

Loan Assistance for Small and Medium-Sized Businesses: Federal Reserve Issues Term Sheets for Main Street Lending Program

In a major development to assist businesses with up to 10,000 employees or up to \$2.5 billion of annual revenue which have been impacted by the COVID-19 pandemic, the Federal Reserve has issued Term Sheets for the two portions of the Main Street Lending Program created by the CARES Act, the Main Street New Loan Facility ("MSNLF"), and the Main Street Expanded Loan Facility ("MSELF"). Under MSNLF and MSELF, the federal government will make capital available to lenders to make loans to small and medium-size businesses affected by the COVID-19 emergency measures, by means of a Special Purpose Vehicle ("SPV") to purchase a 95% participation interest in eligible new and existing loans from eligible lenders. Lenders will retain 5% of the loan. Through this program, the Federal Reserve will purchase up to \$600 billion of eligible loans. The Treasury will place \$75 billion of funds allocated in the CARES Act into the SPV.

Lender and Borrower Eligibility

U.S. insured depository institutions, U.S. bank holding companies, and U.S. savings and loan holding companies are eligible to participate as lenders. Note that this excludes direct lending funds and apparently also the U.S. branches of foreign banks. Note also that the affiliation rules applicable to the Paycheck Protection Program Loans do not apply to the Main Street programs.

Eligible borrowers:

- Businesses with up to 10,000 employees or up to \$2.5 billion in 2019 annual revenues which require financing due to the exigent circumstance presented by the COVID-19 pandemic.
- Must be a business that is created or organized in the United States or under the laws of the United States with significant operations in and a majority of its employees based in the United States.
- May not also participate in the Primary Market Corporate Credit Facility.
- Firms seeking Main Street loans must commit to make reasonable efforts to maintain payroll and retain workers.

Loan Amounts

For MSNLF, the available loan amount will be from \$1 million up to the lesser of (i) \$25 million or (ii) an amount that, when added to the Eligible 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. The loans will be unsecured.

For MSELF, the available loan amount for the upsized tranche of the existing loan will be from \$1 million up to the lesser of (i) \$150 million, (ii) 30% of the Eligible Borrower's existing and committed but undrawn bank debt, or (iii) an amount that, when added to the Eligible Borrower's existing outstanding and committed but undrawn debt, does not exceed six times the Eligible Borrower's 2019 earnings before interest, taxes, depreciation, and amortization. If the existing loan being upsized is secured, the new loan must be secured by the same collateral with the same priority.

Other Key Loan Terms

Other key loan terms for MSNLF loans and for the upsized tranche of MSELF loans include:

- Four-year maturity;
- For MSNLF, an unsecured loan;
- For MSELF, can be secured;
- 2. Amortization of principal and interest deferred for one year;
- Adjustable rate of SOFR + 250-400 basis points; and
- Prepayment permitted without penalty.

Other terms and requirements are discussed in the Term Sheets.

Further Guidance Expected

The Federal Reserve and Treasury may issue detailed guidance soon. In the meantime, the Term Sheets set forth other details about borrower and lender eligibility, loan terms, required attestations from lenders and borrowers, and other key aspects of the program.

[Main Street New Loan Facility](#)

[Main Street Expanded Loan Facility](#)

If we can be of assistance and to discuss various options and specific situations, please feel free to contact any of the Buchalter Mortgage Banking Industry Group Attorneys below.

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