



April 16th, 2020

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

The Honorable Jerome Powell  
Chairman  
Board of Governors of the Federal  
Reserve System  
20<sup>th</sup> St. and Constitution Ave. NW  
Washington, DC 20551

**Re: Main Street Lending Program**

Dear Secretary Mnuchin and Chairman Powell:

On behalf of our members, the Small Business Investor Alliance (SBIA) appreciates the ongoing work of the Federal Reserve and Treasury Department (“Treasury”) in responding to the unprecedented economic disruption caused by the COVID-19 pandemic. SBIA is a national association that develops and advocates policies that enable capital investments into American lower middle market business. Our membership includes funds electing to be regulated as Rural Business Investment Companies (RBIC), Business Development Companies (BDCs) under the Investment Company Act of 1940, private capital funds, Small Business Investment Companies (SBICs), and similar funds that serve the lower and middle market.

The economic stoppage caused by the pandemic is unprecedented in American history and has hit the portfolio companies of our membership particularly hard. Until the shutdown, these were the economic drivers of job creation and the future of the American economy. The extraordinary steps taken by Congress, the Federal Reserve, and Treasury are necessary to provide liquidity to businesses that were healthy before this crisis hit. Saving these economic engines will be critical to reactivating the economy and getting Americans working again.

The SBIA welcomed the April 9<sup>th</sup> announcement regarding the establishment of the Main Street Lending Program (MSLP), which will consist of the Main Street New Loan Facility (MSNLF) and Main Street Expanded Loan Facility (MSELF). The MSLP will complement the already existing Paycheck Protection Program (PPP) by providing credit to middle market businesses that employ over 60 million Americans and who are largely unable to access the PPP.

The SBIA surveyed our membership to learn how accessible the initial terms of the MSLP would be for our members’ portfolio companies, and what changes are necessary to ensure that middle market companies are able to obtain the liquidity necessary to see them through this crisis. As a general matter, we believe the terms of the MSLP should reflect the reality that many of these smaller businesses were not able to receive conventional bank capital because they were asset-

light, rooted in the service economy, or had financing structures and time horizons that were outside of the vanilla norms of conventional banking. The MSLP should be readily available to all American small and medium-sized businesses that are fighting to survive and to maintain their employees – including those for whom conventional banking services may not have been readily available even before this shutdown.

Based upon the results of our survey, the SBIA urges the Federal Reserve and Treasury to adopt the following amendments to the MSLP before it goes live:

- The current leverage limits for MSNLF (4x EBITDA) and MSELF (6x EBITDA) are too low and will shut out many lower and middle market businesses from accessing the facility. We believe these levels should be raised to 6x EBITDA for the MSNLF and 8x EBITDA for the MSELF to more accurately reflect the balance sheets of these businesses.
- Since most non-bank lenders and smaller companies typically do not utilize unadjusted EBITDA, the MSLP should allow for use of “adjusted” EBITDA, which permits customary add-backs and non-cash items.
- Earlier stage businesses that are unable to access the PPP because of affiliation rules may have generated insufficient EBITDA to access MSLP capital to save their business and protect their employees.
- Allow non-bank lenders, including Business Development Companies (BDCs) electing Regulated Investment Company status as set forth in the Internal Revenue Code Sec. 851(a)(1)(B) to be treated as “eligible lenders” under both the MSNLF and MSELF. The existing terms leave out many middle market businesses that rely on nonbank lenders for credit.
- The definition of an “eligible loan” in both the MSNLF and MSELF should be expanded to include loans made by entities electing Regulated Investment Company status as set forth in the Internal Revenue Code Sec. 851(a)(1)(B).
- Restrictions on dividends and stock repurchases under section 4003(c)(3)(A)(ii)(I) of the CARES Act should not be automatically applied, given the need for middle market businesses to attract and retain investors, and that both retail and institutional investors rely on the income generated from dividend payments as explained in greater detail below.
- At a minimum, the terms related to dividend restrictions should reflect the uniqueness of certain investment structures and pass-through entities (which make tax-related distributions to shareholders).
- Finally, in order for the Main Street Lending Program to achieve its intended goals, we urge Treasury and the Federal Reserve to issue updated guidance that allows certain entities to continue to pay dividends to investors. Among other requirements, BDCs are required to pay out at least 90 percent of their taxable income in the form of investor dividends. BDCs should not be disqualified from access to programs or facilities providing direct loans simply because they elect to pay out 90 percent of their taxable income, which ultimately goes to benefit individual investors, including in their 401(k) plans.

Regulators should allow BDCs, their portfolio companies, and other similarly situated entities to continue to serve businesses in the middle market and help sustain our economy through this unprecedented disruption.

We respectfully urge the Federal Reserve and Treasury to issue updated terms that reflect these changes so that the portfolio companies of our members can weather this unprecedented crisis until they are able to fully operate once again. The SBIA commends you for your leadership and is ready to assist in any way that we can.

Sincerely,

A handwritten signature in blue ink that reads "Brett Palmer". The signature is fluid and cursive, with the first name "Brett" and last name "Palmer" clearly distinguishable.

Brett Palmer  
President  
Small Business Investor Alliance