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 15,000 employees or $5.0 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:

- 5-year maturity;
- interest rates are LIBOR (1 or 3 month) plus 300 basis points;
- minimum loan size of $250,000;
- maximum loan size that is the lesser of:
    - $35 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
- principal payments are deferred for two years and interest payments are deferred for one year, although unpaid interest is capitalized;

- Principal is amortized with 15% due at the end of the third year, 15% due at the end of the fourth year and a balloon payment of 70% due upon maturity at the end of the fifth year; 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 paid by the borrower to the Federal Reserve.

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 recipient is also expected to "make commercially reasonable efforts" to retain employees during the term of the MSNLF Loan;
- 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

Borrowers can apply for MSNLF loans by contacting an eligible lender. A description of eligible lenders can be found in the Program term sheets (see RESOURCES below).

RESOURCES:

- Main Street New Loan Facility Term Sheet
- Main Street Lending Program FAQs

- U.S. Department of the Treasury Press Release

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