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July 23, 2020 Publication

Fed Unveils Main Street Lending Programs for Nonprofit Entities

COVID-19 Resource

Shortly after this article was finalized, the Fed posted detailed FAQs on the program, available here. This article may be revised as a result.

The Main Street Lending Program, which we discussed here, applied (almost) exclusively for-profit organizations. However, on July 17, the Federal Reserve Bank of Boston officially announced expansion of that program to nonprofit organizations. Documents and systems for taking applications under the program are still being finalized, but the new Main Street loans available to nonprofits will come in two versions, new loans (Nonprofit New Loans) and expansion of an existing loan through a new tranche (Nonprofit Expanded Loans). Like other loans under the Main Street Lending Program, each has multiple standards a borrower must meet to qualify.

As with the prior programs, the new loans may only be made by "eligible lenders" registered with the Fed.[1]

The new loan types for nonprofit organizations under the program are intended to "support greater access to credit for nonprofit organizations such as educational institutions, hospitals, and social service organizations," although smaller social service organizations are likely have difficulty in meeting the tests. See, for example, the financial tests in items 6 through 9 below, each of which must be met in addition to any other standards set by the lender. Of particular importance may be #6 which requires that the nonprofit's *non-donation* revenues[2] from 2017 through 2019 be at least 60 percent of its expenses.

Under the program, an "eligible borrower":

1. is a tax-exempt nonprofit organization under section 501(c)(3) or a tax-exempt veterans' organization described under section 501(c)(19) of the Internal Revenue Code. While it is possible that other forms of organization may be considered at the discretion of the Federal Reserve, it appears that any such expansion will be by a formal process of amending the rules, not generally on a case by case basis;
2. is not an "ineligible business" listed in 13 CFR 120.110(b)-(j) and (m)-(s), as modified by regulations implementing the Paycheck Protection Program;
3. has 15,000 employees or fewer *or* had 2019 annual revenues of $5 billion or less;
4. has at least 10 employees;
5. has an endowment of less than $3 billion;
6. has total non-donation revenues equal to or greater than 60 percent of expenses for the period from 2017 through 2019;
7. has a ratio of adjusted 2019 earnings before interest, depreciation, and amortization (EBIDA) to unrestricted 2019 operating revenue, greater than or equal to two percent;
8. has a ratio (expressed as a number of days) of (i) liquid assets at the time of loan origination (for a New Loan Facility) or the origination of the upsized tranche (for an Expanded Loan Facility) to (ii) average daily expenses over the previous year, equal to or greater than 60 days;
9. has a ratio of (i) unrestricted cash and investments to (ii) existing outstanding and undrawn available debt, plus the amount of any loan under the Main Street facility, plus the amount of certain other liabilities (i.e. for a hospital, any Centers for Medicare & Medicaid Services Accelerated and Advance Payments), that is greater than 55 percent;
10. is 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.;
11. does not also participate in the other type of nonprofit loan program, Main Street New Loans, Main Street Expanded Loans, the Main Street

Priority Loan Facility, the Primary Market Corporate Credit Facility, or the Municipal Liquidity Facility; and

12. has not received specific support pursuant to the Coronavirus Economic Stabilization Act of 2020.

Basic loan terms are, with regard to term, interest rate and payment deferrals, similar to those for loans to for-profit borrowers under the Main Street program, and potential borrowers should keep in mind that most of the general terms that apply to Main Street loans will apply here as well, including program terms are a baseline for qualification which an individual lender may expand to meet its own underwriting standards, there are limits on the uses of loan proceeds, origination and transactions fees payable by the borrower will apply, limitations on early repayment of other debt apply and the like.

New with regard to loans to nonprofits are the loan sizes: for a New Loan Facility: minimum of $250,000, maximum of (i) the lesser of $35 million, or (ii) the borrower's average 2019 quarterly revenue; for an Extended Loan Facility, minimum of $10 million, maximum of (i) the lesser of $300 million, or (ii) the borrower's average 2019 quarterly revenue.

For those non-profits that can navigate the eligibility requirements, this program could prove attractive.

In a nutshell, the specific loan terms are reflected in the chart provided by the Fed:

Characteristics of Main Street *Nonprofit Organization* Loan Types

Main Street Lending Program Nonprofit Loan Options	Nonprofit New Loans	Nonprofit Expanded Loans
Term	5 years	
Minimum Loan Size	$250,000	$10 million
Endowment Cap	$3 billion	
Years in Operation	At least 5 years	
Eligibility Criteria (See Term Sheets for More Detail)	• Minimum employees 10 • Total non-donation revenues equal to or greater than 60% of expenses for the period from 2017 through 2019 • 2019 operating margin of 2% or more • Current days cash on hand 60 days • Current debt repayment capacity—ratio of cash, investments and other resources to outstanding debt and certain other liabilities—of greater than 55%	
Maximum Loan Size	The lesser of $35 million, or the borrower's average 2019 quarterly revenue	The lesser of $300 million, or the borrower's average 2019 quarterly revenue
Risk Retention	5%	
Principal Repayment	Principal deferred for two years; years 3-5: 15%, 15%, 70%	
Interest Payments	Deferred for one year	
Rate	LIBOR + 3%	

As of this writing, the Main Street SPV will cease purchasing loan participations on September 30.

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1 You can check for registered lenders willing to accept applications from new customers (in addition to existing ones) for each state or territory here.

2 Under the program, "non-donation revenues" equal gross revenues minus donations; "donations" *include* proceeds from fundraising events, federated campaigns, gifts, donor-advised funds, and funds from similar sources, but *exclude* (i) government grants, (ii) revenues from a supporting organization, (iii) grants from private foundations that are disbursed over the course of more than one calendar year, and (iv) any contributions of property other than money, stocks, bonds, and other securities (noncash contributions), provided that such noncash contribution is not sold by the organization in a transaction unrelated to the organization's tax-exempt purpose.