

Fed Announces \$2.3 Trillion Lending Initiative

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The Federal Reserve System has announced additional actions to provide up to \$2.3 trillion in loans to support the U.S. economy.

The creation of the Main Street Lending Program will provide credit to small and midsize businesses with up to 10,000 employees or up to \$2.5 billion in 2019 annual revenue. The lending program provides assistance beyond - and in a few cases, in addition to - funding provided by the Small Business Administration's [Paycheck Protection Program \(PPP\)](#), which provides forgivable loans to small businesses with 500 or fewer employees. While the Fed's new program helps to fill the credit gap for mid-sized businesses, unlike the PPP, loans made under the Main Street Lending Program will not be forgivable and cannot be used to pay off other debt. Companies that have taken advantage of the PPP may also take out Main Street loans, and must commit to make reasonable efforts to maintain payroll and retain workers.

Under the program, two Federal Reserve-authorized lending facilities, the [Main Street New Loan Facility](#) and the [Main Street Expanded Loan Facility](#), will purchase up to \$600 billion in loans. Loans originated under the program will have:

- A term of four years.
- Principal and interest payments deferred for one year.
- A minimum loan amount of \$1 million.
- The maximum loan amount for the new loan facility is the lesser of \$25 million or an amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed four times the borrower's 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA).
- For the expanded loan facility, the maximum amount is the lesser of \$150 million, 30% of the existing outstanding and committed but undrawn bank debt, or an amount that, when added to existing outstanding and committed but undrawn debt, does not exceed six times the borrower's 2019 EBITDA.
- Adjustable rate of secured overnight financing rate + 250-400 basis points.
- Prepayment permitted without penalty.
- Certain required proof on topics such as use of proceeds, efforts to retain employees, EBITDA leverage condition and restrictions on compensation, stock repurchases and dividends.

Eligible banks may originate new Main Street loans or use Main Street loans to increase the size of existing loans to businesses. Banks will retain a 5% share in each loan, selling the remaining 95 percent to one of the two Main Street

lending facilities. Thus, the Main Street Lending Program could be a fit for companies that have a liquidity need which its lenders otherwise would not meet without the 95 percent participation by the government.

In addition to this new program, the Federal Reserve System recently announced additional actions, which will:

- Bolster the effectiveness of the Small Business Administration's PPP by supplying liquidity to participating financial institutions through term financing backed by PPP loans to small businesses. The PPP provides loans to small businesses so that they can keep their workers on the payroll.
- Increase the flow of credit to households and businesses through capital markets, by expanding the size and scope of the Primary Market Corporate Credit and Secondary Market Corporate Credit facilities, as well as the Term Asset-Backed Securities Loan Facility. These three programs will now support up to \$850 billion in credit backed by \$85 billion in credit protection provided by the U.S. Department of the Treasury.
- Help state and local governments manage cash flow stresses caused by the coronavirus pandemic by establishing a Municipal Liquidity Facility that will offer up to \$500 billion in lending to states and municipalities. The Treasury will provide \$35 billion of credit protection to the Federal Reserve for the facility using funds appropriated by the CARES Act.

Additional terms of the Main Street Loan facilities are available on the [Federal Reserve's website](#). Barley Snyder attorneys are currently advising businesses and financial institutions regarding this and other issues related to the U.S. government's response to the coronavirus. If you have questions, please [contact me](#) or any member of the [Barley Snyder Business Practice Group](#).

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