CLIENT ALERTS & INSIGHTS

Benesch COVID-19 Resource Center: What You Need to Know About the Main Street Lending Program

APRIL 13, 2020

Authors: Matthew P. Delguyd, Logan Bryant

The Main Street Lending Program is being implemented by the Federal Reserve using two different credit facilities, the Main Street New Loan Facility (the “New Facility”) and the Main Street Expanded Loan Facility (the “Expanded Facility”). The New Facility will issue new loans to borrowers (made on or after April 8, 2020), and the Expanded Facility will upsize existing loans (pre-April 8). Note that different from the PPP, these loans are not forgivable.

The Main Street Facilities combined will purchase up to $600 billion in loans from lenders. The Federal Reserve and Treasury are accepting comments on the program until April 16, and will issue additional guidance based on the comments.

- **Eligibility**
  - Lenders - US insured depository institutions, US bank holding companies, and US savings and loan holding companies.
  - Borrowers -
    - Businesses up to 10,000 employees or less than $2.5 billion in 2019 annual revenue.
    - Must be created or organized in the US with significant operations and a majority of employees based in the US.
    - Borrowers may only participate in either the New Facility or the Expanded Facility, but not both. Borrowers participating in either facility also may not participate in the Primary Market Corporate Credit Facility.
    - Borrowers may participate in the PPP program and the Main Street Lending program.

- **Loan Mechanics and Terms**
  - The Federal Reserve will commit to lend to a single common special purpose vehicle (SPV), which will purchase a 95% participation in Eligible Loans from Eligible Lenders at par value. Lenders will retain 5%.
  - Loan Terms
    - **New Loan**: Unsecured term loan made on or after April 8, 2020, minimum of $1M, maximum of the lesser of (i) $25M or (ii) an amount that, when added to borrower's existing outstanding and committed but undrawn debt, does not exceed 4x 2019 EBITDA.
    - **Expanded Loan**: will upsize a loan made before April 8, 2020, secured solely to the extent the existing loans are secured, minimum of $1M, maximum of the lesser of (i) $150M, (ii) 30% of the eligible borrower's existing outstanding 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 6x 2019 EBITDA.
      - Both Loans
      - 4 year maturity.
      - Amortization of principal and interest deferred for one year. These loans are not forgivable like the PPP loans.
      - Rate is SOFR + 250-400 basis points.
      - Prepayment is permitted.
    - **Fees** - borrower will pay lender an origination fee of 100 basis points of the principal amount of the loan for either program. For New Loans, the lender must pay the Federal Reserve a 100 basis point fee on the principal amount purchased via participation (95%), and this fee may be passed to the borrower. The lender will receive a 25 basis point servicing fee on the amount of the loan held by the fed.

- Requirements and Certifications
  - Must commit to refrain from using loans to repay or refinance other loan balances.
  - Must commit to refrain from repaying debt of equal or lower priority, other than mandatory principal payments, unless the borrower has repaid the Eligible Loan in full.
  - Must attest that borrower will not cancel or reduce any outstanding line of credit.
  - The borrower requires financing due to COVID-19 and will make reasonable efforts to use the loan proceeds to maintain payroll and employees during the term.
  - Must certify that it meets the EBITDA leverage condition.
  - The borrower will follow compensation, stock repurchase, and capital distribution restrictions as follows:
    - Until 12 months after the loan is repaid, borrower will not repurchase an equity security listed on a national exchange of the borrower or any parent company unless borrower was under
    - contract to purchase such security prior to passage of the CARES Act.
    - Until 12 months after the loan is repaid, borrower will not pay dividends or make other capital distributions with respect to common stock.
    - Salary Restrictions
      - From the date the loan agreement is executed through 12 months after the loan is repaid, no officer or employee whose total compensation exceeded $425,000 in 2019 will (i) receive compensation above the 2019 level unless subject to a pre-existing collective bargaining agreement, or (ii) severance pay exceeding twice the 2019 compensation amount.
      - No officer or employee whose 2019 compensation exceeded $3,000,000 may receive the sum of (i) $3,000,000, and (ii) 50% of the excess over $3,000,000. (Forcing high-compensation pay cuts for those that take loans).
      - Compensation is broadly defined and includes salary, bonuses , stock, or other financial benefits.

For more information regarding the Main Street Lending Program, please contact:

Matthew P. Delguyd at mdelguyd@beneschlaw.com or 216.363.4627.

Logan Bryant at lbryant@beneschlaw.com or 216.363.6217.

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Please note that this information is current as of the date of this Client Alert, based on the available data. However, because COVID-19's status and updates related to the same are ongoing, we recommend real-time review of guidance distributed by the CDC and local officials.

