
Hughes Hubbard & Reed

Updated: Federal Reserve Expands Main Street Lending Program

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June 9, 2020 - The Federal Reserve announced yesterday that in anticipation of the imminent launch of its Main Street Lending Program, it has expanded the terms of the loans that will be on offer. The Main Street Lending Program is a key component of the federal government's relief and stimulus effort to combat the economic fallout of the pandemic. The \$600 billion program was established by the CARES Act and consists of three facilities:

- Main Street New Loan Facility (MSNLF)
- Main Street Priority Loan Facility (MSPLF)
- Main Street Expanded Loan Facility (MSELF)

Eligible lenders may originate new secured or unsecured loans under the MSNLF and MSPLF or increase the size of existing loans under the MSELF. The Federal Reserve will purchase 95% participation in each loan and upsized tranche. Paycheck Protection Program (PPP) loan recipients are not barred from participating in the Main Street Lending Program. However, unlike PPP loans, Main Street Lending Program loans are not forgivable.

To be eligible, an applicant must:

- have no more than 15,000 employees OR less than \$5 billion in 2019 annual revenue;
- be a business or non-profit created or organized in the United States or under U.S. law;
- have significant operations in the United States;
- have a majority of its employees based in the United States;
- have been established prior to March 13, 2020;
- have a reasonable basis to believe that it does not expect to file for bankruptcy protection within 90 days of loan origination; and
- not be a type of business listed in 13 CFR 120.110(b)-(j) and (m)-(s), as modified by regulations implementing the Paycheck Protection Program.

Conditions include:

- The loan cannot be used to repay certain other loan balances;
- The borrower cannot seek to cancel or reduce any of its outstanding lines of credit;
- Until one year after the loan is no longer outstanding:
 - No stock buybacks;
 - No dividends or capital distributions on common stock;
 - Officers and employees who received more than \$425,000 in total 2019 compensation are subject to a freeze on total compensation, and severance limited to twice 2019 compensation;
 - Officers and employees who received more than \$3 million in 2019 compensation are subject to an annual compensation cap of \$3 million plus 50% of 2019 compensation exceeding \$3 million; and
- The borrower must attest that it will make “commercially reasonable efforts to maintain its payroll and retain its employees” while the loan is outstanding.

Terms include:

- Five year maturity;
- Principal and interest payments deferred for two years;
- Rate: LIBOR (1 or 3 month) + 300 basis points;
- Prepayment permitted without penalty
- Principal amortization of 15%, 15%, and 70% at the end of the 3rd, 4th, and 5th years, respectively;
- Minimum loan size:
 - MSNLF and MSPLF: \$250,000;
 - MSELF: \$10 million;
- Maximum loan size:
 - MSNLF: \$35 million;
 - MSPLF: \$50 million;
 - MSELF: the lesser of \$300 million or 35% of borrower’s existing outstanding and undrawn available debt that is pari passu in priority with the loan and equivalent in secured status (i.e., secured or unsecured);
- Borrower’s total existing outstanding and undrawn available debt, including the Main Street Lending Program loan, may not exceed:
 - MSNLF: 4x 2019 adjusted EBITA;
 - MSPLF and MSELF: 6x 2019 adjusted EBITA;
- Subordination:
 - MSNLF: loan not subordinate to, in terms of priority, borrower’s other loans or debt instruments; and
 - MSPLF and MSELF: loan or upsized tranche is senior to or pari passu with, in terms of priority and security, borrower’s other loans or debt instruments, other than mortgage debt.

Related Resources

June 8 press release announcing expanded Main Street Lending Program terms:

<https://www.federalreserve.gov/newsevents/pressreleases/monetary20200608a.htm>

MSNL term sheet: <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200608a1.pdf>

MSPL term sheet: <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200608a2.pdf>

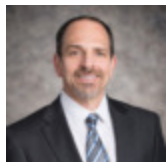
MSEL term sheet: <https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200608a3.pdf>

Program home page with link to updated FAQ:

<https://www.federalreserve.gov/monetarypolicy/mainstreetlending.htm>

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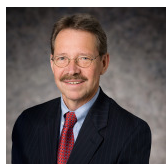
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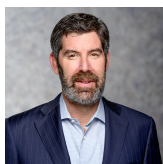
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