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THE MAIN STREET LENDING PROGRAM

JULY 20, 2020 UPDATE

There have been a number of significant developments since we released our last Client Alert regarding the Program:

- **On July 8th** the Fed announced that about 400 banks had registered or were in the process of registering for the Program, but only about 90 banks would accept applications from new business customers (or at least were willing to admit it publicly).

- **On July 15th** the Fed released amendments to the Program's frequently asked questions. The amendments included the following changes or clarifications, among others:
  - Capital distribution restrictions under the Program do not apply to dividends paid by tribal businesses to tribal governments;
  - LIBOR floors are not permitted;
  - Mortgage debt (which is allowed to be senior to priority loans and expanded loans) is limited to debt that is secured solely by real property;
  - Transaction fees (payable to the Main Street SPV at the time of origination) are based on the principal amount of the Program loan and any deferred interest that has been capitalized;
  - Permissible fees charged at the time of origination may be included in the principal amount of the Program loan;
  - Businesses established in 2020 may use financial information from predecessor or acquired businesses to satisfy the Program's financial requirements;
  - Any collateral or guarantees supporting a Program loan must apply to the entire loan and not just the lender's retained portion;
  - Personal guarantees of Program loans are not required but are permitted; and
  - Lenders and borrowers may hedge interest rate risk associated with Program loans but lenders may not hedge the credit risk associated with the particular borrower.

- **On July 16th** the Fed disclosed that it had purchased a total of about $12 million in loans under the Program.

- **On July 17th** the Fed modified the Program to provide access to nonprofit organizations such as educational institutions, hospitals and social justice organizations. The modifications generally relaxed the borrower eligibility criteria in the original proposal published by the Fed for public comment on June 15th to provide access to a greater number of nonprofits and adjusted some of the criteria to accommodate a wider range of operating models. The modifications included:
    - Reducing the minimum employment threshold from 50 employees to 10;
    - Easing the limit on donation-based funding;
    - Reducing the limit on 2019 operating margins from 5% to 2%;
    - Reducing the amount of current days cash on hand from 90 days to 60 days;
    - Reducing the repayment capacity requirement from 65% to 55%.

Please do not hesitate to contact me if you want to discuss any of these developments.

We expect additional rulemaking and guidance from the Federal Reserve System and the Federal Reserve Bank of Boston. We will continue to monitor developments and provide additional details as they become available. In the meantime, please feel free to contact us if you have any questions about the Program.

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