

Insights: Alerts

CARES Act | Federal Reserve Announces Creation of New \$600 Billion Main Street Lending Program to Facilitate Lending to Small and Medium-Sized Business

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Please note: The below information may require updating, including additional clarification, as the COVID-19 pandemic continues to develop. Please monitor our main [COVID-19 Task Force page](#) and/or your email for updates.

The Federal Reserve Board (Fed) released this morning the first details of its new Main Street Lending Program, which was authorized in the CARES Act. This was one of nine lending programs simultaneously announced by the Fed, which together could provide as much as \$2.3 trillion in loans. The Main Street Lending Program will enhance support for businesses that either employ up to 10,000 workers or have annual revenues of less than \$2.5 billion. This is intended to provide relief to the many small and mid-sized businesses that did not qualify for the Payroll Protection Program (PPP) as a “small business” because they had more than 500 employees, exceeded SBA revenue thresholds or for other reasons.

The Fed's [release](#) included term sheets outlining the terms of the new Program. The following is a summary of those terms along with some commentary regarding areas where additional clarity will be needed.

- There are two Main Street Lending Program facilities that are collectively funded with a \$75B equity investment by the U.S. Treasury from the CARES Act and additional Federal Reserve Funds for up to \$600B of lending power - a New Loan Facility and an Expanded Loan Facility. Eligible banks may originate new loans under the New Loan Facility or use the Expanded Loan Facility to increase the size of existing loans to businesses. There are just a few differences between the two facilities, although they are quite significant and are highlighted below.
- The SBA Affiliation rules, which prevented many businesses from participating in the Payroll Protection Act, do not appear to apply to the 10,000 workers and \$2.5B revenue limits of the Main Street Lending Program. This is an area where further rulemaking can be expected.
- An eligible borrower must be a U.S. entity with significant operations and a majority of its employees in the U.S.

- The New Loan Facility expressly states that the loans are unsecured. The Expanded Loan Facility refers to the possibility of collateral securing the loan, whether pledged under the terms of the original loan or at the time of the upsizing.
- Borrowers must have been in good financial standing before the crisis. In the New Loan Facility, this is ensured by a requirement that limits the loan size to an amount that, when aggregated with all current debt of the borrower (including undrawn committed capital), does not exceed 4 times the borrower's 2019 EBITDA (with a maximum loan of \$25 million). The Expanded Loan Facility increases that multiple to 6 times 2019 EBITDA, but adds a further limit of 30% of borrower's current debt (including undrawn committed capital), and with a maximum loan of \$150 million.
- Loans under either facility have a 4-year maturity, with principal and interest payments deferred for one year. This suggests current amortization of the loan after the first year deferral.
- Interest accrues at a variable rate equal to the Secured Overnight Financing Rate (SOFR) (currently 0.01%), plus a margin of 250 – 400 basis points.
- Banks will retain a 5% share of the loans, selling the remaining 95% to the Main Street facility.
- Each borrower must certify that it requires the financing due to exigent circumstances presented by the COVID-19 pandemic and that, using the proceeds of the loan, it will make reasonable efforts to maintain payroll and retain workers.
- Loan proceeds may not be used to repay other loans. In addition, no debt may be repaid while the Main Street loan is outstanding, other than debt that is senior to the Main Street loan, and mandatory principal payments on any debt.
- Borrowers must also follow the compensation, stock repurchase, and dividend restrictions that apply to direct loan programs under the CARES Act. This is an apparent expansion on the CARES Act coverage, which did not apply these restrictions to all direct loan programs.
- Firms that have taken loans under the PPP *may* also take out loans under the Main Street Lending Program, *but* cannot participate in both facilities of the Main Street Program.
- The Federal Reserve indicated that, as the Main Street Lending Program is being finalized, it will continue to seek input from lenders, borrowers, and other stakeholders, and will accept comments on the new program until April 16, 2020.

As with all things COVID-19 related, the situation is rapidly evolving with near constant changes and updates. Accordingly, we will continue to monitor the situation and report through our [Task Force](#), [insights](#), [webinars](#), and other client communication. If you are interested in discussing an area of specific concern, we recommend that you reach out to your primary Kilpatrick Townsend point of contact or one of the authors.

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