MAIN STREET LENDING PROGRAM

A NEW SOURCE OF CAPITAL FOR SMALL BUSINESS

The Main Street Lending Program (MSLP) was created by the Federal Reserve to "support lending to small and medium-sized businesses that were in sound financial condition before the onset of the COVID-19 pandemic." Loans range from $250,000 to $300 million depending on the facility being used. The lender portal for the MSLP opened on Monday, and while some banks that applied are still awaiting approval, many are preparing to provide these loans to clients.

How does MSLP differ from PPP?

The Main Street Lending Program (MSLP) differs from the Paycheck Protection Program (PPP) in several key ways. The MSLP is offered through the Federal Reserve; PPP loans are offered through the Small Business Administration (SBA). PPP loans may be eligible for forgiveness if certain criteria are met; MSLP loans must be paid back but do have low interest rates and are not subject to the forgiveness requirements of the PPP loans. In terms of the application, a bank's traditional underwriting criteria are used for the MSLP; loans can be unsecured or secured. This may mean that businesses that might qualify for a PPP loan might not qualify for the MSLP.

Loan Facilities

The MSLP will operate through 3 facilities: the Main Street New Loan Facility (MSNLF), the Main Street Priority Loan Facility (MSPLF), and the Main Street Expanded Loan Facility (MSELF). This information is taken from the MSLP FAQ (available through this website: https://www.federalreserve.gov/monetarypolicy/mainstreetlending.htm).

- **MSNLF:**
  - 5-year term loans
  - Ranging in size from $250,000 to $35 million
  - The maximum size of a loan (when added to the borrower's existing outstanding and undrawn available debt) cannot exceed 4 times the borrower's adjusted 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA).
  - The loans may not be used to restructure any other loans or debt instruments.
- **MSPLF:**
  - 5-year term loans
  - Ranging in size from $250,000 to $50 million
  - The maximum size of a loan (when added to the borrower's existing outstanding and undrawn available debt) cannot exceed 6 times the borrower's adjusted 2019 EBITDA.
  - Eligible Borrowers may, at the time of origination of the loan, refinance existing debt owed to a lender that is not providing the MSLP loan.
- **MSELF:**
  - *In this facility, a lender increases the borrower's existing term loan or revolving credit facility.*

- 5-year term loan
- Ranging in size from $10 million to $300 million
- The maximum size of a loan (when added to the borrower's existing outstanding and undrawn available debt) cannot exceed 6 times the borrower's adjusted 2019 EBITDA.

Loan Terms

The MSLP has several loan terms that may be attractive to borrowers.

- Principal payments are deferred for 2 years
- Interest payments are deferred for 1 year
- The interest is an adjustable rate of LIBOR plus 300 basis points
- The amortization schedule is
  - 15% at the end of year 3
  - 15% at the end of year 4
  - 70% balloon payment at the end of year 5
- Prepayment is permitted without penalty
- The Federal Reserve will charge a 1% fee, and lenders have the ability to charge up to a 1% fee

Considerations

The MSLP may be an excellent fit for businesses that qualify. Below are some thoughts to consider.

- Your preferred lender may or may not opt to participate in this program.
- Borrowers must certify the following:
  - They experienced a negative business impact due to COVID-19.
  - Their capital market access was not as good as it was prior to COVID-19.
- If one of your goals is to refinance debt with your lender, remember you will need to seek an MSLP loan from a different lender and apply for an MSPLF
- If you are trying to decide between applying for a PPP or MSLP loan, remember that
  - A PPP loan can be forgiven if certain criteria are met, which may make them a more attractive option; however, the PPP loan funds can only be used for a short list of allowable expenses.
  - MSLP loans are subject to a bank's traditional underwriting. Therefore, businesses will need to work with an approved lender to see if they qualify.
- The balloon payment of 70% in year 5 may be daunting for some potential borrowers. Borrowers will want to create a strategy for this eventuality, whether that is saving for repayment using a more typical amortization schedule or ensuring they are as "bankable" as possible in year 5 in order to be able to refinance the loan.

For More Information

For more information or assistance from our team, please contact us at **210–495–8474**, toll-free at **1–888–757–2104**, or **Info@BFGonline.com**.

BusinessFinancialGroup.com

210-495-8474 / 1-888-757-2104

Business Financial Group provides corporate services, including human resources consulting, compliance and administration support, payroll and employee benefit program development and maintenance. We also provide group retirement and personal financial planning services.