DAVIS WRIGHT TREMAINE LLP

Main Street Lending Summary*

On April 9, 2020 the Federal Reserve Board of Governors announced several extraordinary measures to support the national economy through the COVID-19 pandemic. Among these is the Main Street Lending Program, which will enable up to $600 billion in loans to small and medium-sized businesses. The Main Street Lending Program is in addition to the Paycheck Protection Program administered by the Small Business Administration. DWT's COVID-19 resources, including prior writings on the Paycheck Protection Program, are available here. Key details of the Main Street Lending Program are:

Who qualifies?

The Main Street Lending Program will provide support for small and mid-sized businesses that were in good financial standing before the crisis; insolvent companies are ineligible. Borrowers may have up to 10,000 employees or annual revenues of less than $2.5 billion. Borrowers must be U.S. businesses with significant operations and a majority of employees in the U.S. Participants in the Fed's large-company programs (the MSELF and the Primary Market Corporate Credit Facility) are ineligible.

What are the loan terms?

The program will offer four-year loans with principal and interest payments deferred for one year. The loans will have an adjustable rate tied to the Secured Overnight Financing Rate ("SOFR") (1 bp as of April 8) plus 250 – 400 bps. There is no prepayment penalty.

Is the program only for new loans?

No. The program will allow for new Main Street loans or increases in the size of existing loans to businesses.

What is the loan size?

For new loans, at least $1 million, up to the lesser of (1) $25 million or (2) an amount that, when added to existing outstanding and committed but undrawn debt, does not exceed four times the borrower's 2019 EBITDA. For expanded loans (originated before April 8, 2020), at least $1 million, up to the lesser of (1) $150 million; (2) 30% of outstanding and committed but undrawn debt; or (3) an amount that when added to existing outstanding and committed but undrawn debt, does not exceed six times 2019 EBITDA.

Can a Main Street loan be used to pay off other debt?

No. Main street loans cannot be used to repay or refinance existing credit, and the borrower must commit to not repaying other debt of equal or lower priority (except mandatory principal payments) until the Main Street loan is paid.

Are there "strings" attached?

Yes. Firms seeking Main Street loans must attest that the company requires financing because of the COVID-19 pandemic and commit to make reasonable efforts to maintain payroll and retain workers during the loan term. Borrowers must also follow compensation, stock repurchase, and dividend restrictions that apply to direct loan programs under CARES Act section 4003(c)(3)(A)(ii).

Will the Main Street Loans be forgiven?

No. Unlike the Paycheck Protection Program, the CARES Act does not permit forgiveness of Main Street loans.

May a firm apply for a Main Street loan and a Paycheck Protection Loan?

Yes, firms that have taken advantage of the PPP may also take out Main Street loans.

The Fed press release can be found here. The Fed's term sheets for new loans and expanded loans are available here (new loans) and here (expanded loans).

*As of April 13, 2020