The Main Street Lending Program - A Summary

lending business customers pandemic

Summary: In continued support of businesses, the Fed announced its Main Street Lending Program. We give you the important highlights.

We thought it was interesting to find out that a group of ferrets is called a business. They must be very busy creatures indeed to form so many businesses. While you ponder that thought, we turn to the latest Fed program to help another kind of business -- small and medium-sized businesses.

As part of the CARES Act, the Fed is willing to fund up to $600B as a participant in qualified loans, where the Fed (through a Special Purpose Vehicle) will purchase up to 95% of eligible loans, thereby sharing in the credit risk alongside the "lead lender." This lending program, known as the **Main Street Lending Program (MSLP)** is designed for US small- to medium-sized businesses with fewer than 15K employees or less than $5B in revenue. Today, we give you a brief summary of the program. Of course, we recommend reviewing the Fed's specific MSLP web page for more specifics.

The MSLP is broken into **3 facilities**: New, Priority, and Expanded. Borrowers can only utilize one of the three facilities. Each of these has a maturity of 4Ys, an interest rate of LIBOR (1 month or 3 months) plus 300bp, and payment (principal and interest) is after 1Y deferral. There are origination, transaction, and servicing fees associated with each of these facilities. There are also specific restrictions on cash usage for these companies that utilize these funds, such as limitations on distributions. Very importantly, in contrast to the recently launched PPP program, the MSLP loans are not forgivable.

Certain unique features for each include:

New (Main Street New Loan Facility) has a minimum loan size of $500K and a maximum of the lesser of $25MM or 4x Borrower's Adjusted 2019 EBITDA minus "outstanding + undrawn available debt."

Priority (Main Street Priority Loan Facility) also has a minimum loan size of $500K and a maximum of the lesser of $25MM or 6x Borrower's Adjusted 2019 EBITDA minus "outstanding + undrawn available debt."

Expanded (Main Street Expanded Loan Facility) has a minimum loan size of $10MM (add-on to an existing loan) with a maximum of the lesser of $200MM or 6x Borrower's Adjusted 2019 EBITDA minus "outstanding + undrawn available debt" or 35% of Borrower's existing + undrawn debt that are pari passu.

While the Fed did not comment on the actual start date of this program, it sounded like the regulator needed a few weeks to iron out the last details. If this program fits the needs of some of your business customers, you can begin preparing now and be ready to start when the time comes.