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Main Street Lending Program established to facilitate lending to small and medium-size businesses, including those with over 500 employees

By Robert Drobnak, Richard Pedone, Eric Ferrante, Dustin Hawks, and William Kelly

In a previous thought piece,[1] we discussed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and the loan programs described therein. On Thursday, April 9, the Federal Reserve Board published details on the previously announced Main Street Lending Program (MSLP), which is designed to facilitate lending to small and medium-size businesses, including those with over 500 employees. Up to $600 billion of MSLP loans will be available.

The MSLP eligibility caps are significantly higher than those of the Payroll Protection Program (PPP), a different program exclusively for small businesses administered by the Small Business Administration. Businesses that exceed the maximum head count and income limits for borrowing under the PPP may nevertheless be eligible for MSLP loans. Although both the MSLP and the PPP have been established under the CARES Act, they are separate programs, and businesses that obtain loans under the PPP remain eligible to borrow under the MSLP (provided they meet the separate loan standards of the MSLP).

Businesses with up to 10,000 employees or with 2019 annual revenues of up to $2.5 billion are eligible for loans under the MSLP. Borrowers under the MSLP must have been organized or created in the United States and must have significant operations and a majority of their employees within the U.S. They must also attest that they require financing due to exigent circumstances presented by the COVID-19 pandemic, must commit to making reasonable efforts to maintain their payrolls and retain their employees, and will be subject to the compensation, stock repurchase and dividend restrictions that apply to borrowers under the direct loan programs of the CARES Act.

Loans under the MSLP may be made by any US-insured depository institution, bank holding company, or S&L holding company. Lenders may either originate a new MSLP loan or use an MSLP loan to increase the size of existing loans.

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[1] See "Stimulus provides relief for businesses during coronavirus crisis," March 27, 2020.

All MSLP loans will have a four-year term, with the amortization of principal and interest deferred for one year. Interest will be at an adjustable rate equal to the SOFR (secured overnight financing rate) plus between 250 and 400 basis points. The SOFR, as of March 8, 2020, was 0.01%.

The minimum MSLP loan amount is $1 million, and the maximum amount varies depending on whether the MSLP loan is a new loan or is being used to increase the size of an existing loan.

- New MSLP loans can have a maximum principal amount equal to the lesser of (i) $25 million or (ii) the amount that, when added to the borrower's outstanding debt and committed but undrawn debt, does not exceed four times the borrowers 2019 EBITDA.
- MSLP loans to increase an existing borrower's credit facility can have a maximum principal amount equal to the lesser of (i) $150 million or (ii) 30% of the borrower's outstanding debt and committed but undrawn debt or (iii) the amount that, when added to the borrower's outstanding debt and committed but undrawn debt, does not exceed six times the borrowers 2019 EBITDA.

MSLP loans may not be used to refinance or repay a borrower's existing debt or lines of credit (including debt to the lending bank), and the borrower must agree that it will not repay other debt with an equal or lower priority (other than mandatory principal payments) until the MSLP loan is repaid in full.

A new special purpose vehicle (SPV) will purchase at face value 95% of each MSLP loan, using funds borrowed by the SPV from the Federal Reserve. The lending institution will retain the remaining 5%. The Treasury Department will capitalize the SVP with an equity investment of $75 billion, using funds appropriated under the CARES Act.

An MSLP borrower will pay the lending institution an origination fee of 100 basis points. The lending institution will pay the SPV a facility fee (equal to 100 basis points of the principal amount of the loan participation purchased by the SPV). The lending institution may require the borrower to pay this fee. The SPV will cease purchasing participations in MSLP loans on September 30, 2020 (unless the Federal Reserve and the Treasury Department extend the deadline).

In the coming days we expect that the Federal Reserve and participating lenders will provide guidance on the borrowing process. In the meantime, it may make sense to initiate discussions with your existing lender. In all circumstances, companies will need to evaluate how borrowing a loan under the MSLP could impact their rights under any existing loan documents.

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