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Federal Reserve Board Expands Main Street Lending Program to Provide Loans for Nonprofit Organizations

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by Joshua S. Cole

On July 17, 2020, the U.S. Federal Reserve Board expanded the Main Street Lending Program to provide access to loans for eligible nonprofit organizations. Previously, nonprofit organizations were not eligible to participate in the Main Street Lending Program.

In announcing this eagerly awaited expansion of the Main Street Lending Program, Federal Reserve Chairman James Powell commented that “Nonprofits provide vital services across the country and employ millions of Americans. We have listened carefully and adapted our approach so that we can best support them in carrying out their vital mission during this extraordinary time.”

It should be noted that nonprofit organizations that have already taken a loan under the U.S. Small Business Administration’s Paycheck Protection Program are not excluded from also taking a loan under the Main Street Lending Program.

Here are the details for the newly announced Nonprofit Organization New Loan Facility (the “**Facility**”):

Who is eligible?

- must be a Nonprofit Organization[1] that has been in continuous operation since January 1, 2015
- must not be an Ineligible Business[2]
- meets at least one of the following two conditions: (i) has 15,000 employees or less, or (ii) had 2019 annual revenues of \$5 billion or less
- has at least 10 employees

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- has an endowment of less than \$3 billion
- has total non-donation revenues equal to or greater than 60% of expenses for the period from 2017 through 2019
- has a ratio of adjusted 2019 earnings before interest, depreciation, and amortization (“**EBIDA**”) to unrestricted 2019 operating revenue, greater than or equal to 2%
- has a ratio (expressed as a number of days) of (i) liquid assets at the time of loan origination to (ii) average daily expenses over the previous year, equal to or greater than 60 days
- at the time of loan origination, has a ratio of (i) unrestricted cash and investments to (ii) existing outstanding and undrawn available debt, plus the amount of any loan under the Facility, plus the amount of any CMS Accelerated and Advance Payments, 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 its employees based in the United States
- cannot have participated in any of the other Main Street Lending Program facilities, the Primary Market Corporate Credit Facility, or the Municipal Liquidity Facility
- cannot have received specific support pursuant to the Coronavirus Economic Stabilization Act of 2020 (Subtitle A of Title IV of the CARES Act)

[1] To be eligible, the Nonprofit Organization must be a tax-exempt non-profit organization described in Section 501(c)(3) of the Internal Revenue Code (the “IRC”) or a tax-exempt veterans’ organization described in Section 501(c)(19) of the IRC

[2] An Ineligible Business is a type of business listed in 13 CFR 120.110(b)-(j) and (m)-(s), as modified by regulations implementing the Paycheck Protection Program established by Section 1102 of the CARES ACT (“PPP”) on or before April 24, 2020.

What are the terms of the loans?

- minimum loan size is \$250,000
- maximum loan size is the lesser of (i) \$35 million, or (ii) borrower’s average 2019 quarterly revenue
- five (5) year maturity
- principal payments deferred for two (2) years and interest payments deferred for one (1) year (unpaid interest will be capitalized)
- principal amortization of (i) 15% at the end of the third year, (ii) 15% at the end of the fourth year, and (iii) a balloon payment of 70% at maturity at the end of the fifth year
- adjustable interest rate of LIBOR (one month or three month) plus 3.00%
- prepayment permitted without penalty

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- origination fee of up to 1% of the principal amount of the loan paid to the lender
- the loan must not, at the time of origination or at any time during the term of the loan, be contractually subordinated in terms of priority to any of the borrower's other loans

What other requirements are there for the loans?

- if the borrower had other loans outstanding with the lender as of December 31, 2019, such loans must have had an internal risk rating equivalent to a "pass" in the Federal Financial Institutions Examination Council's supervisory rating system on that date
- borrower must commit to refrain from making any voluntary prepayment of principal or interest on any other loans while the loan is outstanding
- borrower must commit that it will not seek to cancel or reduce any of its committed lines of credit with the lender or any other lender during the term of the loan
- borrower must certify that it has a reasonable basis to believe that, as of the date of origination of the loan and after giving effect to the loan, that it has the ability to meet its financial obligations for at least the next 90 days and does not expect to file for bankruptcy during that time period
- borrower must attest that it will follow compensation, stock repurchase, and capital distribution restrictions that apply to direct loan programs under section 4003(c)(3)(A)(ii) of the CARES Act
- borrower should make reasonable efforts to maintain its payroll and retain its employees during the time that the loan is outstanding

It is important to note that the above is just a brief overview of the Nonprofit Organization New Loan Facility under the Main Street Lending Program. For complete details on the program and more specific requirements on eligibility, please consult the Federal Reserve Board's web page for the Main Street Lending Program at: <https://www.federalreserve.gov/monetarypolicy/mainstreetlending.htm>.

Pullman & Comley has experienced and knowledgeable commercial finance professionals working hard to assist their clients during these unprecedented and uncertain times. For specific guidance or more information, whether you are a business applying for a Main Street Lending Program loan or a lender looking to make a Main Street Lending Program loan, please contact us.

For more information on the CARES Act and guidance during concerning the impacts of the COVID-19 crisis, please visit <https://www.pullcom.com/newsroom-publications-FOCUS-Responding-to-COVID-19>.