

**Alert | Health Emergency Preparedness Task Force:  
Coronavirus Disease 2019**



**April 10, 2020**

**Federal Reserve Takes Actions to Provide Over \$2 Trillion in Liquidity to U.S. Credit Markets, Including the Launch of its Main Street Lending Program**

On April 9, 2020, in further response to the economic effects of the Coronavirus Disease 2019 (COVID-19) pandemic, the Board of Governors of the Federal Reserve System (the Federal Reserve) took actions to pump an additional \$2.3 trillion in liquidity into the U.S. credit and capital markets. According to the Federal Reserve, this new \$2.3 trillion – which complements the \$849 billion in funding authorized by the U.S. Congress under Titles I and IV of the CARES Act -- “will assist households and employers of all sizes and bolster the ability of state and local governments to deliver critical services during the coronavirus pandemic.”

The Federal Reserve’s actions are intended “to support employers of all sizes and communities across the country” and will be implemented as follows:

***The Main Street Lending Program.*** The Federal Reserve has authorized a facility to support the Main Street Lending Program (MSLP) created under Title IV of the Cares Act. Through its Main Street New Loan Facility (New Loan Facility) and its Main Street Expanded Loan Facility (Expanded Facility), the Federal Reserve will purchase up to a combined \$600 billion in qualifying loans. The U.S. Department of the Treasury (Treasury) will inject \$75 billion in cash into the MSLP from its funding

authorizations under the CARES Act. On April 9, 2020, the [Federal Reserve published term sheets](#) for the New Loan Facility and the Expanded Facility and noted that the Federal Reserve and Treasury may publish adjustments to the terms and conditions presented in the term sheets. The Federal Reserve stated that the MSLP “is being finalized,” and, as such, seeks “input from lenders, borrowers, and other stakeholders...” Comments are due April 16, 2020, and may be submitted here on the [Federal Reserve website](#).

The key difference between the programs is that the New Loan Facility allows for **new** incurrences of loans up to the lesser of (a) \$25 million and (b) 4.00x total leverage, whereas the Expanded Facility allows for an upsized tranche **added to pre-existing loans** (i.e., loans that were in existence prior to April 8, 2020), but with a larger maximum loan amount equal to the lesser of (a) \$150 million, (b) 30% of the Borrower’s total debt (inclusive of undrawn commitments), and (c) 6.00x total leverage. Note that for purposes of these calculations, the term sheets state that total leverage is based on “EBITDA” as opposed to adjusted EBITDA. In addition, the New Loan Facility is intended to be an **unsecured** loan, while the Expanded Facility is required to be **secured** on a pro rata basis with the existing loan, if the original loan was secured or collateral was received at the time of the upsizing.

- *Eligible Lenders.* Institutions that may lend under the MSLP are limited to U.S.-insured depository institutions (i.e, banks, thrifts, and credit unions), bank holding companies, and savings and loan holding companies only.
- *Eligible Borrowers.* Eligible borrowers under the MSLP are businesses that: (i) were in good financial standing before the COVID-19 crisis; and (ii) employ up to 10,000 workers or have 2019 annual revenues of less than \$2.5 billion. Each eligible borrower must be a business that is created or organized in the United States or under the laws of the United States with “significant operations in and a majority of its employees based in the United States.” Borrowers that participate in the New Loan Facility (for loans originated on or after April 8, 2020) may not also participate in the Expanded Facility (for upsizing loans originated before April 8, 2020), and no participant in the MSLP may participate in the Primary Market Corporate Credit Facility (defined below). However, eligible borrowers under the MSLP that have borrowed a Small Business Administration Payment Protection Program (PPP) loan may also borrow a MSLP loan.
- *Basic Terms.* Under the *New Loan Facility*: (i) have a minimum loan size of \$1 million; (ii) have a maximum loan size equal to the lesser of (x) \$25 million and (y) an amount that, when added to the borrower’s existing and committed but undrawn debt, does not exceed four times the borrower’s 2019 EBITDA; (iii) carry an adjustable rate equal to SOFR plus a margin between 250 to 400 basis points; (iv) have a 4-year term; (v) permit deferral for one year of the amortization of all principal and interest amortization payments; and (vi) permit prepayments without penalty or premium.

Under the *Expanded Facility*: (i) have a minimum loan size of \$1 million; (ii) have a maximum loan size equal to the least of (x) \$150 million, (y) 30% of the borrower’s existing outstanding and committed but undrawn bank debt, and (z) an amount that, when added to the borrower’s existing and committed but undrawn debt, does not exceed six times the borrower’s 2019 EBITDA; (iii) carry an adjustable rate equal to SOFR plus a margin between 250 to 400 basis points; (iv) have a 4-year term; (v) permit deferral for one year of the amortization of all principal and interest payments; and (vi) permit prepayments without penalty or premium. Note that any collateral securing an eligible loan, whether pledged under the original terms of the loan or in connection with the upsizing, shall secure the Expanded Facility’s loan participation on a pro rata basis.

- *Funding.* Eligible lenders under the MSLP may originate new loans or use the Expanded Facility to increase the size of existing loans to businesses. The Federal Reserve, through a special purpose vehicle (SPV) established by one of the Federal Reserve Banks, will purchase a 95% participation interest in MSLP loans while the lender financial institution will retain a 5% interest in the loan.
- *Participation Fee.* With respect to the New Loan Facility, eligible lenders will pay the SPV a facility fee equal to 100 basis points of the principal amount of the loan participation purchased by the SPV. The lender may require the borrower to pay this fee.
- *Origination Fee.* In addition, the borrower will pay the eligible lender an origination fee of 100 basis points of the principal amount of a new loan or the principal amount of the upsized tranche of an increased loan.
- *Loan Servicing Fee.* The SPV will pay the eligible lender a fee of 25 basis points per annum on the principal amount of its participation in the new loan or upsized tranche, as applicable, for loan servicing.
- *Facility Termination.* The SPV will cease purchasing participations in MSLP loans on September 30, 2020, unless the Federal Reserve and Treasury extend the MSLP. The Reserve Bank will continue to fund the SPV after such date until the SPV's underlying assets mature or are sold.
- *Borrower Commitments and Covenants.* Each eligible borrower seeking a MSLP loan must commit not to use the MSLP proceeds to repay other loan balances and to refrain from paying other debt of equal or lower priority, with the exception of mandatory principal payments, until the MSLP loan is repaid in full.
- *Lender and Borrower Attestations.* In addition to certifications required under applicable law and regulation, the following attestations will be required for each MSLP loan:
  - The lender must attest that the proceeds of the MSLP loan will not be used to repay or refinance pre-existing loans or lines of credit made by the lender to the borrower, including, with respect to the Expanded Facility, the pre-existing portion of the eligible loan.
  - The lender must attest that it will not cancel or reduce any existing lines of credit outstanding to the borrower.
  - The borrower must attest that it will not seek to cancel or reduce any of its outstanding lines of credit with the lender or any other lender.
  - The borrower must attest that it requires financing due to the exigent circumstances presented by the COVID-19 pandemic, and that, using the proceeds of the loan, it will make “reasonable efforts” to maintain its payroll and retain its employees during the term of the loan.
  - The eligible borrower must attest that it meets the applicable total leverage ratio condition (for maximum loan size determination purposes).
  - The eligible borrower must also attest that:
    - For a period of 12 months after the MSLP loan is repaid, it will not pay dividends on its common stock and, if its common stock or the common stock of its parent is listed on a national securities exchange, it will not repurchase any such common stock; and
    - It will comply with the compensation limits on employees with a total compensation in excess of \$425,000 in fiscal year 2019 and \$3,000,000 in fiscal year 2019 imposed by Section 4004 of the CARES Act.

- Eligible lenders and eligible borrowers will each be required to certify that the entity is eligible to participate in the MSLP, including in light of the conflicts of interest prohibition in section 4019(b) of the CARES Act.

**Expanded Primary and Secondary Market Corporate Credit Facility; Expanded TALF.** The Federal Reserve announced that it is expanding the size and scope of the [Primary Market Corporate Credit Facility \(PMCCF\)](#) and the [Secondary Market Corporate Credit Facilities \(SMCCF\)](#), as well as the [Term Asset-Backed Securities Loan Facility \(TALF\)](#). We first described these programs in a [previous GT Alert](#). These three programs will now support up to \$850 billion in credit backed by \$85 billion in credit protection provided by the Treasury. In addition, the Federal Reserve will broaden the range of assets that are eligible collateral for TALF. TALF-eligible collateral will now include the AAA-rated tranches of both outstanding commercial mortgage-backed securities and newly issued collateralized loan obligations. The size of the facility will remain \$100 billion, and TALF will continue to support the issuance of asset-backed securities that fund a wide range of lending, including student loans, auto loans, and credit card loans.

**Municipal Liquidity Facility.** To assist state and local governments, the Federal Reserve has launched a [Municipal Liquidity Facility \(MLF\)](#) that will offer up to \$500 billion in lending to these entities to facilitate management of stress on cash flow resulting from the pandemic. Treasury will provide \$35 billion of credit protection to the Federal Reserve for the MLF using CARES Act funding authority. The MLF will purchase up to \$500 billion of short term notes directly from U.S. states (and the District of Columbia), U.S. counties with a population of at least two million residents, and U.S. cities with a population of at least one million residents. Eligible state-level issuers may use the proceeds to support additional counties and cities.

**Paycheck Protection Program Facility.** The Federal Reserve will provide term financing to financial institutions participating in the Small Business Administration's PPP. This [Paycheck Protection Program Liquidity Facility \(PPPLF\)](#) will extend credit to eligible financial institutions that originate PPP loans, taking the loans as collateral.

For more information and updates on the developing COVID-19 situation, visit [GT's Health Emergency Preparedness Task Force: Coronavirus Disease 2019](#).

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