COVID-19: Federal Response at a Glance

For related analysis and other resources, visit Milbank's COVID-19 Knowledge Center

Key
 Federal Reserve Programs
 Treasury Programs
 Small Business Administration (SBA) Programs

Insights SMALL BUSIN

SMALL BUSINESSES CATEGORIES OF ELIGIBILITY:) Small business concern as defined in 15 U.S.C. 632 (including that it is independently owned and operated, not dominant in its field of operation, and of the appropriate size for its industry including affiliates*); **OR** (2) A business concern, 501(c)(3) nonprofit organization, 501(c)(19) veterans organization, or 31(b)(2)(C) Tribal business concern that (i) has fewer than **500 employees** (including full-time, part-time, or other basis) and affiliated employees* whose principle place of residence is in the U.S. or (ii) is a business that operates in a certain industry and meets applicable SBA employeebased size standards for that industry; OR 3) Individual who operates a sole proprietorship, acts as an independent contractor or is an eligible self-employed individual. Further Eligibility Options under the Paycheck Protection Program: (A) A business concern that (i) has a maximum net worth not more than \$15 million and (ii) has an average net income of less than \$5 million after Federal income taxes (excluding any carry-over losses) for two fiscal years before the date of the application; OR (B) The following entities do not need to aggregate its affiliates' employees or, if

*Employees of qualified affiliated businesses are included in the headcount to determine whether the maximum number of employees is exceeded. If applicable, the annual receipts of affiliates are included to determine if that is exceeded. Information on affiliation rules can be found here, here, here and here.

applicable, its affiliates' annual receipts: (i) A business concern that employs

not more than 500 employees per physical location of the business concern

and that is assigned a NAICS code beginning with 72 (hotel and food service

industries); OR (ii) A franchise that is assigned a franchise identifier code

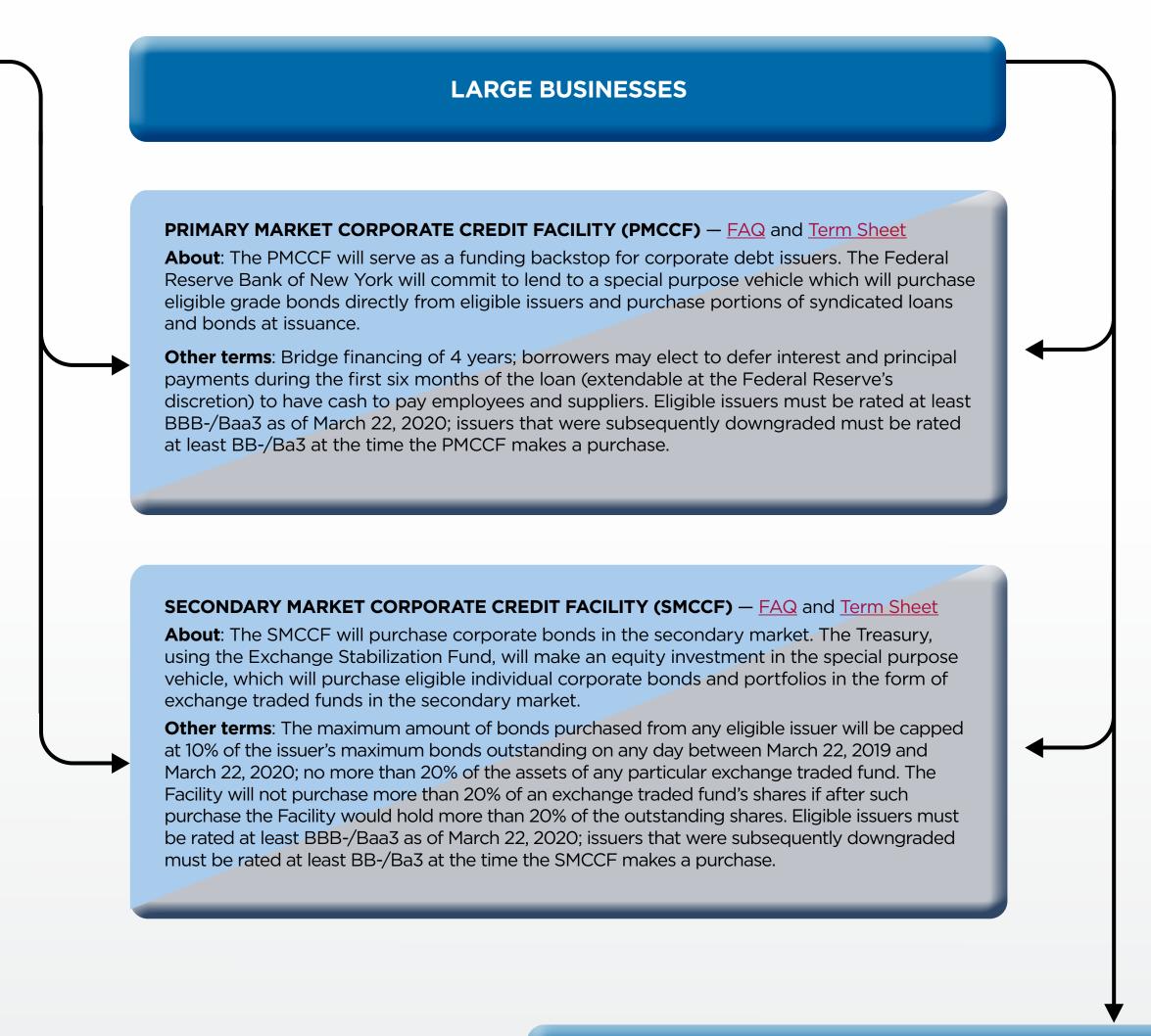
by the Administration; **OR** (iii) A company that receives **financial assistance**

MEDIUM BUSINESSES MAIN STREET LENDING PROGRAM (MSLP) — FAQ **Term Sheet** (Main Street New Loan Facility) <u>Term Sheet</u> (Main Street Priority Loan Facility) <u>Term Sheet</u> (Main Street Expanded Loan Facility) **About**: The MSLP consists of three separate lending facilities: (i) the Main Street New Loan Facility ("MSNLF"), (ii) a newly announced Main Street Priority Loan Facility ("MSPLF"), and (iii) the Main Street Expanded Loan Facility ("MSELF"). Eligible Borrowers must choose only one of the three facilities or the Primary Market Corporate Credit Facility (PMCCF) and may not receive or have received direct support pursuant to 4003(b) (1)-(3) of the CARES Act. The program will enhance support for small and mid-sized businesses that were in good financial standing before the crisis by offering 4-year loans to companies employing up to 150,000 workers or with revenues less than \$5 billion, as calculated by reference to the SBA's affiliation rules. Not-for-profits, which do not measure EBITDA, may be eligible to participate in the future. Other terms: Principal and interest payments will be deferred for one year (unpaid interest will be capitalized); eligible banks may originate new Main Street loans or use Main Street loans to increase the size of existing loans. Borrowers must provide a number of certifications and covenants, including that the borrower will not prepay any existing debt until the MSLP loan is repaid in full, that it will commit to using commercially reasonable efforts to maintain payroll and retain workers, and that it will comply with compensation, stock repurchase, and dividend restrictions that apply to direct loan programs under the CARES Act. Banks will retain a 5% share, selling the remaining 95% to the Main Street facility, which will purchase up to \$600 billion of loans. The minimum loan size for MSELF loans is \$10 million. For MSNLF and MSPLF, the minimum loan size is \$500,000. Eligible

Lenders are required to maintain a 5% participation in each Eligible Loan under MSNLF

and MSELF, and a 15% participation in each Eligible Loan under MSPLF, in each case,

until maturity or until the SPV sells all of its participation until a true sale.



LOANS AND LOAN GUARANTEES — Term Sheet PAYROLL SUPPORT — Term Sheet **About**: The Treasury can provide up to \$25 billion in **About**: The Treasury can provide up to \$25 loans and loan guarantees to passenger air carriers and billion to passenger air carriers, \$4 billion to certain businesses that provide maintenance, repair cargo air carriers, and \$3 billion to contractors and overhaul services to air carriers, \$4 billion to cargo to provide payroll support for wages, salaries, air carriers, and \$17 billion to businesses critical to and benefits. maintaining national security (e.g., Boeing, Lockheed **Other terms**: The applicant must agree to refrain from involuntary layoffs or furloughs **Other terms**: The term is no longer than 5 years. The or reducing pay rates and benefits until September 30, 2020; through September 30, 2021, ensure that neither the applicant nor any subsidiary or affiliate purchases an that reflects the risk. Until September 30, 2020, the equity security of the applicant or the direct/ indirect parent company of the applicant;

AIR CARRIERS OR BUSINESSES CRITICAL TO MAINTAINING NATIONAL SECURITY

borrower is an eligible business for which credit is not reasonably available at the time of the transaction. The loan is sufficiently secured or is made at an interest rate borrower will maintain employment levels as of March 24, 2020 to the extent practicable and will not reduce its employment by more than 10% from the levels on that date. The borrower has incurred (or is expected to) covered losses such that continued operations are jeopardized. Neither the applicant nor any subsidiary or affiliate may purchase an equity security of the applicant or the direct/indirect parent company of the applicant. To protect the government and the taxpayer, the Treasury may not issue a loan to (1) a borrower that has issued securities that are traded on a national securities exchange unless the Treasury receives a warrant or equity interest in the borrower, or (2) any other borrower unless the Treasury receives, in its discretion, a warrant, equity interest, or senior debt instrument.

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STATE AND LOCAL GOVERNMENTS

MUNICIPAL LIQUIDITY FACILITY (MLF)

 FAQ and Term Sheet

 About: Facilitates the flow of credit to

 American workers, businesses, States,
 counties, and cities impacted by the
 pandemic by providing direct financing to
 states, cities, and counties to help ensure
 there are funds to provide essential services

Other terms: The Treasury will make a \$35 billion equity investment in the MLF, and the MLF will purchase up to \$500 billion of short term notes directly from states (including Washington D.C.), counties with a population of at least 500,000, and cities with a population of at least 250,000. These funds will help offset the delay in state and local tax receipts caused by the deferral of the tax filing deadline and help offset short term losses in tax revenues. Purchasing will cease on December 31, 2020, but the Reserve Bank will continue to fund the special purpose vehicle until the underlying assets are mature or are sold.

Larger infusion of capital to cover Quick Infusion of capital to support operation SBA loan payment relief

PAYCHECK PROTECTION PROGRAM (PPP) — application form here; forgiveness application form here.

the cost of retaining employees

Amount: 2.5x an employer's average monthly payroll cost, capped at \$10 million.

Forgiveness: Loan forgiveness for the 8-week period following loan disbursement is equal to the sum of payroll costs plus any payment of interest on any covered mortgage obligation (not including any prepayment or payment of principal on a covered mortgage obligation) plus any payment on any covered rent obligation plus any

covered utility payment.

Interest: 100 basis points or 1%.

Other terms: Term of 2 years; zero loan fees and zero prepayment fee; no personal guaranty or collateral needed.

Permissible uses: (i) payroll costs; (ii) costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums; (iii) payments of interest on any mortgage obligations; (iv) rent; (v) utilities; (vi) interest on any other debt obligations that were incurred before the covered period.

Loan request must be necessary for the business. The Treasury has released guidance to highlight the fact that businesses must make a good faith certification that the PPP loan is *necessary* for its business. There is a safe harbor to SBA's review of PPP loans: if a business received a PPP loan with an original amount less than \$2 million, it will be deemed to have made the required certification concerning the necessity of the loan request in good faith. Further, the guidance casts doubts on the likelihood that a "public company with substantial market value and access to capital markets will be able to make the required certification in good faith[.]" If a company has applied for a PPP loan prior to April 24, 2020 and repays the loan back

in full by May 18, 2020, the company will be deemed by the

SBA to have made the required certification in good faith;

thus, there will be no additional penalty.

EMERGENCY INJURY DISASTER LOAN (EIDL)

Summary available <u>here</u>.

AND GRANT — application form here.

EIDL grant Amount: Up to \$10,000 within 3 days of applying for the EIDL (this is an advance of the EIDL loan).

Grant repayment: This amount need not be repaid, regardless of the loan decision.

EIDL loan amount: Up to \$2 million. Note, the cap can be waived by the SBA if an applicant's business is a "major source of employment" in the area.

Interest: 3.75% for businesses; 2.75% for nonprofits.

Other terms: No personal guaranty needed, but traditional collateral requirements appear to still apply; business does not need to have been in business for a year; no certification that the business cannot obtain

credit elsewhere needed. **Permissible uses**: (i) any allowable purpose under the EIDL program; (ii) provide paid sick leave due to virus; (iii) maintain payroll; (iv) meet increased costs due to disruption; (v) make rent or mortgage payments; (vi) repay obligations that can't be met due to lost revenues. **Express Bridge Loan Pilot Program**: This program is designed to supplement the existing disaster loan program. It can be used to bridge the gap while waiting for a decision and disbursement on an EIDL and will be paid in full or in part by proceeds from the EIDL. It allows small businesses with an existing business relationship with an SBA Express Lender to access up to \$25,000 quickly. The loan proceeds must be used exclusively to support the survival and/or reopening of the small business. This loan may have a fixed or variable interest rate (a maximum of 6.5% over the prime rate). Other terms can be found here.

DEBT RELIEF PROGRAM

The SBA will automatically pay the principal, interest, and fees of current 7(a), 504, and microloans for a period of 6 months. The SBA will also automatically pay the principal, interest, and fees of new 7(a), 504, and microloans issued prior to Sept. 27, 2020. Note, debt relief will not apply to PPP or disaster loans.

Asset-Backed Securities

TERM ASSET-BACKED SECURITIES LOAN FACILITY (TALF) — Term Sheet and FAQ

About: Enables the issuance of assetbacked securities ("ABS") backed by student loans, auto loans and leases, credit card loans, loans guaranteed by the SBA, equipment loans and leases, floorplan loans, premium finance loans for property and casualty insurance, leveraged loans, or commercial leases. The Federal Reserve will lend on a non-recourse basis to holders of certain AAA-rated ABS backed by newly and recently originated consumer and small business loans. Other terms: The Federal Reserve will lend an amount equal to the market value of the ABS less a haircut and will be secured at all times by the ABS; 3-year term loan.

Commercial Paper

COMMERCIAL PAPER FUNDING FACILITY (CPFF) — FAQ and Term Sheet

About: The CPFF provides a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle that will purchase eligible three-month corporate, asset-backed, and municipal corporate paper from eligible issuers. It will commence purchases on April 14, 2020. **Other terms**: Eligible issuers are U.S. issuers of commercial paper, including municipal issuers and U.S. issuers with a foreign parent company. The special purpose vehicle will only purchase U.S. dollar-denominated commercial paper that has a specific rating. The maximum amount of a single issuer's commercial paper the special purpose vehicle may own at any time will be the greatest amount of commercial paper the issuer had outstanding on any day between March 16, 2019 and March 16, 2020. Purchases will cease on March 17, 2021.

PRIMARY DEALER CREDIT FACILITY

(PDCF) — <u>FAQ</u> and <u>Term Sheet</u>:

Primary Dealers

CREDIT MARKET SUPPORT PROGRAMS

About: To support the credit needs of American households and businesses, this facility will allow primary dealers to support market functioning and facilitate the availability of credit to businesses and households. This facility provides credit to primary dealers in exchange for a broad range of collateral for term funding with maturities up to 90 days.

Other terms: Eligible collateral includes that which is able to be pledged in open markets operations, investment grade corporate debt securities, international agency securities, commercial paper, municipal securities, mortgage-backed securities, and asset-backed securities.

Loans are available for up to 90 days; loans will be limited to the amount of marginadjusted eligible collateral pledged by the dealer and assigned to the New York Fed's account at the clearing bank. The PDCF will be available for at least a six month period.

PAYCHECK PROTECTION PROGRAM LENDING FACILITY (PPPL) — FAQ and Term Sheet.

PPP Loans

through September 30, 2021, ensure that the

other capital distributions. The Treasury may

receive warrants, options, preferred stock, debt

securities, notes or other financial instruments

assistance in order to protect the taxpayer and

to compensate the federal government for the

Note, applications for payroll needed to be

submitted by 5pm on April 3, 2020.

applicant shall not pay dividends or make

issued by the recipients of the financial

About: The PPPLF will extend credit to eligible financial institutions that originate PPP loans, taking the loans as collateral at face value.

Other terms: All depository institutions that originate PPP loans are eligible to borrow. There are no fees associated; the PPP loan will be assigned a risk weight of 0%; no new extensions of credit will be made after September 30, 2020.

Form of application available <u>here</u>.

MONEY MARKET MUTUAL FUND

Money Market Funds

LIQUIDITY FACILITY (MMMF) —
FAQ and Term Sheet

About: The Federal Reserve Bank of the state of

About: The Federal Reserve Bank of Boston will make loans available to eligible financial institutions secured by high-quality assets purchased by the financial institution from money market mutual funds.

Other terms: All U.S. depository institutions, U.S. bank holding companies, or U.S. branches and agencies of foreign banks are eligible to borrow; the facility opened on March 23, 2020.

FIMA REPO FACILITY — FAQ

About: The FIMA Repo facility is designed to help maintain the flow of credit to U.S. households and businesses by reducing risks to U.S. financial markets caused by financial stresses abroad. The facility reduces the need for central banks to sell their Treasury securities outright and into illiquid markets, which will help to avoid disruptions to the Treasury market and upward pressure on yields.

Foreign Central Banks

Other terms: The FIMA Repo facility would allow foreign central banks to temporarily raise dollars by selling U.S. Treasuries to the Federal Reserve's System Open Market Account and agreeing to buy them back at the maturity of the repurchase agreement. The term of the agreement will be overnight but can be rolled over as needed. The transaction would be conducted at an interest rate of 25 basis points over the rate on IOER (Interest on Excess Reserves), which generally exceeds private reporates when the Treasury market is functioning well, so the facility would primarily be used only in unusual circumstances such as those prevailing at present.