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Federal Reserve Expands Scope and Eligibility for Main Street Lending Program

The Federal Reserve Board on Thursday announced changes to the new Main Street Lending Program, which is designed to provide up to $600 billion in loans to small and mid-size businesses that have been harmed by the pandemic. The changes include expanding the scope of its facility by increasing the amount of eligible businesses and lowering the minimum loan size:

- Companies with up to 15,000 employees or up to $5 billion in annual revenue will now be eligible for the Fed's four-year, low-cost loans under the Main Street Lending Program. When the Fed originally announced the program, the central bank set the eligibility requirements at 10,000 employees and $2.5 billion, respectively

- The Fed also lowered the minimum loan size available under the program, to $500,000 from $1 million.

- The Fed said it is evaluating a separate approach to expand the pool of businesses eligible to borrow. They indicated they would like to meet the needs of nonprofit organizations. Colleges and universities, for example, are facing massive funding gaps as the coronavirus keeps students at home.

Under the new loan option, lenders would retain a 15 percent share on loans that when added to existing debt do not exceed six times a borrower's income, adjusted for interest payments, taxes, and depreciation and other appropriate adjustments. This compares to the existing loan options where lenders retain a 5 percent share on loans but have different features. Under all of the loan options, lenders will be able to apply their industry-specific expertise and underwriting standards to best measure a borrower's income.

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The Main Street Lending Program will allow lenders to underwrite three types of loans with different maximum loan sizes.

- Under the Fed's "new loan" facility, borrowers can borrow up to $25 million or an amount equal to four times the company's 2019 adjusted EBITDA. The lender would retain 5% of the loan and sell the remaining 95% to the Fed's facility.

- Under a "priority loan," the borrower can borrow up to $25 million or six times the company's 2019 adjusted EBITDA. Because of the higher ceiling for risk, the lender would have to retain 15% of the loan.

- Lastly, an "expanded loan" is targeted at larger borrowers and would allow a lender to restructure an existing loan of a minimum size of $10 million. The maximum loan size would be the lesser of $200 million or 35% of outstanding and undrawn available debt.

All three of the loans are four-year loans with deferred principal and interest payments for the first year. The interest rate terms will be LIBOR plus 3%, a slight change from the program's original plan to index rates against the Secured Overnight Financing Rate. See the chart below provided by the Federal Reserve for a breakdown of the loans. The program will not allow the loans to convert to grants, as is the case for the Paycheck Protection Program.

A start date for the program will be announced soon.

Main Street Lending Program Loan Options	New Loans	Priority Loans	Expanded Loans
Term	4 years	4 years	4 years
Minimum Loan Size	$500,000	$500,000	$10,000,000
Maximum Loan Size	Lesser of $25M or 4x 2019 adjusted EBITDA	Lesser of $25M or 6x 2019 adjusted EBITDA	Lesser of $200M, 35% of outstanding and undrawn available debt, or 6x 2019 adjusted EBITDA
Risk Retention	5%	15%	5%
Payment (year one deferred for all)	Years 2-4: 33.33% each year	Years 2-4: 15%, 15%, 70%	Years 2-4: 15%, 15%, 70%
Rate	LIBOR + 3%	LIBOR + 3%	LIBOR + 3%

- Term sheet: Main Street New Loan Facility (PDF)

- Term sheet: Main Street Priority Loan Facility (PDF)

- Term sheet: Main Street Expanded Loan Facility (PDF)

- Main Street Lending Program Frequently Asked Questions (PDF)

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Denise Bode
dabode@michaelbeststrategies.com
T 202.844.3804