COVID-19 Alert: Emergency Loan Programs

Federal Reserve Bank Unveils $2.3 Trillion Plan to Bolster Economy

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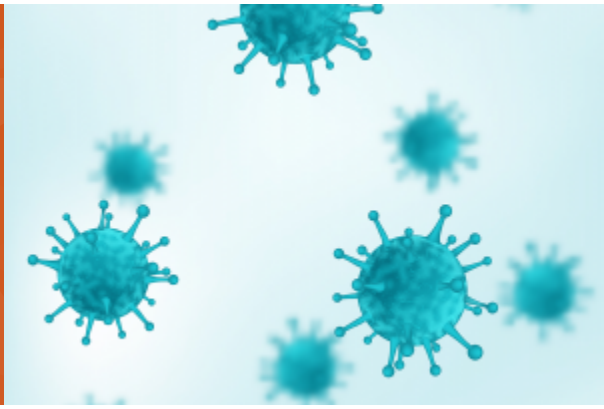

New *Emergency Loan Programs for Small and Mid-Sized Businesses*

On April 9, 2020, the Federal Reserve announced an expansive, $2.3 trillion relief plan to aid small and mid-sized businesses and municipalities, and to backstop credit and bond markets.

The plan, *which is described in broad outline through a series of press releases*, includes several strategies previously adopted by the Federal Reserve during the 2008 financial crisis:

- **Primary Market Corporate Credit Facility:** The Federal Reserve intends make loans to, and purchase bonds from, certain qualified investment grade corporations (*i.e.*, trade exchange listed companies) to provide liquidity to such businesses.
- **Secondary Market Corporate Credit facility:** The Federal Reserve intends to purchase, on the secondary market, corporate bonds of distressed businesses.
- **Term Asset-Backed Securities Loan Facility:** The Federal Reserve intends to accept certain asset backed securities (bundles of car loans, equipment leases, and student and small business loans) as collateral for loans to qualified firms for investment into new asset-backed securities. This is intended to offset market conditions, and to permit lenders to, in turn, continue to make new loans for cars, college education and small businesses.
- **Municipal Liquidity Facility:** The Federal Reserve intends to make loans and buy bonds from certain distressed municipalities.

In addition to the above, *and most relevant to our clients*, the Federal Reserve announced an intent to fund new and expanded **Main Street Lending Facilities**. The Federal Reserve's description of the Main Street Lending program is here:

Main Street NEW Loan Facility

Main Street EXPANDED Loan Facility

Federal Reserve Press Release

As outlined by the Federal Reserve, the Main Street Lending program is designed to provide small and mid-sized US businesses – *businesses employing up to 10,000 employees* – with access to federally backed loans, on favorable terms, processed through commercial banks. As such, the Main Street Lending program appears to be structured as an expanded, **more complex** version of the Economic Injury Disaster Loan ("EIDL") program now available, through the Small Business Administration, to small businesses employing fewer than 500 employees.

Guidelines implementing the Main Street Lending program have not been issued. However,

Federal Reserve press releases describe the program as follows:

- **LENDERS:** United States insured depository institutions; United States bank holding companies, and United States savings and loan holding companies.
- **ELIGIBLE BORROWERS:** Businesses that: (i) employ up to 10,000 employees or booked up to $2.5 in 2019 annual revenue; and (ii) are organized under United States law, with significant operations in, and a majority of their employees based, in the United States.
- **LOAN TERMS:**
  - 4 year maturity.
  - No forgiveness.
  - Amortization of principal and interest deferred for one year.
  - Interest rate equal to the Secure Overnight Financing Rate (currently 0.01%) *plus* 250-400 basis points.
  - Loan Size:
    - New Loans: Provides for an unsecured term loan that has a minimum loan size of **$1 million** and a maximum loan size that is the lesser of (a) **$25 million**, or (b) an amount that, when added to the Borrower's existing outstanding and committed but undrawn debt, does not exceed 4x EBITDA.
    - Expansion of Existing Loans: Provides for an upsized tranche of an existing term loan, under a prior Main Street lending program, that was originated before April 8, 2020. The upsized tranche must have a minimum loan size of **$1 million** and a maximum loan size that is the lesser of (a) **$150 million**, (b) 30% of the Borrower's existing outstanding and committed but undrawn bank debt, or (c) an amount that, when added to the Borrower's existing outstanding and committed but undrawn debt, does not exceed 6x EBITDA.
  - Prepayment permitted without penalty.
- **BORROWER CERTIFICATIONS:** Businesses seeking Main Street loans must attest that they require financing due to exigent circumstances related to COVID-19, and must commit to make reasonable efforts to maintain payroll and retain workers. Borrowers must also follow certain compensation, stock repurchase, dividend restrictions, and EBITDA leverage conditions *to be detailed in implementing regulations*. In addition, borrowers must certify the proceeds of the loan will not be used to repay or refinance pre-existing loans or lines of credit.
- **LOAN FACILITY POOL:** Banks will retain a 5 percent share, selling the remaining 95 percent to the Federal Reserve, which will purchase up to **$600 billion** of loans.

Contrary to predictions of several commentators, the Main Street Lending program does not exclude businesses with fewer than 500 employees. As such, *it appears that:*

- Small businesses that have taken advantage of the Paycheck Protection Program (PPP) *will be eligible* for Main Street Lending program loans;
- Small, institutional investor backed start-up businesses, that may be excluded from the PPP by operation of the Affiliation Rule, *will be eligible* for Main Street Lending program loans.

The Federal Reserve is soliciting comments on its relief plan until April 16, 2020, and intends to implement the various programs outlined in the plan soon thereafter.

Morse is focused on assisting our clients through these unprecedented and challenging times. Please contact the Firm should you have questions concerning this new business relief program,

or any other COVID-19 response matters.

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