points of the principal amount of its participation in the loan per annum for loan servicing.    11. **Loan Participations.** The SPV will purchase at par value a 95% participation interest in the loan.  The SPV and the Credit Union will share risk in the loan on a pari passu basis.  The Credit Union must retain its 5% of the loan until it matures or the SPV sells all of its participation, whichever comes first.  The sale of a participation in the loan to the SPV will be structured as a “true sale” and must be completed expeditiously after the loan’s origination. 2. **Main Street Priority Loan Facility (MSPLF).** This facility originates new loans.    1. **Minimum Loan Amount.** $100,000    2. **Maximum Loan Amount.**  The lesser of:       1. $50 million, or       2. an amount that, when added to the borrower’s existing outstanding and undrawn available debt, does not exceed six times (6.0x) the borrower’s adjusted 2019 EBITDA    3. **Maturity.** 5 years    4. **Interest Rate.** Libor (1 or 3 month) + 300 basis points    5. **Principal and Interest.** Principal payments deferred for two years and interest payments deferred for one year (unpaid interest will be capitalized)    6. **Prepayment Allowed.**  Permitted without penalty.    7. **Principal Amortization Schedule.** 15% at the end of the third year, 15% at the end of the fourth year, and a balloon payment of 70% at maturity at the end of the fifth year    8. **Security/Priority Requirements.**  Must be senior or pari passu in security or priority to the borrower’s other loans or debt instruments (other than mortgage debt).    9. **Transaction Fee.** For loans greater than $250,000, the Credit Union will pay the SPV a transaction fee of 100 basis points of the principal amount of the loan at the time of origination.   The Credit Union may require the borrower to pay this fee. No transaction fee will be imposed if the loan is less than $250,000.    10. **Loan Origination and Servicing Fees.** For loans greater than $250,000, the borrower will pay the Credit Union an origination fee of up to 100 basis points of the principal amount of the loan at the time of origination. If the loan is less than $250,000, the borrower will pay the Credit Union an origination fee of up to 200 basis points of the principal amount of the loan at the time of origination.  The SPV will pay the Credit Union 25 basis points of the principal amount of its participation in the loan per annum for loan servicing    11. **Loan Participations.** The SPV will purchase at par value a 95% participation interest in the loan.  The SPV and the Credit Union will share risk in the loan on a pari passu basis.  The Credit Union must retain its 5% of the loan until it matures or the SPV sells all of its participation, whichever comes first.  The sale of a participation in the loan to the SPV will be structured as a “true sale” and must be completed expeditiously after the loan’s origination. 3. **Main Street Expanded Loan Facility (MSELF).** This facility increases the size of existing term loans or lines of credit.    1. **Minimum Loan Amount**. $10 million    2. **Maximum Loan Amount.**   The lesser of:       1. $300 million, or       2. an amount that, when added to the borrower’s existing outstanding and undrawn available debt, does not exceed six times (6.0x) the borrower’s adjusted 2019 EBITDA;    3. **Maturity.** 5 years    4. **Interest Rate.** Libor (1 or 3 month) + 300 basis points    5. **Principal and Interest.** Principal payments deferred for two years and interest payments deferred for one year (unpaid interest will be capitalized)    6. **Prepayment Allowed.** Permitted without penalty.    7. **Principal Amortization Schedule.**  15% at the end of the third year, 15% at the end of the fourth year, and a balloon payment of 70% at maturity at the end of the fifth year    8. **Security/Priority Requirements.**  At the time of upsizing and at all times, the upsized tranche is outstanding, it must be senior or pari passu in security or priority to the borrower’s other loans or debt instruments (other than mortgage debt)    9. **Transaction Fee.** The Credit Union will pay the SPV a transaction fee of 75 basis points of the principal amount of the upsized tranche of the loan at the time of upsizing. The Credit Union may require the borrower to pay this fee.    10. **Loan Origination and Servicing Fees.** The borrower will pay the Credit Union an origination fee of up to 75 basis points of the principal amount of the upsized tranche of the loan at the time of upsizing.  The SPV will pay the Credit Union 25 basis points of the principal amount of its participation in the upsized tranche of the loan per annum for loan servicing.    11. **Loan Participations.** The SPV will purchase at par value a 95% participation interest in the upsized tranche of the loan, provided that it is upsized on or after April 24, 2020.  The SPV and the Credit Union will share risk in the upsized tranche on a pari passu basis.  The Credit Union must be one of the lenders that holds an interest in the underlying loan at the date of upsizing.  The Credit Union must retain its 5% portion of the upsized tranche of the loan until the upsized tranche of the loan matures or the SPV sells all of its 95% participation, whichever comes first.  The Credit Union must also retain its interest in the underlying loan until the loan matures, the upsized tranche of the loan matures, or the SPV sells all of its 95% participation, whichever comes first.  Any collateral securing the loan (at the time of upsizing or on any subsequent date) must secure the upsized tranche on a pro rata basis.  The sale of a participation in the upsized tranche of the loan to the SPV will be structured as a “true sale” and must be completed expeditiously after the loan’s upsizing.   **Main Street General Lending Terms and Criteria**   1. **Loan Classification**. If the borrower has other loans outstanding with the Credit Union as of December 31, 2019, the loans must have had an internal risk rating equivalent to a “pass” in the Federal Financial Institutions Examination Council’s (FFIEC’s) supervisory rating system on that date. For the MSELF, the eligible loan must have had an internal risk rating equivalent to a “pass” as of December 31, 2019. 2. **Assessment of Financial Condition**. The Credit Union will conduct an assessment of each potential borrower’s financial condition at the time of the borrower’s application.  The Credit Union will apply their existing underwriting standards when evaluating the financial condition and creditworthiness of a borrower. 3. **Required Credit Union Certification and Covenants.**  In addition to other requirements under applicable statutes and regulations, the following certification and covenants will be required from the Credit Union:    1. The Credit Union will commit that it will not request that the borrower repay the debt extended by the Credit Union, or pay interest on such outstanding obligations, until the loan is repaid in full, unless the debt or interest payment is mandatory and due, or in the case of default and acceleration.    2. The Credit Union will commit that it will not cancel or reduce any existing committed lines of credit to the borrower, except in an event of default.    3. The Credit Union will certify that the methodology used for calculating the borrower’s adjusted 2019 EBITDA for the leverage requirement is the methodology it previously used for adjusting EBITDA when extending credit to the borrower or similarly situated borrowers on or before April 24, 2020.  For MSELF loans, the certification will be that the methodology was what was previously used for adjusting EBITDA when originating or amending the loan on or before April 24, 2020.    4. The Credit union will certify that it is eligible to participate in the Main Street Facility, including in light of the conflicts of interest prohibition in section 4019(b) of the CARES Act. 4. **Required Borrower Certifications and Covenants.** In addition to other requirements under applicable statutes and regulations, the following certification and covenants will be required from the borrower:    1. The borrower will commit to refrain from repaying the principal balance of, or paying any interesting on, any debt until the loan is repaid in full, unless the debt or interest payment is mandatory and due.  For MSPLF loans, the borrower may, at the time of origination of the loan, refinance existing debt owed by borrower to a lender that is not the Credit Union.    2. The borrower will commit that it will not seek to cancel or reduce any of its committed lines of credit with the Credit Union or any other lender.    3. The borrower will certify that it has a reasonable basis to believe that, as of the date of origination (or upsizing) of the 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.    4. The borrower will 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 a borrower may make distributions to the extent reasonably required to cover its owners’ tax obligations in respect of the entity’s earnings.    5. The borrower will certify that it is eligible to participate in the Main Street Facility, including in light of the conflicts of interest prohibition in section 4019(b) of the CARES Act. 5. **Retaining Employees.** The borrower that participates in the Facility should make commercially reasonable efforts to maintain its payroll and retain its employees during the time the loan is outstanding. |