INTRODUCTION
On April 9, 2020, the Federal Reserve announced additional actions it will take to provide up to $2.3 trillion in loans to support the U.S. economy. This support was necessary due to the economic hardships brought on by the COVID-19 pandemic and the subsequent contraction of credit availability for both small and medium-sized businesses. Among the actions taken to offer companies liquidity, the Secretary of the Treasury will make a $75 billion equity investment using appropriated funds from Section 4027 of the CARES Act in a special purpose vehicle (SPV) established to implement a Main Street Business Lending Program ("Main Street"). This SPV will in turn purchase up to $600 billion in total loans for businesses that qualify in order to provide relief via expedited access to capital. This program aims to increase the flow of credit to small and medium-sized businesses that were in good financial standing prior to the COVID-19 crisis and have subsequently suffered a covered loss. For businesses that qualify, Main Street offers three facilities, all of which were authorized by the Federal Reserve Board, with identical eligibility criteria for lenders and borrowers and have similar features (maturity, interest rate, deferral of payment of principal and interest for one year and the ability to prepay without penalty). These options are as follows:

- **Main Street New Loan Facility (MSNLF):** this option is directed at facilitating new loans for eligible businesses in need of support and who can’t find favorable financing options elsewhere.

- **Main Street Expanded Loan Facility (MSELF):** for businesses that already have an existing indebtedness, this option is focused on expanding their existing loans to inject additional funding.

- **Main Street Priority Loan Facility (MSPLF):** if an eligible business is in need of additional funding but is already heavily levered, this program will extend funding to them by increasing the risk sharing between the lenders.
KEY ELIGIBILITY AND LOAN DETAILS

The first step in the loan process is for businesses to determine their eligibility.

1. Is there a covered loss? (No = Not Eligible, Info Required) 
   - Yes

2. Is your business under $5.0B in revenue or have fewer than 15,000 employees? (No = Not Eligible, Info Required) 
   - Yes

3. Was your business created or organized in the US? (No = Not Eligible, Info Required) 
   - Yes

4. Is your business in a bankruptcy proceeding? (Yes = Not Eligible, Info Required) 
   - No

Eligible for Main Street Loan

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**Covered Loss**
- Reduced demand
- Unbudgeted medical expense
- Lack of available credit

**Size Limitations**
- December 31, 2019 Levels
- May not exceed $5.0B in gross revenues
- May use annual receipts as reported to IRS
- May not exceed 15,000 full time equivalents

**Organization**
- Created or organized in the United States
- Not more than 49% off-shore ownership
- Business created prior to March 13, 2020
- Majority of employees based in the United States

**Bankruptcy & Other**
- Not in bankruptcy proceeding
- Not participating in the Corporate Credit Facility
- Measurement date March 13, 2020
- Evaluated as “Pass” in the Federal Financial Institution Examiner’s Council’s supervisory rating system
In addition to assessing eligibility, businesses will need to evaluate the following program details for each of the three facilities:

<table>
<thead>
<tr>
<th>Term</th>
<th>MAIN STREET NEW LOAN FACILITY (MSNLF)</th>
<th>MAIN STREET PRIORITY LOAN FACILITY (MSPLF)</th>
<th>MAIN STREET EXPANDED LOAN FACILITY (MSELF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal</td>
<td>5 Years</td>
<td>5 Years</td>
<td>5 Years</td>
</tr>
<tr>
<td>Deferral</td>
<td>2 Years</td>
<td>2 Years</td>
<td>2 Years</td>
</tr>
<tr>
<td>Interest</td>
<td>Adjustible rate of LIBOR (1 or 3 month) + 300 basis points</td>
<td>Adjustible rate of LIBOR (1 or 3 month) + 300 basis points</td>
<td>Adjustible rate of LIBOR (1 or 3 month) + 300 basis points</td>
</tr>
<tr>
<td>Interest</td>
<td>1 Year</td>
<td>1 Year</td>
<td>1 Year</td>
</tr>
<tr>
<td>Principal</td>
<td>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</td>
<td>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</td>
<td>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</td>
</tr>
<tr>
<td>Minimum</td>
<td>$250,000</td>
<td>$250,000</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>Loan</td>
<td>Lesser of:</td>
<td>Lesser of:</td>
<td>Lesser of:</td>
</tr>
<tr>
<td>Participation</td>
<td>SPV: 95%</td>
<td>SPV: 95%</td>
<td>SPV: 95%</td>
</tr>
<tr>
<td></td>
<td>Lender: 5%</td>
<td>Lender: 5%</td>
<td>Lender: 5%</td>
</tr>
</tbody>
</table>

**UPDATE:** This chart was updated to reflect the June 8, 2020 revisions to the Main Street program. These changes included, but are not limited to the following: expanded the minimum and maximum loan sizes, added an additional one year deferral for principal payments, revised the loan participation amounts and updated the principal amortization guidelines.
REQUIRED CERTIFICATIONS

In order to participate in the Main Street program, the borrower is required to provide certifications and covenants in writing that is to be executed, on behalf of the borrower, by its principal executive officer and principal financial officer in connection with the loan. The evidence to support these certifications is required to be maintained as well as meet a minimum record retention requirement and be furnished upon request. The list of required certifications is quite extensive and will require diligent and robust documentation by companies to insure compliance. A high level summary of the required certifications are as follows:

▸ Facility Borrower Eligibility Certification and Covenants: As shown in the flow chart above, this requirement ensures that the borrower is eligible to receive the funds and meets the necessary business qualifications.

▸ CARES Act Borrower Eligibility Certification and Covenants: This certification ensures the borrower has not already received specific support as notated in the CARES Act, they are not a Covered Entity, and that they will comply with the requirements surrounding executive compensation.

▸ Federal Reserve Act and Regulation A Borrower Eligibility Certifications: The borrower must certify that although they are not able to secure adequate credit accommodations elsewhere, they are not insolvent.

▸ Eligible Loan Certifications / Financial Condition Qualifications: This ensures the borrower has provided the required financial records and calculations to the Lender, these records are true and correct in all material respects and presented in accordance with GAAP.

▸ Additional Borrower Certifications and Covenants: This mandates how and when any other indebtedness outside of the Main Street program is to be repaid by the borrower and that the Main Street program payments are the priority.

▸ Indemnity: The certifications and covenants must also include an indemnification by the Borrower of the beneficiaries of such certifications and covenants for any liability, claim, cost, loss, judgment, damage, or expense that a beneficiary incurs or suffers as a result of or arising out of a material breach of any of the Borrower’s certifications or covenants contained in such document.

▸ Miscellaneous: The borrow must certify they will alert the lender of any misrepresentations and / or material breaches that occur as well as acknowledging the repercussions of those events. Lastly, the records (“File”) will be retained for a 10-year period, and this File will contain the basis for the certifications. These records must be made available to the Reserve Bank, if and when requested, for their own inspection or review, either as (i) a copy of the file, or (ii) an attestation by an external auditor that the auditor has examined the File and found that it is sufficient to support the required certifications and covenants.

FREQUENTLY ASKED QUESTIONS

Below are frequently asked questions regarding the Main Street program and how eligible businesses may be able to take advantage of the program.

Are there any financial reporting requirements if we participate in these facilities?
Yes. Each Main Street loan will contain a financial reporting covenant requiring the regular delivery of certain financial information and calculations that must be provided to the Lender on both an annual and quarterly basis.

If a small business is participating in the PPP, is it also eligible to participate in Main Street?
Yes. A borrower who has applied for, or received, a loan under the PPP may receive a loan under Main Street, assuming the borrower meets the eligibility criteria outlined by the Federal Reserve (discussed below).

What loan facilities are available under Main Street?
There are three. The Main Street New Loan Facility (MSNLF) is directed at facilitating new loans; the Main Street Expanded Loan Facility (MSELF) is focused on expanding existing loans to businesses; and the Main Street Priority Loan Facility (MSPLF) which requires increased risk sharing by lenders for borrowers who are more leveraged.

Can borrowers obtain a loan under more than one Main Street facility?
No. Borrowers can only participate in one facility. However, borrowers may receive more than one loan under a single Main Street facility in certain circumstances.
Can borrowers participate in other Title IV programs if they participate in a Main Street facility?
No. Although the borrower can stack the PPP with the Main Street Programs, the same consideration is not offered for the five other Title IV programs.

Can companies with less than 500 employees qualify (i.e., those that applied for the PPP)?
A business that receives a loan through the SBA’s PPP can be an eligible borrower under Main Street if it meets the eligible borrower criteria.

Can a U.S. subsidiary of a foreign company be eligible under Main Street?
A: Yes. As long as the Eligible Borrower is created or organized in the United States or under the laws of the United States, and the borrower on a consolidated basis has significant operations in and the majority of its employees based in the United States. However, they must use the proceeds only for the benefit of the Eligible Borrower, its consolidated U.S. subsidiaries, and other affiliates of the Eligible Borrower that are U.S. businesses and the proceeds may not be used for the benefit of their foreign parents, affiliates or subsidiaries

Are Main Street loans potentially forgivable similar to those issued under the PPP?
No. Loans made as part of Main Street are not forgivable. However, there is no pre-payment penalty.

When does the program start/end?
The Federal Reserve has not yet stated when the program will begin. Guidance from the Federal Reserve is still evolving, and once it is complete the program will be initiated. The SPV is scheduled to stop purchasing loans on September 30, 2020.

Who will be responsible for making the loans?
Loans are made by eligible banks, not by the Treasury or Federal Reserve. The SPV will purchase either 85% or 95% of the loans at par value, and eligible lenders will retain 5% or 15%, which will be subject to Federal Reserve oversight.

Can an eligible borrower use any portion of the loan proceeds to pay off existing debt?
No. Eligible borrowers cannot use loan proceeds to repay other loan balances or other debt of equal or lower priority unless the eligible borrower has repaid the eligible loan in full. However, under the MSPLF, an eligible borrower can refinance existing debt owed to a lender that is not the eligible lender at the time the MSPLF loan is originated.

Are there any restrictions on stock repurchases during the term of the loan?
Yes. For the period starting when the loan proceeds are received and ending 12 months after the loan is paid in full, a borrower cannot make stock repurchases if the securities are listed on a national securities exchange, except as required under a contractual obligation in effect as of March 27, 2020. However, restrictions on dividends and other capital distributions will not apply to distributions made by an S corporation or other tax pass-through entity to the extent reasonably required to cover its owners’ tax obligations in respect of the entity’s earnings.

Are there any restrictions on employee compensation during the term of the loan?
Yes. For the period starting when the loan proceeds are received and ending 12 months after the loan is paid in full, total compensation for certain highly compensated employees is restricted as follows:

- For employees whose 2019 total compensation exceeded $425,000, he / she cannot receive (1) more than his / her total 2019 compensation (for any consecutive 12-month period) or (2) severance / termination pay greater than 2x 2019 compensation.

- For employees whose 2019 total compensation exceeded $3 million, he / she cannot receive (for any consecutive 12-month period) total compensation greater than $3 million plus 50% of his / her 2019 total compensation in excess of $3 million.

Will the eligible borrower be required to collateralize the loan?
MSNLF loans, MSPLF loans, and MSELF upsized tranches may be secured or unsecured. For example, an upsized tranche (MSELF) must be secured if the underlying loan is secured.
HOW BDO CAN HELP

During these times of economic losses, it is critical that businesses affected by COVID-19 understand the options they have for financial relief available from the Federal Government. The CARES Act offers a significant opportunity for companies to obtain a low-interest loan, providing crucial liquidity while allowing for the retention of their work force. BDO is here to assist in maximizing the benefits provided by the CARES Act.

As one of the world’s largest accounting firms, BDO has extensive experience working with severely harmed companies to respond to business interruptions caused by unforeseen events and obtain relief and aid. To help companies with financial relief, we employ a service approach characterized by a high degree of senior-level involvement coupled with direct access to top technical resources and specialists, all with straightforward, proactive communication throughout each stage of the process.

Certification File Assistance
Gathering the necessary documentation to support the Main Street certifications and covenants will be a significant lift for management. The BDO Accounting & Reporting Advisory Services practice has extensive experience in assisting both Public and Private entities with complex debt arrangements as well as navigating the technical accounting implications that arise. We serve as advisors to management and can assist with the formulation of the required Certification File documents to ensure compliance with the certification and covenant requirements of the Facility. In addition, if management seeks to have an attestation completed by an external auditor, we will serve as your advocate and help you through the process to ensure a favorable outcome.

Attestation Services
The BDO Assurance practice performs audit and attestation services for Public and Private entities around the world and can provide the 7.E. “attestation by an external auditor” service, as outlined above, to be furnished to the Reserve Bank.

Assessing Title IV Stabilization Options
Given the complexities and nuances of the CARES Act, it is important to know the various options available to your business for economic relief. Our experts can guide you through the $500 billion stabilization plan to assess what you may qualify for under this portion of the CARES Act. Our BDO Forensic Investigation and Litigation Services (FILS) group can work with you to set up a recovery plan to help re-stabilize your business. We recognize the need to act quickly and our experience and training allows us to mobilize at an expedited pace.

Monitoring Application Status
BDO can monitor progress of the applications and assist by working with the government as follow-up is requested prior to the loan approval. Our FILS team of experts can identify strategic uses of funds to help reestablish the health and stability of your business.

Applying for Loans
We can manage the loan qualification and application process for you to ensure that your submission is complete and adheres to the guidelines provided by the Secretary of the Treasury. This can include, among other things, a thorough analysis of business interruption and covered losses and an evaluation of the likelihood of maintaining continuing operations.

Ensuring Compliance
Staying compliant with key loan terms, business restrictions, and use of proceeds is critical for your business to avoid potential sanctions or penalties. BDO can monitor these compliance requirements and ensure that your business is operating within the confines of the CARES Act.

BDO will continue to monitor updates to the Main Street program and update these materials accordingly. Please reach out to a member of our team below for additional information of assistance.
MAIN STREET LENDING PROGRAM INFORMATION & RESOURCES

Main Street Lending Program FAQ's

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