

Insights

Federal Reserve Announces the Main Street Lending Program

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On April 9, 2020, the Board of Governors of the Federal Reserve Bank (the "Fed") announced preliminary details of two new loan programs that have aggregate funding of \$600 billion, offered as part of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). They are called the Main Street New Loan Facility ("MSNLF") and the Main Street Expanded Loan Facility ("MSELF"). Together, the Main Street facilities are intended to support mid-sized borrowers to ease some of the financial impacts of COVID-19. These coordinate with the Paycheck Protection Program ("PPP") and revisions to the Economic Injury Disaster Loan ("EIDL") program under the Small Business Administration. [click here for our Alert on the PPP and EIDL].

While the titles and intent of the two facilities are similar, they differ in their focus on new loans compared to expanding outstanding loans. MSNLF applies to new loans of no less than \$1 million but not to exceed the lesser of (i) \$25 million or (ii) four times 2019 EBITDA to borrowers who do not already have loans from the lender. In comparison, MSELF allows borrowers to increase existing credit facilities by up to the lesser of (i) \$150 million, (ii) 30% of the borrower's aggregate bank debt, or (iii) a total of six times 2019 EBITDA.

Pursuant to both, the Department of the Treasury will make a \$75 billion equity investment in a special purpose vehicle ("SPV") on a recourse basis, that will in turn purchase 95% participations in new loans under the MSNLF, or the increased amount of an existing loan under MSELF. The lenders will retain the remaining 5%, and the risk will be shared between the SPV and lender on a *pari passu* basis.

MSNLF and MSELF are available to mid-sized borrowers with up to 10,000 employees or up to \$2.5 billion in 2019 annual revenues. To be an eligible borrower, in addition to the employee and revenue requirements, the business has to be created or organized in the United States with significant operations in and a majority of its employees based in the United States. Eligible borrowers may only take advantage of one program.

In addition to the restrictions on loan amount referenced above, eligible loans under MSNLF and MSELF must have the following features:

- In the case of MSNLF, the loan must be originated after April 8, 2020.
- In the case of MSELF, the loan must have been originated before April 8, 2020.
- Loans under MSNLF and the increased portion of the MSELF will have a 4 year maturity.
- Amortization of principal and interest will be deferred for one year.

- Loans will bear interest at an adjustable rate of the Secured Overnight Funding Rate (SOFR) plus 250-400 basis points on a per annum basis.
- Prepayment will be permitted without penalty.

Other notable requirements include:

- Borrower must pay the lender an origination and servicing fee of 100 basis points. The SPV will also pay a servicing fee to the lender in the amount of 25 basis points of the participated loan amount.
- Lender must pay the SPV a facility fee of 100 basis points, which fee can be passed down to the borrower at lender's discretion.
- The loan must not be used to repay or refinance existing credit facilities held by the lender or any other lender, including in the case of the MSELF loans, the pre-existing portion of the loan being increased.
- Borrower must attest that it will comply with limits on repurchase of certain securities, declaring dividends and capital distributions, and compensation that apply to direct loan programs under Section 4003 of the CARES Act.

The information above consists of the initial terms and conditions of the MSELF and MNSLF programs. In similar course as the PPP, we expect the Fed will continue releasing guidance and details.

For more information regarding the MSNLF or MSELF, contact Julia A. Carpenter, Kelsie L. Breit or any member of Krieg Devault's Commercial and Real Estate Lending Team.