Main Street Lending Program - A New Option For Companies With More Than 500 Employees

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Porzio Client Alert

On April 9, 2020, the Treasury Department and the Federal Reserve announced the **Main Street Lending Program** ("Program") to expand upon emergency loans otherwise provided by the CARES Act and to provide additional funding opportunities for small to mid-size businesses. Access to these funds through the Program is intended to be available from May 2020 through September, 2020. In the interim, it is prudent to understand the Program and be prepared to access as much as $600 billion in loans by working with your participating lender.

The program establishes two separate lending facilities for eligible borrowers: (1) **The Main Street New Loan Facility (MSNLF)**, (applicable to new loans up to $25 million); and (2) **The Main Street Expanded Loan Facility (MSELF)**, (applicable to fund increases for existing loans up to $150 million, based on the criteria set forth below). Under the CARES Act, businesses that have taken advantage of the Payment Protection Program (PPP) may also take out Main Street loans. However, Borrowers cannot use the Main Street Lending Program and the Primary Market Corporate Credit Facility. Borrowers must choose between obtaining a new loan from the Main Street Lending Program or issuing a new security through the Primary Market Corporate Credit Facility.

A differentiating factor of the Program is the establishment of a special purpose vehicle (SPV) funded by the Federal Reserve Bank. The SPV will purchase 95% in loans from eligible lenders with those lenders retaining 5%. This retention is expected to result in up to $600 billion available for new and expanded loans .

The eligibility requirements and loan details are as follows:

	Main Street New Loans	**Main Street Expanded Loans**
Who Can Lend?	U.S. insured depository institutions; U.S. bank holding companies; and U.S. savings and loan holding companies.	Same
Who Can Borrow?	(a) Businesses with up to 10,000 employees OR up to $2.5 billion in 2019 annual revenue; (b) Business must be created or organized in the U.S. or under the laws of the U.S. (c) Businesses must have significant operations in the U.S. and a majority of the employees must be in the U.S.; (d) Businesses must have been in "good financial standing"	Same, and if business participates in the expanded loan program, then it may NOT participate in the new loan program

	prior to the start of the pandemic – borrow cannot be in bankruptcy. (e) If a business participates in the new loan program, then it may NOT participate in the expanded loan program; (f) business is not a participant in the Federal Reserve Primary Corporate Credit Facility; (g) business has not received adequate relief or funding with the programs offered under the CARES Act.	
What Are The Loan Terms?	(a) Maximum 4 year term; (b) Amortization of principal and interest deferred for one year; (c) Adjustable rate of SOFR plus 250 – 400 basis points; (d) Minimum loan size of $1 million; (e) Maximum loan size that is the lesser of (1) $25 million, or (2) an amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed 4 times the borrowers 2019 earnings before interest, taxes, depreciation, and amortization (“EBITDA”) (f) prepayments are permitted without penalty;	(a) Maximum 4 year term; (b) Amortization of principal and interest deferred for one year; (c) Adjustable rate of SOFR plus 250 – 400 basis points; (d) Minimum loan size of $1 million; (e) Maximum loan size that is the lesser of: (1) $150 million, (2) 30% of the borrower's existing outstanding and committed but undrawn bank debt; or (3) an amount that, when added to the borrower's existing outstanding and committed but undrawn debt does not exceed the borrower's 2019 EBITDA (f) prepayments permitted without penalty; (g) Lender has the option to require borrower to pay a facility fee
Facility And Servicing Fees	The Lender will pay the Primary SPV's facility fee of 100 basis points of the principal amount of the loan participation purchased by the SPV. The Lender may require the borrower to pay this fee. The Borrower will pay the Lender an origination fee of 100 basis points of the principal amount of the loan. The SPV will pay the lender 25 basis points of the principal amount of its participation in the loan per annum for servicing.	The Borrower will pay the Lender a fee of 100 basis points o the principal amount of the upsized tranche of the loan at the time of upsizing. The SPV will pay a lender 25 basis points of the principal amount of its participation in the upsized tranche of the loan per annum for loan servicing.
Will Loans Be Secured?	Main Street new loans will be unsecured.	Existing collateral on expanded loans under the Program wil secure the expanded loan on a pro rata basis.
Required Certifications By The Lender	(a) Must certify that proceeds of the loan will not be used to repay or refinance pre-existing loans or lines of credit made by the lender to the borrower; (b) Must certify that it will not cancel or reduce any existing lines of credit outstanding to the borrower; (c) That the lender is eligible to participate in the Facility under the CARES Act.	(a) Must certify that the proceeds of the upsized tranche of the loan will not be used to repay or refinance loans or lines of credit made by the lender to the borrower, including the pre-existing portion of the existing loan; (b) Must certify that it will not cancel or reduce any existing line of credit outstanding to the borrower; (c) That the lender is eligible to participate in the Facility

		under the CARES Act.
Required Certifications By The Borrower	(a) Must certify that the proceeds of the loan will not be used to repay other loan balances/debts of equal or lower priority, except for mandatory principal payments; (b) Must certify that it requires financing due to exigent circumstances presented by the COVID pandemic; (c) In using the proceeds of the loan, it will make reasonable efforts to maintain its payroll and retain its employees during the term of the loan; (d) That it meets the EBITDA leverage conditions; (e) That it will not pay dividends or buy back stock during the loan or for 12 months after it has been paid off due to the restrictions Congress placed in the CARES Act; (f) That highly paid executives and officers are prohibited from increasing the pay of any employee whose compensation exceeded $425,000 in 2019; (f) That it is eligible to participate in the Facility.	Same

Where can I find additional information about these programs?

The Fed has published the term sheets for the new-loan and existing-loan programs.