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5 Things You Are Getting Wrong About the Main Street Lending Program

This year has been marked with one major theme, change. It came fast and furious leaving a wake of destruction, denial and unanswered questions in its path. Buried beneath all of that has been opportunity for those that have spent the time adapting and adjusting with the current landscape. We believe that there is a hidden opportunity within the Cares Act that has yet to be uncovered. You may have heard about the Main Street Lending Program (MSLP), but you probably focused on its cousin the Paycheck Protection Program (PPP) a bit more. They were both created at the exact same time.

One was dubbed "Free Money" and the other took a few months to get off the ground. We feel that long term the MSLP will prove to be a catalyst for value and growth oriented business owners due to the terms being favorable for a receiving business. However, many don't understand the nuances and that is what we want we want to share with you.

The income restriction is not as restrictive as you may think

The restrictions on the surface seem over the top, but when you dive in deeper they are actually pretty flexible. First, the program bases the total income an owner or employee can receive on what they made in 2019 (this includes, salary, bonus, distributions and dividends). The CARES act says that you are within the rules if your salary and bonus stays below $425k until the loan is paid back, plus one year. What if you made over that amount in 2019, you ask? Well if your total compensation is under $3 million, but higher that $425K then that number is now your ceiling for the duration that the loan is outstanding plus one year.

Repurchasing shares only counts if your company is publicly traded

This is a big one. Let's say you are trying to transition ownership to the next generation, a key executive team or a business partner. This loan could help you do that with pretty attractive terms to give your successor a boost to grow the company in the short term. Let's use this as an example. I own 50% of a business worth 20 million and I want out. We go to a lender that is participating in the program and give them all the details of our business. They issue us a loan. The company then uses all or part of the proceeds to repurchase my equity from me. My 50% partner now is the last one standing and therefore owns 100% of the company and I have 10 million in my pocket subject to capital gains tax.

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Cash in the bank for acquisitions

Unlike the PPP Loan there are not that many restrictions on use of funds. This particularly bodes well if you are acquisitive. The fact that you don't need to pay Interest or principal for the first year and then interest only for the second year gives you two years to find a company you may want to acquire. If you don't find one then just pay the loan back with the modest amount of interest you owe

Insurance policy for the unforeseen

Banks rarely lend on cash flow these days and this program is forcing them to do just that. This means beefing up your balance sheet and providing you with much needed cash in the case of further disruption that may be unforeseen in the next several years.

Supplement your income due to lost revenue

You can use the funds to pay yourself and keep your livelihood going if your business took a major hit due to Covid 19. As long as you stay within the compensation rules there is nothing that prevents you from doing this and could be what you need in order to focus your time and efforts on how to fix what is now broken in your business instead of worrying about your family's wellbeing due to lack of income or a safety net.

To learn more about how Interchange Capital Partners can assist you in getting the most out of the Main Street Lending Program, Contact Brian Baum at Brian.Baum@interchangecp.com or 412-307-4202