



Federal Reserve Announces Main Street Business Lending Program as Part of Additional Actions to Provide Economic Aid

On April 9, the Federal Reserve announced additional actions it will take to provide up to **\$2.3 trillion** in loans to support the U.S. economy. The Federal Reserve believes this funding will assist households and employers of all sizes and bolster the ability of state and local governments to deliver critical services during the coronavirus pandemic. Also on April 9, Federal Reserve Chair Jerome Powell stated:

"We have acted to safeguard financial markets in order to provide stability to the financial system and support the flow of credit in the economy. ... Many of the programs we are undertaking to support the flow of credit rely on emergency lending powers that are available only in very unusual circumstances. ... We will continue to use these powers forcefully, proactively, and aggressively until we are confident that we are solidly on the road to recovery."

Main Street Business Lending Program

Among the actions taken to offer companies liquidity, the Secretary of the Treasury will make a \$75 billion equity investment using appropriated funds from the CARES Act in a special purpose vehicle (SPV) established to implement a Main Street Business Lending Program.

According to Treasury Secretary Steven Mnuchin:

"The Main Street Business Lending Program will make a significant difference for the 40,000 medium-sized businesses that employ 35 million Americans. This important Main Street initiative complements the robust relief efforts already underway, such as the Paycheck Protection Program, Employee Retention Credits, and Economic Impact Payments, while protecting taxpayer funds."

This program aims to increase the flow of credit to small and medium-sized businesses that were in good financial standing prior to the COVID-19 crisis. The program will either expand existing credit facilities (MSELF) or originate a new loan facility (MSNLF). To do so, the program will offer four-year loans (via eligible lenders) to companies that meet at least one of the following criteria:

- Employ up to 10,000 employees, or
- Had 2019 annual revenues of \$2.5 billion or less.

Eligible lenders will retain a 5% share of the Main Street loans and sell the remaining 95% share to the SPV, which will purchase up to \$600 billion in total loans.

Eligible Loan Details

Loans made pursuant to this program will have the following features:

- Unsecured four-year term loan
- Originated on or after April 8, 2020
- Principal and interest payments are deferred for one year
- Adjustable rate of the secured overnight financing rate plus 250-400 basis points
- Minimum loan size of \$1 million
- Maximum loan size the smaller of either:
 - \$25 million, or
 - Loan amount, when added to the eligible borrower's existing undrawn debt, does not exceed 4x the borrower's 2019 EBITDA
- Prepayment allowed without penalty
- May only participate in one program (MSELF or MSNLF)
- May not participate in Primary Market Corporate Credit Facility (PMCCF)



Attestation Requirements

Lenders and borrowers will have to attest to at least the following:

Eligible Lenders

Use of Loan Proceeds	Will not be used to repay or refinance pre-existing loans made by the eligible lender
Existing Lines of Credit to Borrow	Will not cancel or reduce existing lines of credit to the eligible borrower
Certification of Eligibility	Must certify that it is eligible to participate in the Facility

Eligible Borrowers

Use of Loan Proceeds	Will not be used to repay other loan balances or other debt of equal or lower priority unless the eligible borrower has repaid the eligible loan in full
Cancellation/Reduction of Existing Debt	Will not cancel or reduce any existing lines of credit with the eligible lender or any other lender
Financing Is Required	Attest that it requires financing due to the COVID-19 pandemic and that it will use loan proceeds to make reasonable efforts to maintain payroll and retain employees during the term of the loan
EBITDA Conditions	Loan proceeds do not exceed 4x 2019 EBITDA

Fees

Eligible borrowers and lenders will be subject to the following fees:

- Eligible lenders will pay a fee of 100 basis points of the principal amount of the loan purchased by the SPV but may request that the eligible borrower pay this fee.
- Eligible borrowers will pay eligible lenders an origination fee of 100 basis points of the principal amount of the loan.
- Eligible lenders will receive 25 basis points of the principal amount of the loan purchased by the SPV for loan servicing.

Both the Treasury and the Federal Reserve noted that businesses vary widely in their financing needs. As the program is being finalized, they will continue to seek input through April 16 from lenders, borrowers, and other stakeholders to make sure the program supports the economy as effectively and efficiently as possible while also safeguarding taxpayer funds.



Insight

- The Main Street Business Lending Program will provide eligible businesses access to loans in addition to other aid provided under the CARES Act, such as the Payroll Protection Plan or the Coronavirus Economic Stabilization Plan. Businesses should consider consulting with an external professional service provider to help determine if they qualify under this plan, how these loans affect other federal aid already applied for or received, and how to work with eligible lenders for the application process.
- Eligible borrowers should develop a compliance program that should be continuously monitored for the life of the loan to ensure that none of the loan covenants are breached, which could result in penalties or other adverse consequences.
- Borrowers should be mindful of loan disclosure implications and follow appropriate standards for disclosure in notes to the financial statements.
- To the extent that eligible businesses have thoughts, concerns, or other suggestions related to the Main Street Business Loan Program, they must communicate those to the Federal Reserve on or before April 16 for consideration before the program is finalized.

Disclaimer

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