COVID-19: Fed Proposes “Main Street Business Lending Program”

Tuesday, March 24, 2020

The Federal Reserve Bank (FRB) is taking unprecedented steps to aid businesses during the disruption caused by the COVID-19 pandemic. The proposed “Main Street Business Lending Program” is intended to provide relief to what the FRB cites as small to midsize businesses. We are monitoring the progress of this program as it could be highly relevant to many of our clients that are over SBA size limitations but still require liquidity relief.

The FRB, under Jerome H. Powell, is moving to shore up the American economy during the coronavirus pandemic. While Congress’s focus has been on small businesses and consumers, FRB’s actions are focused on businesses that are basically healthy but in danger at these times because of the freeze-up in financial markets. Some have been insulated from the outbreak’s effect to this point, but rely on debt as part of their normal operations. Others have lost business because of the virus but could survive if they could borrow to cover their expenses.

Several of the FRB’s actions are from Ben Bernanke’s 2008-2009 playbook. But policymakers seem also to be taking some new steps. Specifically, the FRB is considering lending money directly to large corporations, something it has never done before. The FRB has framed the program as “bridge financing” to help otherwise healthy companies keep their doors open and their workers employed during a period of disruption.

The three new programs that FRB announced on March 23, 2020 are:
1. **Main Street Business Lending Program**: This program is intended to support lending to eligible small and midsize businesses. Such a program is likely to depend on additional money from the Treasury Department. The FRB hasn’t yet provided program details.

2. **Term Asset-Backed Securities Loan Facility, or TALF**: This facility will mirror one the FRB used in 2008 to support consumer and business credit markets. The FRB has stated that it will use this facility to lend money to investors to buy securities backed by credit card loans and other consumer debt.

3. **Support Financing for Corporate Debt Obligations**: The FRB announced a new facility to address the lack of new financing in the roughly $6 trillion market for highly rated corporate debt by offering bridge loans for up to four years, which includes limits on the payment of dividends and stock buybacks for firms that defer interest payments on their loans. A facility aimed at unblocking the market for existing corporate debt, allowing the FRB to purchase bonds already issued by highly rated companies and eligible exchange-traded funds, which have around $147 billion in investment-grade corporate debt.

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