Tucker Ellis LLP

CLIENT ALERT

FEDERAL RESERVE EXPANDS MAIN STREET LENDING PROGRAM

MAY 13, 2020

On April 30, 2020, the Board of Governors of the Federal Reserve System (the "Federal Reserve") announced that it has expanded the Main Street Lending Program that it established for small and mid-sized businesses under the CARES Act. The Main Street Lending Program is distinguishable from the Paycheck Protection Program (the "PPP"), which is available only to small businesses and has a forgiveness feature. (For information on the PPP, see our Client Alert here.)

The Main Street Lending Program is available to not only businesses that are small enough to be eligible for the PPP but also to mid-sized companies up to the limits discussed below. Small businesses that have received a PPP loan but require additional liquidity may be eligible for support under the Main Street Lending Program. Unlike the PPP, the Main Street Lending Program does not have a forgiveness feature. (For background on the CARES Act provisions related to the Main Street Lending Program, see our Client Alert here.)

"Priority Loan" Facility

Prior to the expansion, the Main Street Lending Program included two loan options: the Main Street New Loan Facility ("MSNLF") and the Main Street Expanded Loan Facility ("MSELF"). Under the expansion, the Federal Reserve created a new type of loan facility: the Main Street Priority Loan Facility ("MSPLF"). The MSPLF, like the MSNLF, is available only for loans originated after April 24, 2020. The MSELF provides for additional tranches of debt for loans that were already outstanding on April 24, 2020. All loans under the Main Street Lending Program are funded in part by the lender selling a participation to a special purpose entity set up by the Federal Reserve. The MSPLF will require lenders to retain 15% of the risk of the loan rather than the 5% required under the prior two types of facilities.

Reduced Minimum Loan Size and Increased Maximum Loan Size

The program expansion also decreases the minimum loan size under the MSNLF from $1,000,000 to $500,000. The minimum loan size for the new MSPLF also is set at $500,000. The minimum loan size for the MSELF did not change, remaining at $10,000,000.

The maximum loan size under the MSELF increases from $150 million to $200 million. The maximum loan size under the MSPLF is set at $25 million. The maximum loan size under the MSNLF also remains at that figure. For all three facilities, the loan maximum also is affected by other formulas, including ones based on EBITDA.

Borrower Eligibility Expanded

The Federal Reserve also adjusted upward the maximum number of a company's employees and revenues to be eligible for the program. Under the expanded program, businesses with up to 15,000 employees or up to $5 billion in annual revenue are now eligible, whereas the original program standards allowed only companies with up to 10,000 employees or up to $2.5 billion in revenue.

Program Overview

The Federal Reserve provided the chart below in connection with its announcement of the expansion of the program; however, the program is complicated and has many features and requirements not discussed in the chart.

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	The lesser of $25M or an amount that, when added to outstanding and undrawn available debt, does not exceed 4.0x adjusted 2019 EBITDA	The lesser of $25M or an amount that, when added to outstanding and undrawn available debt, does not exceed 6.0x adjusted 2019 EBITDA	The lesser of $200M, 35% of existing outstanding and undrawn available debt, or an amount that, when added to outstanding and undrawn available debt, does not exceed 6.0x adjusted 2019 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%

The Federal Reserve also indicated that it is evaluating a separate approach targeted at nonprofit organizations. Details regarding this anticipated program are not yet available.

This Client Alert is only a high-level summary of the program described above. Accordingly, this Client Alert is not intended to be all encompassing. Tucker Ellis attorneys are closely monitoring both federal and state legislative efforts related to the COVID-19 pandemic. Should you have any questions or need any assistance, please contact the following attorneys for more information.

ADDITIONAL INFORMATION

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