

Summary of Assistance for Mid-Sized Businesses Under Section 4003(b)(4) of the CARES Act

BACKGROUND

The *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) was signed into law by President Trump on March 27, 2020 and authorizes more than \$2 trillion to battle COVID-19 and its economic effects, including immediate cash relief for individual citizens, loan programs for small business, support for hospitals and other medical providers, and various types of economic relief for impacted businesses and industries.

Included within the Act is a provision to provide \$454 billion (as well as potential additional amounts not used for direct lending programs for the airline and national security industries) for loans, loan guarantees, and investments in support of emergency lending by the Federal Reserve. The Act further directs the Secretary of Treasury to implement a program to provide financing to banks and other lenders in order to make loans to mid-size businesses.

Although there are many details of the mid-size business program which are not yet known, the CARES Act does describe initial eligibility requirements and terms and conditions for the mid-size program. As we have seen with recently issued guidance from the Small Business Administration and U.S. Department of Treasury related to the Paycheck Protection Program loan, we can expect there to be additional clarifying guidance, as well as potential new terms, as the mid-size business program is implemented. The initial details, as described in the CARES Act, are summarized below.

GENERAL TERMS

Amount of Funds Available

Up to \$600 billion

Eligible Borrower

Business that meets all of the following criteria:

- » Created or organized in the United States, or under the laws of the United States;
- » Has significant operations in and a majority of its employees based in the United States;
- » Up to 10,000 employees **or** up to \$2.5 billion in 2019 annual revenues; and
- » Participation in only one of the following:
 - New Loan Facility
 - Expanded Loan Facility
 - [Primary Market Corporate Credit Facility](#)



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LOAN FEATURES

Certain features within this section are differentiated between the New and Expanded Loan Facilities for instances where differences explicitly exist. Where no differentiation is made, the feature has the same terms for both loan facilities.

Interest Rate

Secured Overnight Financing Rate (SOFR) + 2.50% – 4.00%

Loan Term

Four years

Payment Deferral

Payments on principal and interest deferred for one year

Loan Amount

Minimum loan amount: \$1 million

Maximum loan amount:

New Loan: The **lesser** of the following:

- i. \$25 million; or
- ii. an amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed **four times** the borrower's 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA)

Expanded Loan: The **lesser** of the following:

- i. \$150 million;
- ii. 30% of the borrower's existing outstanding and committed but undrawn bank debt; or
- iii. an amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed **six times** the borrower's 2019 EBITDA

Prepayment

Permitted without penalty

Forgiveness

Loan is not forgivable

Tax Treatment

Loan is treated as indebtedness for tax purposes

Required Certification

A good-faith certificate is required to be made by the applicant (including, but not limited to, the items listed below)

Good-Faith Certification Items

- » Loan proceeds will not be used to repay or refinance pre-existing loans or lines of credit between the lender and borrower, **including** the pre-existing portion of an eligible loan under the Expanded Loan
- » The borrower will refrain from using the proceeds to repay other loan balances, including debt of equal or lower priority (with the exception of mandatory principal payments), unless the borrower has first repaid the New Loan or Expanded Loan in full
- » The borrower will not cancel or reduce any of its outstanding lines of credit with the lender or any other lender
- » The borrower requires financing due to the exigent circumstances presented by the COVID-19 pandemic, and, by using the loan proceeds, it will make reasonable efforts to maintain its payroll and retain its employees throughout the loan term
- » The borrower meets the EBITDA leverage conditions stated in the "Loan Amount" section above
- » The borrower is eligible to participate in the program and does not have a conflict of interest prohibition, as defined in section 4019(b) of the CARES Act

Loan Fees

New Loan: Origination fee equal to 1.00% of the principal amount

Expanded Loan: Fee of 1.00% of the principal amount related to the incremental loan

Contact Us



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