

PUBLICATION

Federal Reserve Board Expands Main Street Lending Program

May 1, 2020

On April 30, 2020, the Federal Reserve Board (FRB) announced an expansion in the scope and eligibility of the Main Street Lending Program (MSLP). The FRB previously provided term sheets on two facilities under the MSLP and requested public comments. In response to the thousands of public comments received, the FRB has revised the existing MSLP programs and added a third.

Unlike the loans under the Paycheck Protection Program (PPP), loans under the MSLP are true loans and are not forgivable. The MSLP loans are designed for companies that were in sound financial condition prior to the COVID-19 pandemic.

Lenders eligible to participate in the program will be able to sell 85 percent or 95 percent participation to a Special Purpose Vehicle (SPV) established by the Boston Federal Reserve Bank.

The new guidance offers some changes to the program that was announced initially, but still presents challenges for both borrowers and lenders to navigate successfully.

Specific Guidance

The FRB has provided specific term sheets for each facility. Key terms are summarized in the chart below:

Main Street Lending Program Loan Options	Main Street New Loan Facility (New Loan)	Main Street Priority Loan Facility (Priority Loan)	Main Street Expanded Loan Facility (Expanded Loan)
Minimum Loan Size	\$500,000	\$500,000	\$10M
Maximum Loan Size	Lesser of \$25M or 4x 2019 adjusted EBITDA	Lesser of \$25M or 6x 2019 adjusted EBITDA	Lesser of \$200M, 35% of outstanding and undrawn available debt, or 6x 2019 adjusted EBITDA
Risk Retention	5%	15%	5%
Payment (year one deferred for all)	Years 2-4: 33.33% each year	Years 2-4: 15%, 15%, 70%	Years 2-4: 15%, 15%, 70%
*Unpaid interest will be capitalized			

Rate	LIBOR + 3%	LIBOR + 3%	LIBOR + 3%
*Fallback contract language must be used should LIBOR become unavailable during the term of the loan.			
Fees	1% Origination 1% to the SPV .25% annual servicing fee	1% Origination 1% to the SPV .25% annual servicing fee	75% Origination .75% to the SPV .25% annual servicing fee

Some of the key borrower eligibility criteria include the following:

- Is not an ineligible business under 13 CFR 120.110 except as modified under the CARES Act regulations issued under section 1102 on or before April 24, 2020.
- Has 15,000 or fewer employees or had 2019 annual revenues of \$5 billion or less
- Does not also participate in one of the other Main Street lending facilities or the Primary Market Corporate Credit Facility. A borrower may not participate in more than one MSLP facility but it may get more than one loan under a single facility up to the maximum amount.
- Has not received specific support pursuant to Subtitle A of Title IV of the CARES Act. – Section 4003(b)(1)-(3) (i.e. passenger air carriers, cargo air carriers and business critical to maintaining national security).
- A business that has received a PPP loan may also borrow under the MSLP provided that it meets eligibility requirements.

The MSLP places burdens on a lender that do not exist under the PPP, which may make it less appealing for banks to participate in this program. For example, a lender is required to assess the borrower's financial condition at the time of application and the borrower must have been in sound financial condition prior to the onset of the COVID-19 pandemic. A lender must commit that it will not request the borrower to repay debt or pay interest on outstanding obligations until the MSLP is paid in full – except where outstanding debt obligations require mandatory payments or in case of default and acceleration – and that it will not cancel or reduce any existing committed lines of credit to the borrower except in an event of default.

Lenders are expected to apply their own underwriting standards in evaluating the creditworthiness and financial conditions of a potential borrower. Additional documentation may be required for the lender to decide whether a borrower is approved for an MSLP loan. Like the loans originated under the PPP, lenders may rely on the borrower's certifications and covenants as well as any subsequent self-reporting by the borrower. Lenders are not expected to independently verify the borrower's certifications or monitor ongoing compliance.

Borrowers are required to make certifications and covenants that are more extensive than the certifications made under the PPP, including the following:

- Borrower must refrain from repaying the principal balance of or paying any interest on, any debt until the MSLP is paid in full unless the debt or interest payment is mandatory and due, although under the

priority loan, the borrower may refinance existing debt owed to a lender that is not an Eligible Lender under the FRB's guidance.

- Borrower will not seek to cancel or reduce any of its committed lines of credit with any lender; however, the borrower may repay a line of credit (including a credit card) in accordance with the normal course of business usage for such a line of credit.
- Borrower must have a reasonable basis to believe that it has the ability to meet its financial obligations for the next 90 days and does not expect to file for bankruptcy during that time.
- Borrower will follow the compensation, stock repurchase and capital distribution restrictions that apply to direct loan programs under the CARES Act (except sub-S corporations will be allowed to make distributions to cover the owner's tax obligations on the entity's earnings).
- Borrower will make commercially reasonable efforts to maintain its payroll and retain its employees while the loan is outstanding.

The MSLP ends September 30, 2020. At this time, the funds set aside for purchases by the SPV for all facilities is \$600 billion. More information will be forthcoming regarding operational details, launch date and the date when the SPV will begin purchasing participations. It is important to note that the FRB does plan to disclose to the public names of lenders and borrowers, amounts borrowed, and other information relevant to the MSLP. For more information on how the expansion may affect your business, please contact any member of Baker Donelson's [Financial Services Team](#). Also, for more information visit the [Coronavirus \(COVID-19\): What You Need to Know information page](#) on our website.