Nonprofits Join For-Profit Businesses in Main Street Lending Program

The Main Street Lending Program (Program) is intended to facilitate lending to small and mid-sized businesses and nonprofit organizations that were in sound financial condition prior to the onset of the COVID 19 pandemic. The aspects of the Program for nonprofit organizations became fully operational on September 4, 2020. The portion of the Program for for-profit businesses has been open since July.

Under the Program, eligible lenders will originate new term loans (or expand the size of an existing credit facility) to eligible borrowers. A special purpose vehicle (SPV) funded by the Federal Reserve Bank of Boston will then purchase a 95 percent participation in such loans, and lenders will retain 5 percent. The purchases by the SPV are capped at $600 billion and will cease on December 31, 2020, unless the Program is extended.

There are two categories of Main Street loans for nonprofit organizations, and the loan sizes range from $250,000 to $300 million. Each Main Street loan is a term loan with a five-year maturity, and the interest rate is LIBOR plus 3 percent.

Unlike Paycheck Protection Program (PPP) loans, Main Street loans are full-recourse loans and are not forgivable. That said, payments of principal are deferred for two years, interest is deferred for one year, and the Program provides a specific amortization schedule.

Two of the biggest differences between the Program for nonprofit organizations compared to for-profit businesses are:

- The eligibility criteria for borrowers; and
- The method of calculating the maximum loan amount is based on average 2019 quarterly revenue instead of a leverage test.

In considering participation in the Program as to nonprofit organizations, borrowers and lenders should:

- Determine their eligibility for this portion of the Program.
  - A borrower must (among other things):

POSTED:

Sep 14, 2020

RELATED PRACTICES:

Banking and Finance

https://www.reinhartlaw.com/practices/banking-and-finance

RELATED PEOPLE:

Robert J. Heinrich

https://www.reinhartlaw.com/people/robert-heinrich

        - Have at least 10 employees;
        - Have an endowment of less than $3 billion;
        - Have total non-donation revenues equal to or greater than 60 percent of expenses for the period from 2017 through 2019;
        - Satisfy a specified ratio of adjusted EBIDA to unrestricted 2019 operating revenue;
        - Satisfy a specified ratio of liquid assets to average daily expenses; and
        - Satisfy a specified ratio of unrestricted cash and investments to debt.
    - Non-bank lenders are not eligible lenders under the Program.
- Calculate the maximum size of the proposed Main Street loan. Within the broad range listed above, there are caps based on the borrower's average 2019 quarterly revenue.
- Confirm that they can make the required borrower and lender certifications and covenants under the Program. For example:
    - The borrower must certify that it will not repay existing debt while the Main Street loan is outstanding, unless such debt is mandatory and due; and
    - A borrower must abide by limits on compensation for highly paid officers and employees set forth under the CARES Act.
- Analyze the borrower's existing loan documents and other material agreements to determine how a Main Street loan might impact, and require amendments to, such documents.

The lender is expected to conduct an assessment of each potential borrower's financial condition. The mere fact that a nonprofit organization is eligible under the Program does not mean that a lender must approve a Main Street loan or entitle the nonprofit organization to the maximum loan amount.

For a deeper analysis of the Program details as they relate to nonprofit organizations, see our summary reflecting the most recent guidance.

If you have any questions about the Program or your eligibility to participate as a borrower or a lender, please contact Bob Heinrich or your Reinhart attorney.