Main Street Lending Program Proliferation and Promulgation Act

The CARES Act contained two major business support programs – the SBA's Paycheck Protection Program (PPP) and the Federal Reserve's Main Street Lending Program (MSLP). While the PPP has been widely used, the MSLP has not gained traction and failed to provide American businesses the liquidity Congress intended for them. The Federal Reserve has structured loans so that the federal government will buy 95% of a qualified loan from lenders (leaving 5% on a bank's balance sheet) and has mandated loan characteristics (the minimum loan size is $250,000; the interest rate is set at LIBOR+3%; and the Fed charges lenders a 1% servicing fee). These requirements have reduced the appeal of the program which Chairman Powell himself admitted is "not getting a ton of interest."

Bank Engagement

- Of the more than 10,500 U.S. lending institutions only approximately 300 are currently participating.
- Banks are required to pay the Fed a servicing fee that is at least as large as the servicing fee the banks are allowed to charge to borrowers. The Fed's servicing fee makes lending less attractive to banks and makes it difficult to compete for borrowers by lowering their own servicing fees.

Borrower Engagement

- Many small businesses want loans of less than $250,000 but are unable to borrow smaller amounts through the MSLP.
- Because historically low interest rates are currently available outside of the program, the LIBOR+3% rate is not attractive enough for many businesses to consider borrowing.

Unfortunately, the Main Street Lending Program does not allow the market to discover the right terms for MSLP loans to provide quick liquidity to businesses. Congress has provided $454 billion to loan programs, which could support trillions of dollars worth of business loans. The money is already there. Congress simply needs to provide market flexibility to allow the program to meet the needs of the economy.

Bill Specifics:

- Prohibits the Fed from setting a minimum loan size, allowing lenders and borrowers to determine loan sizes that meet businesses' needs.
- Removes any minimum interest rate while allowing the Fed to set a cap, so lenders and businesses can find a market-efficient interest rate for each loan.
- Prevents the Fed from charging banks a 1% servicing fee, but still allowing lenders to charge up to 1% from borrowers to cover application and administration costs. This gives banks room to reduce the servicing fee if doing so is necessary to attract borrowers.
- Appropriates $6 billion from excess PPP funds to the Fed to cover lost servicing fees.