3-10-2022

Audited Annual Financial Statements: MS Facilities LLC

Federal Reserve System: Federal Reserve Bank of Boston

Financial Statements:

MS Facilities LLC

A Limited Liability Company Consolidated by the Federal Reserve Bank of Boston

For the year ended December 31, 2021,
and for the period from May 18, 2020 to December 31, 2020 and Independent Auditors' Report

MS Facilities LLC

Contents

KPMG LLP
Two Financial Center
60 South Street
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Report of Independent Registered Public Accounting Firm

To the Managing Member of MS Facilities LLC:

Opinion on the Financial Statements

We have audited the accompanying statements of financial condition of MS Facilities LLC (a Special Purpose Vehicle consolidated by the Federal Reserve Bank of Boston) (the “LLC”) as of December 31, 2021 and 2020, the related statements of operations, changes in members’ equity, and cash flows for the year ended December 31, 2021 and period from May 18, 2020 to December 31, 2020 and the related notes (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the LLC as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the year ended December 31, 2021 and the period from May 18, 2020 to December 31, 2020, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the LLC’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the LLC in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for loan losses related to loans collectively evaluated for impairment

As discussed in Notes 2 and 4 to the financial statements as of December 31, 2021, the LLC’s total allowance for loan losses was $2,029 million, of which $905 million related to the allowance for loan losses for loans collectively evaluated for impairment (the general allowance). The LLC’s general allowance includes both a quantitative and qualitative component. The LLC estimates the quantitative component of the general allowance using a methodology that incorporates probability of default (PD) and loss given default (LGD) factors which are applied to the exposure at default (principal amount outstanding) based on internal risk rating models grouped into Services and Non-services loan segments for rating purposes. Such calculated loss factors include estimates of incurred losses over an estimated loss emergence period. Adjustments for qualitative factors are made, if necessary, to reflect the then-current environment when internal and external factors are identified that are not captured by the quantitative component of the general allowance.

We identified the assessment of the general allowance as a critical audit matter. A high degree of audit effort, including specialized skills and knowledge, and subjective and complex auditor judgment was involved in the assessment due to significant measurement uncertainty. Specifically, the assessment encompassed the evaluation of the general allowance methodology, including the methods and model used to estimate (1) the PD factors, LGD factors, risk ratings and their significant assumptions, including portfolio segmentation and the loss emergence period and (2) the qualitative factor adjustments. The assessment also included an evaluation of the conceptual soundness of the risk rating models. In addition, auditor judgment was required to evaluate the sufficiency of audit evidence obtained.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the LLC's measurement of the estimate of the general allowance, including controls over the:

- development of the general allowance methodology
- continued use and appropriate changes made to the risk rating models
- identification and determination of significant assumptions used in the risk rating models
- determination of the PD and LGD factors
- development of the qualitative factor adjustments
- performance monitoring of the risk rating models
- analysis of the general allowance results and ratios.

We evaluated the LLC's process to develop the estimate of the general allowance by testing certain sources of data, factors, and assumptions that the LLC used, and considered the relevance and reliability of such data, factors, and assumptions. In addition, we involved credit risk professionals with specialized skills and knowledge, who assisted in:

- evaluating the LLC's general allowance methodology for compliance with U.S. generally accepted accounting principles
- evaluating judgments made by the LLC relative to the assessment of the risk rating models and the PD and LGD factors by comparing them to relevant LLC specific metrics and the applicable industry and regulatory practices
- assessing the conceptual soundness of the risk rating models by inspecting the model documentation to determine whether the models are suitable for their intended use
- assessing the determination of the PD and LGD factors by comparing them to portfolio risk characteristics
- determining whether the loan portfolio is appropriately segmented by risk characteristics by considering the LLC's business environment and relevant industry practices
- evaluating the length of the loss emergence period by comparing it to portfolio risk characteristics and relevant industry practices

- evaluating the methodology used to develop qualitative factor adjustments and the effect of those factors on the general allowance compared with relevant credit risk factors and consistency with credit trends and identified limitations of the underlying quantitative component of the general allowance methodology.

We also assessed the sufficiency of the audit evidence obtained related to the estimate of the general allowance by evaluating the:

- cumulative results of the audit procedures
- qualitative aspects of the LLC's accounting practices
- potential bias in the accounting estimate.

KPMG LLP

We have served as the LLC's auditor since 2020.

Boston, Massachusetts
March 10, 2022

Abbreviations

ASC	**Accounting Standards Codification**
FASB	**Financial Accounting Standards Board**
FRBB	**Federal Reserve Bank of Boston**
FRBNY	**Federal Reserve Bank of New York**
GAAP	**Accounting principles generally accepted in the United States of America**
LLC	**Limited liability company**
Main Street	**MS Facilities LLC**
MSELF	**Main Street Expanded Loan Facility**
MSLP	**Main Street Lending Program**
MSNLF	**Main Street New Loan Facility**
MSPLF	**Main Street Priority Loan Facility**
NOELF	**Nonprofit Organization Expanded Loan Facility**
NONLF	**Nonprofit Organization New Loan Facility**

Statements of Financial Condition

As of December 31, 2021 and 2020
(Amounts in thousands)

		2021	2020
ASSETS			
Cash and cash equivalents	Note 3	$ 571,887	$ 129,309
Restricted cash and cash equivalents			
Cash deposit	Note 3	2,358,527	5,625,000
Short-term investments in non-marketable securities	Note 3	13,332,204	31,888,629
Loan participations			
Loan participations, at principal amount outstanding, net of charge-offs	Note 3	15,393,872	16,509,968
Principal and interest receivable		79,518	50,088
Allowance for loan losses	Note 4	(2,029,242)	(2,413,286)
Loan participations, at principal amount outstanding, net of allowance and charge-offs including interest		13,444,148	14,146,770
Other assets		6	-
Total assets		29,706,772	51,789,708
LIABILITIES AND MEMBERS' EQUITY			
Liabilities			
Loans payable to FRBB	Note 6	15,477,798	16,501,590
Interest payable	Note 6	16,791	1,722
Service fees payable		29,631	4,331
Transaction fees, deferred revenue	Note 2	118,784	165,637
Professional fees payable		2,596	8,504
Other liabilities	Note 2,8	1,180	10,329
Total liabilities		15,646,780	16,692,113
Commitments and contingencies	Note 8		
Members' equity	Note 7	14,059,992	35,097,595
Total liabilities and members' equity		$ 29,706,772	$ 51,789,708

The accompanying notes are an integral part of these financial statements.

Statements of Operations

For the year ended December 31, 2021 and the period from May 18, 2020 to December 31, 2020
(Amounts in thousands)

		For the year ended December 31, 2021	For the period from May 18, 2020 to December 31, 2020
INCOME			
Interest income		$ 442,154	$ 72,901
Transaction fees and other income		47,908	3,533
Total operating income		490,062	76,434
EXPENSES			
Loans interest expense	Note 6	16,165	1,722
Loan participation servicing costs		40,719	4,331
Provision for loan losses	Note 4	(367,286)	2,413,286
Professional fees		22,802	49,171
Other non-interest (income) expense	Note 8	(10,329)	10,329
Total operating (income) expense		(297,929)	2,478,839
Net operating income (loss)	Note 7	$ 787,991	$ (2,402,405)

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Members' Equity

For the year ended December 31, 2021 and the period from May 18, 2020 to December 31, 2020
(Amounts in thousands)

		Members' contributed equity	Net operating income (loss)	Total members' equity
Members' equity, May 18, 2020		$ -	$ -	$ -
Members' contributions (distributions)	Note 7	37,500,000	-	37,500,000
Undistributed net operating income (loss)	Note 7	-	(2,402,405)	(2,402,405)
Members' equity, December 31, 2020		$ 37,500,000	$ (2,402,405)	$ 35,097,595
Members' contributions (distributions)	Note 7	$ (21,825,594)	$ -	$ (21,825,594)
Undistributed net operating income (loss)	Note 7	-	787,991	787,991
Members' equity, December 31, 2021		$ 15,674,406	$ (1,614,414)	$ 14,059,992

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

For the year ended December 31, 2021 and the period from May 18, 2020 to December 31, 2020
(Amounts in thousands)

		For the year ended December 31, 2021		For the period from May 18, 2020 to December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES				
Net operating income (loss)	$	787,991	$	(2,402,405)
Adjustments to reconcile net operating (income) loss to net cash provided by (used in) operating activities:				
Provision for loan losses		(367,286)		2,413,286
Capitalization of interest on loan participations		(374,624)		(9,554)
Interest charged-off		(195)		-
Increase in interest payable		15,069		1,722
Increase in service fees payable		25,300		4,331
Increase (decrease) in transaction fees, deferred revenue		(46,853)		165,637
(Increase) in principal and interest receivable and other assets		(29,436)		(50,088)
Increase (decrease) in professional fees payable and other liabilities		(15,057)		18,833
Cash (used in) provided by operating activities		(5,091)		141,762
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for purchases of loan participations		(84,369)		(16,501,704)
Proceeds from loan repayments		1,558,526		1,290
Cash (used in) provided by investing activities		1,474,157		(16,500,414)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from contributed capital		-		37,500,000
Distributions of contributed capital		(21,825,594)		-
Proceeds from loans payable to FRBB		84,369		16,503,547
Repayment of loans payable to FRBB		(1,108,161)		(1,957)
Cash (used in) provided by financing activities		(22,849,386)		54,001,590
Net increase (decrease) in cash and cash equivalents, restricted cash and cash equivalents		(21,380,320)		37,642,938
Beginning cash and cash equivalents, restricted cash and cash equivalents		37,642,938		-
Ending cash and cash equivalents, restricted cash and cash equivalents	$	16,262,618	$	37,642,938
SUPPLEMENTAL CASH FLOW DISCLOSURE				
Cash paid for interest	$	1,097	$	-

The accompanying notes are an integral part of these financial statements.

(1) ORGANIZATION, NATURE OF BUSINESS, AND FINANCING

In accordance with section 13(3) of the Federal Reserve Act and with prior approval from the Secretary of the Treasury, the Board of Governors of the Federal Reserve System (Board of Governors) authorized the Federal Reserve Bank of Boston ("FRBB") to establish MS Facilities LLC ("the LLC"), a limited liability company. The LLC was created to support lending to small and medium-sized businesses and nonprofit organizations that were in sound financial condition before the onset of the COVID-19 pandemic. The Main Street Lending Program ("MSLP") was established with five facilities: the Main Street New Loan Facility ("MSNLF"), the Main Street Priority Loan Facility ("MSPLF"), the Main Street Expanded Loan Facility ("MSELF"), the Nonprofit Organization New Loan Facility ("NONLF") and the Nonprofit Organization Expanded Loan Facility ("NOELF") (collectively the "Facilities"). Main Street's purpose is to provide credit to eligible borrowers by purchasing participations in eligible loans originated by eligible lenders. An eligible lender is a U.S. federally insured depository institution (including a bank, savings association, or credit union), a U.S. branch or agency of a foreign bank, a U.S. bank holding company, a U.S. savings and loan holding company, a U.S. intermediate holding company of a foreign banking organization, or a U.S. subsidiary of any of the foregoing ("Eligible Lender"). Eligible Lenders retained 5% of each loan in which the LLC purchased a participation. Eligible Lenders were able to originate new loans (under MSNLF, MSPLF and NONLF) or increase the size of (or upsize) existing loans (under MSELF and NOELF) made to eligible borrowers. All loan participations purchased for the Facilities are held by the LLC. The authorization to purchase loan participations through the MSLP ended on January 8, 2021. No loans were originated under NOELF.

MS Facilities LLC is a Delaware LLC formed in connection with the implementation of MSLP on May 18, 2020. The LLC has two members: FRBB, which is the LLC's managing member and the U.S. Department of the Treasury ("Treasury"), which is the preferred equity member. The managing member has the exclusive rights to manage the LLC. The preferred equity member contributed capital to the LLC using funds from the Exchange Stabilization Fund under section 4027 of the Coronavirus Aid, Relief, and Economic Security Act.

FRBB also serves as the lender to the LLC. FRBB extended $16.6 billion in loans to the LLC to fund the purchase of loan participations. The loans made by FRBB are full recourse obligations of the LLC and secured by all assets of the LLC. The LLC records a liability in the Statements of Financial Condition when FRBB funds the loan to the LLC. Interest on the loans is paid on the repayment date of the relevant loan or in order of priority set forth in the credit agreement between the LLC and FRBB.

To be eligible for purchase by the LLC, eligible loans must have met certain requirements specified in program term sheets. These term sheets required loans to have been originated after specified dates, have a maturity of 5 years, charge a specified LIBOR based floating interest rate, defer interest and principal payments on a set schedule, permit prepayment without penalty, maintain a certain level of priority and meet other program-specific eligibility requirements. Upon the LLC's purchase of a loan participation, the Eligible Lender was required to pay the LLC a non-refundable transaction fee of 100 basis points of the principal amount of the MSNLF, MSPLF, NONLF loan, and 75 basis points of the principal amount of the MSELF and NOELF increased loan amount at the time of upsizing. No transaction fees were paid to the LLC on loans with an initial principal amount of less than $250,000. In addition, the LLC pays an eligible lender an annual servicing fee on the original principal amount of the loan participation of 25 basis points for loans with an initial principal amount of $250,000 or more and 50 basis points for loans with an initial principal amount of less than $250,000. The servicing fee is paid by the LLC to the Eligible Lender annually in arrears within sixty (60) days of each one-year anniversary of the loan participation agreement date.

All available cash receipts of the LLC are used to pay its obligations as described in Note 7. Distributions of residual proceeds to the members will occur after all loans from FRBB are repaid in full. During the life of the LLC, undistributed net operating income or loss is reported as "Undistributed net operating income (loss)" in the Statements of Changes in Members' Equity.

The LLC invests unused cash receipts from transaction fees and related investment earnings in a government money market fund.

Various service providers for legal, accounting, custodial, credit administrative, and workout advisor services were engaged to provide services to the LLC. State Street Bank and Trust Company ("State Street") provides custodian and accounting administrator services for the LLC. Guidehouse, Inc., working in partnership with PricewaterhouseCoopers LLP provides credit administration services and FTI Consulting, Inc. provides workout advisor and administration services to the LLC. A variety of legal firms and other professional services firms, including temporary staffing agencies may also be engaged by the LLC on an as-needed basis to support LLC operations. The LLC does not have any employees and therefore does not bear any employee-related costs.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America ("GAAP"), which require the managing member to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting period. Significant items subject to such estimates and assumptions include the carrying value of investments and allowance for loan losses. Actual results could differ from those estimates.

Significant accounts and accounting policies are explained below.

a. Cash and Cash Equivalents, Restricted Cash and Cash Equivalents

The LLC defines investments in money market funds and other highly liquid investments with original maturities of three months or less, when acquired, as cash equivalents.

For the LLC, cash is received from fees and interest earnings from purchased loan participations and investments. This cash is used primarily for the payment of operating expenses. The funds are invested in a government money market fund registered under the Investment Company Act of 1940. As of December 31, 2021 and December 31, 2020, the LLC had approximately $520 million and $129 million, respectively, invested in a government money market fund. Investments in money market funds are valued at their closing net asset value (NAV) each business day. Interest earned and not yet received from the government money market fund investment is included in "Other assets" in the Statements of Financial Condition.

In accordance with the terms of the LLC Preferred Equity Investment Agreement, approximately 85 percent of the Treasury's initial equity contribution was invested in overnight non-marketable securities issued by the Treasury to the LLC. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 230-10, *Statements of Cash Flows*, the Treasury's investments are reported as restricted cash and cash equivalents as there are contractual limitations and restrictions on the use of the funds and ability to withdraw the funds. The investments in overnight non-marketable Treasury securities are recorded at amortized cost and shown as “Restricted cash and cash equivalents: Short-term investments in non-marketable securities” on the Statements of Financial Condition and are included in "Net increase (decrease) in cash and cash equivalents, restricted cash and cash equivalents" on the Statements of Cash Flows. The remaining Treasury equity contribution is held in cash on deposit at FRBNY to support the liquidity needs of the LLC and is reported as “Restricted cash and cash equivalents: Cash deposit” in the Statements of Financial Condition and is included in "Net change in cash and cash equivalents, restricted cash and cash equivalents" in the Statements of Cash Flows.

b. Loan Participations

Under the MSLP, the LLC purchased 95 percent participation interests in loans originated by Eligible Lenders. Purchased loan participations are recorded at cost of purchase, plus capitalized interest, less any principal paydowns and charge-offs and treated as loans. The LLC recognizes interest income on loan participations daily based on the underlying contractual terms of the loans. Interest income on the purchased loan participations is reported as “Interest Income” in the Statements of Operations.

c. Credit Impairments / Allowance for Loan Losses and Charge-Offs

The allowance for loan losses (the "Allowance") and charge-offs consist of loan participations collectively evaluated for impairment and specific reserves for impaired loan participations and reflects management's estimate of probable loan losses inherent in the loan participations portfolio at reporting date and calculated in accordance with FASB ASC 310-10, Receivables and FASB ASC 450-20, Loss Contingencies.

Loan participations that meet a certain materiality threshold and meet triggers tied to performance or credit rating are evaluated for impairment under FASB ASC 310-10, *Receivables*. A loan is considered impaired when it is determined to be probable that the LLC will be unable to collect all of the contractual interest and principal payments scheduled in the loan agreement. For purposes of the MSLP, a loss is generally deemed probable when (1) an individual loan participation is assigned a doubtful classification or below or, (2) it is placed on non-accrual status due to delinquency status (90 days past due) or management judgment. For loan participations purchased by the LLC that have been deemed impaired and meet a certain materiality threshold, a loss allowance is measured at the individual loan level. Loan participations reviewed through this process deemed not to be impaired and all other loans not subject to individual evaluation are subject to a general reserve under FASB ASC 450-20, *Loss Contingencies*. The LLC’s general reserve includes both quantitative and qualitative components.

d. Interest Income

Interest income on short-term investments in non-marketable securities is recorded when earned and received daily based on an overnight rate established by the Treasury’s Bureau of the Fiscal Service. Interest income earned on the invested portion of the preferred equity member contributions for the periods ended December 31, 2021 and 2020 was approximately $3.6 million and $13.6 million, respectively, and is reported as a component of “Interest income” in the Statements of Operations.

The LLC recognizes interest income on loan participations based on the underlying contractual terms of the loans. Interest income recognition ceases when the underlying loan is placed on nonaccrual status. The accrual of interest income on a MSLP loan is suspended when it is probable that the LLC will be unable to collect all or some of the amounts due, including both the contractual interest and principal payments under the loan agreement. A loan is placed on non-accrual status if the instrument becomes due and unpaid for 90 days, or earlier if management determines that full collection of all amounts due is not probable, such as when a loan is deemed impaired. The LLC prospectively discontinues the recognition of interest income when a loan is placed on non-accrual status. Interest income earned on loan participations for the periods ended December 31, 2021 and 2020 was approximately $438.5 million and $59.3 million, respectively, and is reported as a component of “Interest income” in the Statements of Operations.

e. Transaction Fees and Other Income

The transaction fee collected upon the purchase of an eligible loan participation from an eligible lender is recorded separately from the loan participation and reported as "Transaction fees, deferred revenue" in the Statements of Financial Condition and as "Transaction fees and other income" in the Statements of Operations when earned. In accordance with FASB ASC 310-20, *Receivables-Nonrefundable Fees and Other Costs*, transaction fees are deferred and amortized over the term of the loan. Transaction fees earned for the periods ended December 31, 2021 and 2020 were approximately $47.7 million and $3.5 million, respectively.

Amendment or other similar miscellaneous fees are paid by the borrower with respect to certain consent or amendments pursuant to the terms of the loan participation documents and are reported as "Transaction fees and other income" in the Statements of Operations. In accordance with FASB ASC 310-20, *Receivables-Nonrefundable Fees and Other Costs*, such fees are deferred and amortized over the term of the loan. The deferred portion of income is included in “Other liabilities” in the Statements of Financial Condition. Miscellaneous fee income recognized for the year ended December 31, 2021 was approximately $0.2 million. There was no miscellaneous fee income for the period ended December 31, 2020.

f. Service Fees

Servicing fees are reported as “Service fees payable” in the Statements of Financial Condition and as "Loan participation servicing costs" in the Statements of Operations.

g. Professional Fees

Professional fees consisted primarily of fees charged by the LLC’s credit administrator, custodian, and accounting administrator, workout advisor, external legal counsel, lender expense reimbursement, and independent auditors. Professional fees are accrued as incurred and reported as “Professional fees” in the Statements of Operations. For the periods ended December 31, 2021 and 2020, the LLC also reimbursed the FRBB for external legal counsel fees related to LLC activities totaling approximately $1.6 million and $5 million, respectively. Amounts incurred and unpaid are reported as “Professional fees payable” in the Statements of Financial Condition.

h. Taxes

The LLC was formed by FRBB and the Treasury. It is not subject to an entity level income tax. Accordingly, no provision for income taxes is made in the financial statements.

i. Fair Value Measurements

Certain assets of the LLC are measured at fair value in accordance with FASB ASC 820, *Fair Value Measurement & Disclosures*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820, *Fair Value Measurement & Disclosures* establishes a three-level fair value hierarchy that distinguishes between assumptions developed using market data obtained from independent sources (observable inputs) and the management assumptions developed using the best information available in the circumstances (unobservable inputs). The three levels established by FASB ASC 820, *Fair Value Measurement & Disclosures* are described as follows:

- Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is based on model-based techniques that use significant inputs and assumptions not observable in the market. These unobservable inputs and assumptions reflect FRBB estimates of inputs and assumptions that market participants would use in pricing the assets and liabilities. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques.

The inputs or methodologies used for valuing the financial instruments are not necessarily an indication of the risk associated with investing in those financial instruments.

j. Recently Issued Accounting Standards

The following items represent recent accounting standard updates.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This update revises the methodology for assessing expected credit losses and requires consideration of reasonable and supportable information to inform credit loss estimates. Although earlier adoption is permitted, this update is effective for the LLC for the year ending December 31, 2023. The LLC is continuing to evaluate the effect of this guidance on the LLC's financial statements.

In March 2020, FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting;* and in January 2021, ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*. These updates provide optional expedients to apply to contract modifications and hedging relationships that reference the London Inter-Bank Offered Rate ("LIBOR"), or another reference rate expected to be discontinued. The LLC has not yet adopted the new standard and is continuing to evaluate the effect of this new guidance on the LLC's financial statements.

(3) FACILITY ASSETS

Facility assets consist of both restricted and unrestricted cash and cash equivalents and loan participations. At December 31, 2021, cash equivalents and short-term investments in non-marketable securities had maturities within 15 days and all loan participations mature within 3 to 5 years. Due to the short-term nature of cash equivalents and short-term investments in non-marketable securities, the cost basis is estimated to approximate fair value.

The fair value of the LLC's holdings is subject to market and credit risk, arising from movements in variables such as interest rates, credit spreads, and credit quality of holdings. Cash equivalents of $520 million at December 31, 2021 and $129 million at December 31, 2020 are included in "Cash and cash equivalents" in the Statements of Financial Condition and are classified within level 1 of the fair value hierarchy. Cash of approximately $52 million at December 31, 2021 and an immaterial amount at December 31, 2020 is also included in "Cash and cash equivalents" in the Statements of Financial Condition.

The estimated fair value for loan participations, which are recorded at the cost of purchase, plus capitalized interest, less any principal paydowns in the Statements of Financial Condition, are $13.8 billion and $14.0 billion at December 31, 2021 and 2020, respectively. Because external price information is not available, a market-based discounted cash flow model is used to value loan participations. Key inputs to the model include market spread data for each credit rating, collateral type, and other relevant contractual features. Because there is lack of observable pricing information, the loan participations are classified within level 3.

The following tables present Main Street's loan participation activity for the periods ended December 31, 2021 and 2020, respectively, (in thousands):

	MSELF	MSNLF	MSPLF	NONLF	Total
Principal amount outstanding, beginning of period	$ -	$ -	$ -	$ -	$ -
Loan participations purchased	1,714,357	2,546,157	12,201,275	39,915	16,501,704
Loan participations principal paydowns	-	(82)	(1,199)	(9)	(1,290)
Capitalized interest	846	2,603	6,084	21	9,554
Total loan participations, principal amount outstanding[1]	$ 1,715,203	$ 2,548,678	$ 12,206,160	$ 39,927	$ 16,509,968
Allowance for loan losses	(316,112)	(402,350)	(1,691,596)	(3,228)	(2,413,286)
Principal and interest receivable	6,326	9,180	34,528	54	50,088
Loan participations, net of allowance, December 31, 2020[2]	$ 1,405,417	$ 2,155,508	$ 10,549,092	$ 36,753	$ 14,146,770
Loan participations purchased	-	14,032	70,337	-	84,369
Loan participations principal paydowns	(188,709)	(403,702)	(941,777)	(24,338)	(1,558,526)
Charge-offs	-	(7,427)	(9,136)	-	(16,563)
Capitalized interest	40,373	53,430	280,315	506	374,624
Total loan participations, principal amount outstanding[1]	$ 1,566,867	$ 2,205,011	$ 11,605,899	$ 16,095	$ 15,393,872
Allowance for loan losses	(211,392)	(343,272)	(1,474,208)	(370)	(2,029,242)
Principal and interest receivable	6,444	10,284	62,760	30	79,518
Loan participations, net of allowance, December 31, 2021[2]	$ 1,361,919	$ 1,872,023	$ 10,194,451	$ 15,755	$ 13,444,148

[1] Reported at principal amount outstanding, including interest capitalized in accordance with contractual schedules and principal paydowns, net of charge-offs.

[2] Reported at principal amount outstanding, net of allowance and including interest receivable.

(4) ALLOWANCE FOR LOAN LOSSES

Management's estimate of probable losses in the LLC's loan participations portfolio is recorded in the Allowance and the loan loss reserve for unfunded commitments. On a quarterly basis, the LLC evaluates the adequacy of the Allowance by performing reviews of certain individual loan participations; analyzing changes in the composition, size, and delinquency of the portfolio; reviewing previous loss experience; and considering current and anticipated economic factors.

The Allowance is established in accordance with the LLC's credit reserve policies and the adequacy of the reserve is reviewed and approved by the LLC Credit Subcommittee. The Allowance is maintained at a level that the LLC considers reflective of probable losses and is established through charges to earnings in the form of a provision for loan losses.

The evaluation of the adequacy of the Allowance and loan loss reserve for unfunded commitments is primarily based upon internal risk rating models that assess probability of default, loss given default and exposure at default for each loan. The models are primarily driven by individual borrower financial characteristics, such as measures of profitability, leverage, and interest coverage. The models are validated against historical industry experience. Participations were grouped using North American Industry Classification System ("NAICS") codes into Services and Non-services segments for rating purposes. The Services segment includes and is not limited to industries such as accommodation and food services, retail, health care, information, and professional scientific and technical services. The Non-services segment includes and is not limited to manufacturing, construction, and agriculture, forestry, fishing, and hunting. Given significant differences in historical and expected performance, models differ for service and non-service industry loans.

Loan participations are segmented into internal risk rating categories. The Allowance considers relevant estimates of probability of default ("PD") and loss given default ("LGD") factors in light of credit ratings, and other loan characteristics (e.g., collateral positions), which are applied to exposure at default (principal amount outstanding). A formula-based credit evaluation approach is applied primarily by loss factors, which includes estimates of incurred losses over an estimated loss emergence period ("LEP"), assigned to each risk rating segment. Qualitative factors (including changes in economic and business conditions) are assessed so that loss rates (product of PD and LGD) appropriately reflect risks within the then-current environment. Additional overlays can be made based upon additional factors.

The Allowance may be adjusted to reflect the LLC's current assessment of various qualitative factors when internal and external factors are identified that are not captured by the quantitative component of the general allowance, with consideration being given to changes in economic conditions, the potential for adverse selection risk in an emergency lending facility, and industry concentrations within the portfolio. The process to determine the Allowance requires the LLC to exercise considerable judgment regarding the risk characteristics of the loan participation portfolios and the effect of relevant internal and external factors. For the year ended December 31, 2021, certain key assumptions have been updated since prior period to reflect macroeconomic shifts and observed payment trends. While the LLC evaluates currently available information in establishing the Allowance, future adjustments to the Allowance may be necessary if conditions differ substantially from the assumptions used.

For loan participations with an outstanding balance of $15 million or greater and meeting certain triggers tied to performance or credit rating, the LLC conducts further analysis to determine the probable amount of loss and establishes a specific allowance for the loan participation, if appropriate. A specific allowance is generally set for those loan participations that meet the threshold and fall in the Ca rating category, indicating that collection is doubtful. However, other factors such as payment history, may also lead to an impairment assessment. When a loan participation is deemed to be impaired, the LLC estimates the impairment amount by comparing the loan participation's carrying amount to the estimated present value of its future cash flows, the fair value of its underlying collateral, or some combination as appropriate. Refer to Note 5 for further discussion on risk ratings in the loan participation portfolio.

Amounts determined to be uncollectible and charged off are deducted from the Allowance and subsequent recoveries, if any, are added to the Allowance.

In addition to the Allowance, the LLC also estimated probable credit losses associated with unfunded loan commitments, which were loan participations that the LLC had issued a binding commitment at December 31, 2020. Potential losses associated with these loans were evaluated utilizing the same method for on balance sheet loans and recorded as a loan loss reserve for unfunded loan commitments as of December 31, 2020. As of December, 31, 2021, there were no unfunded loan commitments. Since all loans are now funded, credit loss estimates are included in the Allowance and changes will be recorded through the provision for loan losses.

The Allowance and the loan loss reserve for unfunded loan commitments are reported in the Statements of Financial Condition as "Allowance for loan losses" and in "Other liabilities," respectively. Provision for loan losses related to the portfolio and the unfunded loan commitments are reported in the Statements of Operations as "Provision for loan losses" and "Other non-interest expense," respectively.

When a loan participation is charged off, any accrued but uncollected interest from both current and prior periods are charged against the allowance for loan losses as remaining interest receivable is specifically considered in the determination of the allowance for loan loss.

The following tables show the components of the allowance for loan losses at December 31, 2021 and 2020, respectively, (in thousands):

Allowance for loan losses 2021	Service industry	Non-service industry	Total
Individually evaluated	$ 915,771	$ 186,260	$ 1,102,031
General allowance	681,346	224,105	905,451
Non-Accrual Interest Reserve	16,634	5,126	21,760
Total allowance	$ 1,613,751	$ 415,491	$ 2,029,242
Total loan participations, individually evaluated	$ 1,519,206	$ 298,385	$ 1,817,591
Total loan participations, general allowance	9,698,128	3,878,153	13,576,281
Total principal and interest receivable	56,948	22,570	79,518
Total evaluated balance	$ 11,274,282	$ 4,199,108	$ 15,473,390
Allowance (percentage of evaluated balance)	14.3%	9.9%	13.1%
Reserve for unfunded commitments	$ -	$ -	$ -
Loan charge-offs (principal)	$ 8,266	$ 8,297	$ 16,563

Allowance for loan losses 2020	Service industry	Non-service industry	Total
Individually evaluated	$ 907,178	$ 78,032	$ 985,210
General allowance	1,039,253	382,539	1,421,792
Non-Accrual Interest Reserve	5,692	592	6,284
Total allowance	$ 1,952,123	$ 461,163	$ 2,413,286
Total loan participations, individually evaluated	$ 1,298,814	$ 166,123	$ 1,464,937
Total loan participations, general allowance	10,880,518	4,164,513	15,045,031
Total principal and interest receivable	36,791	13,297	50,088
Total evaluated balance	$ 12,216,123	$ 4,343,933	$ 16,560,056
Allowance (percentage of evaluated balance)	16.0%	10.6%	14.6%
Reserve for unfunded commitments	$ 9,009	$ 1,320	$ 10,329

As of December 31, 2021 and 2020, there were approximately $2.0 billion and $2.4 billion, respectively, in allowance for loan losses and $3.0 billion and $2.0 billion, respectively, in loan participations in non-accrual status. The LLC realized losses of $16.8 million for charge-offs during the year ended December 31, 2021, including $16.6 million related to loan participation principal and approximately $0.2 million related to the interest receivable losses and zero for charge-offs during the period ended December 31,

2020. All related losses are charged-off against the Allowance and flow through the "Provision for loan losses" on the Statements of Operations.

(5) RISK PROFILE

As of December 31, 2021, the LLC's portfolio of investments consisted primarily of cash equivalents and short-term investments. The fair value of the LLC's cash equivalents and short-term investments with overnight maturities totaled approximately $13.9 billion and $32.0 billion as of December 31, 2021 and 2020, respectively.

The average internal risk rating for loan participations held as of December 31, 2021 and 2020 were equivalent to a Moody's rating of B2. The following table shows rating distribution using internally derived risk ratings on a scale comparable to a Moody's rating scale as of December 31, 2021 and 2020:

	% of Loan participations, principal amount outstanding	
Rating	2021	2020
Ba or higher	29%	27%
B	35%	41%
Caa	16%	20%
Ca	20%	12%
Total	100%	100%

As of December 31, 2021 and 2020, cash equivalent holdings of approximately $520 million and $129 million, respectively, are not rated. As of December 31, 2021 and 2020, short-term investments in non-marketable securities of approximately $13.3 billion and $31.9 billion, respectively, are rated as government/agency. These holdings are reflected in the Statements of Financial Condition.

(6) LOANS PAYABLE TO THE FEDERAL RESERVE BANK OF BOSTON

FRBB has extended loans to the LLC and the loan proceeds financed the LLC's purchase of eligible loan participations. In addition to loans for the purchase of eligible assets, the LLC is permitted to borrow from the FRBB for temporary operating liquidity needs.

The assets of the LLC are used to secure the loans from FRBB. These assets include the equity that the Treasury has contributed to the LLC to function as credit protection for FRBB's loans to the LLC.

Each loan made by the Bank to the LLC bears interest, accrued daily, at a rate per annum equal to the interest rate on excess reserves in effect on such day that the loan originated. Repayment of the principal and interest on the loans is made from proceeds of prepayments or maturity payments of the purchased assets. The amount of interest expense during the periods is reported as "Loans interest expense" in the Statements of Operations.

The LLC's loans payable to FRBB is reported as "Loans payable to FRBB" in the Statements of Financial Condition. The related interest payable is reported as "Interest payable" in the Statements of Financial Condition; the amount of interest expense during the period is reported as "Loans interest expense" in the

Statements of Operations. Loans payable to FRBB as of December 31, 2021 and 2020, respectively, were (in thousands):

2021

Loan Type	Loans payable to FRBB	Interest Payable	Interest Rate	Maturity Dates
Funding	$ 15,477,798	$ 16,791	0.1%	12/31/2025 to 01/05/2026
Operating	-	-		
Total	$ 15,477,798	$ 16,791		

2020

Loan Type	Loans payable to FRBB	Interest Payable	Interest Rate	Maturity Dates
Funding	$ 16,501,590	$ 1,722	0.1%	09/30/2025 to 12/31/2025
Operating	-	-		
Total	$ 16,501,590	$ 1,722		

(7) CONTRIBUTIONS AND DISTRIBUTIONS

The following table presents contributions and distributions of capital, current period undistributed net operating income (loss), and current period distributed net operating income (loss) as of December 31, 2021 and 2020 (in thousands), which are reported as "Members' contributions (distributions)" and "Undistributed net operating income (loss)", respectively, in the Statements of Changes in Members' Equity:

	Managing member	Preferred equity member	Total members
Members' equity, May 18, 2020			
Capital contribution	$ -	$ 37,500,000	$ 37,500,000
Capital (distribution)	-	-	-
Current year undistributed net operating income (loss)	-	(2,402,405)	(2,402,405)
Members' equity, December 31, 2020	$ -	$ 35,097,595	$ 35,097,595
Capital contribution	$ -	$ -	$ -
Capital (distribution)	-	(21,825,594)	(21,825,594)
Current year undistributed net operating income (loss)	-	787,991	787,991
Members' equity, December 31, 2021	$ -	$ 14,059,992	$ 14,059,992

The following table presents cumulative capital contributions and undistributed net operating income (loss) as of December 31, 2021 and 2020 (in thousands):

	Managing member	Preferred equity member	Total members
Cumulative capital contributions	$ -	$ 37,500,000	$ 37,500,000
Cumulative undistributed net operating income (loss) contributions	-	(2,402,405)	(2,402,405)
Members' equity, December 31, 2020	$ -	$ 35,097,595	$ 35,097,595
Cumulative capital contributions	$ -	$ 15,674,406	$ 15,674,406
Cumulative undistributed net operating income (loss) contributions	-	(1,614,414)	(1,614,414)
Members' equity, December 31, 2021	$ -	$ 14,059,992	$ 14,059,992

a. Contributions and Distributions of Capital

The preferred equity member initially contributed $37.5 billion in capital as credit protection to the LLC for loans needed to fund purchases of loan participations or operations of the LLC, and the managing member was deemed to have contributed $10 in capital. The preferred equity member, subject to the consent and agreement of the managing member in its sole discretion, may make additional contributions to the capital of the LLC.

Preferred equity member contributions are held in cash deposits and non-marketable securities, as mutually agreed upon by the managing member and the preferred equity member and consented to by FRBB. On January 8, 2021 and November 19, 2021, the LLC returned portions of the Treasury's equity investment of $20.9 billion and $0.9 billion, respectively. Effective November 17, 2021, the LLC Agreement was amended to implement semi-annual interim distributions to continue to return portions of the Treasury's equity investment based on outstanding excess equity thresholds.

b. Undistributed and Distributed Net Operating Income

Amounts available for distribution, due to interest, fees, payments on investments and other receipts of income are applied on the dates and in the order of priority set forth in the credit agreement between the LLC and FRBB.

Prior to the conclusion of the program, and when all obligations of the LLC are repaid, the remaining net assets will be allocated and distributed in accordance with the limited liability company agreement of the LLC. That agreement contemplates the distribution, upon the LLC's liquidation, 1) to the Treasury of the preferred equity account balance, inclusive of all investment earnings on non-marketable securities, and 2) 90 percent of remaining net assets to the preferred equity member and 10 percent of remaining net assets to the managing member.

(8) COMMITMENTS AND CONTINGENCIES

As of December 31, 2020, the LLC entered into commitments to purchase loan participations that had not yet been funded or fully purchased by the LLC. Since a commitment may expire without resulting in a loan and these agreements had not been fully executed, they were not reflected in the Statement of Financial

Condition. In accordance with ASC 825-10, *Financial Instruments* and ASC 450-20, *Loss Contingencies*, the LLC recorded a contingent liability for possible credit losses associated with these unfunded loan commitments. Total contingent liabilities as of December 31, 2020 were approximately $10.3 million associated with total unfunded commitments of approximately $38.6 million. The contingent liability is included in "Other liabilities" in the Statement of Financial Condition. As of December 31, 2021, there were no unfunded commitments and no contingent liability was recorded as of December 31, 2021. All loans are now funded and credit losses are accounted for in the Allowance for Loan Losses as outlined in Note 4.

The LLC has agreed to pay the reasonable out-of-pocket costs and expenses of certain service providers incurred in connection with their duties. The LLC has also agreed to indemnify its service providers for losses, expenses, or other liabilities under the agreements it has with those service providers, subject to customary exceptions such as for losses caused by the service providers' misconduct. These indemnity obligations survive termination of those agreements. As of December 31, 2021, the LLC did not have any prior claims or losses pursuant to these agreements. The risk of loss was remote.

(9) SUBSEQUENT EVENTS

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2021.

Subsequent events were evaluated through March 10, 2022, which is the date that these financial statements were available to be issued.