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Federal Reserve creates Main Street Lending Program to support small and mid-sized businesses

9 April 2020

On 9 April 2020 the Federal Reserve announced that it has established the highly anticipated Main Street Lending Program (Program) under which it will purchase up to US$600 billion in loans. Simultaneously with this announcement, it published the term sheets for two facilities under the Program: the Main Street New Loan Facility (NLF) which applies to new eligible loans (made after 8 April 2020) and the Main Street Expanded Loan Facility (ELF) which applies to the upsized tranche of eligible loans that existed before 8 April 2020. The Treasury announced its approval of the Program and that it will make a US$75 billion equity investment to back the facilities. To do this, it will use the Exchange Stabilization Fund (ESF) under section 4027 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).

According to the Federal Reserve, this Program is designed to facilitate credit flow to small and mid-sized businesses (employing up to 10,000 workers or with revenues of less than US$2.5 billion) that were in good financial standing before the crisis. Notably, the term sheets do not expressly require a certain credit rating for borrowers, something that has set up a roadblock for borrowers hoping to benefit from other Federal Reserve COVID-19 facilities.

Eligible banks may originate loans under the Program or use them to increase the size of existing loans to businesses. Banks will retain a 5 percent share, selling the remaining 95 percent to the Main Street facility. Businesses seeking loans under either facility must commit to, among other things (this is not an exhaustive list and some attestations vary between the facilities):

- Make reasonable efforts to maintain payroll and retain workers.
- Follow compensation, stock repurchase, and dividend restrictions that apply to direct loan programs under the CARES Act.
- Not seek to cancel or reduce any of its outstanding lines of credit with the lender, or any lender.

A lender is also required to make various attestations. Namely, a lender must attest to it and the borrower's eligibility for the facility, and that it will not use the loan to cancel or reduce any of the borrower's existing lines of credit.

Borrower and lender eligibility requirements are the same under both facilities:

- Eligible Lenders: U.S. insured depository institutions, U.S. bank holding companies, and U.S. savings and loan holding companies are eligible to make Program loans.

- Eligible Borrowers: Borrowers must be businesses with up to 10,000 employees or up to US$2.5 billion in 2019 annual revenues. Additionally, they must be created or organized in the United States or under U.S. laws with significant operations in and a majority of employees based in the U.S. Borrowers are not eligible if they participated in the other Main Street facility (as applicable) or the Primary Market Corporate Credit Facility.

Loan eligibility varies in some respects between the two facilities:

- Eligible loans under the NLF are unsecured term loans originated on or after 8 April 2020; the ELF requires loans to be originated before 8 April 2020 provided that the upsized tranche meets the eligibility requirements.

- For both facilities, eligible loans (or with respect to the upsized tranche of the eligible loan under the ELF, as applicable) must have a 4-year maturity; one-year deferred principal and interest; the adjustable rate of SOFR + 250-400 basis points; US$1 million minimum loan size; and no prepayment penalty.

- For the NLF, the maximum loan size is the lesser of (i) US$25 million or (ii) an amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed four times the Eligible Borrower's 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA). Under the ELF, the maximum loan size is the lesser of (i) US$150 million, (ii) 30 percent of the borrower's existing outstanding and committed but undrawn bank debt, or (iii) an amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed six times the EBITDA.

For more information about the facilities, including fees and loan participation details, please see the terms sheets at the following links: Main Street New Loan Facility term sheet and Main Street Expanded Loan Facility term sheet.

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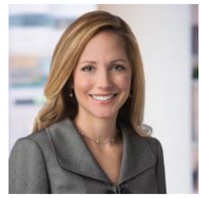

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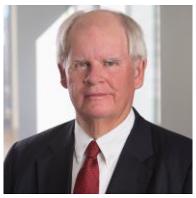

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