COVID-19 RESPONSE

Sun Life

Coronavirus Aid, Relief, and Economic Security (CARES) Act

Main Street Lending Program: Financial assistance for mid-size companies

Last updated: June 15, 2020

This content is not to be considered legal advice. We recommend Clients speak with legal counsel specializing in labor, employment and tax law to ensure your organization meets requirements.

To find more information about the Main Street Lending Program, the Federal Reserve has created this website: **https://www.federalreserve.gov/monetarypolicy/mainstreetlending.htm**

The Federal Reserve has created The Main Street Lending Program for mid-size companies in an effort to provide businesses with economic support. Under the new program, businesses are eligible for one of three new loans: a Main Street New Loan, a Main Street Priority Loan, or a Main Street Expanded Loan. The Federal Reserve Bank of Boston began implementation of the lending program on June 15th, following significant alterations to the original terms and conditions. To help business owners understand the Main Street Lending Program and the different loan options that are available, we have created these questions and answers. As implementation of the Main Street Lending Program continues, we will update this Q&A periodically.

1. What businesses are eligible for the Main Street Lending Program?

To be eligible, a business must meet the below requirements:

- The business either has 15,000 or fewer employees OR had 2019 revenues of $5 billion or less
- The business was either created and organized in the United States or under the laws of the United States
- The business has significant operations in and a majority of its employees based in the United States

2. How are the three types of loans different?

- If a business has an outstanding loan with the bank[1] where they are applying for a Main Street Lending Program Loan, they are eligible for Main Street Expanded Loan.
- If a business does not have an outstanding loan with the bank where they are applying for a Main Street Lending Program Loan, they are eligible for either a Main Street New Loan or a Main Street Priority Loan.
- While the loans have a number of similarities, there are key differences in loan minimums, maximums, principal repayment schedules, and origination fees.
- Businesses may only receive one Main Street Lending Program Loan.

Q. Are businesses that took Paycheck Protection Program loans eligible for Main Street Program Loans?

Yes. If the business meets the qualifications of both programs, it can take both a Paycheck Protection Program loan and a Main Street loan.

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	Main Street New Loan	Main Street Priority Loan	Main Street Expanded Loan
Minimum Size Of Loan	$250,000	$250,000	$10,000,000
Maximum Size Of Loan	Lesser of: $35,000,000 OR 4 times the amount of 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA)	Lesser of: $50,000,000 OR 6 times the amount of 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA)	Lesser of: $300,000,000 OR 6 times the amount of 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA)
Principal Repayment Schedule	Years 1 and 2: Payments Deferred Year 3: 15% principal due at the end of year Year 4: 15% principal due at the end of the year Year 5: 70% principal due at the end of the year	Years 1 and 2: Payments Deferred Year 3: 15% principal due at the end of year Year 4: 15% principal due at the end of the year Year 5: 70% principal due at the end of the year	Years 1 and 2: Payments Deferred Year 3: 15% principal due at the end of year Year 4: 15% principal due at the end of the year Year 5: 70% principal due at the end of the year
Amount of loan Federal Reserve will Purchase	95%	95%	95%
Origination Fee (paid by the borrower)	1%	1%	0.75%
Facility Fee (Lender can choose to pay or can have borrower pay)	1%	1%	0.75%

3. What must a business certify to be eligible for a Main Street Lending Program loan?

- The business requires the financing because of the "exigent circumstances presented by the COVID-19 pandemic" and it will "make reasonable efforts to maintain its payroll and retain its employees during the period of the loan"
- The business will follow the CARES Act rules regarding compensation, stock repurchase, and capital distributions
- The President, an Executive Branch employee, or a Member of Congress does not own, control, or have a 20% interest in the company
- For the New Loan, the amount of the loan to the business, when added to its outstanding and undrawn debt, does not exceed 4 times its 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA)
- For a Priority or Expanded Loan, the amount of the loan to the business, when added to its outstanding and undrawn debt, does not exceed 6 times its 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA)
- The loan will not be used to repay any other loan balances
- The business will not seek to cancel or reduce any of its outstanding lines of credit

4. How does a business comply with the requirement that it "make reasonable efforts to maintain its payroll and retain its employees during the period of the loan?"

Unlike the Paycheck Protection Program, which provides specific rules regarding retaining employees and maintaining payroll, for the Main Street Lending Program, the Federal Reserve only requires that a business should take "commercially reasonable….good-faith efforts to maintain payroll and retain employees…." It should be noted that the Paycheck Protection Program ties loan forgiveness to retaining employees and maintaining payroll, whereas loans through the Main Street Loan Program are not forgivable.

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5. What are the CARES Act's rules regarding compensation, stock repurchase, and capital distributions?

Section 4003 of the CARES Act outlines the following rules that apply until 12 months after the loan has been repaid:

- **Compensation**
  - Employees whose compensation exceeded $425,000 in calendar year 2019:
    - Cannot receive more than their 2019 compensation during any 12 month period[2]
    - Cannot receive severance that exceeds twice their 2019 compensation
  - Employees whose compensation exceeded $3 million in calendar year 2019:
    - In any 12-month period, cannot receive compensation that exceeds $3 million plus 50% of any amount of compensation they received in 2019 that was over $3 million
- **Stock Repurchase**
  - Until 12 months after the loan is repaid, the company will not repurchase its own stock[3]
- **Capital Distributions**
  - Until 12 months after the loan is repaid, the company will not pay dividends or make other capital distributions. Please note that these restrictions do not apply to S Corporations or other pass-through entities to the extent necessary for its owners to pay tax obligations in respect to the entity's earnings.

6. What are the terms of the loan?

Regardless of the type of loan, the terms are the same:

- 5 year maturity
- 2 year deferral of payments on principal and interest
- 1 year deferral of interest payments
- Adjustable interest rate no greater than:
  - LIBOR
  - Plus 3%
- No pre-payment penalties
- **Note: Unlike Paycheck Protection Program loans, Main Street Lending Program loans are NOT forgivable**
- All three Main Street Loan types follow the same repayment schedule: 15% at the end of year 3, 15% at the end of year 4, and a final balloon payment of 70% at the end of the 5th year.

7. What are the fees related to the Main Street Lending Program?

- For a Main Street New or Priority Loan, the borrower will pay a 1%, and possibly a 2% fee:
  - The borrower will pay a 1% origination fee
  - The lender has the option of either paying a 1% "facility" fee or having the borrower pay the fee
- For a Main Street Expanded Loan, the borrower will pay a 0.75%, and possibly a 1.5% fee:
  - The borrower will pay a 0.75% origination fee
  - The lender has the option of either paying a 0.75% "facility" fee or having the borrower pay the fee

8. How does a business apply for these loans?

Loans are available through banks which choose to offer them, incentivized by origination fees paid by the borrower and a 0.25% annual servicing fee paid by the Federal Reserve. The Federal Reserve then purchases 95% of each eligible loan through a lender portal.

As noted previously, additional regulations for this program are expected. As such we will update this Q&A periodically. For updates and more information about COVID-19 related legislation and Sun Life's response, visit us at www.sunlife.com/coronavirus.

1. The Federal Reserve has announced that loans must have been in place as of April 8, 2020 (the day the program was announced) to be eligible.

2. Unless required by a collective bargaining agreement entered into before March 1, 2020.

3. Stock repurchase is allowed to the extent required under contractual obligations that were in effect as of March 27, 2020.

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