The Fed's Main Street Lending Program, explained

America needs a bridge—a bridge that will get households, communities, and businesses over the unanticipated challenges created by the COVID-19 shutdown. In helping to build that bridge, the Federal Reserve, with authorization from Congress, has created and revived a number of rare lending programs, each providing targeted assistance to the needs of those impacted.

The challenge Business for many companies has slowed or halted, driving up their need for loans. At the same time, funding, such as loans, is less available for small and medium-sized businesses. In addition, many nonprofit organizations, such as hospitals, educational institutions, and social service organizations, have heightened need for financing as they face pressures because of the pandemic.

The response Through its Main Street Lending Program, the Federal Reserve will buy up to $600 billion in loans that lenders, such as banks and credit unions, make to small and midsize businesses and nonprofits. When lenders sell their loans to the Fed, they can use the money they receive to make more loans.

The details Only loans made to businesses and nonprofits that were financially sound before the crisis are eligible to be sold to the Fed, and borrowers must have agreed to repay the loans within five years (although they don't have to start paying them back for two years).

Loans that qualify to be sold to the Fed must meet lending standards (to help ensure the loans will be repaid) and are made to businesses that

- Have either 15,000 or fewer employees or 2019 annual revenues of $5 billion or less and
- Are US businesses with significant operations and most of their employees in the United States.

Loans involving nonprofits that qualify to be sold to the Fed also must meet lending standards (designed around such organizations) and are made to nonprofits that

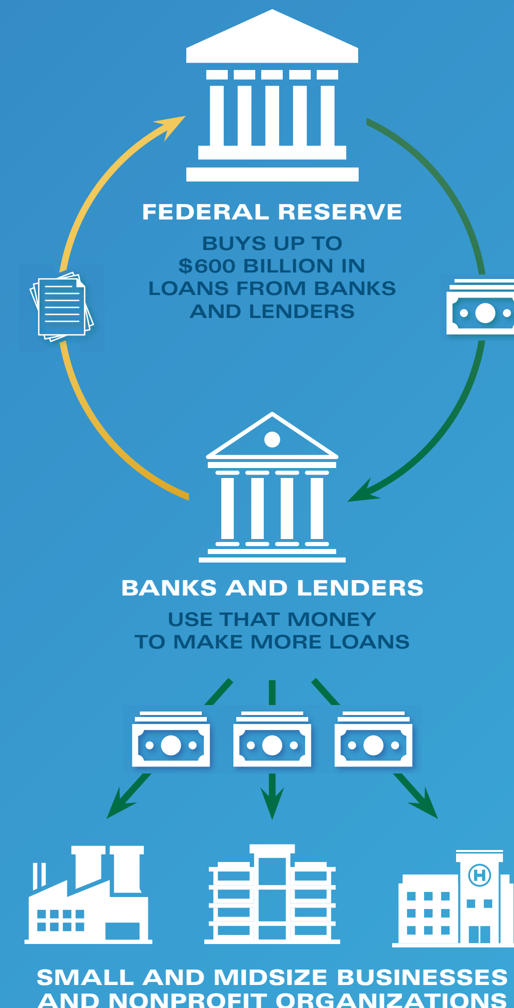
- Employ more than 10 people,
- Have endowments of less than $3 billion, and
- Have operated since at least January 1, 2015.

The Fed will buy 95 percent of any loan a lender makes. Leaving a percentage owned by the lender helps to ensure lenders have a vested interest when they're making lending decisions. Why doesn't the Fed just lend to businesses and nonprofits directly? Because the Fed is a bank for banks, it doesn't lend in the same way traditional banks lend to the public. By lending in this way, the Fed is working to support more business and nonprofit lending by traditional lenders, which routinely determine the creditworthiness of borrowers.

Should losses occur, the US Treasury has pledged $75 billion to cover losses stemming from this lending.

The goal? Small and midsize businesses create jobs for a large share of working Americans, and nonprofits play a vital role in communities and local economies. Buying billions of dollars of loans to ensure that lending to those businesses and nonprofits continues is intended to help them maintain their operations and payroll as the economy recovers from the pandemic-related downturn.

The Fed is committed to transparency When it first announced plans for this program, the Fed asked for comments about what would and would not work for lenders and borrowers and then modeled the plan based on the feedback it received. Also, the Fed will make public reports about this and other emergency lending.



For more information: *www.bostonfed.org/supervision-and-regulation/supervision/special-facilities/main-street-lending-program.aspx*

Federal Reserve | Updated July 31, 2020 | *Curious about what else the Fed is doing to help?*