PUBLIC SECTOR SERVICES

Federal Liquidity Support Aims to Help Businesses Weather the Financial Implications of COVID-19

Businesses are facing unprecedented financial and operational challenges due to COVID-19. To support businesses as they weather their financial losses, the U.S. federal government has approved measures that can enable up to $2.1 trillion in liquidity to businesses in the form of loans, grants and bond purchases. Certain direct loan provisions are geared toward small and medium-size businesses, while larger corporations can benefit from the Federal Reserve's debt purchases.

Programs Available to Small and Mid-Size Businesses

$659 Billion for SBA 7(a) Paycheck Protection Program

The Small Business Administration's (SBA) Paycheck Protection Program (PPP) provides financial assistance to small businesses in the form of a forgivable loan valued at two and a half times average monthly payroll, up to $10 million. Seventy-five percent of the loan must be used for payroll costs and the remaining 25 percent can be used to fund other expenses such as rent, mortgage and utility payments. PPP loans are forgivable if used in accordance with the program rules.

$70 Billion for SBA Economic Injury Disaster Loans

The SBA's Economic Injury Disaster Loan (EIDL) program provides small businesses with loans up to $2 million to help them overcome temporary revenue losses resulting from COVID-19. Qualified businesses can receive a $10,000 emergency grant advance within three days of applying for the loan to help cover payroll, sick leave, mortgage and other eligible expenses. While the loan is not forgivable, denied applicants are not required to repay the $10,000 advance.

$600 Billion Main Street Loan Facilities

The Federal Reserve's Main Street Lending program facilitates low-cost lending to eligible small and medium-size businesses through new loans and upsizing of existing loans. Main Street loans are also intended to help cover payroll and other operational needs, however, the conditions for using these loans are generally less restrictive than the conditions for the loans issued under the SBA. These loans are not forgivable. The program will operate through three facilities:

- Main Street New Loan Facility: Creates a new loan vehicle for less highly leveraged borrowers
- Main Street Priority Loan Facility: Creates a new loan vehicle for more highly leveraged borrowers
- Main Street Expanded Loan Facility: Upsizes an existing tranche of debt

	SBA PPP Loans[1]	SBA EIDL Loans	Main Street New Loan Facility	Main Street Priority Loan Facility	Main Street Expanded Loan Facility
Employee Size Qualification	<500[2]	<500[2]	<15,000[3]	<15,000[3]	<15,000[3]
Loan Amount	2.5x avg mo. payroll	Up to $2M[4]	4x EBITDA[5]	6x EBITDA[5]	6x EBITDA[6]
Loan Period	Up to 2 years	Up to 30 years	4 years	4 years	4 years
Interest Rate	1%	3.75%[7]	LIBOR + 3%	LIBOR + 3%	LIBOR + 3%
Fees	None[8]	None	1% origination	1% origination	0.75% origination
Deferral Period	6 months	None	12 months	12 months	12 months
Loans Forgivable?	Yes[9]	No[10]	No	No	No
Restrictions[11]	High	High	Medium	Medium	Medium

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Programs Available to Large Businesses

$750 Billion Primary and Secondary Credit Facility

The Federal Reserve will extend liquidity to large corporations through the purchase of up to $750 billion in corporate debt of lower credit quality. Bond purchases will be split among the Primary Market Corporate Credit Facility (PMCCF) (up to $500 billion) and Secondary Market Corporate Credit Facility (SMCCF) (up to $250 billion). Issuers must be rated at least Baa3 / BBB- to qualify. The PMCCF is for new bond issuances while the SMCCF is for existing bond issuances.

	Primary Market Credit Facility (PMCCF)	Secondary Market Credit Facility (SMCCF)
Employer Qualification[12]	Employers of all sizes	Employers of all sizes
Minimum Bond Rating[13]	Baa3 / BBB-	Baa3 / BBB-
Market	Primary Market	Secondary Market
Maturity Qualification	<4 years	<5 years
Bond Price	Market priced + 100bps	Fair value
Issuance Limit	130% of Mar. 2019 - Mar. 2020 outstanding debt	N/A
Maximum Facility Purchase[14]	No more than 25% of issuance	10% of Mar. 2019 - Mar. 2020 outstanding debt

Notes:

1. Receiving a PPP loan makes a business ineligible for the employee retention credit; receiving forgiveness for any or all of a PPP loan makes a business ineligible for a payroll tax deferral
2. Existing 7(a) eligibility can qualify under the North American Industry Classification System (NAICS) industry-determined size standards (employee count or total receipts) or alternative size measures (based on net income or tangible net worth); Exceptions to the affiliation rule include NAICS = 72 with less than 500 employees per location OR SBIC investments; non-affiliated companies with less than 500 employees also qualify (even if they would not have under traditional SBA eligibility criteria)
3. Eligible borrowers based on employee count (under 15,000) OR revenue (up to $5 billion in 2019)
4. Based on economic losses on a case-by-case basis
5. New Loan amount must be the lesser of (a) 4x 2019 EBITDA minus outstanding plus committed debt load or (b) $25 million; Priority Loan amount must be the lesser of (a) 6x 2019 EBITDA minus outstanding plus committed debt load or (b) $25 million
6. Expanded – new tranche of upsized loan must be the lesser of (a) 6x 2019 EBITDA minus outstanding plus committed debt load or (b) 35 percent of existing loan or (c) $200 million
7. 2.75 percent for non-profits
8. No SBA fees; banks may charge fees
9. If loans are used for appropriate purposes and at least 75 percent of use is to maintain payroll
10. Loan is not forgivable, but $10,000 advance given at time of EIDL application is forgivable
11. Subjective characterization and ordinally-consistent with current law and related guidance
12. Must be a business that 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
13. Rating as of 3/22/2020; if issuer was downgraded after this date, they must have a rating of Ba3/BB- to qualify
14. The maximum amount of instruments that the PMCCF and the SMCCF combined will purchase with respect to any eligible issuer is capped at 1.5 percent of the combined potential size of the PMCCF and the SMCCF

A&M can help you navigate the provisions and outline the impacts to your business. For more information, contact:

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