

More businesses eligible for funds under expanded Main Street Lending Program

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Background

On Thursday, April 30, 2020, the Federal Reserve expanded the “**Main Street Lending Program**” that the Fed announced just three weeks earlier to allow more small and medium-sized businesses to participate and obtain additional credit. The Main Street Lending Program (MSLP) is authorized by the Federal Reserve, and created under Title IV of the CARES Act.

The MSLP is designed to provide support to small and medium-sized businesses and their employees across the United States during the current period of financial strain by supporting the provision of credit to such businesses. The availability of additional credit to companies with annual revenue up to \$5 billion and staff up to 15,000 employees is intended to help companies that were in sound financial condition prior to the onset of the COVID-19 pandemic maintain their operations and payroll until conditions normalize. The minimum loan size has been dropped to \$500,000 from \$1 million.

The MSLP now offers three types of facilities - including the **Main Street New Loan Facility (MSNLF)**, the **Main Street Priority Loan Facility (MSPLF)**, and the **Main Street Expanded Loan Facility (MSELF)**. All three facilities use the same Eligible Lender and Eligible Borrower criteria, and have many of the same features, including the same maturity, interest rate, deferral of principal and interest for one year, and ability of the borrower to prepay without penalty.

	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%

Other features of the loans extended in connection with each facility differ. The loan types also differ in how they interact with the Eligible Borrower’s existing outstanding debt, including with respect to the level of pre-crisis indebtedness an Eligible Borrower may have incurred.

Main Street New Loan Facility

The **Main Street New Loan Facility** (MSNLF) will make 4-year loans to businesses with up to 15,000 employees or \$5 billion in 2019 annual revenues. The maximum loan amount will be limited to the lesser of (i) \$25 million or (ii) an amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed **four** times the borrower's 2019 earnings before interest, taxes, depreciation, and amortization ("EBITDA").

Main Street Priority Loan Facility

The **Main Street Priority Loan Facility** (MSPLF) will make 4-year loans to businesses with up to 15,000 employees or \$5 billion in 2019 annual revenues. The maximum loan amount will be limited to the lesser of (i) \$25 million or (ii) an amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed **six** times the borrower's 2019 earnings before interest, taxes, depreciation, and amortization ("EBITDA").

Main Street Expanded Loan Facility

The **Main Street Expanded Loan Facility** (MSELF) will make loans at the same terms as the new loan facility (MSNLF) above but will make loans in larger amounts. Specifically, loans are limited to the lesser of \$200 million, 35% of the borrower's undrawn bank debt, or **six** times EBITDA.

Rates and Terms of Financing

Businesses will apply for the MSLP through U.S. insured depository institutions, U.S. bank holding companies, and U.S. savings and loan holding companies. Both facilities offer favorable loan terms including:

- A four (4) year maturity
- Interest rate LIBOR (London Interbank Offered Rate) + 300 basis points
- Origination fee of 100 basis points
- Principal and interest payments will be deferred for one year.
- Prepayment permitted without penalty.
- Firms seeking Main Street loans must commit to make reasonable efforts to maintain payroll and retain workers.
- Borrowers must also follow compensation, stock repurchase, and dividend restrictions that apply to direct loan programs under the CARES Act.
- Borrowers must attest that the loan proceeds are not being used to repay or refinance existing debt, with the exception of mandatory principal payments
- Firms that have taken advantage of the Paycheck Protection Program (PPP) under the CARES may also take out Main Street loans.
- Under the MSLP, there is no loan forgiveness.

Required Certifications

In addition to certifications required by applicable statutes and regulations, the following certifications will be required from the borrower:

- The borrower must commit to refrain from repaying the principal balance of, or paying any interest on, any debt until the Main Street loan (or the upsized tranche of the loan under MSELF) is repaid in full, unless the debt or interest payment is mandatory and due
- The borrower must commit that it will not seek to cancel or reduce any of its outstanding lines of credit with the Main Street lender or any other lender
- The borrower must certify that it has reasonable basis to believe that, as of the date of the loan (or the upsizing of a loan in MSELF) and after giving effect to such loan (or upsizing), it has the ability to meet its financial obligations for at least the next 90 days and does not expect to file for bankruptcy during that time period
- The borrower must attest that it will follow compensation, stock repurchase and capital distribution restrictions that apply to direct loan programs under section 4003(c)(3)(A)(ii) of the CARES Act, except that an S corporation or other tax pass-through entity may make distributions to the extent reasonably required to cover its owners' tax obligations in respect of the entity's earnings. The CARES Act conditions, which are summarized below, apply through the duration of the loan and for 12 months after the date on which the loan is no longer outstanding
 - May not repurchase an equity security that listed on a national securities exchange of the business or any parent company of the business, except to the extent required under a contractual obligation that was in effect on the date of enactment of the CARES Act (March 27, 2020).
 - May not pay dividends or make other capital distributions with respect to the common stock of the business.
 - Must comply with limitations on compensation under section 4004 of the CARES Act, which are summarized below:
 - Officers or employees with total compensation over \$425,000 in calendar year 2019 shall not receive total compensation in excess of what was received by the officer or employee in calendar year 2019. Severance pay or other benefits received upon termination shall not exceed twice the total compensation received by the officer or employee in calendar year 2019.
 - Officers or employees with total compensation over \$3 million in calendar year 2019 shall not receive total compensation over \$3 million and 50% of the excess over \$3 million of what was received in calendar year 2019.
- The borrower will be required to certify that it is eligible to participate in the program, including in light of the conflicts of interest prohibition in section 4019(b) of the CARES Act.

The **Dopkins Financial Advisory Service Team** is here to assist you in accessing liquidity and how to respond to changed business circumstances in light of COVID-19 while navigating the terms and conditions of the Main Street Lending Programs identified above. In addition, our **Dopkins SBA Loan Specialists** are assisting business owners in applying for the Paycheck Protection Program and the Economic Injury Disaster Loan Program. Details [here](#).

Our team focuses on helping business owners and companies identify and secure short-term and long-term capital. Whether it's domestic or foreign A/R, inventory, purchase order, construction, mezzanine financing, term loans and equity, our team has multiple sources of financing that will provide solutions to our clients.

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