

# Small, Medium and Large Business Financing Under the CARES Act



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*On April 9, 2020, the Federal Reserve announced it will provide up to \$2.3 trillion in loans to support the economy. The myriad of programs will provide funding to households and employers of all sizes and bolster the ability of state and local governments to deliver critical services during the coronavirus pandemic.*

Following are summaries of the various loan facilities

## **MAIN STREET EXPANDED LOAN PROGRAM AND MAIN STREET NEW LOAN PROGRAM**

Both the [Main Street Expanded Loan Facility](#) (“Expanded Facility”) and the [Main Street New Loan Facility](#) (“New Loan Facility”) are intended to facilitate lending to small and medium-sized businesses by Eligible Lenders. Under both facilities, a Federal Reserve Bank (“Reserve Bank”) will commit to lend to a single common special purpose vehicle (“SPV”) on a recourse basis. The SPV will purchase 95% participations in Eligible Loans from Eligible Lenders. Eligible Lenders would retain 5% of each Eligible Loan.

Eligible Borrowers are businesses with up to 10,000 employees or up to \$2.5 billion in 2019 annual revenues, and that are businesses created or organized in the United States with significant operations in and a majority of its employees based in the United States.

### **Eligible Loans:**

- Expanded Facility loans must be term loans originated before April 8, 2020.
- New Loan Facility loans are unsecured term loans originated on or after April 8, 2020.
- Both Facilities include the following loan terms: 4-year maturity; amortization of principal and interest deferred for one year; adjustable rate of SOFR + 250-400 basis points; minimum loan size of \$1 million; and prepayment permitted without penalty.
- The maximum loan size differs between the two programs. The Expanded Facility permits a maximum loan size that is the lesser of (i) \$150 million, (ii) 30% of the borrower’s existing outstanding and committed but undrawn bank debt, or (iii) an amount that, when added to the borrower’s existing outstanding and committed but undrawn debt, does not exceed six times the borrower’s 2019 EBITDA.

Both programs include a loan origination and servicing fees.

The SPV will cease purchasing participations in Eligible Loans on September 30, 2020, unless the Board and the Treasury Department extend the Facility.

## **TERM ASSET-BACKED SECURITIES LOAN FACILITY**

[Term Sheet: Term Asset-Backed Securities Loan Facility \(PDF\)](#)

The Term Asset-Backed Securities Loan Facility (TALF) is intended to help meet the credit needs of consumers and businesses by facilitating the issuance of asset-backed securities (“ABS”). Under the TALF, the Federal Reserve Bank of New York will commit to lend to a special purpose vehicle (“SPV”) on a recourse basis and the Treasury Department will make an equity investment of \$10 billion in the SPV. This will permit the program to make up to \$100 billion of loans available that have a term of three years; will be nonrecourse to the borrower; and will be fully secured by eligible ABS issued on or after March 23, 2020.



All U.S. companies that own eligible collateral and maintain an account relationship with a primary dealer are eligible to borrow under the TALF. Eligible collateral includes U.S. dollar denominated cash ABS that have a credit rating in the highest long-term or, in the case of non-mortgage backed ABS, the highest short term investment-grade rating category from at least two eligible nationally recognized statistical rating organizations (“NRSROs”) and do not have a credit rating below the highest investment-grade rating category from an eligible NRSRO.

All or substantially all of the credit exposures underlying eligible ABS must have been originated by a U.S. company, and the issuer of eligible collateral must be a U.S. company. Except for commercial mortgage-backed securities (“CMBS”), eligible ABS must be issued on or after March 23, 2020. CMBS issued on or after March 23, 2020, will not be eligible. For CMBS, the underlying credit exposures must be to real property located in the United States or one of its territories.

Eligible collateral must be ABS where the underlying credit exposures are one of the following: 1) Auto loans and leases; 2) Student loans; 3) Credit card receivables (both consumer and corporate); 4) Equipment loans and leases; 5) Floorplan loans; 6) Insurance premium finance loans; 7) Certain small business loans that are guaranteed by the Small Business Administration; 8) Leveraged loans; or 9) Commercial mortgages.

## **SECONDARY MARKET CORPORATE CREDIT FACILITY**

[Term Sheet: Secondary Market Corporate Credit Facility \(PDF\)](#)

Under the Secondary Market Corporate Credit Facility (SMCCF), \$25 billion from Treasury will be assigned to a Special Purpose Vehicle that will purchase in the secondary market eligible individual corporate bonds and eligible corporate bond ETFs. Eligible individual bonds from U.S. business will be those that have a remaining maturity of 5 years or less and those with ratings of at least BBB-/Baa3 as of March 22, 2020 that have not been subsequently downgraded beyond BB-/Ba3 (by at least two NRSROs if rated by multiple credit rating agencies), are not an insured depository institution, and have not received support pursuant to CARES Act. Eligible ETFs will primarily support investment-grade bond holdings with the remainder for ETFs with exposure to U.S. high-yield corporate bonds. The facility will leverage Treasury equity at a 10 to 1 ratio when acquiring investment grade corporate bonds or ETFs and will leverage Treasury equity at a 7 to 1 ratio when acquiring sub-investment grade corporate bonds. All other eligible assets will be leveraged in a range between 3 to 1 and 7 to 1 depending on risk. Purchases by the facility will be made at fair market value.

## **MUNICIPAL LIQUIDITY FACILITY**

[Term Sheet: Municipal Liquidity Facility \(PDF\)](#)

The Municipal Liquidity Facility (“Facility”), which has been authorized under Section 13(3) of the Federal Reserve Act, will support lending to U.S. states and the District of Columbia, U.S. cities with a population exceeding one million residents, and U.S. counties with a population exceeding two million residents. The Federal Reserve will commit to lend to a Special Purpose Vehicle (SPV) on a recourse basis and will purchase notes directly from issuers at the time of issuance. The Department of the Treasury will make an initial investment of \$35 billion, and the SPV will have the ability to purchase up to \$500 billion notes. Eligible notes are tax anticipation notes (TANs), tax and revenue anticipation notes (TRANs), bond anticipation notes (BANs), and other similar short-term notes issued by Eligible Issuers, provided that such notes mature no later than 24 months from the date of issuance. The SPV will cease purchasing Eligible Notes on September 30, 2020, unless the Board and the Treasury Department extend the Facility.



## **PAYCHECK PROTECTION PROGRAM LENDING FACILITY**

[Term Sheet: Paycheck Protection Program Lending Facility \(PDF\)](#)

The Paycheck Protection Payment Lending Facility (“the Facility”) allows lending by eligible borrowers to small businesses under the Paycheck Protection Program (PPP) established by the CARES Act on a non-recourse basis, taking PPP loans as collateral. It starts April 9, 2020 and ends September 30, 2020 unless the Board and Treasury extend the Facility.

All depository institutions that originate PPP loans are eligible. The Fed is also working to expand to other lenders that originate PPP loans soon (i.e. non-banks). Eligible borrowers participate through the Reserve Bank in the District they are located. Only PPP loans guaranteed by the Small Business Administration (“SBA”) are eligible to serve as collateral for the Facility.

Extensions of credit will be made at a rate of 35 basis points and there are no fees associated with the Facility. Further, the PPP loan will be assigned a risk weight of zero percent. The Board, OCC and FDIC issued an interim final rule to allow banking organizations to neutralize the effect of PPP Loans financed under the Facility on leverage capital ratios.

## **PRIMARY MARKET CORPORATE CREDIT FACILITY**

[Term Sheet: Primary Market Corporate Credit Facility \(PDF\)](#)

Under the Primary Market Corporate Credit Facility, \$50 billion from Treasury will be assigned toward a Special Purpose Vehicle to purchase direct bond issuance from eligible issuers with a maturity of 4 years or less and portions of syndicated loans at issuance (no more than 25% of any loan syndication). Eligible businesses are U.S. businesses with a rating of at least BBB-/Baa3 as of March 22, 2020 that have not been subsequently downgraded beyond BB-/Ba3 at time of purchase (by at least two NRSROs if rated by multiple credit rating agencies), are not an insured depository institution, and have not received support through the CARES Act. The Fed will leverage Treasury equity at a 10 to 1 ratio for acquiring investment grade corporate bonds or syndicated loans and a 7 to 1 ratio for any other type of eligible asset. Pricing will be issuer-specific for corporate bonds, informed by market conditions, plus a 100 bps facility fee and the same pricing as other syndicate members for eligible syndicated loans and bonds, plus a 100 bps facility fee.