



Nonprofit organizations may now benefit from the Main Street Lending Program: key takeaways

Finance Alert

COVID-19 Alert

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Nonprofit organizations may now benefit from the Main Street Lending Program (“MSLP”). On June 15, 2020, the Federal Reserve Board (“FRB”) acknowledged the detrimental effects of coronavirus disease 2019 (COVID-19) on nonprofit organizations. On July 17, 2020, the FRB provided final terms to provide loans to nonprofit organizations under the **Nonprofit Organization New Loan Facility** (“NLF”) and the **Nonprofit Organization Expanded Loan Facility** (“ELF”) and collectively with the NLF, the “Facilities”). The July 17 release from the FRB made a few material modifications to the terms initially proposed:

- Lowering the minimum number of employee threshold from 50 employees to 10;
- Reducing the percentage of non-donation revenues from 70 percent to 60 percent of expenses for the period from 2017 through 2019;
- Reducing the ratio of adjusted 2019 EBIDA (defined below) to unrestricted 2019 operating revenue from at least 5 percent to 2 percent;
- Reducing the ratio of liquid assets at the time of loan origination to average daily expenses over the previous year from at least 90 days to 60 days; and
- Reducing the ratio of unrestricted cash and investments to certain existing and outstanding debt from at least 65 percent to 55 percent.

We have provided below a general description of each of the Facilities, as updated.

MSLP Loan Facilities for Nonprofit Organizations

Type of Facility	Nonprofit Organization New Loan Facility	Nonprofit Organization Expanded Loan Facility
Eligible Loan	A secured or unsecured term loan made by an Eligible Lender(s) to an Eligible Borrower that was originated after June 15, 2020.	A secured or unsecured term loan or revolving credit facility made by an Eligible Lender(s) to an Eligible Borrower that was originated on or before June 15, 2020, and that has a remaining maturity of at least 18 months.
Type of Loan	Term Loan	Term Loan (underlying loan can be a term loan or revolving credit facility)
Minimum Individual Loan Size	\$250,000	\$10 million
Maximum Individual Loan Size	Lesser of (i) \$35 million or (ii) the Eligible Borrower's average 2019 quarterly revenue	Lesser of (i) \$300 million or (ii) the Eligible Borrower's average 2019 quarterly revenue
Term of Facility	Maturity in 5 years	
Collateral	Secured or unsecured	
Repayment of Principal	Principal payments deferred for 2 years; principal amortization of 15% at the end of year 3, 15% at the end of year 4, and a balloon payment of 70% at maturity at the end of year 5	
Principal and/or Interest Forgiveness	Principal and interest non-forgivable; all principal and interest must be repaid	
Interest Rate	Adjustable rate of LIBOR (1 or 3 month) + 300 basis points	
Interest Payments	Interest payments deferred for one year (unpaid interest will be capitalized)	
Prepayments	Prepayment permitted without penalty	
Security Ranking	Loans must be contractually subordinated in terms of priority to any of the Eligible Borrower's other loans or debt instruments.	Upsized tranche must be senior to or <i>pari passu</i> with to any of the Eligible Borrower's other loans or debt instruments, other than mortgage debt.
Loan Origination and Servicing Fees	Origination fee of up to 100 basis points of the principal amount of the Eligible Loan at the time of origination payable by each Eligible Borrower.	Origination fee of up to 75 basis points of the principal amount of the upsized tranche of the Eligible Loan at the time of upsizing payable by each Eligible Borrower.
Risk Rating	If an Eligible Borrower had other loans outstanding with its 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.	Each Eligible Loan must have had an internal risk rating equivalent to a "pass" in the Federal Financial Institutions Examination Council's supervisory rating system as of December 31, 2019.

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Eligibility rules for borrowers

A borrower under a Facility may participate in only one of the Facilities, is expressly prohibited from participating in multiple programs, and may not participate in the Primary Market Corporate Credit Facility or receive other specific support pursuant to the CARES Act. However, a borrower may participate, and have received funding under, the Paycheck Protection Program and the Economic Injury Disaster loan program and remain eligible for participation in the Facilities.

To be an Eligible Borrower under either of the Facilities, several criteria must be met, including (without limitation) that the Eligible Borrower must demonstrate the following:

1. Be a nonprofit organization that is a tax-exempt nonprofit organization described in section 501(c)(3) of the Internal Revenue Code ("IRC") or a tax-exempt veterans' organization described in section 501(c)(19) of the IRC.
2. Have been in continuous operation since, January 1, 2015.
3. Meet at least one of the following two conditions:
 - a. Have 15,000 employees or fewer.
 - b. Have 2019 annual revenues of \$5 billion or less.
4. Have at least 10 employees.
5. Have an endowment of less than \$3 billion.
6. Have total non-donation revenues equal to or greater than 60 percent of expenses for the period from 2017 through 2019.
7. Have a ratio of adjusted 2019 earnings before interest, depreciation, and amortization ("EBIDA") to unrestricted 2019 operating revenue that is greater than or equal to 2 percent.
8. Have a ratio of (i) liquid assets at the time of loan origination to (ii) average daily expenses over the previous year that is equal to or greater than 60 days.
9. At the time of loan origination, have a ratio of (i) unrestricted cash and investments to (ii) existing outstanding and undrawn available debt (including any loan under the Facility and certain other amounts) that is greater than 55 percent.
10. Be created or organized in the United States or under the laws of the United States with significant operations in and a majority of its employees based in the United States.

In addition to other certifications required by applicable statutes and regulations, there are a number of certifications and covenants that the Eligible Borrower must make, including (a) limitations on repaying any other debt or reducing any other committed lines of credit until the Eligible Loan is repaid in full and (b) compensation restrictions under section 4003(c)(3)(A)(ii) of the CARES Act. Furthermore, Eligible Borrowers that participate in the Facilities should make reasonable efforts to maintain payroll and retain employees during the term of their Eligible Loans.

Eligible Lenders

Under the Facilities, an Eligible Lender is a United States federally insured depository institution (including a bank, savings association, or credit union), a United States branch or agency of a foreign bank, a United States bank holding

company, a United States savings and loan holding company, a United States intermediate holding company of a foreign banking organization, or a United States subsidiary of any of the foregoing.

SPV participation and timing

The FRB proposes to structure the funding of each Facility via the Federal Reserve Bank of Boston, which would commit to lend to a single common special purpose vehicle (an “SPV”) on a recourse basis for a Facility. The SPVs shall stop purchasing participations in Eligible Loans on September 30, 2020, unless extended. The SPV for each Facility would purchase 95 percent of participations in Eligible Loans from Eligible Lenders. Eligible Lenders will retain 5 percent of the Eligible Loans and such 5 percent share must be retained by the Eligible Lenders until the earlier of the maturity of the Eligible Loans or the SPV sells all of its participation.

Next steps from the Federal Reserve Board

The Facilities are not yet operational. The Federal Reserve is currently working to create the infrastructure necessary to fully operationalize the Facilities.

We are available to discuss questions regarding any eligibility concerns and how the Facilities may benefit your organization.

Please visit our Coronavirus Resource Center and subscribe to our mailing list to receive alerts, webinar invitations and other publications to help you navigate this challenging time.

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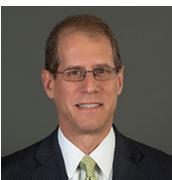
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