What to know about the Fed's Main Street Lending as program nears launch

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The Federal Reserve's Main Street Lending program is expected to soon open.

Adam Gault

Sari Lesk –

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Participation in the upcoming Main Street Lending program by the Federal Reserve will likely be driven by customers, according to the head of Wisconsin trade association for banking.

The program targets small and medium-sized businesses that had been financially sound before the Covid-19 pandemic began. Eligible businesses have either 15,000 employees or fewer, or their revenue in 2019 was no more than $5 billion.

Rose Oswald Poels, the president and chief executive officer of the Wisconsin Bankers Association, said she anticipates use of Main Street Lending will be determined by whether banks have qualifying businesses as customers.

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“It’s not so much the banks themselves, it’s more their business customers,” Oswald Poels said. “Do they have business customers that are going to be interested in this particular program as opposed to a different one that’s out there, or even just a normal, regular loan from the bank itself?”

Main Street Lending loans mature in four years, and the principal and interest payments are deferred for one year. The interest rate is set at the London Inter-Bank Offered Rate, plus 3%.

The minimum loan size is $500,000.

The Federal Reserve Bank of Boston set up a special purpose vehicle to purchase 85% or 95% participations in the loans, depending on the facility.

Oswald Poels said a business that is financially healthy might find a typical loan from its lender is as sufficient or more helpful than funds available through the program. Businesses that are having trouble obtaining financing might want to consider the option, she said.

In addition, Oswald Poels said, many of the businesses that might have taken advantage of the program could have already found help elsewhere since the program was announced.

“This program might also just be coming a little bit later than what ideally some of these businesses would have wanted to see,” Oswald Poels said.

Bob Heinrich, a shareholder in the banking and finance law group at Reinhart Boerner Van Deuren SC, Milwaukee, said the program rolled out at a slower pace than other federal lending opportunities likely because the Federal Reserve wanted to “get it right the first time.” That’s in contrast to the U.S. Small Business Administration’s Paycheck Protection Program, he said.

The PPP forgivable loan program has seen several revisions since it came online April 3, leading business owners to question their eligibility, return loans or skip the financing opportunity altogether.

“The level of guidance that we’re getting is very granular, very specific forms of documents, for example,” Heinrich said of the Main Street Lending program.

Besides the implementation, Heinrich said the program differs from the PPP in that it does not contain a forgiveness component. In addition, he said, borrowers do not have to certify that the funds are necessary because of a financial impact caused by the pandemic. Borrowers are also not restricted to spending the proceeds on particular uses.

Heinrich said clients have expressed interest in obtaining the loans.

“The loan features some favorable terms, and so pretty much any small or medium-sized business might be a good candidate for the program,” he said.

Heinrich noted receiving a PPP loan or an Economic Injury Disaster Loan does not preclude companies from taking advantage of the Federal Reserve’s program.

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