Main Street Lending Program: Background & FAQs

June 16, 2020

The Main Street Lending Program is intended to provide loans to small and medium-sized businesses that were in sound financial condition before the onset of the COVID-19 pandemic.

Under the program, the Federal Reserve will support up to $600 billion of loans to eligible small and medium-size businesses. The loans will be made by federally insured banks and savings associations and credit unions and foreign banks operating in the U.S. The loans will be available until September 30, 2020, and are not forgivable.

The Main Street Lending Program facilities became operational on June 15. Businesses interested in obtaining loans should contact a participating lender for application materials.

Contents

FAQs

1. Do You Qualify for a Main Street Loan?

Eligible borrowers are for-profit U.S. businesses (including partnerships, LLCs, corporations, trusts, joint ventures, and cooperatives) with 15,000 or fewer employees and for-profit businesses that had 2019 annual revenue of $5 billion or less. Other forms of organization may be considered eligible at the discretion of the Federal Reserve. Employees and revenues of all affiliated companies are combined when determining eligibility, but volunteers and independent contractors are excluded. An eligible company cannot be insolvent or expect to default on an obligation within 90 days after receiving a loan.

Commercial and residential real estate brokers and agencies, and other for-profit businesses that provide real estate services, should be eligible for a Main Street loan. However, the program explicitly excludes companies that are primarily engaged in lending, so mortgage lenders are not eligible. The program also excludes certain "passive businesses" owned by developers or landlords that do not actively use or occupy the property.

2. How Much Can I Borrow?

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There are three categories of loans, with different conditions and terms.

- **"New Loan" program:** minimum loan amount is $250,000, and the maximum loan amount is capped at the lower of $325 million- or 4-times prior year's earnings (before deducting interest, taxes, depreciation, and amortization).
- **"Priority Loan" program:** similar to New Loan program, except it is capped at the lesser of $50 million- or 6-times prior year's earnings (before deducting interest, taxes, depreciation and amortization).
- **"Expanded Facility" program:** designed to expand an existing loan or line of credit; minimum loan amount is $10 million and the maximum amount of the loan is capped at $300 million, or a lesser amount based on the company's overall debt level.

3. How Do I Apply?

Aa company seeking a loan under one of these programs should contact an insured depository institution or other eligible lender and ask for a Main Street Loan application. The Fed establishes the minimum requirements for the program. The lender will underwrite the loan according to its internal standards and take action to determine whether to grant the loan by asking for additional documentation, potentially reducing the amount of the loan, requiring that collateral be posted to secure the loan, or declining to make the loan altogether, even if all of the requirements established by the Fed are met.

4. What is the Interest Rate and Payment Terms?

The interest rate is LIBOR plus 3 percent. No payment on principal and interest is required during the first year. No payment of principal is required during the second year, but interest payments are required. All three loan programs have a delayed amortization schedule with a balloon payment of 70 percent of the original loan at the end of the fifth year.

5. Do I Need to Retain Employees?

There is no requirement to retain employees, but eligible businesses should make "commercially reasonable" efforts to maintain payroll and retain employees, while the Main Street Loan is outstanding.

6. What Other Conditions Apply?

Various other conditions apply to obtain the loan. Most significantly, you cannot prepay any other loan or cancel or reduce any line of credit. However, credit cards may be paid down, maturing debt may be refinanced, and additional debt may be taken on in the normal course of business. An existing debt with a mandatory payment due may be paid. A business may not have more than one type of Main Street Lending program. **The receipt of an SBA Paycheck Protection Program (PPP) Loan is not disqualifying.** The business must comply with restrictions on

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executive compensation, share buybacks, payment of dividends, and certain conflict of interest rules. (See Borrower Certifications and Permissible Loan Repayments below.)

7. **What Are My Risks?**
   The loan cannot be forgiven. Further, the loan is made with full recourse. That means if there is default, the assets of the company that were not used as collateral may be seized to make up for any deficiency. If you personally guarantee the loan, your personal assets are also placed at risk in the event of a default. Additionally, Federal Reserve public reporting procedures require the names and details of participants in each program to be disclosed on a monthly basis, as well as the amounts borrowed, interest rate charged, and the overall costs, revenues, and fees for each loan facility.

See additional information below on loan types, borrower certifications, and permissible loan repayments.

Loan Details

As of April 30, the Federal Reserve has announced the availability of three types of loans to small and medium-sized businesses:

1. **Main Street New Loan Facility**
   Business loans of between $250,000 and $35 million. The maximum loan size is capped at the amount, when added to the borrower's existing debt and undrawn lines of credit, does not exceed four times the borrower's 2019 earnings before interest, taxes and depreciation and amortization ("EBITDA"). In other words, if a company has no outstanding debt or lines of credit and has $2 million in earnings before making any deductions for interest, taxes, depreciation or amortization costs, the maximum loan is $8 million. However, if the company has an outstanding loan of $2 million and an undrawn line of credit of $1 million, the cap on the New Loan is reduced to $5 million.

   The loan term is five years, but principal and interest payments are deferred during the first year and principal (but not interest) is deferred the following year (for a total of two years).s. Accumulated interest during the first year will be added to the principal. The rate of interest is LIBOR+3 percent. For a monthly adjustable loan, the current LIBOR is around 0.5 percent, making the rate approximately 3.5 percent. The loan may be prepaid at any time without penalty.

2. **Main Street Priority Loan Facility**
   Same as the New Loan program except that the maximum size of the loan is capped at the lesser of: (i) $50 million, or (ii) the amount that, when added to the borrower's existing outstanding and undrawn lines of credit, does not exceed six times EBITDA.

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Further, as with the New Loan program, this loan has a balloon payment equal to 70 percent of the loan principal at the end of the fifth year.

Thus, the Priority Loan program allows for larger loans (the lesser of $50 million or total debt up to six times EBITDA).

3. **Main Street Expanded Loan Facility**
The Expanded Facility is to be used by a borrower to increase the size of a term loan or revolving credit facility that existed as of April 24, 2020, and that has a remaining maturity of at least 18 months. The existing loan or credit facility must have an internal rating of "pass" under the rating standards established by the federal regulators. The Expanded Facility is in the form of a term loan of between $10 million and $300 million, but capped when total debt equals six times EBITDA.

Under the New Loan program, the loan may not be contractually subordinated in terms of priority to any of the borrower's other loans or debt instruments. Under the Priority and Expanded Loan programs, the eligible loan must be senior to or equal in terms of priority and security with the borrower's other debt instruments, other than mortgage debt.

Borrower Certifications

The borrower must certify that it:

(i) will not repay any other loan while the eligible loan is outstanding unless the payment is mandatory and due;
(ii) will not cancel or reduce any of its committed lines of credit;
(iii) has a reasonable basis to believe that, after including the eligible loan, it has the ability to meet its debts for at least 90 days and does not expect to file for bankruptcy during that time period;
(iv) will follow compensation, stock repurchase and capital distribution restrictions;
(v) complies with the restriction on connections with Government officials (described below); and
(vi) is otherwise eligible to participate in the program.

Permissible Loan Repayments

A company with a Main Street loan may:

(i) repay a line of credit (including a credit card) in the normal course of business usage for such line of credit;
(ii) take on and pay additional debt obligations required in the normal course of business and on standard terms as long as the debt is of equal or lower priority than the Main Street loan;
(iii) refinance maturing debt; and

(iv) a company receiving a Priority program loan (but not other program loans) may, at the origination of a loan, refinance existing debt owed to a lender that is not an eligible lender.

Additional Resources

Federal Reserve FAQs

Term sheet: Main Street New Loan Facility (PDF)

Term sheet: Main Street Priority Loan Facility (PDF)

Term sheet: Main Street Expanded Loan Facility (PDF)

U.S. Chamber of Commerce Guide

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