

## U.S. Municipal Bond Market

# Fed Launches Main Street Lending Program, Mulls Expansion to Nonprofits

### Fed Launches Much-Anticipated Main Street Lending Program

The U.S. Federal Reserve today launched its \$600 billion Main Street Lending Program (MSLP) for small and mid-sized businesses, nearly three months after the Coronavirus Aid, Relief, and Economic Safety (CARES) Act was signed into law on March 27, 2020. The creation of this program has been a key challenge to the Fed. The program needed to strike a balance by providing favorable terms to help companies in need while limiting risk. "They've got to be attractive and acceptable to different types of companies and markets where they're trying to get credit," said former Fed Chairman Ben Bernanke. "The design of these things is not simple."<sup>1</sup>

### Who the Fed is Targeting with the MSLP

The MSLP is targeted toward existing companies that were in good financial shape before the pandemic, but may now need emergency loans to make it through the tough financial circumstances brought on by nationwide, COVID-19 related social distancing and shelter-in-place requests. The MSLP is also targeting companies that may be too large to qualify for Congress's Paycheck Protection Program (PPP). Unlike PPP loans that may be converted into grants if certain criteria are met, MSLP loans must be paid back. It is possible that borrowers in the MSLP also received a PPP loan, but need additional assistance.

### Summary of Main Street Lending Program Options

Main Street Lending Program Loan Options	New Loans	Priority Loans	Expanded Loans
Term	5 years (previously 4 years)		
Minimum Loan Size	\$250,000 (previously \$500,000)		\$10M
Maximum Loan Size	The lesser of \$35M, or an amount that, when added to outstanding and undrawn available debt, does not exceed 4.0x adjusted EBITDA (previously \$25M)	The lesser of \$50M, or an amount that, when added to outstanding or undrawn available debt, does not exceed 6.0x adjusted EBITDA (previously \$25M)	The lesser of \$300M, or an amount that, when added to outstanding or undrawn available debt, does not exceed 6.0x adjusted EBITDA (previously \$200M)
Risk Retention	5%	5% (previously 15%)	5%
Principal Repayment	Principal deferred for two years, years 3-5: 15%, 15%, 70% (previously principal deferred for one year and 33.33% repayment due in years 2-4)	Principal deferred for two years, years 3-5: 15%, 15%, 70% (previously principal deferred for one year and 15%, 15%, 70% repayment due in years 2, 3, and 4, respectively)	
Interest Payments	Deferred for one year		
Rate	LIBOR + 3%		

Source: U.S. Federal Reserve and HilltopSecurities.

Please see disclosure starting on page 3.

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### How Main Street Lending Program Loans are Originated

MSLP loans will be originated by financial institutions who apply through the Federal Reserve Bank of Boston. See the [lender registration on the Boston Fed's website](#). The majority of the loans banks and other financial institutions underwrite are sold to the Federal Reserve's special purpose vehicle, allowing banks to make more loans.

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### The Three Different Main Street Lending Programs

There are three programs within the MSLP: 1) Main Street New Loan Facility, 2) Main Street Priority Loan Facility, and 3) Main Street Expanded Loan Facility. Borrowers are only able to participate in one loan program, but are able to receive multiple loans as long as they do not exceed the maximum loan size (see table).

### Recent and Potential Expansion to Nonprofits

The MSLP program was expanded back on June 8, and further expansions are also being considered.<sup>2</sup> The Fed announced it is considering expanding the program to non-profit organizations because of their "critical role throughout the economy."<sup>3</sup>

### Summary

In statements after the Fed's two-day meeting last week, Chairman Jerome Powell made it clear the Federal Reserve may not be finished in offering support to the financial markets. The MSLP is Fed support that was months in the making and will hopefully be successful in the business community. The program could potentially prop up nonprofits if it is expanded further, as noted above. In statements made last week, Chairman Powell also called on Congress to provide additional fiscal stimulus to support the Fed's significant actions. "They're going to need possibly, probably, further support. It's possible that we will need to do more and it's possible that Congress will need to do more," said Powell.<sup>4</sup>

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<sup>1</sup> Timiraos, Nick; *Fed makes terms more favorable for Main Street Lending Program*; *Wall Street Journal*; June 8, 2020.

<sup>2</sup> [Federal Reserve Board expands its Main Street Lending Program to allow more small and medium-sized businesses to be able to receive support](#); U.S. Federal Reserve; June 8, 2020.

<sup>3</sup> *Ibid.*

<sup>4</sup> Henney, Megan; [Fed's Powell suggests Congress may need to do more to support unemployed Americans](#); *FoxBusiness*; June 10, 2020.

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