United States Senate
WASHINGTON, DC 20510-1010

August 4, 2020

The Honorable Steven T. Mnuchin
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, D.C. 20220

The Honorable Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Dear Secretary Mnuchin and Chairman Powell:

Thank you for your leadership of the Board of Governors of the Federal Reserve System (Fed) and the Department of the Treasury, and for the extraordinary, unprecedented steps you have taken in just four months to provide critically needed assistance to the U.S. economy. The Primary and Secondary Market Corporate Credit Facilities have restored pre-COVID liquidity in many asset classes, enabling larger companies with market access the ability to borrow capital to bridge over economic impacts of the pandemic and support American working families. Similarly, the Paycheck Protection Program has provided a lifeline to small businesses and spared the loss of millions of American jobs.

The programs for medium sized employers, however, have proven to be more challenging. We recognize that the Main Street Lending Program (MSLP), consisting of five credit facilities, offers to serve borrowers across industries with diverse collateral; no two borrowers' loans are exactly alike, and the assets are far less fungible than large companies' corporate bonds. In our view, the MSLP's success should be judged by the number of borrowers that are able to access the program (i.e., the take-up rate of the programs) and ultimately the number of jobs it saves. Judging by these standards, the MSLP has had a slow start, with only a handful of our nation's banks having signed up to be MSLP lenders and the issuance of only a few loans. In our judgment, more support to our nation's employers is needed. The MSLP is an untapped resource that has the potential to save thousands of jobs, but these could all be lost if businesses can't access the credit they need at this moment in time. As companies look to set 2021 budgets for hiring and capital expenditures, enhancements to the MSLP would give employers the certainty they need to maintain workers, hire, and invest in the coming year.

As Congress deliberates a new round of COVID-related relief, we encourage you to make full use of the tools available to the Treasury and the Federal Reserve in the CARES Act. While it is incumbent upon all of us in government to be good stewards of taxpayer dollars, we believe that the MSLP is far too restrictive to support employers and their employees through unprecedented economic hardship. The Exchange Stabilization Fund (ESF) is designed to backstop and provide stability in times of financial turmoil. Restricting the MSLP only to companies that can obtain financing outside of the program diminishes the usefulness of a program that Congress approved in March.

Based on feedback to our offices, middle-market companies are being turned away for a variety of reasons. Many banks seem disinterested in the program because they either wish to retain more than five percent of a profitable loan or they have no interest in retaining any stake at all in an unprofitable loan. Other banks are questioning the terms of the MSLP, such as the requirement that a loan be 200% collateralized in the Main Street Priority Loan Facility (MSPLF). And as a general matter, some are disinterested due to the complexities and reporting requirements.

We deeply respect your leadership and tenacity in the development of the MSLP and all of the recovery programs to stabilize our economy and workforce. But we also wish to convey—with urgency—our expectation that your agencies will take swift action to utilize the Title IV CARES Act credit support for small and medium sized employers. Below are views on how the program could be amended to better serve borrowers in our states and across the nation to save millions of American jobs.

- Reduce the minimum loan amount for the MSELF and MSPLF. The barrier to entry for small businesses is too great. We recommend lowering the minimum loan amount for those facilities, as the present minimum of $250,000 is overly restrictive and prevents small business access.

- Increase the maximum debt-to-EBITDA leverage ratio that qualifies borrowers for loans. While we continue to hear challenges faced by borrowers that currently qualify for a MSLP loan but cannot seem to get one, we also receive daily feedback from businesses in our state that do not qualify for the MSLP because of the leverage criteria. To be clear: we support the use of the MSLP to provide "rescue capital" to our economy. Businesses that were shut down by government orders and for which the MSLP is their only potential source of credit should not be allowed to fail for the sake of an unnecessarily restrictive CARES Act investment strategy. The MSLP should support cash flow-based lending to businesses that have strong earning potential, especially as the pandemic subsides, but which may not presently have any unencumbered collateral to offer; second-lien loans should also be considered. Businesses that were likely to fail before the shutdown should not be assisted, but businesses that were easily servicing their debt before the pandemic are quintessentially those the MSLP should be serving.

- Eliminate the 200% collateralization requirement in the MSPLF and increase the maximum loan amount. This facility offers loans to new borrowers (i.e., those without an existing facility with the lending bank) up to six-times 2019 EBITDA. Per the FAQs for the program, however, the maximum advance rate on a secured loan is limited to 50% because the program requires a 200% collateral coverage ratio. Many would-be borrowers have collateral to offer as security for which normal advance rate would be much higher than 50%. A prudent policy would be to require lenders to use their normal advance rates, which have been approved and continue to be monitored by their banking regulators. Additionally, the maximum loan amount should be increased to $300 million, setting it on par with the MSELF. Under current policy, if a borrower needs more than the $50 million available in the MSPLF and its existing lender does not want to extend it any new credit, the borrower cannot turn to another bank to seek a MSPLF loan. Increasing the MSPLF maximum loan size will encourage competition—and thus better terms—for borrowers.

- Provide greater incentives for lenders to participate in the MSLP. Currently, the only incentive for banks to participate appears to be in the Main Street Expanded Loan Facility (MSELF), where a bank with temporarily impaired collateral can have the Fed provide 95% of new credit to rehabilitate the business and, with it, the prior loan. Balance sheet support, which banks typically have no problem solving through syndication, seems to be the only incentive in the other two facilities. We suggest that the most effective solution is to eliminate the risk retention feature altogether and pay lenders a fee for originating loans according to Fed-provided underwriting criteria (much like the PPP's lender-as-distributor model). Alternatively, place the Special Purpose Vehicle's (SPV) resources in a first-loss position up to a certain percentage of credit loss rather than the current model of sharing losses *pari passu.* A third option is to allow lenders to collect more than 5% of the interest payable on the loan while retaining only 5% of the credit risk.

- Permit borrowers of MSLP loans to refinance debt within at least 12 months of the maturity period, revising the present prohibition on refinancing debt until it comes within 90 days of the maturity date. Business will need maximum flexibility during this crisis, and refinancing is a crucial tool in maintaining viability. Standard practice is to refinance debt 12-18 months before maturity; refinancing debt on a short schedule could create rollover risk and further imperil the financial health of businesses impacted by the pandemic.

Below are just a few examples of specific companies we have heard from that would benefit from the proposed changes outlined and better able to access capital to save jobs and invest in our economy through the lending facility:

- An oil and gas producer seeking a $130 million MSELF loan to maintain their employees and restart planned 2020 drilling programs.

- A fertilizer company seeking a $150 million MSELF loan to maintain and expand operations to help America's farmers.

- A COVID and Genomaic Testing Company seeking a $30 million loan to increase testing capacity to over a million tests per month and hire more workers.

In addition to these changes, we welcome your input on areas where the law may need to be changed to better serve businesses and their employees in our states. For example, structure MSLP loans at a lower interest rate than LIBOR+300 (note that the CARES Act envisioned a

Main Street facility at L+200, but Congress is aware of the "penalty rate of interest" language of the Federal Reserve Act). We welcome your constructive feedback on what changes, if any, may be needed to federal law to make the MSLP more effective and keep more employees on the job.

In closing, please be assured of our gratitude for your steady leadership during the COVID-19 pandemic. Our comments are offered in the hope that we can continue to have a constructive and productive approach to meeting the needs of small and medium-sized companies and saving millions of jobs in our states. If you have any questions, please do not hesitate to reach out to us directly.

Sincerely,

Kelly Loeffler
United States Senator

John Cornyn
United States Senator

Mike Braun
United States Senator

Thom Tillis
United States Senator