

New Federal Reserve “Main Street Loan” Program Offers One-Year Deferral and Favorable Terms to Businesses – Both Those Eligible and Ineligible for PPP Loans Can Apply

The Federal Reserve announced on April 9, 2020 that it is creating a loan facility to enable financial institutions to make “Main Street Loans” to eligible smaller and mid-sized businesses through September 30, 2020 to assist with recovery from economic disruptions related to COVID-19.

The program is aimed at borrowers “in good financial standing before the crisis.” Businesses will need the capacity to borrow at least \$1 million while retaining overall outstanding debt at less than four times 2019 EBITDA (earnings before interest, taxes, depreciation and amortization). Businesses that are already highly leveraged, therefore, may not qualify.

Eligibility: U.S. business borrowers with up to 10,000 employees or up to \$2.5 billion in 2019 annual revenues.

Combine with PPP? Yes. Businesses eligible for Paycheck Protection Program loans can also obtain Main Street Loans.

Loan Amount: Between \$1 million (minimum) and a maximum amount equal to the lesser of (1) \$25 million or (2) the amount that would bring the borrower’s total outstanding debt to four times the borrower’s 2019 EBITDA.

Terms:

- Principal and interest payments are deferred for one year after origination;
- Maturity is four years;
- Interest rate is the “Secured Overnight Funds Rate” + 250 to 400 basis points. The SOFR is currently 0.1 so initial rates would be 2.6 to 4.1 percent per annum;
- No prepayment penalty.

Requirements:

- Reasonable efforts to maintain payroll and retain employees.
- Attest that financing required due to circumstances related to COVID-19.
- Not used to refinance other debt.
- CARES Act restrictions on compensation, stock repurchase and capital distribution.

Lenders: U.S. insured banks and savings and loans. The Federal Reserve will take on 95 percent of the risk associated with Main Street Loans. Certain fees will apply.

The Fed’s announcement is [here](#) and the Main Street Loans term sheet is [here](#).