

April 10, 2020

## MEMORANDUM

**TO:** SBDC

**FROM:** MD Austin, Access to Capital Counselor, Hampton Roads

**SUBJECT:** **FED Main Street Business Lending Program**

This program is a work in process, so the final version of the plan may be very different from current thinking on the subject, but as of this date, the following are the anticipated guidelines and/or policies related to this new FED initiative. These include:

### General Parameters:

- Loans will be approved and funded by “participating” banks
- Applicable businesses can have up to 10,000 employees or \$2.5B in 2019 revenues
- Businesses must be US organized with significant domestic operations
- Business cannot be a debtor in bankruptcy
- Business must have incurred or will incur “covered losses” from COVID-19, including reduced demand, unbudgeted medical expenses and unavailability of credit
- Market conditions make credit available elsewhere inaccessible
- The loan will be unsecured, and for the New Loan Facility applications cannot be made before April 8, 2020
- Loans will have a 4-year maturity with interest and principal deferred for the 1<sup>st</sup> year
- Interest rates should be no higher than 2%, but it is not known if the rate will be fixed or adjustable
- No prepayment penalty
- Minimum loan size is \$1million, up to \$25million, but cannot, when combined with borrower’s existing debts and commitments, exceed 4X borrower’s 2019 earnings (based on EBITA)
- Lenders can charge certain set fees

### Program Structure:

- To become an active loan program, the FED must first establish 1) the main street NEW loan facility and 2) the main street EXPANDED loan facility. Both will enable lending to businesses by eligible lenders, which will permit the FED to lend to a “single purpose vehicle” (SPV)
- The FED will use the SPV to purchase 95% in eligible loans from eligible lenders, with lenders retaining 5% of each loan
- The goal is to create a \$600B loan fund, that will operate thru 9/30/2020 (with extensions possible)

#### Borrower Restrictions/Limits:

- Proceeds should not repay other loan balances
- Proceeds should not be used to pay lower-priority debts (except mandatory P&I payments)
- Goal of loan is to make reasonable efforts to maintain payroll and retain employees during term of the loan
- Borrower must intend to restore at least 90% of it's workforce in place as of 2/1/2020, and all compensation and benefits after the end of the health emergency related to COVID-19
- Borrower will not outsource or offshore jobs until 2 years after the loan is repaid
- No proceeds can be used to pay dividends or buy-back shares during the term of the loan and for at least 12 months after the loan is repaid
- Highly paid officers and executives are prohibited from increasing the compensation of any employee exceeds \$425,000

#### Anticipated Application Process:

- Basic company information, including ownership
- Size of the loan needed and anticipated use of proceeds
- Multiple borrower certifications related to need for funding and proposed uses
- Certification that the COVID-19 crisis prevents borrower from obtaining alternative financing
- Borrower's current level of debt and servicing plan
- Historical employment levels
- Financial statements