Main Street Lending Program for Nonprofits

By Bryan Decker, CPA and Emily M. Berger, CFA

The Federal Reserve Bank of Boston finalized on July 17, 2020 the term sheets for the Main Street Lending Program (the Program) to provide access for nonprofit organizations. The Program, operated by the Federal Reserve Bank of Boston, allows qualified financial institutions to lend money to eligible organizations. The majority of the loans made under the program are purchased by a Special Purpose Vehicle (SPV) funded by the U.S. Treasury, shifting the risk of default on the loans from the lender to the SPV.

Interested borrowers may apply for loans with eligible lending institutions. Given the nature of this lending program, the expectation is that a number of covenants related to these loans will be negotiated. List of eligible lenders is available here.

General Requirements

The criteria for nonprofit organizations was adapted from the Program's criteria used to evaluate for-profit entities. General requirements for the nonprofit organization to qualify for a loan under the Program are as follows:

- Continuous operation since January 1, 2015
- Created or organized in the United States and has significant operations and a majority of its employees based in the United States
- Not an otherwise ineligible business
- Has between 10 to 15,000 employees
- 2019 revenues were $5 billion or less
- Has an endowment of less than $3 billion
- Non-donation revenues (gross revenues less donations) are equal to or greater than 60% of total expenses minus depreciation, amortization, and depletion for the period 2017-2019* [revised term from original draft term sheet released in June 2020]
- 2019 earnings before interest, depreciation and amortization (EBIDA) were greater than or equal to 2% of unrestricted 2019 operating revenue* [revised term from draft term sheet]
- Liquid assets at the time of loan origination is equal to or greater than 60 days of average daily expenses of previous year* [revised term from original draft term sheet]
- Unrestricted cash and investments is 55% of existing outstanding and available debt, plus loan under the Program, plus CMS Accelerated and Advance Payments
- Did not participate in other Program loan facilities
- Did not receive support pursuant to the CARES Act, subtitle A of Title IV [This does not include Paycheck Protection Program (PPP) loans.]

For purposes of the Program, donation revenue includes proceeds from fundraising events, federated campaigns, gifts, donor-advised funds. Donations do not include government grants, revenues from a supporting organization, grants from private foundations that are disbursed over the course of more than one calendar year, or contributions of property other than money, stocks, bonds or other securities, provided property is not sold in a transaction unrelated to the organization's tax-exempt purpose.

Loan Facilities

The Program has two loan facilities:

- Nonprofit Organization New Loan Facility (NONLF)
- Nonprofit Organization Expanded Loan Facility (NOELF)

Both facilities offer five-year maturities, principal payments deferred for two years, interest payments deferred for one year which will be added to principal, 15% of loan principal due at end of third and fourth years, 70% due at end of fifth year, interest rate of LIBOR + 3%, and prepayment permitted without penalty.

For NONLF, the minimum loan size is $250,000 with a maximum that is the lesser of $35 million or the entity's 2019 average quarterly revenue. At time of origination or at any time during the term, the loan cannot be contractually subordinated in terms to the entity's other loans or debt instruments.

For NOELF, loans eligible for upsizing include loans originated on or before June 15, 2020, is either secured or unsecured, and has a maturity of less than 18 months. NOELF loans have a minimum loan size of $10 million and a maximum that is the lesser of $300 million or entity's 2019 quarterly revenue. At the time of upsizing and at all times the upsized tranche is outstanding, the upsized tranche is senior to, or pari passu with – in terms of priority and security – the Eligible Borrower's other loans or debt instruments except mortgage debt.

Use of LIBOR

The London Inter-Bank Offered Rate (LIBOR) is expected to be phased-out during 2021. Main Street Lending facilities will include language to address this issue should it occur during the term of the loan. The retirement of LIBOR will require lenders to add language to the loan agreements to replace LIBOR with an appropriate replacement rate [currently expected to be the Secured Overnight Financing Rate (SOFR)].

Contact Us and Resources

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PKF O'Connor Davies is monitoring the situation regarding federal financial assistance. If you have any questions regarding any of the programs mentioned above or any other issues, please contact the PKF O'Connor Davies partner overseeing your account or contact:

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