Johnson & Sheldon, PLLC
Certified Public Accountants

Main Street Lending Program

(Revised 5/4/2020)

On April 9, 2020, the Federal Reserve authorized the establishment of the Main Street Lending Program to $600 billion of loans to small and medium-sized businesses. The purpose of the program is to provide much needed financial support to help businesses through the COVID-19 crisis. This document covers an overview of the Main Street Lending Program and three types of debt facilities the program provides.

Who Qualifies for the Program?

The Main Street Lending Program is for small and medium-sized businesses that were in sound financial condition before the pandemic. To qualify, you must:

- Be a business that is organized for profit as a partnership; a limited liability company; a corporation; an association; a trust; a cooperative; a joint venture with no more than 49 percent participation by foreign business entities; or a tribal business concern.
- Have been established prior to March 13, 2020.
- Have fewer than 15,000 employees or have had revenue less than $5 billion in 2019.
- Be created or organized in the United States or under the laws of the United States with significant operations in and a majority of employees based in the United States.
- Have not participated in the Primary Market Corporate Credit Facility.
- Have not received specific support pursuant to the Coronavirus Economic Stabilization Act of 2020.

There are certain types of businesses listed in the code of federal regulations that are not eligible for a Main Street loan, and we can help you determine eligibility for your type of business.

What are the Terms of the Loan?

The Main Street Lending Program is comprised of three distinct loan facilities: the Main Street New Loan Facility, the Main Street Priority Loan Facility, and the Main Street Expanded Loan Facility. The new and priority loan facilities are for new loans and the expanded loan facility is for the expansion of an existing loan.

With each facility, the loan is made by an eligible lender, and then a portion of the loan is sold to a special purpose vehicle funded by the Federal Reserve. This results in the lender maintaining a small participation in the loan.

The New Loan Facility provides a four-year term loan between $500,000 and $25 million. The maximum amount is limited to the lesser of $25 million or an amount that, when added to outstanding and undrawn available debt, does not exceed 4 times your adjusted 2019 EBITDA. The interest rate is based on LIBOR + 3%. Payments for new loans are deferred for the first year and then spread equally over the remaining three years. With this facility, the lender retains 5% participation in the loan.

The Priority Loan Facility provides a four-year term loan between $500,000 and $25 million. The maximum amount is limited to the lesser of $25 million or an amount that, when added to outstanding and undrawn available debt, does not exceed 6 times your adjusted 2019 EBITDA. The interest rate is based on LIBOR + 3%. Payments are deferred for the first year and then 15% is due in year 2, 15% in year 3, and 70% in year four. With this facility, the lender retains 15% participation in the loan.

The Expanded Loan Facility provides for the expansion of an existing loan. Expanded loans provide a four-year term loan between $10 million and $200 million. The maximum amount is limited to the lesser of $200 million, 35% of existing outstanding and undrawn available debt, or an amount that, when added to outstanding and undrawn available debt, does not exceed 6 times your adjusted 2019 EBITDA. The interest rate is based on LIBOR + 3%. Payments are deferred for the first year and then 15% is due in year 2, 15% in year 3, and 70% in year four. With this facility, the lender retains a 5% participation in the loan.

Example:

If your business has $3 million of outstanding and undrawn available debt, and had an adjusted EBITDA of $4 million in 2019, you would be eligible for $13 million under the New Loan Facility. This is calculated by taking your EBITDA of $4 million, multiplying it by 4 and then subtracting your debt of $3 million. For the priority loan facility, you would be eligible for $21 million because the EBITDA multiple is 6 instead of 4. For the Expanded Loan Facility, you would not be eligible because the limitation of 35% of existing outstanding and undrawn available debt would limit you to only $1.05 million and the minimum loan amount or an expanded loan is $10 million. However, if your business has $30 million of outstanding and undrawn available debt and had an adjusted EBITDA of $10 million in 2019, you would be eligible for $10.5 million under the Expanded Loan Program.

Loan Requirements:

Borrowers may only borrow under one of the three loan programs. So if you borrow under the new loan program, you cannot also borrow under the priority or expanded loan programs.

If you have applied for or received a Paycheck Protection Program loan, you are still eligible for the MSLP loan, provided that you meet the qualification requirements.

Each loan facility does require certain Certifications and Covenants of both the borrower and the lender. Many of these address restrictions on other debt you may have, use of the loan proceeds, employee and officer compensation, stock repurchases, and capital distribution.

Also, with a Main Street Loan, you should make commercially reasonable efforts to maintain your payroll and retain your employees during the time the loan is outstanding.

New loans originated after April 24, 2020, are eligible for both the New Loan Program and the Priority Loan Program. For the expanded loan program, the original loan must have been originated prior to April 24, 2020.

Both programs will be available until September 30, 2020, or such time as available funds for the program have been exhausted.

Each loan facility does carry an origination fee, and if passed through by the lender, a transaction fee. These fees range from 75 to 200 basis points in total and are dependent on the lender and type of loan facility.

Final Thoughts

While we have provided an overview of the Main Street Lending program, there are of course many details not covered here. If you have any questions, would like to learn more, or would like to discuss if the Main Street Lending Program is a fit for your business, please contact our office. Our experts are always here to help.

About Johnson & Sheldon, PLLC

Johnson & Sheldon, PLLC is professional corporation that has established itself as one of the leading, aggressive accounting and consulting firms in the Panhandle Region of Texas. Our clients have been relying on the experience and guidance of our partners, Terry Sheldon , Richard Blankenship and Jeff Joyce for over 30 years. Located in Amarillo, Johnson & Sheldon's client base consists of small to medium size mostly privately-owned business and organizations. J&S is a member of the RSM US Alliance, the nation's fastest growing association of independent accounting firms. Through our affiliation with this network, Johnson & Sheldon, PLLC can offer the pooled expertise and resources of the RSM US Alliance, as well as other network members.

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