

# NAM Overview: Main Street Lending Program

On April 30, 2020, the Federal Reserve [announced](#) new details for the Main Street Lending Program. The Main Street program is split into three lending facilities—the Main Street New Loan Facility, the Main Street Priority Loan Facility and the Main Street Expanded Loan Facility. Collectively, the facilities that make up the Main Street program will offer up to \$600 billion in loans to small and medium-sized businesses, backed by a \$75 billion investment of CARES Act funds from the Department of the Treasury.

As revised, the Main Street facilities incorporate key changes for which manufacturers have advocated. For more on the NAM's advocacy, please see our [letter](#) to Federal Reserve Chairman Jerome Powell.

In addition to the below overview, interested companies are encouraged to review the term sheets for the [three loan facilities](#), as well as the Federal Reserve's [FAQ document](#) on the program. The Federal Reserve has not yet announced a program launch date; when new information is published, it will be available on the program [home page](#).

## What businesses can participate in the Main Street Lending Program?

Businesses are eligible to participate in the Main Street facilities if they were formed prior to March 13, 2020, and (i) have fewer than 15,000 employees or (ii) had less than \$5 billion in annual revenues in 2019.

In addition, businesses must be created or organized in the United States or under the laws of the United States. They must also have significant operations, and a majority of their employees based, in the United States.

Businesses that received loans under the SBA's Paycheck Protection Program are eligible to participate in the Main Street Lending Program.

Eligible businesses do not automatically qualify for a Main Street loan by meeting the minimum requirements for participation in the program. Lenders will be required to conduct an assessment of any potential borrower's financial condition and apply their own underwriting standards in order to determine whether to approve a loan application.

## Are any entities excluded from participating in the Main Street Lending Program?

Entities described in items (b)-(j) and (m)-(s) on the SBA's [list](#) of "ineligible businesses," including lending businesses, life insurance companies, businesses located in a foreign country and government-owned entities, are not eligible for the Main Street Lending Program.

Businesses are not eligible for the Main Street Lending Program if they have received "specific support" pursuant to Section 4003(b)(1)-(3) of the CARES Act—the law's direct financing provisions for airlines, cargo air carriers and businesses critical to maintaining national security.

Non-profit organizations are not currently eligible for the Main Street Lending Program, but the Federal Reserve has announced that it will be evaluating the feasibility of adjusting the borrower eligibility criteria and loan eligibility metrics of the program to include non-profits.

Businesses can participate in only one of the Main Street New Loan Facility, Main Street Priority Loan Facility or Main Street Expanded Loan Facility. Participants in the Main Street program cannot participate in the Primary Market Corporate Credit Facility.

## **How can a business determine whether it, combined with its affiliates, is eligible for the Main Street Lending Program?**

To determine whether a business is eligible under the Main Street program's size standards, it should first apply the SBA's [affiliation rules and procedures](#) to identify its affiliates, the employees and revenues of which must be included for purposes of determining a business's eligibility for the Main Street program.

A business can then (i) apply the SBA's [procedures](#) for calculating its number of employees and/or (ii) identify its annual revenues based on either its 2019 GAAP financial statements or its 2019 annual receipts reported to the IRS.

## **What is the minimum loan size under the Main Street lending facilities?**

For new loans offered under the New Loan and Priority Loan facilities, the minimum loan size is \$500,000.

For upsized loan tranches offered under the Expanded Loan facility, the minimum loan size is \$10 million.

## **What is the maximum loan size under the Main Street lending facilities?**

For the New Loan facility, the maximum loan size is the lesser of (i) \$25 million or (ii) four times the business's 2019 EBITDA less the amount of its existing outstanding and undrawn available debt.

For the Priority Loan facility, the maximum loan size is the lesser of (i) \$25 million or (ii) six times the business's 2019 EBITDA less the amount of its existing outstanding and undrawn available debt.

For the Expanded Loan facility, the maximum loan size is the lesser of (i) \$200 million, (ii) 35% of the business's existing outstanding and undrawn available debt that is pari passu in priority with the Main Street loan and equivalent in secured status or (iii) six times the business's 2019 EBITDA less the amount of its existing outstanding and undrawn available debt.

The Federal Reserve will be evaluating the feasibility of adjusting the loan eligibility metrics of the program for businesses that are generally not evaluated on an EBITDA basis.

## **What are the loan terms for Main Street loans?**

Main Street loans will be offered with a four-year maturity period and an adjustable rate of either the one- or three-month LIBOR rate plus 3%. Principal and interest payments will be deferred for the first year (unpaid interest will be capitalized).

Main Street loans may be secured or unsecured.

Prepayment of Main Street loans will be permitted without penalty.

Unlike PPP loans, Main Street loans are not forgivable.

## **What constitutes “commercially reasonable efforts” to maintain payroll and retain employees?**

Main Street borrowers will be required to make “commercially reasonable efforts” to maintain payroll and retain employees during the loan term.

A business receiving a loan under the Main Street program will be required to undertake “good faith efforts” to maintain payroll and employee headcount “in light of its capacities, the economic environment, its available resources, and the business need for labor.” The Federal Reserve has clarified that businesses that have already laid off or furloughed workers are still eligible to apply for Main Street loans.

## **Do any CARES Act restrictions apply to businesses participating in the Main Street Lending Program?**

Pursuant to the CARES Act, businesses receiving loans under the Main Street Lending Program will be prohibited from engaging in stock buybacks or paying dividends until one year after the date that the Main Street loan is no longer outstanding. The Federal Reserve has clarified that distributions made by pass-through entities to cover their owners’ tax obligations will not prohibit those businesses from participating in the program.

Businesses receiving Main Street loans will also be subject to certain CARES Act executive compensation limitations:

- Any officer or employee whose total compensation exceeded \$425,000 in 2019 will not be eligible for any pay increases above their 2019 compensation until one year after the date that the loan is no longer outstanding. They will also be prohibited, for the same period, from receiving severance pay in excess of twice their 2019 compensation.
- Any officer or employee whose total compensation exceeded \$3 million in 2019 will have their compensation capped at \$3 million plus half of their excess 2019 compensation above \$3 million until one year after the date that the loan is no longer outstanding.

## **Are there any restrictions placed on businesses’ ability to repay existing debt with Main Street loan proceeds?**

Businesses receiving loans via the Main Street program must refrain from making principal or interest payments on existing debt (unless the payment is both mandatory and due) and from canceling or reducing any committed lines of credit until the Main Street loan is repaid in full.

However, participants in the Priority Loan program are permitted to refinance existing debt to other lenders at the time of origination of their Main Street loan.

## What lenders can participate in the Main Street Lending Program?

Any U.S. federally insured depository institution (including a bank, savings association or credit union), U.S. branch or agency of a foreign bank, U.S. bank holding company, U.S. savings and loan holding company or U.S. intermediate holding company of a foreign banking organization can offer loans under the Main Street program. U.S. subsidiaries of any of these lenders can also offer loans under the program.

Lenders offering loans under the New Loan and Expanded Loan facilities will retain a 5% portion of the Main Street loan, with the Federal Reserve purchasing the remaining 95%. Lenders offering loans under the Priority Loan facility will retain a 15% portion of the Main Street loan, with the Federal Reserve purchasing the remaining 85%.

## What information will the Federal Reserve disclose about Main Street loan recipients?

The Federal Reserve has announced that it will disclose the names of lenders and borrowers, as well as information on amounts borrowed and interest rates charged.

Further information will be published one year after the termination date of the facilities, including names and identifying details of each participant in the facilities, the amount borrowed, the interest rate or discount paid and information concerning the types and amounts of collateral pledged or assets transferred in connection with participation in the facilities.

## How can businesses apply for a Main Street loan?

Businesses will be required to submit an application and associated documentation to their lender to apply for a loan under any of the Main Street facilities. The Federal Reserve has not yet announced the official launch date of the program, but businesses are encouraged to contact their local lender to learn if they will be participating in the program and to request more information on the application process.

The Federal Reserve's [landing page](#) for the Main Street program will be updated when information on the program's launch is announced.