

Federal Reserve Releases Preliminary Details for Main Street Lending Program

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When the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) became law nearly two weeks ago, it included provisions directing the Treasury and the Federal Reserve to establish programs to help small and mid-size businesses. Today, the Federal Reserve released the first of its guidance in the form of two term sheets ([here](#) and [here](#)) for loans under a Main Street Lending initiative. While more details will be necessary, the programs described by the Federal Reserve will appeal to many businesses, including some of those left out by the Small Business Administration’s Paycheck Protection Program.

Under the Main Street program, Federal Reserve Banks will create special vehicles to provide financing to lenders that in turn make loans to businesses, either in the form of new loans or in the form of increases to existing loan facilities. Details are still evolving and the Federal Reserve has said it will accept comments on the program through April 16th.

What is Available?

Loans under the Main Street program begin at a minimum amount of \$1 million.

- For new loans, borrowers can receive up to the lesser of \$25 million or the amount which, when added to their existing outstanding and committed but undrawn debt, does not exceed four times their 2019 EBITDA.

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- For existing loans that will be upsized, the maximum aggregate loan size is capped at the lesser of (i) \$150 million, (ii) 30% of the borrower's existing but undrawn bank debt, and (iii) an amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed six times the borrower's 2019 EBITDA.

Businesses that receive loans under the Paycheck Protection Program may also qualify for and receive loans under the Main Street program.

Loans will be unsecured (except that upsize loans may share in any collateral pledged for the rest of the facility), will be made at low adjustable interest rates, will have four year terms, and may be prepaid without penalty. Amortization of principal and interest will be deferred for the first year of the loan.

Who is Eligible?

While the Paycheck Protection Program has been in the spotlight since the passage of the CARES Act, many businesses have found themselves unable to obtain relief under that program due to the SBA's tight eligibility requirements. Main Street program loans will be available to a broader range of businesses. To apply, a business must be a U.S. entity that has significant operations and a majority of its employees in the U.S. Eligible businesses must have 10,000 or fewer employees or must not have earned more than \$2.5 billion in annual revenue in 2019. The Federal Reserve has not yet released key details around eligibility, including whether affiliation rules apply to eligibility thresholds, how to calculate number of employees or 2019 revenue, or what constitutes "significant operations" in the U.S.

Applicants will have to make a number of certifications, including that the business has been affected by economic circumstances presented by the COVID-19 pandemic and that the business will make reasonable efforts to retain its employees during the term of the loan. Importantly, the Federal Reserve term sheets do not clarify whether certain language of the CARES Act – requiring applicants to attest that they will retain 90% of their workforce through September 30, 2020 – will apply or whether the term sheet's "reasonable efforts" standard will prevail.

Borrowers will also face restrictions on dividends, distributions, repurchases of publicly traded securities, payments to highly compensated executives, and certain labor matters.

How Do I Apply?

The Federal Reserve has not released key details on the application process for Main Street program loans. Businesses considering obtaining a loan should contact their current lenders to discuss any bank-imposed application requirements and to determine how a Main Street loan could be restricted by any existing credit facilities.

If you have questions regarding these developments, please contact a member of our Private Equity team.

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