Federal Reserve and Treasury Department Announce Enhancements to New Main Street Lending Program

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Yesterday, the Federal Reserve (Fed) and the Treasury Department (Treasury) released updated term sheets and FAQs on the Main Street Lending Program (Main Street Loans) to provide additional liquidity for businesses, especially mid-sized businesses. This updated program adopted specific NADA-suggested language that will make these loans more attractive to dealers seeking additional liquidity during the COVID-19 crisis. A link to the program is available here.

Eligibility for Main Street Loans is broader than under the Paycheck Protection Program (PPP). Additionally, the Federal Reserve has clarified that Main Street Loans will be available to PPP loan recipients. The Main Street Loan program is different from both the EIDL and the PPP. (See NADA FAQ document for more details on PPP and EIDL). Main Street Loans may be used for a new line of credit or to expand an existing line of credit.

The purpose of this program is to facilitate loans to fund payroll expenses for businesses that were in good financial standing prior to the COVID crisis. While these loans will not have the extraordinarily favorable terms (such as forgiveness) found in the PPP, the Main Street Loan program will provide another source of liquidity to keep employees on the payroll.

The main aspects of each type of loan under the program are as follows:

Main Street Lending Program Loan Options	New Loans	Priority Loans	Expanded Loans
Term	**4 years**	**4 years**	**4 years**
Minimum Loan Size	**$500,000**	**$500,000**	**$10,000,000**
Maximum Loan Size	**Lesser of $25M or 4x 2019 adjusted EBITDA**	**Lesser of $25M or 6x 2019 adjusted EBITDA**	**Lesser of $200M, 35% of outstanding and undrawn available debt, or 6x 2019 adjusted EBITDA**
Risk Retention	**5%**	**15%**	**5%**
Payment (year one deferred for all)	**Years 2-4: 33.33% each year**	**Years 2-4: 15%, 15%, 70%**	**Years 2-4: 15%, 15%, 70%**
Rate	**LIBOR + 3%**	**LIBOR + 3%**	**LIBOR + 3%**

The Fed and Treasury have also released a term sheet (linked here) explaining the program. Additional details include:

1. Eligible Borrowers: Any business:
    a. With 15,000 or fewer employees, or up to $5 billion in 2019 revenue;
    b. Created or domiciled in the US, with significant operations and a majority of employees in the US; and
    c. That does NOT participate in separate expanded loan facility also launched today by Treasury and the Fed.
2. Eligible Lenders: Any US insured depository institution, US bank holding company, or US savings and loan holding company.
3. Basic Features of Main Street Loans.
    a. Originated on or after April 8, 2020. Expanded loans must have a remaining maturity of at least 18 months.
    b. Unsecured (no collateral required).
    c. Principal and interest deferred for one year.
    d. Maturity of 4 years.
    e. Main Street loans may be new or used to increase existing loans with a lender.
    f. Prepayment permitted without penalty
    g. Adjustable interest rate based on:
        i. Libor plus 300 basis points (3 percent)
    h. Minimum loan of $500,000.
    i. Maximum loan of the LESSER of:
        i. $25 million, or
        ii. An amount when added to the borrower's current debt (outstanding and committed but undrawn) cannot exceed 4 times the borrower's EBITDA for 2019 (6 times for Main Street Priority and Expanded Loans).
    j. Fees.

i. Lender Facility Fee. The lender will pay a facility fee of 100 basis points to facilitate the 95% participation described below. The Lender may require the borrower to pay this fee.
ii. Borrower Origination Fee. The borrower will pay the lender an origination fee of up to 100 basis points.
iii.

The primary purpose of these loans is to fund payroll. Borrowers and lenders will be required to attest to several statements in the loan documents which will affirm that the loan proceeds will used primarily to maintain payroll and maintain employees. For example:

1. Lenders must attest that:
    a. The borrower will not use the proceeds to repay or refinance pre-existing loans or lines of credit made by the lender to the borrower; and
    b. The lender will not cancel or reduce any existing outstanding lines of credit with the borrower.
    c. The lender must certify that the methodology used for calculating the Eligible Borrower's adjusted 2019 EBITDA for the leverage requirement in section 6(iii) of the Eligible Loan paragraph above is the methodology it previously used for adjusting EBITDA when originating or amending the Eligible Loan on or before April 24, 2020.
2. Borrowers must attest that:
    a. The loan proceeds will not be used to repay other loan balances;
    b. Due to the exigent circumstances presented by the COVID crisis, the borrower needs the loan and will make "reasonable efforts" to use the proceeds to maintain payroll and retain employees during the term of the loan;
    c. The borrower meets the EBITDA test described above under maximum amount of the loan; and
    d. The borrower will adhere to Section 4003(c)(3)(A)(ii) of the CARES Act, which will restrict certain compensation, stock repurchases, and capital distributions during the term of the loan. An S corporation or other tax pass-through entity that is an Eligible Borrower may make distributions to the extent reasonably required to cover its owners' tax obligations in respect of the entity's earnings. (This change is consistent with the changes recommended by NADA in comments filed with the Fed.)
3. Both Borrowers and Lenders must attest that there are no conflicts of interest described in Section 4019 of the CARES Act.

The Federal Reserve Bank will purchase a participation in these loans. The Fed has created a special purpose vehicle that will purchase 95% of Main Street Loans at par value, and the lender will retain a 5% participation.

Additional details are expected from the Fed and Treasury. The term sheet includes an advisory that the Fed and Treasury may make additional changes to the program. Additionally, more clarity is required to determine if additional restrictive loan provisions applicable to other Treasury loan programs in the CARES Act (such as the union neutrality provision) will be included in the Main Street Loan program. NADA will update dealers when new information becomes available.