CORONAVIRUS ECONOMIC STABILIZATION ACT'S MAIN STREET LENDING PROGRAM

KENTUCKY MEDICAL ASSOCIATION
Physicians Caring for Kentucky

The following is available to members as an informational resource. KMA expresses no opinion as to the feasibility, applicability, or impact to your particular practice. Physicians should consult with their tax professional to determine if these benefits or others apply to their practice.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act established or expanded several programs to assist businesses, including physician practices, that have been severely impacted by the COVID-19 emergency. A subpart of the CARES Act is the Coronavirus Economic Stabilization Act (CESA), which is designed to provide $454 billion in financing to banks and other lenders to make direct loans to businesses. By using a portion of the funds provided by CESA, the U.S. Department of the Treasury and Federal Reserve Board have created the Main Street New Lending Facility (MSNLF), which provides new loans for eligible small to midsize businesses.

Here's what you need to know:

ELIGIBILITY

Physician practices are eligible for a MSNLF loan if:

- the practice has no more than 10,000 employees or $2.5 billion in 2019 annual revenues;
- the practice is 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;
- the practice was in good financial standing before the crisis;
- the practice has not otherwise received adequate economic relief in the form of loans or loan guarantees under the CARES Act; and
- the practice does not also participate in the Main Street Expanded Loan Facility or the Primary Market Corporate Credit Facility. However, practices that borrow from the Small Business Administration's Paycheck Protection Program (PPP) may also participate in the Main Street Lending Program.

TERMS AND INTEREST RATE

MSNLF loans are unsecured term loans made by insured depository institutions (insured banks, savings associations, and credit unions), bank holding companies, and savings and loan holding companies that are originated on or after April 8, 2020, with the following features:

- 4-year maturity;
- amortization of principal and interest deferred for one year;
- adjustable rate of Secured Overnight Financing Rate plus 2.5 to 4 percent;
- minimum loan size of $1 million;
- maximum loan size that is the lesser of:
    - $25 million; or
    - an amount that, when added to the practice's existing outstanding and committed but undrawn debt, does not exceed four times the practice's 2019 earnings before interest, taxes, depreciation, and amortization ("EBITDA"); and
- prepayment permitted without penalty.

MSNLF loans are unforgivable. Practices awarded a MSNLF loan will pay the lender an origination fee of 1 percent of the principal amount of the loan.

CERTIFICATIONS

MSNLF loan recipients must make good-faith certifications that include:

- The loan is necessary due to the exigent circumstances presented by the pandemic, and that, using the proceeds of the loan, recipients will make reasonable efforts to maintain payroll and retain employees for the term of the loan;
- the funds received will be used to retain at least 90 percent of the recipient's workforce, at full compensation and benefits, until September 30, 2020;
- the recipient intends to restore not less than 90 percent of the workforce of the recipient that existed as of February 1, 2020, and to restore all compensation and benefits to the workers of the recipient no later than 4 months after the termination date of the public health emergency;
- the recipient is an entity or business that is domiciled in the United States with significant operations and employees located in the United States;
- the recipient is not a debtor in a bankruptcy proceeding;
- the recipient will not use the proceeds of the MSNLF loan to repay other loan balances and will not repay other debt of equal or lower priority, with the exception of mandatory principal payments, unless the recipient has first repaid the MSNLF loan in full; and
- the recipient will not cancel or reduce any of its outstanding lines of credit held with any other lender.

Additionally, loan recipients must agree to the following terms that will be in effect for the term of the loan plus 12 months:

- neither the business nor any affiliate will engage in stock buybacks unless it is under a preexisting contractual obligation to do so; and
- the business will not pay dividends or make other capital distributions with respect to common stock.

There are also special rules on employee compensation that apply, including:

- no officer or employee of the practice earning more than $425,000 in 2019, can receive 1) pay increases or 2) severance upon termination of employment exceeding twice the maximum compensation received in 2019; and
- no officer or employee of the practice whose 2019 total compensation exceeded $3 million may receive total compensation in excess of $3 million and 50 percent of the excess over $3 million that they received in 2019, including salary, bonuses, awards of stock and other financial benefits.

ADDITIONAL INFORMATION

The Federal Reserve has not released information regarding the application process for loans under the Main Street Lending Program. Additional details regarding both a borrower's application for credit under the program will be forthcoming after April 16, 2020. As a result, it is not expected that applications for loans can be accepted by lenders under the Main Street Lending Program until the week of April 20–24, 2020. Eligible borrowers should, however, contact their banks to discuss potential loan applications prior to the Federal Reserve's release of final guidance.

RESOURCES:

- Main Street New Loan Facility Term Sheet
- U.S. Department of the Treasury Press Release

Sources: *The U.S. Department of the Treasury*
The Federal Reserve Board
The American Medical Association