Federal Reserve Amends Main Street Lending Program

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Original post here.

On June 8, the Federal Reserve announced significant changes to the Main Street Lending Program, a new facility designed to support lending to small and medium-sized businesses. The changes include decreasing the minimum loan amount for some loans, increasing the maximum loan amount, amending the loan repayment schedule, and extending the loan term.

Through the Main Street Lending Program, the Fed will purchase up to $600 billion of participations in loans to so-called "main street" businesses, which are firms with up to 15,000 employees or $5 billion in annual revenue. The Fed has not yet launched the program.

The Main Street Lending Program has three facilities: the Main Street New Loan Facility (MSNLF) and Main Street Priority Loan Facility (MSPLF) are for new loans while the Main Street Extended Loan Facility (MSELF) is for increases to existing loans or credit facilities. The Fed will purchase a 95% participation in all loans under the program; previously, it had announced that it would purchase a 95% participation in loans under both the MSNLF and MSELF and an 85% participation in loans under the MSPLF.

The June 8 announcement increased the term of each loan option to five years, up from the previous term of four years. The announcement also delays the principal repayment for two years, up from the prior one-year deferral.

The table below summarizes the three different loan facilities with previous guidance in parentheses.

With the changes announced on June 8, the MSPLF and MSNLF have very similar terms, despite the MSPLF being designed for more highly leveraged borrowers. The Fed retained a measure to mitigate risk for MSPLF lending by requiring these loans to be secured if the borrower has other secured debt. A secured MSPLF loan must have a collateral coverage ratio of at least 200%; if not, then a loan's collateral coverage ratio must be not less than the aggregate collateral coverage ratio for the borrower's other secured loans, excluding mortgage debt. However, the Fed does not prohibit borrowers from using MSPLF loans to refinance existing debt to other lenders, unlike MSNLF loans, which cannot be used for refinancing.

Unlike the Paycheck Protection Program (PPP), loans made under the Main Street Lending Program are not forgivable. Businesses cannot participate in more than one of the three Main Street facilities and are also prohibited from accessing the Primary Market Corporate Credit Facility (an emergency facility to purchase corporate bonds). However, PPP borrowers can also borrow under the Main Street Lending Program if they meet the eligibility criteria.

The Main Street Lending Program appears to be the only Federal Reserve program under the CARES Act that is subject to the full set of restrictions on share buybacks, executive compensation, and dividend payments outlined in the CARES Act. Other programs appear to have received waivers from the Treasury Secretary under 4003 (c)(3)(a)(iii) (p. 519).

On May 27, the Federal Reserve Bank of Boston (FRBB), which will administer the program, released additional documentation for borrowers and lenders. These include the lender

	MSNLF (New Loans)	MSPLF (Priority Loans)	MSELF (Extended Loans)
Purpose	Initial facility for new loans to borrowers	Announced on April 30 for new loans to highly leveraged borrowers	Increased lending (upsized tranche) to existing borrowers
Term	5 years (previously 4 years)	5 years (previously 4 years)	5 years (previously 4 years)
Minimum Loan Size	$250,000 (previously $500,000)	$250,000 (previously $500,000)	$10M
Maximum Loan Size	The lesser of $35M, or an amount that, when added to outstanding and undrawn available debt, does not exceed 4.0x adjusted EBITDA (previously $25M)	The lesser of $50M, or an amount that, when added to outstanding or undrawn available debt, does not exceed 6.0x adjusted EBITDA (previously $25M)	The lesser of $300M, or an amount that, when added to outstanding or undrawn available debt, does not exceed 6.0x adjusted EBITDA (previously $200M)
Participation	95%	95% (previously 85%)	95%
Principal Repayment	Year 1-2: Deferred Year 3: 15% Year 4: 15% Year 5: 70% (Previously deferred for year 1, 33.33% due in years 2-4)	Year 1-2: Deferred Year 3: 15% Year 4: 15% Year 5: 70% (Previously deferred for year 1, 15% for year 2, 15% for year 3, 70% for year 4)	Year 1-2: Deferred Year 3: 15% Year 4: 15% Year 5: 70% Previously deferred for year 1, 15% for year 2, 15% for year 3, 70% for year 4)
Interest Payments	Deferred for 1 year	Deferred for 1 year	Deferred for 1 year
Interest Rate	LIBOR + 300bps	LIBOR + 300bps	LIBOR + 300bps

registration documents, loan participation and servicing agreements, and borrower covenants. The Fed also updated the FAQs to provide more information about program requirements. Changes made on May 27 include rules about affiliation, foreign subsidiaries, documentation, and specific updates to each facility related to security and subordination, among others.

The Fed has faced criticism for the amount of time it has taken to establish the Main Street Lending Program and begin operations. Others consider the program to be "heading for trouble before it even gets under way" as some potential borrowers view the interest rates as too high. Others considered the previous four-year term too short. In a webinar on May 29, Federal Reserve Chair Jerome Powell called the Main Street Lending Program "far and away the biggest challenge of any of the 11 facilities" the Fed set up in response to the COVID-19 pandemic. The Fed "expects that Main Street program" to be open for lender registration soon and to be actively buying loans shortly afterwards."

The FRBB chose State Street Bank and Trust as the third-party vendor custodian and accounting administrator for the Main Street Lending Program.

The Fed announced the Main Street Lending Program on April 9 and accepted comments through April 16. Following the 2,200 plus comments, the Fed announced modifications to the program on April 30. The Fed will operate the program until September 30, unless the Federal Reserve Board and Treasury Department decide to extend its operations.