

May 6, 2020

Mr. Eric S. Rosengren  
President & Chief Executive Officer  
Federal Reserve Bank of Boston  
600 Atlantic Avenue  
Boston, MA 02210-2204

***Re: Expansion of the Main Street Lending Program***

Dear Mr. Rosengren,

Founded in 1916, the American Financial Services Association (AFSA) is the national trade association for the consumer credit industry, protecting access to credit and consumer choice. AFSA members provide consumers with many kinds of credit, including traditional installment loans, mortgages, direct and indirect vehicle financing, payment cards, and retail sales finance.

Many AFSA members are “main street” businesses. Some are businesses that have been passed down through generations. They are community-based businesses that are worried about how they are going to pay their employees, much like many other small and mid-sized businesses right now.

The Main Street Lending Program (MSLP) was designed to provide relief to small and mid-sized businesses. As such, it is unclear why certain industries have been disqualified from the program. For no apparent reason, finance companies are ineligible to participate. We are hoping that you will strongly consider changing that.

Finance companies cannot borrow under the MSLP for two reasons, as outlined below:

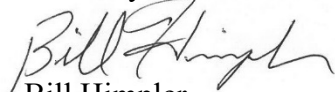
- (1) According to the MSLP FAQs, an ineligible business includes, “Businesses listed in 13 CFR 120.110(b)-(j), (m)-(s), as modified and clarified by SBA regulations for purposes of the PPP on or before April 24, 2020. Such modifications and clarifications include the SBA’s recent interim final rules available at 85 Fed. Reg. 20811, 85 Fed. Reg. 21747, and 85 Fed. Reg. 23450. 13 CFR 120.110(b) specifies that financial businesses primarily engaged in the business of lending, such as banks and finance companies are ineligible for SBA business loans.
  
- (2) An eligible loan for one of the MSLP facilities includes: an amount that, when added to the Eligible Borrower’s existing outstanding and undrawn available debt, does not exceed 4 – 6 times (depending on the Main Street Lending facility) the Eligible Borrower’s adjusted 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA). While appropriate for a number of industries, the proposed debt-to-EBITDA metrics mean that many finance companies will fail to qualify for the MSLP. Many financial services companies raise the majority of their debt via securitization. Issuers can essentially choose to account for securitizations as on-balance-sheet debt or as a sale in which the assets leave the balance sheet and, therefore, no debt appears on the balance sheet. Finance companies generally ensure that they account for securitization as debt so as to avoid gain-on-sale accounting. For finance companies

that account for their securitizations as on-balance-sheet transactions, debt-to-EBITDA measures are typically quite high. Lenders are leveraged entities, and the amount of leverage suitable for lenders is generally higher than the amount of leverage tolerated in other sectors. EBITDA, in fact, is not a metric used by bankers who cover the lending sector – money is a lender’s primary raw material, so considering earnings before interest (the cost of that raw material) is rather like considering a sofa manufacturer’s earnings before cost of wood, fabric, and nails.

We ask that the Federal Reserve designate state-licensed and -regulated finance companies, including vehicle finance companies, credit card issuers, and traditional installment lenders, as eligible businesses. After all, the Department of Homeland Security classified these businesses as essential.<sup>1</sup> In addition, the Federal Reserve should either: (1) recognize that securitization debt is non-recourse to the issuer and, therefore, does not need to be counted in the EBITDA calculation, or (2) require an alternative leverage metric and/or threshold that is more suitable for the financial services sector.

Please contact me with any questions at 202-466-8616 or [bhimpler@afsamail.org](mailto:bhimpler@afsamail.org).

Sincerely,



Bill Himpler

President & CEO

American Financial Services Association

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<sup>1</sup> <https://www.cisa.gov/financial-services-sector>