Institute for Portfolio Alternatives

April 16, 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
20th St. and Constitution Ave. NW
Washington, DC 20551

Re: Main Street Lending Program

Dear Secretary Mnuchin and Chairman Powell:

The Institute for Portfolio Alternatives (IPA) writes regarding important and critical amendments, described below, to the Main Street Lending Program (MSLP), which consists of the Main Street New Loan Facility (MSNLF) and Main Street Expanded Loan Facility (MSELF).

The IPA[1] represents funds that provide portfolio diversifying investment products for main street investors that have low correlation to the traded markets and were historically available only to institutional investors. Those investment products include Business Development Companies, regulated under the Investment Company Act of 1940 (BDCs), that are a vital source of capital for America's small and middle-market businesses. BDCs were designed by Congress to invest in loans to small and mid-size private U.S. companies, and non-listed BDCs have managed up to $32 billion of investments for those companies.

The IPA appreciates the work of the Federal Reserve and Treasury Department in addressing the immediate needs and concerns of businesses and individuals during this unprecedented COVID-19 crisis. We strongly support the MSLP as a source of financing for middle-market businesses, many of which are ineligible for the Paycheck Protection Program (PPP) and are weeks away from running out of operating capital. The MSLP is necessary for many of the portfolio companies of BDCs that are the drivers of our American economy. Because many of those businesses were not able to receive conventional bank capital, however, certain amendments to the MSLP are necessary to allow those businesses to access the MSLP and continue operating during this uncertain time. We urge the following changes:

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[1] For over 30 years the IPA has raised awareness of portfolio diversifying investment (PDI) products among stakeholders and market participants, including investment professionals, policymakers and the investing public. We support increased access to investment strategies with low correlation to the equity markets: lifecycle real estate investment trusts (Lifecycle REITs), net asset value REITs (NAV REITs), business development companies (BDCs), interval funds and direct participation programs including DST investments (DPPs). With over $135 billion in capital investments, they remain a critical component of an effectively balanced investment portfolio and serve an essential capital formation function for national, state and local economies. Through advocacy and industry-leading education, the IPA is committed to ensuring that all investors have access to real assets and the opportunity to effectively diversify their investment portfolios.

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- 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 do not typically use 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 the SBA affiliate aggregation rule may not have generated sufficient EBITDA to access MSLP capital to save their business and protect their employees. Business that were told they were too large for the PPP should not now be told that they are too small for the MSLP. We can't allow these critical Main Street business to fall through the cracks.

- The existing terms leave out many middle market businesses that rely on nonbank lenders for credit. The MSLP should recognize non-bank lenders, including BDCs electing Regulated Investment Company status under Internal Revenue Code Sec. 851(a)(1)(B) as "eligible lenders" under both the MSNLF and MSELF.

- 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 under 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.

- At a minimum, the terms related to dividend restrictions should reflect the uniqueness of certain investment structures and pass-through entities which are required to make tax-related distributions to shareholders. Among other requirements, the Interal Revenue Code requires a BDC to pay out at least 90 percent of its taxable income each year as investor dividends. BDCs should not be disqualified from programs or facilities providing direct loans as a result of compliance with other legal obligations.

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 crisis. We appreciate your consideration of this request during this challenging time.

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If the IPA may be of any assistance, please do not hesitate to contact me or Anya Coverman, IPA's Senior Vice President, Government Affairs and General Counsel, at (202) 548-7190.

Sincerely,

Anthony Chereso
President & CEO, Institute for Portfolio Alternatives

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