NRF®
THE VOICE OF RETAIL

April 16, 2020

BY ELECTRONIC MAIL

The Honorable Jerome Powell
Chairperson, Board of Governors
Federal Reserve System
Eccles Federal Reserve Board Building
Washington, DC 20551

The Honorable Steven Mnuchin
Secretary of the Treasury
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Chairman Powell and Secretary Mnuchin:

Retail is the nation's largest private sector employer, supporting one in four U.S. jobs. As the Federal Reserve cited in its Beige Book report issued yesterday, the retail industry has been especially hard hit by social distancing measures and mandated closures.

The National Retail Federation (NRF) is the world's largest retail trade association, representing discount and department stores, home goods and specialty stores, Main Street merchants, grocers, wholesalers, chain restaurants, and internet retailers in the United States. As the American public stays home due to voluntary and mandatory social distancing, the retail industry pays the price along with the tens of millions of Americans who work in stores and restaurants. Labor and benefit obligations, vendor payments, rents, and loan payments are all crippling burdens without sales revenue. Our members are suffering cumulative losses that amount to tens of billions of dollars each week, and many parts of the retail sector have seen revenues shrink by 90-100% compared to the same period last year.

The NRF urges you to take steps now to ensure that our nation's largest retailers can rely on the same economic support programs that have been made available to America's small businesses and largest corporations. Prompt access to financial relief should be available to hard-hit businesses of all sizes. If appropriate attention is not paid to the financial needs of this important sector, the disruptions of the pandemic on retailers and their workers may have adverse long-term consequences on the larger economy.

The Federal Reserve and the Treasury Department possess broad discretion with these programs, including the Main Street Lending Program and the Primary Market Corporate Credit Facility ("PMCCF")—the two programs in which our members have expressed the most interest. We are concerned that, while helpful to some, the Main Street Lending Program and PMCCF eligibility requirements are so limiting that many critical businesses in need of financial assistance will not qualify for relief. Expanding the eligibility criteria for these programs will provide much needed support to some of America's most recognizable brands and, most importantly, their workers who have been severely impacted by the pandemic.

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At the outset, we note that getting access to these facilities as quickly as possible is of paramount concern to our members. Retailers want to know how quickly they can be accessed and have multiple questions about how they will work. An overarching concern shared by thousands of our members across the country is that, when their May rents come due, a domino effect of defaults and foreclosures could upend the commercial mortgage market, many community banks, and state and local tax bases. Getting cash to our members as quickly as possible will provide a financial tourniquet that entire communities need to survive.

In assessing the programs announced to date, it seems clear that the Federal Reserve and Treasury Department have made a qualitative judgment that mid-sized companies can be served by allowing the relief at the top and bottom ends of the market to trickle "down the credit stack." This strategy may work in theory, but our members report that they are not seeing strong signs that the markets serving their liquidity needs are loosening. Moreover, the absence of a direct lending option or a clearly defined facility serving these firms sends the unfortunate signal that help is not likely to be forthcoming from the Title IV CARES Act programs, and these firms must take more drastic steps to relieve the economic pressure.

We strongly encourage the Treasury and Reserve to consider the unintended consequences of some of the proscriptive requirements attached to the lending facilities and how they may impact retailers of all sizes. In cases where the eligibility criteria are too narrow for American retailers, we ask that your respective agencies exercise discretion to make these programs more widely available.

Greater flexibility in eligibility criteria means that more businesses can access the financial assistance they need. For example, many retail companies will not qualify for the Main Street Lending Program as designed because they employ more than 10,000 individuals. Other retailers earned more than $2.5 billion in revenue in 2019 (though some of those will not in 2020). Based on public data, nearly 200 non-investment grade borrowers that do not qualify for access to the PMCCF or other Federal Reserve programs do not currently meet the 10,000 employee/$2.5bn revenue criteria as contained in the MSNLF and MSELF term sheets. As written, the Main Street Lending Program is out of reach for these businesses, despite their need.

Specifically, the Main Street Lending Program's EBITDA requirements add an additional hurdle to a business's ability to access assistance through the Main Street Lending Program. We respectfully request that the Federal Reserve confirm that the EBITDA calculation excludes the untapped portion of any revolving debt facility, which would otherwise artificially constrain loan amounts.

In addition, the blunt EBITDA ratio requirements in the maximum loan amount calculations do not account for one-time revenue hits, which could result in the exclusion of struggling businesses that would be otherwise eligible. We urge you to consider an accommodation for borrowers who face this type of situation.

We would also like to observe that limiting the definition of Eligible Loan under the Main Street Expanded Loan Facility to a "term loan" may be inconsistent with the kinds of committed revolving loan facilities common in retail. Simply expanding the definition to include a revolving loan facility in addition to a term loan is appropriate as the ability of an otherwise Eligible Borrower to access the Main Street Expanded Loan Facility should not be dependent on the nature of such Eligible Borrower's existing credit facility, so long as such credit facility is provided by one or more Eligible Lenders. In fact, the term sheet otherwise seems to account for a committed revolving loan facility since the definition of Maximum Loan Size refers to an Eligible Borrower's existing outstanding and committed but undrawn debt.

As you consider expanding the Main Street Lending Program, please also consider using your discretion to ensure that the PMCCF is available to companies that were healthy before the covid-19 outbreak, even if they had low revenue margins (as most retailers do) before March 2020, some leverage, and were below investment grade. Under the PMCCF, flexible and lower investment grade ratings that account for companies with split credit ratings would expand the range of eligible participants. Only allowing investment grade companies to participate automatically excludes certain specialty retailers whose size and sales are below the rating agencies' size threshold. As a result, the PMCCF is off limits for some businesses with strong pre-pandemic business models.

In general, with all of these programs, expanded credit criteria, longer loan durations, and higher loan amount limits would ensure long-term success for borrowers, and our economy. At the end of the day, regardless of the specific technical solution, our retailers need access to economic support, and they need access now. These companies are looking for a way to keep their employees on the payroll and provide the goods and services that their customers enjoy.

In closing, I thank you for your extraordinary leadership and public service at this unprecedented time. The NRF's members support the swift efforts of your institutions, the Trump Administration and Congressional leadership to address the public health and economic challenges our country faces.

Sincerely,

David French
Senior Vice President
Government Relations

cc: Members of the Board of Governors of the Federal Reserve System