



Federal Reserve and Treasury Department Announce New Main Street Lending Program

April 9, 2020

Today, the Federal Reserve (Fed) and the Treasury Department (Treasury) initiated the Main Street New Loan Facility (Main Street Loans) to provide additional liquidity for businesses, especially mid-sized businesses. A link to the announcement is available [here](#). Eligibility for the Main Street Loan will be broader than under the Paycheck Protection Program (PPP). Additionally, in the press release announcing this program, the Fed advised that Main Street Loans would be available to PPP loan recipients. This purpose of this program is to facilitate loans to fund payroll expenses for businesses that were in good financial standing prior to the COVID crisis. While these loans will not have the extraordinarily favorable terms (such as forgiveness) found in the PPP loan program, the Main Street Loan program will provide another source of liquidity to keep people on the payroll.

The main aspects of the new Main Street Lending Program are explained in a term sheet ([linked here](#)) that was released this morning. Those key points are as follows:

1. Eligible Borrowers: Any business:
 - a. with 10,000 or fewer employees, or up to \$2.5 billion in 2019 revenue;
 - b. created or organized in the US or under US law, with significant operations and a majority of employees in the US; and
 - c. that does NOT participate in separate expanded loan facility also launched today by Treasury and the Fed.
2. Eligible Lenders: Any US insured depository institution, US bank holding company, or US savings and loan holding company.
3. Basic Features of Main Street Loans.
 - a. Originated on or after April 8, 2020.
 - b. Unsecured (no collateral required).
 - c. Principal and interest deferred for one year.
 - d. Maturity of 4 years.
 - e. Main Street loans may be new or can be used to increase existing loans with a lender.
 - f. Prepayment permitted without penalty.
 - g. Adjustable interest rate based on:
 - i. Fed's Secured Overnight Financing Rate (SOFR) (currently 0.01%), plus
 - ii. 2.5% to 4.0%.
 - h. Minimum loan of \$1 million.
 - i. Maximum loan of the LESSER of:
 - i. \$25 million, or

- ii. An amount that, when added to the borrower's current debt (outstanding and committed but undrawn), does not exceed 4 times the borrower's EBITDA for 2019.
- j. Fees.
 - i. Lender Facility Fee. The lender will pay a facility fee of 100 basis points to facilitate the 95% participation described below. The Lender may require the borrower to pay this fee.
 - ii. Borrower Origination Fee. The borrower will pay the lender an origination fee of 100 basis points.

The primary purpose of these loans is to fund payroll. Borrowers and lenders will be required to attest to several statements in the loan documents which will affirm that the loan proceeds will be used primarily to maintain payroll and maintain employees. For example:

1. Lenders must attest that:
 - a. The borrower will not use the proceeds to repay or refinance pre-existing loans or lines of credit made by the lender to the borrower; and
 - b. The lender will not cancel or reduce any existing outstanding lines of credit with the borrower.
2. Borrowers must attest that:
 - a. The loan proceeds will not be used to repay other loan balances;
 - b. Due to the exigent circumstances presented by the COVID crisis, the borrower needs the loan and will make "reasonable efforts" to use the proceeds to maintain payroll and retain employees during the term of the loan;
 - c. The borrower meets the EBITDA test describe above under maximum amount of the loan; and
 - d. Th borrower will adhere to Section 4003(c)(3)(A)(ii) of the CARES Act, which will restrict certain compensation, stock repurchases, and capital distributions during the term of the loan.
3. Both Borrowers and Lenders must attest that there are no conflicts of interest described in Section 4019 of the CARES Act.

The Federal Reserve Bank will purchase a participation in these loans. The Fed has created a special purpose vehicle that will purchase 95% of Main Street Loans at par value, and the lender will retain a 5% participation.

Additional details are expected from the Fed and Treasury. The term sheet includes an advisory that the Fed and Treasury may make additional changes to the program. Additionally, more clarity is required to determine if additional restrictive loan provisions applicable to other Treasury loan programs in the CARES Act (such as the union neutrality provision), will be included in the Main Street Loan program. NADA will update dealers when new information becomes available.