

## The Main Street Lending Program

The CARES Act included language permitting the Federal Reserve Board to establish a "Main Street Lending Program," or other similar program or facility to support lending to small and mid-sized businesses. Toward this end, the Federal Reserve announced the creation of two "Main Street Lending Programs" – the Main Street New Loan Facility (MSNLF) and the Main Street Expanded Loan Facility (MSELF). The combined size of the programs will be up to \$600 billion and is intended to facilitate lending to small and medium-sized businesses. Under the Main Street Lending Programs, a Federal Reserve Bank will commit to lend to a common special purpose vehicle on a recourse basis. The Treasury Department will make an equity investment of \$75 billion in the special purpose vehicle using funds appropriated to the Exchange Stabilization Fund under the CARES Act.

The MSNLF permits eligible lenders to make new term loans to eligible borrowers after April 8, 2020, whereas the MSELF permits eligible lenders to add an upsized tranche to an existing loan that was originated before such date. In both cases, the special purpose vehicle will purchase a participation in 95 percent of the term loan or upsized tranche, as the case may be, with the remainder retained by the eligible lender.

Read terms sheets for the Main Street Lending Programs – [MSNLF](#) and [MSELF](#). Key details (applicable to both MSNLF and MSELF) are as follows:

- » Eligible lenders are U.S.-insured depository institutions, U.S. bank holding companies, and U.S. savings and loan holding companies.
- » Eligible borrowers are U.S. businesses with up to 10,000 employees or up to \$2.5 billion in 2019 annual revenues. The business must be created or organized in the United States or under the laws of the United States and have significant operations in and a majority of its employees based in the United States.
- » The loans (or upsized tranche) will have a four-year maturity, be pre-payable without penalty, and have deferred principal and interest payments for one year. The interest rate applicable to the loan (or tranche) rate is Secured Overnight Financing Rate (SOFR) plus 250–400 basis points.
- » Businesses must commit to make "reasonable efforts" to maintain payroll and retain employees during the term of the loan (at least for now the loans are styled as term loans — this may change). Businesses must also follow the compensation, stock repurchase and capital distribution restrictions that apply under Section 4003 of the CARES Act.

### **Key details of the MSNLF:**

- » Permits eligible lenders to originate new term loans to eligible borrowers.
- » Requires eligible lenders to pay the special purpose vehicle a facility fee of 100 basis points of the principal amount of the participation purchased by the special purpose vehicle (which the eligible lender may require the eligible borrower to pay). Also requires the business to pay the eligible lender an origination fee of 100 basis points of the principal amount of the loan. The special

purpose vehicle will pay the eligible lender 25 basis points of the principal amount of its participation in the loan per year for loan servicing.

- » The minimum loan size is \$1 million; the maximum is the lesser of 1) \$25 million and 2) an amount that when added to the business' existing debt does not exceed four times the business' 2019 earnings before interest, tax, depreciation and amortization (EBITDA).

#### **Key details of the MSELF:**

- » Permits banks to expand the size of existing term loans.
- » Requires the business to pay the eligible lender an origination fee of 100 basis points of the principal amount of the loan. The special purpose vehicle will pay the eligible lender 25 basis points of the principal amount of its participation in the loan per year for loan servicing.
- » The minimum loan size is \$1 million; the maximum is the least of 1) \$150 million, 2) 30 percent of the business' existing debt (including committed but undrawn debt), and 3) an amount that when added to the business existing debt does not exceed six times the business' 2019 EBITDA.

#### **FAQ on Main Street Lending Program:**

- » Can I participate in the MSNLF and the MSELF?
  - No, you can participate in one or the other but not both, and additionally participants in the Main Street Lending Program may not participate in the PMCCF.
- » Can I participate in both the Paycheck Protection Program (PPP) and the Main Street Lending Program?
  - Yes, you may seek both a PPP and Main Street loan.
- » Will Main Street loans be secured or unsecured?
  - MSNLF loans will be unsecured. For the MSELF loans, any collateral securing an Eligible Loan, whether pledged under the original terms of the Eligible Loan or upon the upsizing related to the MSELF, will secure the loan participation on a pro rata basis.
- » Can I use the proceeds of the loans to repay or refinance existing debt?
  - No, the eligible borrower must commit to refrain from using the proceeds of the eligible loan (or upsized tranche) to repay other loan balances, and must commit to refrain from repaying other debt of equal or lower priority (other than mandatory principal payments), while the eligible loan is outstanding.
- » How long will the program last?
  - The special purpose vehicle will cease purchasing participations in eligible loans on Sept. 30, 2020 (unless extended), but the Federal Reserve will continue to fund the special purpose vehicle after that date until the special purpose vehicle's underlying assets mature or are sold.

The Federal Reserve has noted that the Main Street Lending Program is still being finalized. For more information, please contact Holland & Knight's [Title IV team](#).