

Main Street Lending Program Summary

May 5, 2020 | **CLIENT ALERTS**

On April 9, 2020, the Federal Reserve committed \$2.3 trillion to the U.S. economy in response to the ongoing COVID-19 pandemic. One of the major programs funded by this unprecedented commitment by the Federal Reserve is the Main Street Lending Program (MSLP), which will begin lending up to \$600 billion to U.S.-based businesses in the coming weeks. The appropriation of funds for the MSLP was authorized pursuant to Section 4027 of the CARES Act, the comment period on the initial terms and requirements of the MSLP loans closed on April 16, 2020, and the final rules were released on April 30, 2020. A summary of the terms of the MSLP is as follows:

What businesses are eligible for the MSLP?

An Eligible Borrower for the MSLP is a business organized or created in the United States prior to March 13, 2020, that has 15,000 employees or less, or had \$5 billion or less in revenue in 2019. The SBA's affiliation rules will apply to potential borrowers for the MSLP. Further, through guidance from the Federal Reserve, a borrower must be able to demonstrate that they were in good financial shape prior to the COVID-19 pandemic in order to qualify for the MSLP.

What institutions will be eligible to lend under the MSLP?

An Eligible Lender is any U.S. insured depository institution, U.S. bank holding company, or U.S. savings and loan holding company. This differs from the Payroll Protection Program (PPP) as only SBA-approved lenders could lend under that program.

What types of loans are available?

The overall MSLP has three separate loans available for borrowers: the MSNLF (the "New Loan"), the MSPLF (the "Priority Loan"), and the MSELF (the "Extended Loan"). A borrower may only participate in one of the three programs.

What are the terms of the loans?

All three MSLP loans will have the following terms for borrowers:

- Four-year maturity;
- An interest rate of LIBOR (1 or 3 month) plus 300 basis points;
- One-year deferral of principal and interest payments;
- No collateral required for newly originated loans;
- Origination fee of 100 basis points to be paid by the borrower;
- No prepayment penalty; and

- No loan forgiveness.

For the New Loan and the Priority Loan, the loan amount will be between \$500,000 and \$25 million, with the maximum amount being the lesser of:

- \$25 million; or
- When added to any currently outstanding and committed but undrawn debt, a total amount not exceeding:
 - For the New Loan, four (4) times the borrower's 2019 earnings before interest, taxes, depreciation and amortization ("EBITDA");
 - For the Priority Loan, six (6) times the borrower's EBITDA.

For the Extended Loan, the loan amount will be between \$10 million and \$200 million, with the maximum amount being the lesser of:

- \$200 million;
- Thirty-five (35) percent of the borrower's currently outstanding and committed but undrawn debt that is *pari passu* in priority with the Extended Loan and equivalent in secured status; or
- When added to any currently outstanding or committed but undrawn debt, the total does not exceed six (6) times the borrower's EBITDA.

The lender must use the same methodology it has used to calculate adjusted EBITDA as it previously has used when extending credit to the borrower or similarly situated borrowers on or before April 24, 2020.

The \$500,000 floor for the New and Priority Loans, and the \$10 million floor for the Extended Loan, are the minimum amounts that can be borrowed per those programs. Therefore, if the maximum loan amount you are eligible for is less than \$500,000 for the New and Priority Loans, or \$10 million for the Extended Loan, you will be unable to utilize the MSLP.

The program will close on September 30, 2020.

How will the loans be repaid?

The MSLP loans, depending on which program the borrower utilizes, have differing repayment terms. The principal on the New Loan will amortize by one-third in each of years two (2) through four (4) of the loan. The principal on the Priority and Extended Loans will amortize fifteen (15) percent in years two (2) and three (3), with a balloon payment of seventy (70) percent due in year four (4).

Are there any other requirements the borrower must follow?

If a borrower receives an MSLP loan, there are additional requirements they must abide by, including:

- Attesting that they require financing due to the ongoing COVID-19 pandemic;
- Attesting that the proceeds will be primarily used to make a reasonable effort to maintain payroll and retain employees over the term of the loan;
- Guidance suggests that a borrower will need to make a reasonable effort to maintain 90% of its employees

through September 30, 2020.

- Representing that they will not use the loan proceeds to repay or refinance any currently outstanding debt;
- Representing that they will not repay any debt of equal or lower priority, except mandatory principal payments, until the MSLP loan proceeds are repaid;
- Representing that it has a reasonable basis to believe, as of the date of the origination of the loan, and after giving effect to such loan it has the ability to meet its financial obligations for at least 90 days and does not expect to file for bankruptcy during that time; and
- Borrower must follow all restrictions in Section 4003 of the CARES Act, which includes restrictions on executive compensation, stock buybacks, and dividends and capital distributions for 12 months (except an S corporation or other pass-through entity may make distributions to the extent reasonably required to cover its owners' tax obligations in respect of the entity's earnings).

If I received a PPP loan, can I apply for an MSLP loan as well?

Yes. Recipients of PPP loan proceeds are not precluded from applying for an MSLP loan. However, the MSLP loan is separate and distinct from the PPP loan, and any amounts approved and disbursed under the MSLP will not be eligible for forgiveness. Any PPP loan amounts disbursed will still be eligible for forgiveness.

When can I apply for an MSLP loan?

The comment period for the MSLP ended on April 16, 2020, and the Federal Reserve released the final rules for the loan programs on April 30, 2020. Please contact your individual lender to determine their timeframe and process for participating in the MSLP.

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