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Federal Reserve announces the Main Street Lending Program as part of $2.3 trillion in Loans for Employers

By: Rich May

On April 9, 2020, the Federal Reserve announced the latest set of actions to provide support to the economy during the ongoing coronavirus (COVID-19) pandemic. In this new stimulus effort, $2.3 trillion in loans will be made available primarily to support employers. Part of this money will go to expanding and shoring up various loan programs aimed at local governments and small businesses, such as the Small Business Administration's Paycheck Protection Program ("PPP"). However, $600 billion will go towards purchasing loans made to small and mid-sized businesses through the new Main Street Lending Program.

The Main Street Lending Program will allow small and mid-sized businesses to obtain bridge financing through eligible lenders. Eligible borrowers are businesses with up to 10,000 employees or up to $2.5 billion in 2019 annual revenues. Eligible borrowers must also be organized in the United States with significant operations and a majority of employees in the United States. Borrowers who have also taken advantage of other government programs, such as the PPP loans, may also apply for Main Street loans.

Eligible lenders may make new loans or expand existing loans under this program. Eligible loans are unsecured loans with the following features:

1. 4 year maturity;
2. Amortization of principal and interest deferred for one year;
3. Adjustable rate of SOFR + 250-400 basis points;
4. Prepayment permitted without penalty; and
5. Minimum loan size of $1 million.

The maximum amount for loans under the Main Street Lending Program depends on whether the loan is a new loan originated on or after April 8, 2020, or an upsizing of an existing loan originating before April 8, 2020.

For new loans, the maximum loan amount is the lesser of (i) $25 million or (ii) an amount

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that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed four times the borrower's 2019 EBITDA. The inclusion of EBITDA in this formula means that companies with negative EBITDA will not be eligible to receive the loan.

For upsized existing loans, the maximum loan amount is the lesser of (i) $150 million, (ii) 30% of the borrower's existing outstanding and committed but undrawn bank debt, or (iii) an amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed six times the borrower's 2019 EBITDA.

The Main Street Lending Program does come with several requirements and mandatory attestations. The proceeds cannot be used to repay other indebtedness, and borrowers must follow the CARES Act's compensation, stock repurchase, and dividend restrictions.

Lenders and borrowers should also be aware of the fee structure in this program. Essentially, lenders must pay the Federal Reserve an origination fee of 100 basis points of the principal amount of the loan sold back to the Federal Reserve. The lender may – and is likely to – require the borrower to pay this fee, even though the Federal Reserve will pay lenders 25 basis points of the principal amount per year of loan servicing. Additionally, borrowers will pay a separate origination fee of 100 basis points of the principal amount of the loan to the lender. These fees, combined with concerns over existing debt agreements, any restriction on the ability to borrow funds, and the operating restrictions imposed by the CARES Act may make these loans unpalatable to some borrowers.

The Federal Reserve is still taking public comment on the Main Street Lending Program, so further details and regulations are likely forthcoming. We will continue to monitor and provide updates, but for now the Main Street Lending Program is another strong liquidity relief commitment which many small and mid-sized businesses can take advantage of.

Anyone with questions can contact Rich May, P.C. attorneys Nathaniel Donoghue, J. Allen Holland and Jeffrey Loeb.

Disclaimer: This summary is provided for educational and informational purposes only and is not legal advice. Any specific questions about these topics should be directed to attorney Nathaniel Donoghue.

