

INSIGHTS + NEWS

Client Alert: Main Street Lending Program – Expanded Assistance to Nonprofit Organizations

BY PETER J. MARTIN • JULY 23, 2020

The Main Street Lending Program (MSLP) was established by the Treasury Department with \$75 billion from the CARES Act to enhance access to credit for small and medium-sized businesses during the COVID-19 pandemic which were in sound financial condition prior to the pandemic. On June 15, 2020, the Federal Reserve proposed to expand the MSLP to small and medium-sized nonprofits and released draft guidelines and eligibility requirements. On July 17, the Federal Reserve revised those guidelines and requirements to make two MSLP loan programs more available to a wider range of nonprofits.

The two loan programs are for new loans taken out by nonprofits after June 15, 2020 (the Nonprofit Organization New Loan Facility), and for expanded borrowing by nonprofits under a prior loan made before June 15, 2020 that has a remaining maturity of at least 18 months (the Nonprofit Organization Expanded Loan Facility). Minimum loan size for the NONLF is \$250,000 and \$10 million for the NOELF. The maximum NONLF loan is the lesser of \$35 million or the organization's average 2019 quarterly revenue; the maximum NOELF loan size is the lesser of \$300 million or the organization's average 2019 quarterly revenue. Both programs permit the Federal Reserve Bank of Boston to lend money to a special purpose vehicle which will in turn purchase 95% participations in eligible loans made to nonprofits by eligible lenders. In all cases, loans under the programs are available only to tax-exempt nonprofit organizations under Internal Revenue Code section 501(c)(3) or tax-exempt veterans' organizations under IRC section 501(c)(19) which have been operating since January 1, 2015.

For all such borrowers, certain loan terms are uniform:

- the loan is for five years
- principal payments are deferred for the first two years, then principal must be paid in years three through five in the following proportions: 15%, 15% and 70%
- Interest payments are deferred for one year
- Interest is set at LIBOR plus 3%

The most significant revised guidelines and requirements (compared to the June 15 proposal) are as follows:

- The nonprofit's minimum number of employees is ten (had been 50) but no more than 15,000 employees, and it must have 2019 revenues of no more than \$5 billion and an endowment of less than \$3 billion
- The nonprofit's non-donation revenues must be at least 60% of expenses (had been 70% of revenues) from 2017

through 2019

- The nonprofit's margin must be at least 2% (had been 5%)
- The nonprofit's current cash on hand must be at least 60 days (had been 90 days)
- The nonprofit's current debt repayment capacity must be greater than 55% (had been 65%)

Nonprofits that have participated in the Payroll Protection Program are eligible to participate in these loan programs, but the outstanding and unforgiven amount of PPP loans is counted as outstanding debt for purposes of calculating the maximum amount that may be borrowed under these loan programs.

As with any lending facility, the devil is in the details. For example, for purposes of calculating the “non-donation revenues” proportion, a potential nonprofit borrower should know that “donations” include gifts, revenues from fundraising events and grants from donor-advised funds, but *exclude* government grants, revenues from a supporting organization and multi-year private foundation grants. Likewise, if the nonprofit has other loans from the same lender, those loans must meet certain risk rating standards. Also, the nonprofit must certify that it won't seek to cancel its lines of credit and that it doesn't anticipate filing for bankruptcy for at least 90 days. Nonprofits considering either of these loan programs should consult counsel to consider their eligibility and applicable loan requirements prior to reaching out to their banks or other lenders.