# Main Street Lending Program Expansion to Include Nonprofits


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On Friday, July 17, 2020, the Federal Reserve Board announced the launch of two loan options under its previously launched "Main Street Lending Program" that are aimed at providing greater access to credit for nonprofit organizations, such as educational institutions, hospitals, and social service organizations. As described in detail in our previous alerts (available here and here), the Program is designed to provide up to $600 billion in loans to small- and medium-sized entities in order to ease the economic distress caused by the COVID-19 pandemic. The nonprofit program is not yet operational, but the Federal Reserve has indicated that it would like to roll out the program quickly and plans to leverage the existing Main Street network of lenders to speed up the process. The program will be available until September 30, 2020, unless it is extended by the Federal Reserve and the Treasury Department. According to Federal Reserve Chair Jerome H. Powell, the Federal Reserve has "listened carefully and adapted" the Program to the needs of nonprofits, which "provide vital services across the country and employ millions of Americans." *Federal Reserve Board modifies Main Street Lending Program to provide greater access to credit for nonprofit organizations such as educational institutions, hospitals, and social service organizations*, July 17, 2020.

The Federal Reserve has approved two new loan options: a term sheet for "Nonprofit New Loans," which permit eligible nonprofit borrowers to take on new debt; and a term sheet for "Nonprofit Expanded Loans" to upsize existing debt. In broad strokes, the terms of these Main Street loans for nonprofits "generally mirror those for Main Street for-profit business loans." *Id.* Some of the key terms include:

- The loan term is five years, and prepayment is permitted without penalty;
- The interest rate is set at LIBOR +3%;
- Interest payments are deferred for one year;
- Principal payments are deferred for two years, with payments in years 3 and 4 at 15%, and a balloon payment after year 5 at 70%;
- For a New Loan, the minimum size is $250,000, and the maximum is the lesser of $35 million or the borrower's average 2019 quarterly revenue; whereas for an Expanded Loan, the minimum is $10 million, and the maximum is the lesser of $300 million or the borrower's average 2019 quarterly revenue.

Potential borrowers will need to look carefully at the eligibility criteria for participating. As set forth in the term sheets and supplemental Frequently Asked Questions guide, the key eligibility criteria are that the prospective borrower:

- Must be a tax-exempt organization described in section 501(c)(3) or 501(c)(19) of the Internal Revenue Code (inclusion of other forms of organizations is at the discretion of the Federal Reserve. For example, a public college or university that is not recognized as tax-exempt under section 501(c)(3) may still qualify as tax-exempt under another section of the IRC and thus be considered a nonprofit for purposes of these loans);

- Must have been in continuous operation since January 1, 2015;

- Must have at least 10 employees, and also must have fewer than 15,001 employees or 2019 annual revenues of $5 billion or less;

- Cannot be ineligible for SBA loans pursuant to 13 CFR 120.110(b)-(j) and (m)-(s) (*e.g.*, businesses involving financial lending, life insurance, gambling, or political activities; businesses that previously defaulted on a federal loan; businesses in which a lender owns an equity interest; or businesses in which an associate has a criminal history);

- Cannot have an endowment of $3 billion or more;

- Must have total non-donation revenues equal to or greater than 60% of expenses for the period from 2017 through 2019;

- Must have a 2019 operating margin greater than or equal to 2%;

- Must have liquid assets to cover at least 60 days of expenses based on the average daily expenses over the previous year;

- Must have a current debt repayment capability (ratio of cash and investments to outstanding debt plus amount of loan under the Main Street Lending Facility) that is greater than 55%;

- Must be created or organized in the United States or under the laws of the United States with significant operations in and a majority of their employees based in the United States;

- Cannot also participate in other Main Street Lending Facilities, the Primary Market Corporate Credit Facility, or the Municipal Liquidity Facility; and

- Cannot have received specific support pursuant to the Coronavirus Economic Stabilization Act of 2020. *See* Term Sheets. However, nonprofit organizations that have received PPP or EIDL loans are permitted to borrow. *See* FAQ at F.2.

As with the other Main Street facilities, loans will be made and serviced by private banks that choose to participate in the program. In addition to the aforementioned eligibility criteria, these banks will apply their own underwriting standards to evaluate the financial condition and creditworthiness of a potential borrower.

Borrowers will also need to make certain certifications in their loan application, including a certification that they will refrain from repaying non-mandatory balance or interest on any other debt until the new loan or upsized tranche is repaid in full; that they will not seek to cancel or reduce any of their lines of credit with any lender; and that they have a reasonable basis to believe they have the ability to meet their financial obligations and do not expect to file for bankruptcy within 90 days of disbursement. Further details concerning the required certifications are contained in the term sheets mentioned above. To the extent they overlap with certifications otherwise required under the Main Street Program, please refer to our previous alerts, also noted above.

We encourage you to follow up with any questions or concerns. Jenner & Block offers a wide array of resources and lawyers with the experience necessary to help our clients navigate the implications of these important new programs, led by our COVID-19 Response Team. The firm is well positioned to help our clients manage the challenging issues related to the current crisis, from applications for funds, to managing workforce concerns, to the Congressional oversight and government investigations that may accompany any such financial assistance.

This team includes lawyers who played key, leading roles in the country's response to the last economic crisis and whose expertise has been sought out and recognized nationally for their insight into the current crisis. It includes government veterans whose senior positions meant that they were intimately involved in the design of many of the government's most recent bailout and stimulus programs, oversaw the loan application and distribution processes that were a key part of them, and ran and responded to the investigations that followed. It also includes transactional lawyers who are already engaged with clients seeking to avail themselves of aspects of the government programs described in this and our prior alerts.

For more information on the CARES Act, please reach out to CARESAct@jenner.com or your primary Jenner & Block contact.

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*Conscious of the human, operational and financial strain that coronavirus is placing on businesses and organizations worldwide, Jenner & Block has assembled a multi-disciplinary Task Force to support clients as they navigate the legal and strategic challenges of the COVID-19 / Coronavirus situation.*

*For additional information and materials, please visit our COVID-19 / Coronavirus Resource Center.*

**Click here to visit our COVID-19 / Coronavirus Resource Center**

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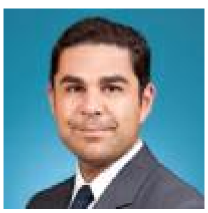

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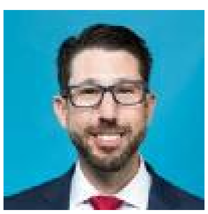

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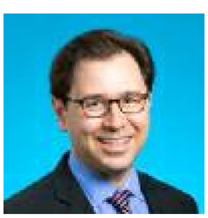

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