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Insights: Alerts

Main Street Lending Program Update: Lenders Accepting Applications

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Please note: The below information may require updating, including additional clarification, as the COVID-19 pandemic continues to develop. Please monitor our main COVID-19 Task Force page and/or your email for updates.

The Boston Federal Reserve Board (Fed) announced that the Main Street Lending Program (MSLP) is fully operational. Approved lenders across the country are now accepting MSLP applications for loans ranging from $250,000 to $300 million. The Fed and Treasury Department will purchase up to $675 billion of loan participations until the program terminates on September 30, 2020. Favorable terms on these facilities provide many small and medium-sized enterprises with an opportunity to access the credit required to maintain operations and payroll during the uncertainty caused by the COVID-19 pandemic.

MSLP Structure

The MSLP supports businesses adversely affected by the COVID-19 pandemic that were unable to access the Payroll Protection Program (PPP) or require additional financial support beyond what they received under the PPP. Companies meeting the program requirements may apply for an MSLP facility with one of these registered lenders. If approved, the Fed will purchase a 95% interest in the loan through a special purpose vehicle at the Boston Fed. This reduction in exposure for lenders should encourage lending and offset contractions in credit markets for businesses in sound financial condition before the onset of the COVID-19 pandemic.

The MSLP operates through three facilities: the Main Street New Loan Facility (MSNLF); the Main Street Priority Loan Facility (MSPLF); and the Main Street Expanded Loan Facility (MSELF.) The first two provide for the origination of new loans while the third offers the ability to upsize an existing term loan or credit facility originated before April 25, 2020. One major difference and benefit the MSPLF offers over the MSNLF is that it allows a business to refinance existing debt at the time of origination of the loan. Borrower eligibility is roughly the same across facilities, so the key difference between the three is the available loan size and this restriction on refinancing.

Borrower Eligibility

The main requirement for business eligibility is having either: (i) 15,000 employees or fewer, or (ii) 2019 annual revenues of $5 billion or less. The employee cap for the MSLP is significantly higher than that of the PPP, which was 500, and should provide relief to more businesses. Another criterion is that an eligible business must have also been created or organized in the United States before March 13th, 2020. As with the PPP, the MSLP excludes certain ineligible companies outlined in 13 CFR 120.110 which follow risky business models related to investing, speculation, and gaming, as well as those that received support from the airline bailout under Section 4003(b)(1)-(3) of the CARES Act. Although the Fed originally stated that nonprofits were ineligible to participate in the MSLP, it has since issued draft guidance on two new facilities that will likely be available to 501(c)(3) and 501(c)(19) nonprofits.

Loan Terms

Most of the loan terms are consistent across the MSNLF, MSPLF and MSELF facilities. All three provide five-year maturity loans at 300 basis points over LIBOR (1 or 3 month) with interest payments deferred for one year and principal payments deferred for two years. The loan will amortize with 15% of principal due in years three and four before the remaining 70% is due at the end of year five. The loans for all three facilities may be secured or unsecured.

The key differentiating factor between the facilities is the minimum and maximum loan sizes available to the borrower. The maximum loan size is particularly important because a borrower cannot participate in multiple MSLP facilities. While this is a limitation, the borrower can seek loans from the same facility for an unlimited number of times up to the maximum credit limit .

For the origination of new loans through the MSNLF and MSPLF, the minimum loan size is $250,000. For the MSNLF, the maximum loan size is the lesser of $35 million or an amount that, when added to the borrower's existing outstanding and undrawn debt, does not exceed four times the borrower's adjusted 2019 EBITDA. For the MSPLF, the maximum loan size is the lesser of $50 million or an amount that, when added to the borrower's existing outstanding and undrawn debt, does not exceed six times the borrower's adjusted 2019 EBITDA. Borrowers seeking to upsize an existing term loan or revolving credit facility through the MSELF must add at least $10 million to the existing loan. The maximum loan size is the lesser of $300 million or an amount that, when added to the borrower's existing outstanding and undrawn debt, does not exceed six times the borrower's adjusted 2019 EBITDA.

Important Considerations

There are several restrictions and requirements that businesses should consider before applying for an MSLP loan. For example, satisfying the eligibility criteria does not automatically qualify a borrower for a loan. Businesses must prepare for the usual loan underwriting process on top of the MSLP requirements. If approved, the lender will charge origination and transaction fees totaling up to 200 basis points on the principal.

A significant restriction across all three MSLP facilities relates to the ability to repay existing debts and lines of credits during the life of the loan. The MSPLF is the only facility that permits prepayment of existing debts with proceeds from the MSPLF loan, which must occur at the time of the loan's origination. Other than this exception, all three facilities restrict the borrower while the MSLP loan is outstanding from paying down the principal or interest on any existing debt unless it is “mandatory and due.” A payment is mandatory and due when it was previously scheduled to be paid or upon the occurrence of an event that automatically triggers mandatory prepayment. These restrictions, however, do not prohibit the repaying of a line of credit, taking on new debt obligations, or refinancing debt maturing within 90 days.

Mandatory covenants associated with all facilities create requirements for companies throughout the term of the facilities. As with the PPP, participating companies cannot buy back any publicly listed shares or issue a dividend or capital contribution to shareholders, and must comply with certain limitations regarding executive compensation. Additionally, companies must undertake good-faith efforts to maintain payroll and retain employees during the term of the loan.

How Kilpatrick Townsend Can Help

This alert provides only a high-level overview of the MSLP. There are additional requirements and restrictions that businesses should consider when deciding whether to participate in the program.

Kilpatrick Townsend has a multi-disciplinary MSLP team that can help your organization navigate the lending process. For assistance, please reach out to your usual Kilpatrick Townsend contact or the COVID-19 Task Force at #COVID-19KTSTaskForce@kilpatricktownsend.com.

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