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Navigating the Main Street Lending Program: Practical Considerations for Eligible Businesses Before Pursuing Relief

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On April 9, the Federal Reserve announced the Main Street Lending Program (Main Street Program) to support the hundreds of thousands of small to mid-sized businesses impacted by COVID-19 yet unable to access existing funding under the Coronavirus, Aid, Relief, and Economic Security Act (CARES Act). The Main Street Program allows eligible lenders to make direct, unsecured loans to Main Street businesses, providing $600B in relief. Eligible businesses include those with up to 10,000 employees or up to $2.5 billion in 2019 annual revenues.

The Fed outlined requirements and restrictions for potential lenders and borrowers, including general eligibility, the application process, loan amounts, and borrower attestations. Other Venable alerts have summarized the details of the program.

While the Main Street Program should benefit many businesses currently facing an economic crisis, you should carefully consider all of your alternatives before applying for these loans. Your consideration should include:

1. A complete assessment of business capital needs. Do you need payroll support, to replace lost revenue, or to better manage operating capital and liquidity? Given the uncertain environment, efforts should be made to err on the conservative side and to model capital needs with a cushion, if possible. Depending upon your specific needs, the Main Street Program may be a more or less attractive alternative.
2. Exhaust all other relief programs for which you are eligible. From the Paycheck Protection Program to various state and federal grant programs, there are a host of initiatives that provide grant funding, forgivable loans, or significant tax advantages that all will produce less expensive capital for your business. This is not to suggest the loans under the Main Street Program are not attractive; they are just not as attractive as other programs whose possibilities you should be certain to exhaust.
3. Understand your current credit agreements. If you have existing debt, it is almost certain to contain provisions limiting your ability to borrow funds, and covenants that have or will be violated in today's environment. You must be ahead of these events in discussions with your bank. If you intend to seek funding under the Main Street Program, you should be certain to obtain any required consent before getting too far down the path. For many practical reasons, it is

likely that getting a Main Street loan from your existing lender would be far less complicated than bringing in a new lender. This provides another reason to begin discussions with your lender today.

4. Explore forbearance agreements with your lenders. Participation in Main Street, even if funding is provided by a third party, will require the cooperation of your existing lender. There will need to be an understanding of how any new debt would fit with existing obligations. This complexity may encourage lenders to agree to reasonable forbearance terms that could obviate the need for additional borrowing.
5. Seek better terms from your creditors. As the effects of this crisis continue to ripple through the economy, business partners are working hard to weather the storm together. Before seeking further debt, be certain you have sought reasonable concessions from your creditors. Over-communicate what you can do and deliver on your promises but seek reasonable concessions immediately.
6. Consider carefully your ability to service the new debt. Although the terms of the Main Street debt are intentionally favorable, it is still new debt. It may be that such debt is not sustainable and that other restructuring strategies could make more sense. These considerations are nuanced and could vary from state to state.
7. Last, weigh the implications of the Main Street Program's restrictions—such as limits on executive compensation, prohibition on payment of dividends, and the buying back of stock—on the business. Businesses will need to decide whether those restrictions are worth accessing additional credit given their current needs. It may also be these restrictions cause the debt to be that much less attractive than other alternatives. It should simply be one of the factors that you consider.

After considering these factors, it may be that this program provides exactly the access to capital that your business needs today. The analysis, however, should be much more detailed than the decision to apply for forgivable debt at 1%, like that in the PPP. Should you have any questions, please feel free to contact any of the listed authors to learn more about the Main Street Program and other COVID-19 business relief programs.