Examples of the Collateral Coverage Ratio:

What is the required collateral coverage ratio if all of the Eligible Borrower's other Loans and Debt Instruments are refinanced by an MSPLF Loan?

Question

If all of an Eligible Borrower's "Loans or Debt Instruments" are refinanced using an MSPLF Loan at the time of the MSPLF Loan's origination, does the MSPLF Loan need to have a 200% collateral coverage ratio?

Answer

No. All of the Eligible Borrower's Loans or Debt Instruments would be repaid with the proceeds of the MSPLF Loan, so it would have no existing secured debt at the time of MSPLF Loan origination. Therefore, the collateral coverage ratio would not apply.*

Example

- Lender A is underwriting an MSPLF Loan to Borrower B to refinance it existing $500,000 line of credit owed to Lender C. The existing line of credit is secured by all of Borrower B's assets, which are valued at $600,000.
- Lender A, using its ordinary underwriting practices, may choose to extend the MSPLF Loan on an unsecured basis, or may choose to require collateral to secure the loan, including by requiring a lien on all assets, which are valued at $600,000.
- The Main Street SPV's participation in the MSPLF Loan would have an initial principal amount of $475,000, and Lender A would retain $25,000 of the MSPLF Loan. The Main Street SPV and Lender A would share in the collateral securing the MSPLF Loan on a *pari passu* basis (ratably, without preference).

- The collateral coverage ratio implements the MSPLF term sheet requirement that an MSPLF Loan be senior to or *pari passu* with, in terms of security, an Eligible Borrower's other Loans or Debt Instruments. See FAQ C.5.
- If all of the Eligible Borrower's Loans or Debt Instruments will be repaid with the proceeds of an MSPLF loan, then the collateral coverage ratio would not apply. See FAQ C.6.
- The debt being refinanced cannot be owed to the Lender or the Lender's affiliate. See FAQ C.4.

* The collateral coverage ratio does not apply if the Eligible Borrower's outstanding debt is all unsecured.

Examples of the Collateral Coverage Ratio:

What is the required collateral coverage ratio if the Eligible Borrower's only existing debt is "Mortgage Debt"?

Question

Does the collateral coverage ratio apply if all the of the Eligible Borrower's "Loans or Debt Instruments" are qualified "Mortgage Debt" under the Main Street definition?

Answer

No. The collateral coverage ratio only applies if the Eligible Borrower has outstanding secured Loans or Debt Instruments that are not Mortgage Debt.

Example

- Borrower D's only existing loans are (1) a $1 million loan secured exclusively by real property and (2) a $2 million purchase money equipment loan that is secured only by the related equipment.
- Lender E is willing to extend Borrower D a $5 million MSPLF Loan.
- Lender E, using its ordinary underwriting practices, may choose to extend the MSPLF Loan on an unsecured basis, or may choose to require collateral to secure the loan.

- "Mortgage Debt" means:
  1. debt secured only by real property at the time of the MSPLF Loan's origination; and
  2. limited recourse equipment financings (including equipment capital or finance leasing and purchase money equipment loans) secured only by the acquired equipment. See FAQ C.5.
- An unsecured MSPLF Loan may not be contractually subordinated in terms of priority to the Eligible Borrower's other Loans or Debt Instruments. See FAQ C.5.
- This requirement does not prevent, for example, the issuance of an MSPLF Loan that is an unsecured loan to an Eligible Borrower, nor does it prohibit an MSPLF Loan that is secured in a second lien position by real property that secures qualifying Mortgage Debt. See FAQ C.5 and D.3.

Examples of the Collateral Coverage Ratio:

Is the collateral coverage ratio on an MSPLF Loan ever required to exceed 200%?

Question

If an Eligible Borrower's existing "Loans and Debt Instruments" have a collective collateral coverage ratio of over 200%, does the MSPLF Loan need to have at least the same collateral coverage ratio?

Answer

No. An MSPLF Loan's collateral coverage ratio never needs to exceed 200%, even if the Borrower's other Loans and Debt Instruments have a collateral coverage ratio above 200%.

Example

- *Borrower F's Loans and Debt Instruments:*
  - A $25 million loan with Lender G secured by inventory ($40 million), an investment account ($15 million), and cash ($5 million). Collateral Coverage Ratio of 240%.
  - A $2 million revolver with Lender G secured by $5 million in receivables. Collateral coverage ratio of 250%.
  - Borrower I's static collateral coverage ratio for other Loans and Debt Instruments: 241%
- Lender H is willing to refinance Borrower F's $25 million loan through the MSPLF. It could choose, for example, to require either of the following combinations of collateral:
  1. Inventory ($40 million), investment account ($15 million), and cash ($5 million), which would achieve a CCR of 240%.
  2. Inventory ($40 million) and investment account ($15 million), which would achieve a CCR of 220%.

- The CCR for the MSPLF Loan at the time of its origination must be either:
  - i. at least 200%; or
  - ii. not less than the aggregate collateral coverage ratio for all of the Borrower's other secured Loans or Debt Instruments (other than Mortgage Debt). See FAQ C.5.
- However, the MSPLF Loan need not share in all of the collateral that secures the Eligible Borrower's other Loans or Debt Instruments. See FAQ C.5.

Examples of the Collateral Coverage Ratio:

How do I calculate the required collateral coverage ratio when it is not required to be 200%?

Question

If an Eligible Borrower's existing "Loans and Debt Instruments" have a collective collateral coverage ratio of less than 200%, does the MSPLF Loan need to have at least the same collateral coverage ratio?

Answer

Yes. An MSPLF Loan's collateral coverage ratio must be at least as much as the collateral coverage ratio of an Eligible Borrower's other Loans and Debt Instruments.

Example

- *Borrower I's Loans and Debt Instruments:*
  - A $20 million loan* with Lender J secured by commercial real estate ($30 million) and inventory ($5 million). Collateral coverage ratio is 175%.
  - An $8 million loan with Lender K secured by receivables ($10 million). Collateral coverage ratio is 125%.
  - Borrower I's static collateral coverage ratio for other Loans and Debt Instruments is 161%
- Borrower I also has $10 million of equipment that is unencumbered.
- Lender J is willing to extend Borrower an additional $6 million loan through the MSPLF. It could choose, for example, to require either of the following combinations of collateral:
  1. Equipment ($10 million) as sole collateral, which would achieve a collateral coverage ratio of 167% (exceeding 161%).
  2. Commercial real estate ($30 million) and inventory ($5 million), on a *pari passu* basis, with Borrower I's existing loan from Lender J.
     - The Borrower's collateral coverage ratio on its other Loans and Debt Instruments would change to 132%.
     - The MSPLF Loan's collateral coverage ratio would be 134%.

- In this example, the Eligible Borrower's collateral coverage ratio on its Loan or Debt Instruments does not exceed 200%. Therefore, the MSPLF Loan must have a collateral coverage ratio that is at least as much as the Eligible Borrower's other Loans and Debt Instruments at the time of origination of the MSPLF Loan. See FAQ C.5.
- If the MSPLF Loan is secured by the same collateral as any of the Eligible Borrower's other Loans or Debt Instruments (other than Mortgage Debt), the lien upon such collateral securing the MSPLF Loan must be and remain senior to or *pari passu* with the lien(s) of the other creditor(s) upon such collateral. See FAQ C.5.

* This loan would not be "Mortgage Debt" since it is not secured solely by real property.