

# COVID-19 Alert

## The Federal Reserve's Main Street Lending Program

APRIL 2020

Effective April 9, 2020, in an effort to promote liquidity in the lending market for small to medium sized businesses, the Federal Reserve Board and the Treasury [announced](#) the Main Street Lending Program, offering [new loans](#) (originated on or after April 8, 2020) and [expanded loans](#) (upsized tranches of existing loans originated before April 8, 2020).

### WHO CAN BORROW?

To be eligible, a business must satisfy the following three requirements:

- Up to 10,000 employees or up to \$2.5 billion in 2019 annual revenues
- In good financial standing prior to the crisis
- Will make reasonable efforts to maintain payroll and retain workers.

**Note:** Borrowers may participate in *either* a new loan or an expanded loan facility, but not both. Borrowers may participate in *both* the Paycheck Protection Program and the Main Street Lending Program.

### WHAT ARE THE LOAN TERMS?

Similar to the Paycheck Protection Program, businesses will need to seek loans from eligible lenders, including U.S. insured depository institutions, U.S. bank holding companies and U.S. savings and loan holding companies. Eligible loans under this Program must meet the following criteria:

Terms	Main Street New Loan Facility	Main Street Expanded Loan Facility
Origination	Originated on or after April 8, 2020	Originated before April 8, 2020
Security	Unsecured	If the original loan is secured, the expansion is secured on an equal priority with the original loan. If the original loan is unsecured, collateral may be required for the expansion, which collateral would secure both the original loan and the expansion.

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Maturity	4 years	4 years
Amortization	Amortization of principal and interest deferred for one year	Amortization of principal and interest deferred for one year
Interest rate	Adjustable rate of Secured Overnight Financing Rate ("SOFR") + 250-400 basis points	Adjustable rate of SOFR + 250-400 basis points. (As of April 14, 2020, SOFR was 0.06%)
Minimum loan size	\$1 million	\$1 million
Maximum loan size	The lesser of (i) \$25 million or (ii) an amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed <b>four times (4x)</b> the borrower's 2019 EBITDA.	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 <b>six times (6x)</b> the borrower's 2019 EBITDA.
Prepayment	Permitted without penalty	Permitted without penalty

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## WHAT COMMITMENTS DO BORROWERS HAVE TO MAKE?

In order for a loan to be deemed eligible under the Main Street Lending Program, a borrower needs to make the following commitments:

- The borrower will not use the proceeds of the eligible loan to repay other loan balances.
- The borrower will not repay other debt of equal or lower priority, with the exception of mandatory principal payments, unless the borrower has first repaid the eligible loan in full.
  - What "equal or lower priority" means is still open to interpretation; but, it likely means borrowers cannot use the money to optionally pre-pay other loans, as the Program is intended to help businesses recover from losses they have suffered as a result of this unprecedented health crisis.
- The borrower will not seek to cancel or reduce any of its outstanding lines of credit with the lender making the loan or any other lender.
- The borrower requires the financing due to the exigent circumstances presented by the COVID-19 pandemic, and it will make reasonable efforts to maintain its payroll and retain its employees with the loan proceeds during the term of the loan.
- The borrower will follow compensation, stock repurchase, and capital

distribution restrictions that apply to direct loan programs under Section 4003(c)(3)(A)(ii) of the CARES Act.

- The borrower is eligible to participate in the Program, including compliance with the conflict of interest prohibitions regarding the interests of certain political officials and their respective families in the business as set forth under Section 4019(b) of the CARES Act.

### ARE THERE FEES?

For both new and expanded loans, the borrower must pay an origination fee of 100 basis points of the principal amount of the new loan or loan expansion.

With respect to new loans (and not expanded loans), the lender will be required to pay a 100 basis point participation fee on the principal amount of the loan, which the lender may pass through to the borrower.

### ADDITIONAL CONSIDERATIONS

Additional guidance regarding the Main Street Lending Program is expected to be issued as these loans are rolled out, the Federal Reserve System and the Treasury may make adjustments to the terms and conditions described above, and application requirements may vary among lenders. Current expectations are that these loans will become available in late April or early May, but borrowers are encouraged to speak with their lenders now about this Program. Updates will be posted to <https://www.federalreserve.gov/default.htm>. Reid and Riege attorneys are available to discuss this Program, and will continue to monitor governmental guidance and provide updates as they become available.

Please contact the Reid and Riege attorney with whom you regularly work, or a member of our Business Services practice listed to the right, for more up to date information, or questions about your unique circumstances.

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