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This program has $600 billion available. Demand? Not so much

By Nick Manes

The early days of the federal Paycheck Protection Program in April were a mad dash as small businesses and bankers scrambled to access the potentially forgivable loans designed for businesses with 500 employees or under.

Interest doesn't seem to be as high, however, during the first days of the U.S. Federal Reserve's Main Street Lending Program, which is geared toward financially stable middle-market companies facing pandemic-related challenges. The Main Street program is likely to only apply to a fairly small number of companies, unlike PPP, which offered relief to a wide swath of the small business marketplace.

While some executives are kicking the tires and exploring whether one of the Fed's lending facilities could be appropriate for their company, by and large, bankers, attorneys and CPAs say they're not hearing much from clients these days about the program that opened for lender registration in mid-June.

"I have not heard anything with respect to great demand yet," said Matt Casey, a partner focused on financial services in the Clinton Township office of law firm Warner Norcross + Judd LLP. Casey and others point to myriad reasons for muted interest in the program, which has been primarily developed over the last couple of months by officials in the Boston branch of the Fed.

Among them: Limited participation by banks so far, a narrow scope of businesses that would qualify, and an overall sense of uncertainty by executives at this time when it comes to taking on debt.

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Companies that choose to make use of Main Street Lending have three options, or lending facilities, to choose from. The three are largely the same, but differ according to amounts that can be borrowed and considerations for a company's outstanding debt prior to the crisis, as outlined in a memo from the central bank.

Jeffrey Terrill, senior vice president and group manager for corporate banking at Troy-based Flagstar Bank, attributes some of the muted demand to companies having learned lessons from the last recession.

"They got through it last time and they've figured out how to operate at lower levels of revenue," said Terrill.

Still, Fed bosses contend that the program is just in its infancy and will still likely pay dividends for the economy.

"These are still early days in the program, and we are seeing a steady stream of interest," Boston Fed President Eric Rosengren said in remarks about the program on June 19. "We encourage lenders who have not yet registered to explore the program. … Lenders have a vested interest in the resilience of the businesses in their market, and this program gives them a way to help bridge those businesses that were sound before the pandemic to better days."

Kicking tires

Still, there are those seriously considering the program. Among them is Jeff Benore, president of Benore Logistic Systems Inc., headquartered in Erie in Monroe County.

Benore's company, which handles inbound supply chains for an auto manufacturer in South Carolina and a tire manufacturer, saw business go from operating at full capacity to about 10 percent once the virus took hold in March , he said in an interview.

Business has now begun to rebound, but a loan through the program could help the company to replace some aging equipment and free up cash flow in the short term because of deferred interest payments, he said.

"It allows us to really strategically grow here in the long term," Benore said of the prospective loan. "We see it as a real benefit."

Benore said the company is looking at the Priority loan, one of three lending mechanisms that make up the Main Street Lending Program. The Priority loan offers a five-year term of between $250,000 to $50 million. When initially unveiled, the minimum loan was set at $500,000, but that was lowered to give more companies an opportunity to access the capital.

The company is working with Huntington Bank as its potential lender, and accounting firm UHY LLP to develop a plan and make a final decision on whether to take on the debt.

Multiple advisers said that's familiar territory for many companies right now: executives are still in the planning stages and working through details with attorneys and CPAs before bringing a prospective deal to their lender.

Tom Alongi, a partner at UHY and the managing director of UHY Advisors, notes that banks are still very much testing the waters on the program and seeking clarity on several fronts, including their senior lender status, should a business not make it.

"It seems like the lenders are not quite ready for prime time," Alongi said.

Michael Tierney, president and CEO of the Community Bankers of Michigan trade group, concurred, saying his members are feeling a bit of fatigue from the PPP work, especially with the work of trying to get loans forgiven now taking up time.

"They are all up to speed on the program, but I would tell you the majority are taking a bit of a breather," Tierney said of some of the hesitancy of banks to dive into the Main Street program. "They are prepared to assist long-term clients who might want the loan, but most are looking at this as more of an accommodation than a product they really want to market in a major way."

Changes ahead?

Throughout the course of the PPP, which is set to expire this week, the U.S. Small Business Administration and the Department of Treasury would regularly tweak and update guidance.

Experts expect the same to happen for the Main Street program. Short of some significant changes, or changes by Congress, the program is sure to be "under-utilized," said Seth Ashby, a partner in the Grand Rapids office of law firm Varnum LLP.

"The Fed has done what they can to make this palatable to the most eligible borrowers," Ashby said, but ultimately believes the program as designed is too limited in scope to be of much use to many companies.

Still, he said he has clients looking at Main Street, who — like Benore — believe the Priority loan facility offers some opportunity, particularly as a way of refinancing some existing debt.

"But it's a narrow band within the mid-market space," he said. "Unless things change, or Congress takes other action, it's going to be underutilized."