Federal Reserve Announces Changes to Main Street Lending Program

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Original post here.

On April 30, the Federal Reserve Board announced updates to the Main Street Lending Program, after receiving more than 2,200 comments from individuals, businesses, and nonprofits on the initial terms of the program announced on April 9. Major changes include creating a third facility that accepts riskier borrowers, lowering the minimum loan size, lowering the interest rate, and expanding the pool of eligible borrowers.

The Main Street Lending Program is an attempt to encourage lending to small and medium-sized enterprises (SMEs) by having the Fed purchase up to $600 billion in such loans. Initially, the program consisted of two facilities: the Main Street New Loan Facility (MSNLF) and the Main Street Expanded Loan Facility (MSELF).

The newly-announced Main Street Priority Loan Facility (MSPLF) is for new lending, like the MSNLF; MSELF is for increased lending under existing loans or revolving credit facilities. MSPLF requires that lenders retain 15% of the loan, compared to 5% under MSNLF and MSELF. This higher-risk sharing ratio is for borrowers that may be more highly leveraged, as the maximum loan size under the MSPLF is six times 2019 adjusted EBITDA (earnings before income, tax, depreciation, and amortization) compared to four times 2019 adjusted EBITDA for MSNLF.

The earlier term sheets for the Main Street facilities referred only to EBITDA. The reference to "adjusted" EBITDA represents a significant concession to the industry. It allows a lender to calculate EBITDA under the same methodology it used previously for the borrower or similarly situated borrowers. In recent years, lenders have inflated EBITDA by as much as a third by adding back transaction costs and expected savings that are often not realized.

Businesses with up to 15,000 employees or up to $5 billion in annual revenue are now eligible for all three facilities, compared to the prior limit of 10,000 employees or $2.5 billion in revenue. The new MSPLF has a minimum loan size of $500,000. The Fed also lowered the minimum loan size from $1 million to $500,000 for the MSNLF. This change opens the program to smaller businesses that were unable to participate under the initial terms.

The Board raised the minimum loan size for MSELF to $10 million from $1 million. The maximum is now the lesser of $200 million, 35% of the borrower's outstanding and undrawn available debt, or six times the 2019 adjusted EBITDA. The program originally had a maximum of $150 million or 30% of the borrower's outstanding and undrawn available debt. The limit of six times 2019 EBITDA remains the same. Similar to the reduced minimum loan size under MSNLF and MSPLF, the increased maximum loan size under MSELF expands the pool of eligible borrowers.

The Main Street Lending Program is broad-based and does not target specific industries. Industry groups responded during the window for comments to lobby for access to the program. Retail and hospitality groups expressed concerns regarding the debt requirements, and investment professionals sought guidance surrounding EBITDA calculations. Oil and

gas groups also lobbied for changes such as allowing companies with higher debt to borrow under the program and permitting companies to use the funds to pay down existing debt.

All three facilities have the same eligible lender criteria, which now includes US branches of foreign banks, and the same borrower eligibility criteria. Loans all have the same 4-year maturity and the same interest rate. Initially, the interest rate was set at the Secured Overnight Financing Rate (SOFR) plus 250 to 400 basis points. The new guidance sets the interest rate for eligible loans at LIBOR (1 or 3 month) plus 300 basis points. All loans also have a deferral of principal and interest for a year and no penalty for early repayment. For MSNLF loans, one-third of the principal will be due at the end of each year. Loans under MPSLF and MSELF will have 15% of principal due at the end of the second and third years with the remaining 70% due at the end of the fourth year.

Borrowers under the program are also permitted to borrow under the Paycheck Protection Program (PPP), provided that the borrowers meet the eligibility criteria of the PPP. All borrowers must make “commercially reasonable efforts” to retain employees and maintain payroll in order to borrow under the program. In contrast to PPP lending, these loans are not forgivable.

The Board has not yet announced the start date for the program. The program end date is currently set for September 30, 2020. The Federal Reserve Bank of Boston will administer the program and will establish and operate the Main Street Special Purpose Vehicle (Main Street SPV). The Department of the Treasury will make a $75 billion equity investment in the Main Street SPV, which will be used to purchase up to $600 billion of participations in eligible loans under the three facilities.These facilities are established under the Federal Reserve’s authority under Section 13(3) of the Federal Reserve Act.

Once operational, the Board will disclose information regarding the operations of all three facilities including the names of lenders and borrowers, amounts borrowed, interest rates charged, overall costs, revenues, and other fees. Aggregated values of balances under each facility will be published weekly. One year after terminating the program, the Board will disclose more details about participation in the program, including the name and identifying details of each borrower, the amount borrowed, and information about their collateral or pledged assets.

The Board is evaluating a separate program for nonprofits. They are currently ineligible.

Comparison of Main Street Lending Program Facilities

Loan Details	MSNLF	MSPLF	MSELF
Term	4 years	4 years	4 years
Minimum Loan Size	$500,000	$500,000	$10M
Maximum 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
Lender Risk Sharing	5%	15%	5%
Repayment	Year 1: 0% Year 2: 33.33% Year 3: 33.33% Year 4: 33.33%	Year 1: 0% Year 2: 15% Year 3: 15% Year 4: 70%	Year 1: 0% Year 2: 15% Year 3: 15% Year 4: 70%
Rate	LIBOR + 300 bps	LIBOR + 300 bps	LIBOR + 300 bps

Source: Federal Reserve