

MAIN STREET LOANS

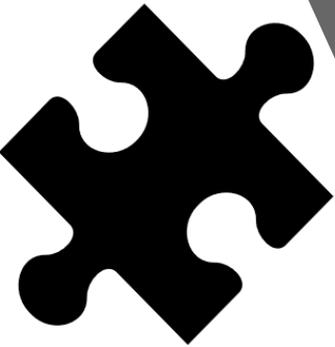
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National Federation of Independent Business



Main Street Lending Program



What is the is the MSLP?

- A brand-new, multi-facility lending program created by the Federal Reserve to help small and mid-sized businesses that need access to cash because of the COVID-19 pandemic.
- Created by the CARES Act, a \$2 trillion stimulus package signed into law on March 27, 2020.
- Loans intended for businesses that were in good financial standing before the COVID-19 pandemic. These loans must be repaid in full.
- The minimum size for an MSLP loan will be \$1 million. The maximum loan available loan will be the lessor of either \$25 million or 2 times 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA).
- Banks that qualify as “eligible lenders” will make loans under the Program, rather than the Federal Reserve or Treasury.

What is the MSLP? (cont.)

- Four-year maturity, with one-year deferral period for loan repayment.
- No penalty for early prepayment of MSLP loans.
- Certain restrictions including: MSLP must be paid before other loans; MSLP may not be used to pay other loans; borrower must make reasonable efforts to maintain payroll and abide by other rules.
- Up to” \$600 billion will be available under the MSLP, the Federal Reserve said, but it has not specified a more precise amount.
- While interest and principal payments on MSLP loans and PPP loans are deferred for specified periods, MSLP loans are not forgivable.
- Further details forthcoming from the Department of Treasury

MSLP Eligibility

- To be eligible to obtain a loan, a prospective borrower must meet all of following criteria:
 - It must be a business;
 - It employs up to 10,000 employees (but not more) **or** it has up to \$2.5 billion in 2019 annual revenues (but not more);
 - It must be created or organized in the U.S. (or under the laws of the U.S.) with significant operations in and a majority of its employees based in the U.S.;
 - It must have been “in good financial standing” before the COVID-19 pandemic; and
 - It is not participating in the Primary Market Corporate Credit Facility.
- The Federal Reserve has said that a borrower who has applied for or receives PPP loan may receive a MSLP loan (assuming the borrower is otherwise eligible).

Two types of MSLP loans

- The program includes two loan facilities:
 - (i) the Main Street New Loan Facility (the “New Loan Facility”), which is intended to facilitate new loans to businesses; and
 - (ii) the Main Street Expanded Loan Facility (the “Expansion Facility”), which is intended to facilitate the expansion of existing loan facilities to businesses.

New Loan Facility

A MSLP loan made under the New Loan Facility must be/have:

- A **term** loan made by an eligible lender to an eligible borrower;
- Originated on or after April 8, 2020;
- Unsecured;
- A 4-year maturity;
- A deferral of payments of principal and interest for one year;
- An adjustable interest rate of the Secured Overnight Financing Rate plus 250-400 basis points;
- No less than \$1 million;
- No prepayment penalty; and
- Less than the **lower** of (i) \$25 million or (ii) an amount that, when added to the eligible borrower's existing outstanding and committed but undrawn debt, does not exceed **four** times the borrower's 2019 earnings before interest, taxes, depreciation and amortization ("EBITDA").

Expansion Facility

A Program loan made under the Expansion Facility (*i.e.*, the **upsized portion** of an existing loan) must have the same terms as a loan made under the New Loan Facility, except:

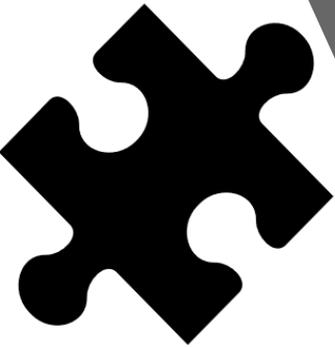
- The Expansion Facility loan must be an addition to an **existing term loan** made by an eligible lender to an eligible borrower;
- The existing term loan must have been originated before, and the Expansion Facility loan must be originated after, April 8, 2020;
- The existing term loan and the Expansion Facility loan may be secured or unsecured; and
- The maximum amount of an Expansion Facility loan is the **lowest** of (i) \$150 million, (ii) 30% of the eligible borrower's existing outstanding and committed but undrawn bank debt or (iii) an amount that, when added to the eligible borrower's existing outstanding and committed but undrawn debt, does not exceed **six** times the eligible borrower's 2019 EBITDA.

Borrower Certifications Required

- Will not use the proceeds of MSLP loans to repay other loan balances;
- Will not repay other debt of equal or lower priority, with the exception of mandatory principal payments, unless the borrower has first repaid the Program loan in full;
- Will not to seek to cancel or reduce any of its outstanding lines of credit;
- **Requires financing due to the exigent circumstances presented by the COVID-19 pandemic, and that, using the proceeds of the Program loan, it will make reasonable efforts to maintain its payroll and retain its employees during the term of such Program loan;**
- Meets the EBITDA leverage limit, as applicable; and
 - Will comply with the executive compensation, equity repurchase and capital distribution restrictions that apply to direct loan programs under the CARES Act; and
 - Is eligible to receive a MSLP loan, including in view of the CARES Act's conflict of interest prohibition (which generally prohibits prospective borrowers in which high-ranking government officials have a 20% or more equity interest from receiving a MSLP loan).

Stay Tuned!
More to come on the MSLP . . .

Economic Injury Disaster Loan and Paycheck Protection Program Loan





Loan Program	Economic Injury Disaster Loan (EIDL)	Paycheck Protection Program Loan (PPPL)
Lender	Small Business Administration (SBA)	Financial institutions (commercial banks, credit unions, and other approved lenders)
Program Period	through December 31, 2020	through June 30, 2020 (Covers 8-weeks of eligible expenses after loan origination.)
Eligibility	<ul style="list-style-type: none"> • Have 500 or fewer employees, • Are a sole proprietor, independent contractor, or self-employed individual. <p>AND</p> <ul style="list-style-type: none"> • Been in business since January 31, 2020. 	<ul style="list-style-type: none"> • Have 500 or fewer employees, • Are a sole proprietor, independent contractor, or self-employed individual, • A small business that meets the SBA small business industry-specific standards, • Operate an accommodation or food service business (NAICS Code 72) with 500 or fewer employees per location, • A business assigned a franchise operator code by SBA, • A business that receives assistance under the Small Business Investment Act. <p>AND</p> <ul style="list-style-type: none"> • Been in business since February 15, 2020 and paid taxes on your employees or independent contractors.
Loan Amount	<ul style="list-style-type: none"> • The maximum loan size is \$2 million. • Applicants who apply for this loan may request an advance Emergency EIDL grant of up to \$10,000 from the SBA. 	<ul style="list-style-type: none"> • 2.5x the average monthly "payroll" costs, measured over the 12 months preceding the loan origination date. Seasonal business may use the period February 15, 2019 – June 30, 2019 or March 1, 2019 – June 30, 2019 to calculate the average payroll. • The maximum loan size is \$10 million. • "Payroll" includes: <ul style="list-style-type: none"> ○ Salaries, commissions, tips,



		<ul style="list-style-type: none"> o Employee benefits (including health insurance premiums and retirement benefits), o State and local taxes, o Compensation to sole proprietors or independent contractors. <ul style="list-style-type: none"> • "Payroll" excludes: <ul style="list-style-type: none"> o Annual salary in excess of \$100,000, o Foreign employees, o FICA and income tax withholdings.
Eligible Expenses	<ul style="list-style-type: none"> • Payroll costs, including benefits, • Fixed debts (mortgage, rent, lease), • Accounts payable, • Other bills. 	<ul style="list-style-type: none"> • Payroll costs, including benefits, • Interest on mortgage obligations, incurred before February 15, 2020, • Rent, under lease agreements in force before February 15, 2020 and • Utilities, for which service began before February 15, 2020.
Term Duration	Up to 30 years	Up to 2 years
Interest Rate	3.75% for businesses, 2.75% for nonprofits	1% for all borrowers
Forgiveness	<p>No loan forgiveness</p> <p>Emergency EIDL grant of up to \$10,000 is forgiven. Grant must be used for the following expenses:</p> <ul style="list-style-type: none"> o Providing paid sick leave to employees unable to work due to the direct effect of the COVID-19, o Maintaining payroll to retain employees during business disruptions or substantial slowdowns, o Meeting increased costs to obtain materials unavailable from the applicant's original source due to interrupted supply chains, o Making rent or mortgage payments, 	<p>Eligible expenses (below) within an 8-week period from date of loan origination:</p> <ul style="list-style-type: none"> • Payroll costs (including everything listed above), • Payments on mortgage interest, • Rent, • Utilities. <p>***Your loan forgiveness will be reduced if you decrease the number of your full-time and/or decrease salaries and wages by more than 25% for any employee that made less than \$100,000 annualized in 2019.</p> <p>Re-Hiring: You have until June 30, 2020 to restore your full-time employment and salary levels for any changes made between February 15, 2020 and April 26, 2020.***</p>

	o Repaying obligations that cannot be met due to revenue losses.	
Repayment	Unclear about deferred	Payments (and interest) are deferred for 6 months
Collateral Requirement	No	No
Personal Guarantee	Not for loan less than \$200,000	No
Prepayment Penalties	No	No
Required Documents	<ul style="list-style-type: none"> • SBA Form 5 (Application), • Credit score, • IRS Form 4506T, • Most recent federal income tax returns for the business, • SBA Form 1143 (Personal Financial Statement), • SBA Form 2202 or a similar schedule of liabilities listing all fixed debts. 	<ul style="list-style-type: none"> • Two page application HERE • Payroll expenses
Availability	Loans available now	(Will vary by participating banks) April 3, 2020 , small businesses and sole proprietorships, April 10, 2020 , independent contractors and self-employed individuals

Notes: NFIB Covid-19 Small Business Resources [HERE](#)

Economic Injury Disaster Loan (and EIDL grant) application [HERE](#)

Paycheck Protection Program Loan (PPPL) Borrower information [HERE](#)

Paycheck Protection Program Loan (PPPL) Application [HERE](#)



**You have the PPP loan or you're
close to getting it, now what?**

PPPL Maximum Loan Forgiveness Amount

The 8-week forgiveness period starts the day you receive the loan (or first disbursement of the loan).

Eligible forgivable expenses include:

- **Payroll costs**
(e.g., salary, wages, commissions, cash tips) up to annualized compensation of \$100,000; paid leave, payment for group health benefits, including insurance premiums; retirements benefits; and state and local payroll taxes.)
- **Interest on mortgage obligations** incurred before February 15, 2020;
- **Rent** obligations in place before February 15, 2020; and
- **Utility** payments for services that began before February 15, 2020
(electricity, gas, water, transportation, telephone and Internet access)

HOWEVER,

- Not more than 25% of the loan forgiveness amount may be used for non-payroll costs; and
- Must spend the funds you want forgiven within the 8-week period.



PPPL Calculating Loan Forgiveness

Maintain Headcount. If a business's average full-time equivalent employees during each month of the eight-week period is less than the average during either the period from:

**February 15, 2019, to June 30, 2019, or
January 1, 2020, to February 29, 2020**
(at the business's choice),

the forgiven amount is reduced by the percentage reduction in headcount. In other words, if headcount is reduced by 10%, the forgiven loan amount is also reduced by 10%.

PPPL Calculating Loan Forgiveness

Maintain Salary/Wages. With respect to employees earning less than \$100,000, the amount forgiven is reduced by the amount of any reduction in salary/wages during the eight-week period that exceeds 25% of the employee's salary/wages for the most recent full quarter.

Rehiring Exemption. Importantly, the headcount and salary reductions discussed above will not apply *if* the business remedies the reduction on or before June 30, 2020. This is designed to incentivize businesses to rehire laid off and furloughed employees.

Borrowers have until June 30, 2020 to restore FTEE headcount and salary levels for reductions made between February 15, 2020 and April 26, 2020.



PPPL Calculating Loan Forgiveness

- PPP Loan Disbursement: \$2,000,000
- Average FTEE (1/1/20 through 2/29/20): 192
(Average FTEE 2/15/19 through 6/30/19: 200)
- Average FTEE (8 Weeks After Disbursement): 192
- Covered Payroll Costs: \$1,600,000
- Covered Rent/Utility/Interest Expenses: \$400,000
- Reduction in FTEEs and Wages reinstated by 6/30/20: Yes
- Employer FICA and Medicare expenses (Not eligible for PPP Loan Use): (\$122,400)

PPPL Calculating Loan Forgiveness

Maximum forgiveness amounts will be reduced:

- FTEEs Not Maintained - Proportionately for reduction in average full-time equivalent employees (FTEEs) between pre-crisis levels and the 8-week forgiveness period;
- Salary Level Not Maintained - Reduction Over 25% - A straight reduction for payroll reductions over 25% (compared to the prior completed quarter of employment) for workers making less than \$100,000 annually; and
- Proceeds Spent Outside 8-Week Qualifying Window
- 75% Not Spent on Payroll
- EIDL Emergency Grant Taken (up to \$10,000) will be subtracted from forgiveness amount

PPPL Challenges in Maintaining Payroll/Re-Hiring

Although 100% of the PPP Loan principal and interest may be forgiven the reality is that full loan forgiveness has challenging requirements.

- Not all payroll costs are eligible costs:
 - Employer paid taxes (e.g., FICA) are not included in eligible payroll costs
 - Employer paid leave amounts under the FFCRA are not eligible payroll costs
 - Payroll costs are wages and salaries up to \$100,000 per employee/annual (i.e., \$3,846 on a bi-weekly basis)
- Employees may not want to go back to work
 - Employers are competing against supplemental unemployment benefits of additional \$600/week until July 31, 2020.

Documentation Checklist for Forgiveness

- ❖ Copies of monthly payroll tax reports filed with the IRS within the 8-week period.
 - Payroll reports from your payroll provider
 - Payroll tax filings (Form 941, 940)
 - Income, payroll, and unemployment insurance filings from your state

- ❖ Copies of monthly payroll reports for each pay period within the 8-week period. Gross wages including vacation, sick, and other PTO should be reflected.

- ❖ Documentation reflecting the health insurance premiums paid by the company under a group health plan including owners of the company within the 8-week period.

Documentation cont.

- ❖ Copies of the monthly invoices, canceled checks, or ACH drafts are acceptable.
- ❖ Documentation of all retirement plan funding by the employer within the 8-period.
- ❖ Copies of all lease agreements (rent) with proof of payment within the 8-week period.
- ❖ Copies of mortgage interest and other eligible interest on debt obligations statements indicating payment amounts and proof of payment within the 8-week period.
- ❖ Copies of cancelled checks, statements, or other evidence of utilities paid within the 8-week period.
- ❖ Your lender may require different or additional data.



Additional notes

- ❖ Borrowers must apply for forgiveness with the lender servicing the loan; lenders have 60 days to review and make a determination; any portion of the loan that is forgiven will be excluded from gross income.
- ❖ SBA is scheduled to issue additional guidance on PPP loan forgiveness soon.
 - FTEE definition
 - Penalties for non-compliance
 - Workforce and salary reduction
 - More details on qualifying expenses, especially utilities

Families First Coronavirus Response Act Reimbursement

- Employers can claim a 100% tax credit for paid leave *required* by the FFRCA. [See IRS Guidance](#).
- Claim the credit by retaining both the employer's and employees' shares of Social Security and Medicare taxes, as well as withheld federal income tax in [Form 941 quarterlies](#).
- If you do not have sufficient funds withheld, you may submit a request for an accelerated payment from the IRS by submitting [Form 7200](#).
- Some states also will offer tax relief for compliance – check with your state revenue agency or accountant/CPA/payroll provider.

Employee Retention Tax Credit

The CARES Act also provides eligible employers with a refundable payroll tax credit equal to 50% of qualified wages (up to \$10,000 paid to each employee) paid to employees per quarter beginning March 13, 2020 through December 31, 2020.

The tax credit applies to an employer engaged in an active trade or business in 2020 and for wages paid while:

1. operations are fully or partially suspended due to a governmental order related to COVID-19; or
2. operations were subject to a “significant decline in gross receipts,” which is defined as the period beginning with the quarter where gross receipts declined more than 50% when compared to the same quarter the prior year and ending with the calendar quarter in which gross receipts are greater than 80% of gross receipts for the same quarter the prior year.

For employers with more than 100 full-time employees, the tax credit is only available as to wages paid to an employee that is not providing services due to the circumstances described in (i) or (ii) above. For employers with fewer than 100 full-time employees, all wages qualify for the tax credit.

Notably, the tax credit is not available to employers that take advantage of a PPP loan. In addition, the tax credit does not apply to the payroll credits employers are eligible to receive for emergency paid sick leave or family leave pursuant to FFCRA.



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