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U.S. Treasury Secretary and Federal Reserve Announce Main Street Business Lending Program

On April 9, 2020, U.S. Treasury Secretary Steven T. Mnuchin approved the establishment of a Main Street Business Lending Program (Program) to support the flow of credit to the public. Using funds appropriated by the Coronavirus Aid, Relief and Economic Stability Act (CARES Act) passed on March 27, 2020,¹ the Treasury will invest \$75 billion in a special purpose vehicle (SPV) that will implement the Program to provide funding and relief for medium-sized businesses.

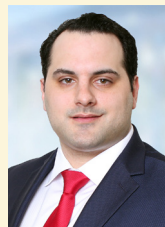
Key Terms of the Loan for Borrowers:

- Eligible borrowers are those with 10,000 employees or fewer, or less than \$2.5 billion in revenues for 2019;
- The borrower must require financing due to the exigent circumstances presented by the coronavirus pandemic, and must use proceeds of the loan to make reasonable efforts to maintain its payroll and retain its employees during the term of the loan;
- Loan must originate on or after April 8, 2020;
- Minimum loan size of one \$1 million;
- Maximum loan size of (i) \$25 million, or (ii) an amount that when added to the borrower's existing outstanding and committed but unwithdrawn debt, does not exceed four times the borrower's 2019 EBITA;
- Loans are unsecured term loans with a term of four years;
- Principal and interest payments on the loan will be deferred for one year;
- Adjustable interest rate of SOFR + 250-400 basis points;
- Loans may be prepaid without penalty;
- Borrower may not use the proceeds of the loan to repay other loan balances;
- Borrower may not repurchase stock and must follow compensation and capital distribution restrictions set forth in Section 4003 of the CARES Act;
- Borrower may not repay other debt of equal or lower priority, with the exception of mandatory principal payments, unless the borrower has first repaid the loan in full;

- Borrower must not cancel or reduce any of its outstanding lines of credit with the lender or any other lender; and
- Borrower must pay lender an origination fee of 100 basis points of the principal amount of the loan.

Key Terms of the Loan for Lenders:

- Eligible lenders are U.S. insured depository institutions, U.S. bank holding companies, and U.S. savings and loan holding companies;
- The SPV will purchase a 95% participation in a loan at par value, and the lender will retain 5% of the loan. The SPV and the lender will share risk on a pari passu basis;
- Proceeds of the loan must not be used to repay or refinance pre-existing loans or lines of credit made by the lender to the borrower;
- Lender must not cancel or reduce any existing lines of credit outstanding to the borrower;
- Lender must pay the SPV a facility fee of 100 basis points of the principal amount of the loan participation purchased by the SPV (however, the lender may require the borrower to pay this fee); and



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- The lender will be responsible for servicing the loan and the SPV will pay lender 25 basis points of the principal amount of its participation in the loan per annum for loan servicing.

The Program will cease on Sept. 30, 2020, unless the Board and the Treasury Department extend the Facility. The Reserve Bank will continue to fund the SPV after such date until the SPV's underlying assets mature or are sold.

¹ For more information on the finance portions included in the CARES Act, see our April 2, 2020 alert published [here](#).

ABOUT STRADLEY RONON

This pandemic is unprecedented. To continue to assist our clients and friends, we have implemented contingency plans designed to maintain operations and to ensure that we can continue to provide the highest level of service during this rapidly changing environment, while also protecting the health of our personnel. We will continue to review, update, and adapt those plans as the situation progresses, and will certainly keep you apprised of any developments that might impact your business.