

Chris Netram

*Vice President,
Tax and Domestic Economic Policy*

April 20, 2020

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Chairman Powell,

The National Association of Manufacturers appreciates the Federal Reserve's efforts to stabilize the economy via lending facilities designed to provide needed liquidity to businesses impacted by COVID-19. Speedy delivery of aid to manufacturers affected by the crisis is a key component of the NAM's advocacy.

Manufacturers of all sizes are facing significant business disruptions due to the COVID-19 crisis. As such, the NAM appreciates that the Federal Reserve has announced a wide range of liquidity facilities to meet the needs of small, medium-sized, and large businesses across the country. As you finalize the details of these programs in the coming weeks, it is vital that the terms and processes related to the various facilities collectively enable participation for any and all manufacturers in need of liquidity. Furthermore, the NAM encourages you to continue to provide clarity on key questions regarding the operation of the facilities, qualifications for participation, and processes for application and approval to enable businesses to make decisions on how best to protect themselves and their employees during these difficult times.

I. Main Street Lending Program

The NAM welcomed Congress's work via the Coronavirus Aid, Relief, and Economic Security (CARES) Act to authorize a new program to support lending to small and medium-sized businesses. We appreciate that the Federal Reserve is now taking steps to implement the Main Street New Loan Facility (MSNLF) and the Main Street Expanded Loan Facility (MSELF) to meet the capital needs of the wide range of small and medium-sized businesses that need financing to weather the economic disruption caused by COVID-19.

The Main Street Lending Program should address the needs of these smaller companies, which may not qualify for the Federal Reserve's facilities designed for larger businesses. The NAM encourages you to implement program qualifications and loan terms that ensure that small and medium-sized manufacturers can access needed funding via the Main Street Lending Program.

- **Decrease the minimum loan size.** The Main Street Lending Program has a minimum loan amount of \$1 million, but many small and medium-sized companies may need less financing based on their payroll and operating expenditures. For example, the data released by the Small Business Administration on the Paycheck Protection Program indicated that the average loan size for manufacturers was roughly \$375,000. In fact, 96% of all loans approved under the PPP were for less than \$1 million. While the overlap between the PPP and the Main Street Lending Program is not perfect, the Main Street terms should not exclude 96% of PPP businesses. Accordingly, the NAM encourages you to decrease the minimum loan size for the Main Street

Lending Program so as to allow more small businesses to participate in the MSNLF and MSELF.

- **Allow for alternative methods of calculating loan amounts.** Many businesses that would otherwise qualify for the Main Street Lending Program may find their participation limited by the maximum loan calculations for the MSNLF and MSELF, which rely on a borrower's 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA). Some small, pre-revenue, or start-up companies may not have sufficient earnings from 2019 to qualify for a meaningful loan amount (or perhaps for any loan at all) if the calculation must be based on EBITDA. These businesses may have other metrics that would better illustrate an appropriate loan size, including assets, tangible net worth, or payroll. The Federal Reserve should allow for flexibility for these small businesses and permit alternative metrics for determining the maximum loan amount beyond the proposed EBITDA calculations.
- **Reform the undrawn debt restriction.** The Main Street program's maximum loan calculations require a borrower to reduce its potential loan total by the amount of its existing outstanding and committed but undrawn debt. Many companies have undrawn debt that is nevertheless unavailable to them without the imposition by their lender of fees, penalties, restrictions, or limitations on their operations. (This undrawn debt is viewed as a "cushion" by lenders and is thus not truly available for businesses to draw down.) We encourage the Federal Reserve to modify the undrawn debt language in the MSNLF and MSELF maximum loan calculations to clarify that the maximum loan size should only be reduced by the amount of debt that is available to a borrower to be drawn without the imposition of fees, penalties, restrictions, or limitations on its operations.
- **Provide clarity on affiliation rules.** The Main Street Lending Program is available to businesses with up to 10,000 employees or up to \$2.5 billion in 2019 annual revenues. The NAM urges you to clarify that these and any other eligibility tests apply to the business applying for the loan on a standalone basis, not on a consolidated basis incorporating a small business's affiliates, parents, or parents' subsidiaries.
- **Encourage lenders to participate in the program.** It is vital that lenders feel comfortable with the risk profile associated with offering loans under the Main Street program. Small and medium-sized manufacturers desperately need access to liquidity to weather the current economic storm, so the NAM encourages the Federal Reserve to take reasonable steps to ensure that lenders will participate in the Main Street program. For example, the Federal Reserve could consider increasing the Main Street facilities' 95% participation rate in a new loan or an upsized loan tranche.
- **Provide clarity to businesses on implementation questions.** Given the speed with which the Federal Reserve plans to implement the new Main Street program, it is vital that lenders and borrowers understand the requirements to offer and access loans, respectively. We urge the Federal Reserve to announce and implement clear guidelines around eligibility, applications, processes, loan terms, and more in order to ensure smooth implementation of the program and allow small businesses to access needed funds.

II. Larger Business Liquidity Facilities

Over the past several weeks, the Federal Reserve has announced several facilities to provide liquidity to a wide range of businesses dealing with the economic consequences of COVID-19. These facilities—including the Primary Market Corporate Credit Facility (PMCCF), Secondary Market Corporate Credit Facility (SMCCF), Term Asset-Backed Securities Loan Facility (TALF), and Commercial Paper Funding Facility (CPFF)—are designed to inject capital into the U.S. economy and provide support for American businesses and workers. The NAM encourages the Federal Reserve to address certain key issues

related to these liquidity facilities in order to improve access to needed funding and speed America's economic recovery.

PMCCF, SMCCF, and TALF

- **Allow all companies with a significant U.S. presence to receive financing.** The NAM believes that the Federal Reserve should focus on the impact to U.S. workers when determining eligibility for its various liquidity facilities. As announced, the PMCCF, SMCCF, and TALF (as well as the Main Street Lending Program's MSNLF and MSELF) limit participation to businesses with a majority of employees based in the United States. In the NAM's view, the number of workers outside the United States is immaterial to the American families who are depending on their employers to continue to make payroll during the crisis. The Federal Reserve should ensure that all businesses with a significant presence in the United States—including businesses with foreign subsidiaries and/or foreign employees and U.S. subsidiaries whose parents are foreign-based or have foreign subsidiaries and/or foreign employees—are eligible for these vital programs and can access capital for the benefit of their employees based in the United States. Furthermore, the NAM believes that any tests designed to quantify a business's U.S. presence should be applied on a standalone basis rather than by consolidating employees or economic activity on an enterprise-wide basis.
- **Clarify the "specific support" prohibition for PMCCF and SMCCF issuers.** The term sheets released for the PMCCF and SMCCF exclude businesses that have received "specific support pursuant to the CARES Act or any subsequent federal legislation." The Federal Reserve should clarify that this prohibition does not apply to businesses participating in programs that were upsized via CARES Act Section 4003(b)(4) funds, which does not constitute "specific support" sufficient to exclude them from the PMCCF and SMCCF. The Federal Reserve should also clarify that businesses that benefitted from generally applicable provisions in the CARES Act, such as the law's tax provisions, would similarly not be excluded from the PMCCF and SMCCF.
- **Provide clarity on the applicability of certain CARES Act restrictions.** Section 4003(c)(3)(A)(ii) of the CARES Act restricts direct loans provided via facilities funded using Section 4003(b)(4) dollars to businesses that comply with certain restrictions on share repurchases, dividend payments, and executive compensation. Because these restrictions only apply to businesses receiving direct loans dispersed via CARES Act-funded facilities, the Federal Reserve should clarify that they do not apply to businesses participating in the PMCCF, SMCCF, or TALF. These facilities were upsized using CARES Act funds, but they are not direct loan facilities and, thus, participating businesses should not be subject to the Section 4003(c)(3)(A)(ii) restrictions.
- **Expand the PMCCF and SMCCF to non-investment grade issuers.** The term sheets released for the PMCCF and SMCCF limit participation in the facilities to issuers with at least a BBB-/Baa3 rating from a major nationally recognized statistical rating organization (NRSRO). However, many manufacturers, including those in the basic materials sector and its domestic supply chains, are "single-B" rated companies. These businesses are critical to sourcing materials, producing goods in the United States, and stimulating the American economy. The investment-grade prohibition limits participation from these healthy companies, many of which would otherwise qualify for and benefit from the PMCCF and SMCCF. The NAM encourages the Federal Reserve to relax this requirement and allow non-investment grade issuers, including at least issuers with a B-/B3 rating, to access needed financing via the facilities.
- **Expand the pool of acceptable PMCCF and SMCCF ratings agencies.** As noted above, qualification for the PMCCF and SMCCF is determined based on an issuer's rating from a major NRSRO. The Fed should provide flexibility by clarifying that ratings from any SEC-registered NRSRO, not just a major NRSRO, are sufficient for determining qualifications for both facilities.

CPFF

- **Expand the CPFF to Tier 2 issuers.** The term sheet released for the CPFF limits participation to issuers that have been rated at least A1/P1/F1 by a major NRSRO. Expanding CPFF participation to include Tier 2 issuers would not expose the facility to significantly higher credit risk but would allow a wider range of companies to access needed liquidity. The NAM encourages the Federal Reserve to relax the Tier 1 limitation, allowing for issuers to benefit from the CPFF if they have been rated at least A2/P2/F2.
- **Expand the pool of acceptable CPFF ratings agencies.** As noted above, qualification for the CPFF is determined based on an issuer's rating from a major NRSRO. The Fed should provide flexibility by clarifying that ratings from any SEC-registered NRSRO, not just a major NRSRO, are sufficient for determining qualifications for the CPFF.
- **Increase per-issuer purchase limits under the CPFF.** The term sheet released for the CPFF sets the maximum amount of an issuer's commercial paper that the CPFF special purpose vehicle may own as the greatest amount of commercial paper that the issuer had outstanding between March 16, 2019 and March 16, 2020. However, a one-year lookback to a period of strong economic performance is not indicative of a business's potential need to participate in the CPFF during the current economic crisis. The Federal Reserve should instead allow the CPFF special purpose vehicle to purchase commercial paper up to the amount authorized under an issuer's existing program, whether or not it had any commercial paper outstanding during the one-year window.

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The NAM has welcomed the Federal Reserve's aggressive actions to provide for new and expanded liquidity facilities for businesses impacted by COVID-19, and we appreciate your ongoing dedication to ensuring that these facilities work as well as possible for small, medium-sized, and large manufacturers.

On behalf of the NAM and the 13 million men and women who make things in America, thank you for your attention to these concerns.

Sincerely,



Chris Netram
Vice President, Tax and Domestic Economic Policy

cc: The Honorable Steven Mnuchin
The Honorable Mike Crapo
The Honorable Sherrrod Brown
The Honorable Maxine Waters
The Honorable Patrick McHenry