Title: Congressional Oversight Commission Examination of the Main Street Lending Program

Submitted Statement of Vincent D. Foster

Executive Chairman, Main Street Capital Corporation

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Members of the Commission:

Thank you for inviting me today to testify on the state of the Federal Reserve's Main Street Lending Program. I'm Vince Foster, Executive Chairman of Main Street Capital. Main Street Capital is an active member of the Small Business Investor Alliance in Washington. We provide "one-stop" capital solutions for lower middle market companies seeking to grow or transition ownership. Similar to other non-bank lenders in our space, we offer entrepreneurs, business owners, management and employees a number of advantages to help each business realize its full potential.

My testimony today will focus primarily on The Main Street New Loan Facility (MSNLF) and the Main Street Priority Loan Facility (MSPLF). Main Street Capital applauds the Federal Reserve's efforts to assist our nation's small and mid-sized businesses. Our firm provides long-term debt and equity financing to lower middle market (LMM) U.S. businesses (generally those with annual revenues between $10 million and $150 million). We currently have investments in 68 LMM business in over 26 states in which our average ownership is 36%. These businesses on average each have 200 employees.

The Main Street Lending Program, while enacted to assist businesses like our portfolio companies weather the economic storm brought on by the pandemic, is not responsive to their needs as currently structured. The principal structural problems are:

1. Requiring lenders to undertake full credit underwriting for small to mid-sized borrowers seeking 3 ¼%, 4-6X EBITDA loans results in a risk/reward mismatch. Lenders are better off expending their time and capital underwriting conventional loans.

2. Requiring 15% amortization in year three of the loans is a non-market and very onerous provision, effectively requiring the loans to be refinanced after two years.

3. Prohibiting contractual subordination (in the case of MSNLF) and requiring (in the case of MSPLF) senior or pari-passu priority to other/existing indebtedness is problematic in that most companies will have preexisting senior secured debt outstanding, the terms of which will have to be renegotiated.

4. Testing the maximum number of employees and revenue utilizing the affiliation rules contained in the Small Business Administration (SBA) regulations applicable to SBA Business Loans (e.g., 7(a) loans) dramatically reduces the number of companies eligible for the Main Street Lending Program. For example, if a business with 250 employees is owned by an entrepreneur who controls another company in an unrelated industry that also employs 300 employees, then both businesses are considered to employ over 500 employees, and neither business is eligible for an SBA Business Loan. This same concept is used for determining Main Street facility eligibility. Once affiliation has been

established, the affiliated group of companies (with limited exceptions) must share a single Main Street facility limitation amount (e.g., the lesser of 4X the company's 2019 adjusted EBITDA or $35 million for MSNLF loans, minus the amount of pre-existing indebtedness). As larger private companies are more likely to have sister companies that are under common control with them, this non-statutory test substantially reduces the number of these companies eligible for Main Street loans. Under the PPP program, commonly-controlled business entities are able to at least share double the single-company loan limitation of $10 million. The PPP loans were largely designed to be grants to less than 500 employee businesses; the Main Street loans in contrast must be fully repaid and can be extended to up to 15,000 employee companies, or groups of companies. Why should two companies under common control that each employ a total of 200 employees and have $20 million of preexisting debt be able to access up to $20 million in potentially forgivable PPP loans, while two companies each employing 7,000 employees and with preexisting debt of $20 million can only access $15 million (e.g., $7.5 million each) of MSNLF loans that must be repaid?

The lending facilities as currently structured are unattractive to those borrowers that are reasonably creditworthy as less restrictive financing is likely to be available from conventional sources. Yet the facilities remain unavailable due to lender reluctance to accept balance sheet exposure with respect to less creditworthy borrowers. So while the facilities may be acting as a "backstop" to currently available financing options in case economic conditions deteriorate, they are not advancing the policy goals of assisting those companies that either did not qualify for PPP loans (e.g., they had greater than 500 employees on their payroll or by attribution), or did

qualify and receive PPP assistance, but are in need of a longer term financing solution in order to maintain their current payroll levels.

The CARES Act as enacted by Congress grants the Federal Reserve and Treasury adequate flexibility to provide financial assistance to companies having fewer than 15,000 employees or less than $5 billion in annual revenues. However, the rules developed by the Federal Reserve to implement the program are too restrictive and burdensome to address the current need. Understandably, these rules operate to protect the government against credit losses, but credit losses will have to be incurred in all likelihood if these companies are going to receive the financial assistance Congress intended. Secretary Mnuchin acknowledged this reality when he stated that the Treasury Department was "fully prepared" to incur losses on the CARES Act facilities. The following structural changes would make the program more attractive to both lenders and borrowers to advance Congress's objectives:

1. The loans should be unsecured and subject to preexisting contractual subordination and rank junior in priority to other pre-existing senior indebtedness.

2. The loans should have a term of 7 years, generally sufficient to allow them to mature after the maturity dates of pre-existing indebtedness. Amortization should not begin until the end of year 4.

3. The multiples of 2019 adjusted EBITDA should be increased from 4X (MSNLF) and 6X (MSPLF) to 6X and 7.5X, respectively. There should also be elective asset-based criteria

(such as a percentage of loan to value and/or a 1.2X minimum debt service coverage ratio based on 2019 adjusted operating income) in lieu of using solely leverage multiples for all industries.

4. Experienced non-bank lenders should be permitted to participate as Eligible Lenders (similar to the PPP program); the loans should have an interest rate of LIBOR plus 400 rather than 300 basis points; and the upfront origination fee payable to the lenders should be increased to 200 basis points and be paid by Treasury (similar to the PPP program).

5. The affiliation rules should not limit an affiliated group to a single Main Street facility or a single facility's loan limitation if the group as a whole generates less than $5 billion in revenue and employs fewer than 15,000 employees, and more than one group member would like to access that or another Main Street facility.

6. One of our lenders, a highly respected and conservative regional bank, has elected not to participate in the Main Street Lending Program. They instead confirmed that their primary regulator had no issues with the bank utilizing the 2-year deferral of interest and principal feature utilized in the MSNLF and MSPLF in the bank's regular lending program to help provide certain qualified COVID-affected borrowers the extra liquidity they need to navigate the pandemic. Accordingly, it may be helpful to coordinate with the appropriate regulators as to whether this type of regulatory action might encourage other banks to similarly modify their lending programs to assist affected borrowers.

Respectfully Submitted,