ICBA
INDEPENDENT COMMUNITY
BANKERS of AMERICA®

April 16, 2020

The Honorable Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Comments Concerning the Main Street Lending Program

Dear Chairman Powell:

The Independent Community Bankers of America ("ICBA")[1] appreciates this opportunity to provide comments concerning the Federal Reserve's Main Street Lending Program (the "Program"). The Federal Reserve announced on April 9, 2020 that it was establishing the Program to support lending to both small and medium-sized businesses that were in good financial standing before the onset of the COVID-19 pandemic. The Program will operate through two facilities: the Main Street New Loan Facility (MSNLF) and the Main Street Expanded Loan Facility (MSELF).

As described in the term sheets, U.S. businesses are eligible for loans under the Program if they meet either of the following conditions: (1) the business has 10,000 employees or fewer; or (2) the business had 2019 revenues of $2.5 billion or less. Loans would have a four year maturity, and principal and interest payments on the loans will be deferred for one year. The minimum loan size would be $1 million and the interest rate would be an adjustable rate of SOFR plus 250-400 basis points. Eligible lenders may originate new loans under the MSNLF or increase the size of (or "upsize") existing loans to eligible borrowers under the MSELF. To implement the Program, a Reserve Bank will set up a special purpose vehicle (SPV) to purchase 95 percent

[1] The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. With more than 50,000 locations nationwide, community banks constitute 99 percent of all banks, employ nearly 750,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding more than $5 trillion in assets, nearly $4 trillion in deposits, and more than $3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services.

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participations in loans originated by eligible lenders. Lenders will retain the other 5 percent of the loans.

ICBA's Comments

While ICBA is very appreciative of the Federal Reserve's Payroll Protection Program Lending Facility (PPPLF) and how it will help Main Street and the liquidity needs of both community banks and small businesses, we are less enthusiastic about the Program. Although the Program is referred to the "Main Street Lending Program." it appears to be focused mainly on the mid-sized businesses when it should be focused on both small and mid-sized businesses.

Our chief concern with the Program is the minimum loan amount of $1 million. If the Program is going to support <u>both</u> small and medium sized businesses, the minimum loan amount should be no higher than $100,000. Otherwise, Main Street businesses and community banks will not participate. For community banks, the average size of an SBA PPP loan has been around $100,000 and a number of ICBA members have even made PPP loans for less than $10,000**.** ICBA surveyed its Board members and few of them expressed any interest in the Program because of the high minimum loan amount of $1 million even though many of these bankers were very active lenders in the SBA PPP.

Community banks are also concerned that the Program is too complicated and that there are too many responsibilities placed on the Lender. **To simplify the program and to make it more attractive, we recommend dropping the requirement that Lenders retain a 5% interest in the loan it originates.** We believe the loan retention requirement and the risk sharing involved after the sale unnecessarily complicates the loan sale and the accounting of the transaction without making the lender any more prudent with its underwriting of the loan.

Furthermore, both facilities--the MSNLF and the MSELF—place a number of restrictions on both the borrower and the lender. One requirement in the Program requires that the borrower attest that it will follow compensation, stock repurchase, and capital distribution restrictions that apply to direct loan programs under section 4003(c)(3)(A)(ii) of the CARES Act. These types of restrictions raise concerns about the responsibilities of the lender and the extent to which the lender needs to monitor the corporate activities of the borrower following the origination of the loan. **We strongly recommend that the lender be fully indemnified for all attestations that the borrower is required to make with respect to Program loans.** Lenders do not want to be responsible for ensuring that the borrower is complying with restrictions on compensation or capital distributions following the closing of the loan.

We also recommend that the Federal Reserve allow as much flexibility with the terms of Program loans as possible. For instance, with regard to the 4-year maturity limit, lenders should be allowed to make loans with different maturities provided that no Program loan exceeds a term of 4 years. Since borrowers are allowed to defer principal and interest for one year, lenders should be allowed to amortize the deferred amount over the remaining period of the loan or alternatively, have the borrower pay it off in one lump sum at the end of the loan.

In short, now that the SBA PPP has run out of money and it is unclear whether Congress will authorize any more funds for the program, it is critical that the Federal Reserve turn its attention to making the Main Street Lending Program more attractive to both community banks and small businesses. Substantially lowering the minimum loan amount, making the Program as flexible as possible, and providing appropriate indemnitees for the lender will go along with towards achieving that goal.

Sincerely,
/s/ Rebeca Romero Rainey

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