PPP not an option? Main Street Lending Program could be next best bet

By Sarah Shadburne – Reporter , Louisville Business First
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The Main Street Lending Program is the federal government's latest installment of relief loans for businesses impacted by the coronavirus outbreak.

This program seeks to support mid-to-upper-market businesses that may not have qualified for Paycheck Protection Program loans. The new program offers $600 billion of low interest, four-year loans for businesses with up to 10,000 employees or with revenues of $2.5 billion or less for 2019.

The program offers two routes for borrowers to take: the Main Street New Loan Facility or the Main Street Expanded Loan Facility. Both loans have a 95% guarantee from a Federal Reserve Bank-created special purpose vehicle, which means lenders will only be responsible for 5% of that loan's credit risk.

According to Scott Touro, senior manager with Louisville-based Harding, Shymanski & Co., P.S.C., the program is similar to the PPP in that the main purpose of the loans is to keep people on the payroll. But, there are a few key differences to be aware of.

"The whole purpose of this is to create liquidity," Touro said. "If you think about the unknown factor of COVID-19, if you're a large middle-market company here in town, and you've had a huge downturn because of industry exposure and you're an otherwise healthy business, the banks have to decide how to evaluate the risk of your cash-flow. It's very hard for them to underwrite something like a pandemic."

You can only choose one or the other, so here are a few key takeaways about each of the loan facilities, how you can spend them and how to apply:

The Main Street New Loan Facility is exactly what it sounds like: a new loan. Under this branch of the program, borrowers can ask for a minimum of $1 million up to $25 million at a 1% fee. The loan amount is calculated by taking a company's earnings before interest, tax, depreciation and amortization (EBITDA) for 2019 and multiplying it by four. This amount also must be added to existing, outstanding but undrawn debt. Touro gave this example: if you're a $1 million EBIDTA company, you could get $4 million. But if you have $2 million in debt committed already, you'd likely only get $2 million.

"The feds don't want people to take excessive leverage. So yes, we'll give you some funding to get through this crisis, but we're not going to let you just borrow yourself into an excessive risk position," Touro said.

The Main Street Expanded Loan Facility allows borrowers to draw on existing loans made before April 8, 2020. This one allows borrowers to ask for a minimum of $1 million up to $150 million by calculating 2019 EBIDTA times six, with the same stipulation as the previous program, that the EBIDTA calculation must include outstanding, committed undrawn debt.

So why might a company want to expand a loan they already have? Touro said it's because it allows borrowers to take out a lot more without the 1% fee. However, borrowers are limited to 30% of their existing debt.

"If a company had $20 million in EBITDA and they had $10 million in debt, in theory you can borrow up to $120 million," Touro said. "But you're limited to 30% of your existing debt, which would be $3 million."

What are the terms?

Both loans are four-year terms with adjustable secured overnight financing rate (SOFR) of 250-400 basis points, according to presentation materials from RSM US LLP. The basis points translate into interest rates for the loans, meaning that banks can get 2.5%-4% spread over the cost of borrowing, Touro said. Which ultimately means banks can fund the loans at a pretty low cost. The loans are not forgivable, but amortization and interest are deferred for one year. Borrowers additionally will not be penalized for prepayment on the loans in this program.

How can I spend it?

The chief purpose of the program is for payroll. Touro said businesses can use one of these loan facilities in tandem with a PPP loan.

Borrowers must make a few important attestations regarding their intent with the loans, including that they need the financing due to the impact of the coronavirus outbreak and they will use their loans to maintain payroll and or retain employees during the term of the loan. The borrower must additionally attest that they will not use the money from the program to repay or refinance pre-existing loan debt, and funds must also not be used for stock buybacks. Certain limitations are set on executive compensation and dividends as well.

How to apply

Touro recommends contacting your lender directly to apply for either, and not seeking out a new bank for this process. Obviously, to apply for the expanded facility, borrowers will have to get with their existing lenders to discuss expanding an existing loan and discuss collateral requirements.

“The purpose of this [program] is definitely for payroll,” Touro said. “A lot of companies that are going to go after this program were too big for the PPP. There will be some that have PPP already, but this is really designed for a different sector of the lending market, which is the middle-market to upper-middle market space.”