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U.S. Federal Reserve Announces Main Street Lending Program for Small and Mid-Sized Businesses

On April 9, 2020, the Federal Reserve announced two new loans under the Main Street Lending Program to provide \$600 billion in financial relief to small and mid-sized businesses. These two new loans – the Main Street New Loan Facility and the Main Street Expanded Loan Facility – are authorized under section 13(3) of the Federal Reserve Act. Here is the first look at these two new loans.

THE MAIN STREET NEW LOAN FACILITY (MSNLF)

What Business is Eligible for a Main Street New Loan?

- Business employs up to 10,000 workers in 2019, OR, has annual revenues of less than \$2.5 billion in 2019;
- Business was in good financial standing before the crises started;
- Business is a US entity incorporated or organized with significant operations and a majority of its employees based in the US;
- Business did not also participate in the MSELF or the Primary Market Corporate Credit Facility.

Clarifications are still awaited on whether independent contractors, part-time, and other basis employees are included as employees, and also, whether affiliation exclusions apply as per the Rules enacted under the Paycheck Protection Program.

What are the Terms of the Main Street New Loan?

- Loan originated on or after April 8, 2020;
- Minimum size of the loan is \$1 million. Maximum loan size is the lesser of (i) \$25 million or (ii) an amount that, when added to the Eligible Borrower's existing outstanding and committed but undrawn debt, does not exceed four times the Eligible Borrower's 2019 earnings before interest, taxes, depreciation, and amortization ("EBITDA"). Higher leverage/debt amounts

may reduce chances of getting a loan;

- Loan is unsecured with a 4-year maturity term;
- Principal and interest amortized payments are deferred for one year;
- Interest is an adjustable-rate equal to the Secured Overnight Financing Rate (SOFR – currently 0.01%) + 250–400 basis points (2.5% to 4% per annum);
- Prepayment of the loan is permitted without penalty;
- Loans cannot be forgiven, like in the Paycheck Protection Program;
- Eligible banks/lenders may originate new Main Street loans or use the Main Street Program to increase the size of existing loans to businesses.
- Businesses that have taken advantage of the Paycheck Protection Program may also take out Main Street loans.
- Prepayment of loan without penalty.

What Assurances Does a Business Need to Provide for a Main Street New Loan?

In addition to certifications required by law, the following commitments are required from a business for each Main Street Loan:

- Business will not use the loan proceeds to repay other loan balances;
- Business will not use the loan proceeds to repay other debt of equal or lower priority, except for mandatory principal payments, unless the business has first repaid the Main Street Loan in full;
- Business will not cancel or reduce any outstanding existing lines of credit from any bank or lender;
- Business must attest it requires financing due to the exigent circumstances presented by the coronavirus pandemic,
- Business will use the loan proceeds to make reasonable efforts to maintain its payroll and to retain its employees during the term of the loan. It is unclear if this includes

employees already terminated or furloughed;

- Business must attest it meets the EBITDA leverage conditions discussed above;
- Publicly listed companies must follow the compensation, stock repurchase, and capital distribution restrictions set out under section 4003(c)(3)(A)(ii) of the CARES Act.

What Is the Application Fee and Process for a Main Street New Loan?

- Businesses must pay the bank an origination fee of 100 basis points of the loan principal;
- Banks can pass on to a business a facility fee the bank is being charged for the loan.
- Loan Applications are available with eligible banks.

THE MAIN STREET *EXPANDED* LOAN FACILITY (MSELF)

What Business is Eligible for a Main Street Expanded Loan?

Eligibility requirements are the same as the Main Street New Loan.

What are the Terms of a Main Street Expanded Loan?

Terms are the same as the Main Street New Loan for the *upsized tranche of the loan* except:

- Loan originated before April 8, 2020;
- Maximum size of the loan is increased to the lesser of (i) \$150 million, (ii) 30% of the borrower's existing outstanding and committed but undrawn bank debt, or (iii) an amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed six times the Eligible Borrower's 2019 earnings before interest, taxes, depreciation, and amortization ("EBITDA");
- Collateral securing the loan, whether such collateral was pledged under the original terms of the loan or at the time of upsizing, will secure the loan participation on a pro rata basis;

What Assurances Does a Business Need to Provide for a Main Street Expanded Loan?

Assurances are the same as the Main Street New Loan for the upsized tranche of the loan except:

- Business cannot use loan proceeds to repay the pre-existing portion of the loan.

The Federal Reserve is accepting comments on the two loan facilities above until April 16, 2020, and may make changes to the terms and conditions listed here. This post is current as of April 14, 2020, and will be revised as updates are received from the Federal Reserve.

AlvaradoSmith will notify clients as soon as changes are publicly announced.

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