crowell moring

CLIENT ALERT

Board of Governors of the Federal Reserve Seek to Aid Smaller Businesses by Revising Loan Terms of Main Street Lending Program

Jun.10.2020

On June 8, 2020, the Board of Governors of the Federal Reserve (the "Federal Reserve") announced a further revision to the terms of borrower eligibility for a term loan under its Main Street Lending Program (the "Program"). These revisions are designed to encourage more small and medium-sized businesses to participate in the Program. Originally announced on April 9, 2020, the Program operates through three types of loans (the New Loan Facility ("MSNLF"), the Priority Loan Facility ("MSPLF"), and the Expanded Loan Facility ("MSELF"). These loan facilities are authorized under Title IV of the recently enacted Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The special purpose vehicle created to support the Program will purchase up to $600 billion in loan participations from eligible lenders. The MSNLF and MSPLF provide terms and conditions for loans to Eligible Borrowers which are made by Eligible Lenders after April 8, 2020. The MSELF provides terms and conditions for loans to upsize an Eligible Borrower's existing loan facility that had been made by an Eligible Lender prior to April 8, 2020. The Program is administered by the Federal Reserve Bank of Boston (the "Boston Fed") and is intended to facilitate lending to small and medium-sized businesses that were financially stable prior to the COVID-19 pandemic so that they may maintain operations and payroll during the COVID-19 emergency period.

The Federal Reserve has faced challenges in establishing a program that closes the gap between the Small Business Administration Paycheck Protection Program ("PPP") and other government sponsored relief programs. Many businesses are too big (or otherwise not eligible under Cares Act and SBA rules) to fit into the PPP or too small to access the relief programs as currently offered by the Federal Reserve. The launch of the Program has been delayed so far due, in large part, to the fact that the gap engulfs an extraordinarily diverse space of companies in different kinds of industries with very different credit needs. There is no simple one-size, fits all program that can address these needs. The goal of the June 8 revision is to narrow that gap.

As the original rollout of the Program raised significant hurdles to borrower eligibility, the Federal Reserve has eased requirements over the past two months. In late April, the Federal Reserve expanded the Program to allow a wider range of companies to participate. In the June 8 revision, the Federal Reserve focused on loosening the terms of the loans. The new changes, while not real game-changers, are helpful and include (i) a lower minimum loan amount ($250,000) for certain loans, (ii) an increase in the maximum loan limit for all three types of loans under the Program, (iii) an adjusted principal repayment schedule - to begin after two years rather than one year, (iv) an increase of the loan term from four to five years, and (v) a lower risk retention percentage for Eligible Lenders with regard to the Program's riskier loans (MSPLF). The chart below provides a more detailed overview of the revised loan terms.

The unique features of each loan are provided in revised term sheets for the corresponding loan, which are available at the website of the Federal Reserve, and an updated guidance document (Frequently Asked Questions, dated June 8, 2020) is available here.

Key Revised Loan Terms	MSNLF	MSPLF	MSELF
Maturity	5 years *(previously 4 years)*		
Minimum Loan Size	$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 the Eligible Borrower's 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 the Eligible Borrower's 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 the Eligible Borrower's adjusted EBITDA *(previously $200M)*
Risk Retention / Percent of Loan to be Retained by Eligible Lender	5%	5% *(previously 15%)*	5%
Principal Repayment	Principal deferred for two years, years 3-5: 15%, 15%, 70% *(previously principal deferred for one year and 33.33% repayment due in each of years 2-4)*	Principal deferred for two years, years 3-5: 15%, 15%, 70% *(previously principal deferred for one year and 15%, 15%, 70% principal repayment due in years 2, 3, and 4, respectively)*	
Interest Payments	Deferred for one year		

Rate	LIBOR + 3%

Further Information and Updates on the Program

The Federal Reserve expects to launch the Program formally in the near future. The Program will remain active until September 30, 2020, unless it is extended by the Federal Reserve and the Department of Treasury. Detailed terms of the Program are available at the Federal Reserve's website, and the operational documents are available at the Boston Fed's website.

Parties interested in receiving further information on the Program may submit inquiries by email to mslp@bos.frb.org.

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.

Scott Lessne
Senior Counsel – Washington, D.C.
Phone: +1 202.624.2597
Email: slessne@crowell.com

James G. Flood
Partner – Washington, D.C.
Phone: +1 202.624.2716
Email: jflood@crowell.com

Manuela Siragy
Counsel – Washington, D.C.
Phone: +1 202.624.2836
Email: msiragy@crowell.com

Nicholas James
Counsel – Washington, D.C.
Phone: +1 202.624.2959
Email: njames@crowell.com