



Compensation
Advisory Partners

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Main Street Borrowers Will be Subject to Executive Pay Limits

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On April 9, the Federal Reserve announced additional actions to provide \$2.3 trillion in loans to support the economy and outlined the key terms of several programs, including the Main Street Lending Program. The program offers four-year loans to mid-size companies, defined as those with fewer than 10,000 employees or less than \$2.5 billion in revenues. The loans are for businesses that were in good financial standing before the COVID-19 pandemic, but are now struggling and require financing to weather the economic fallout. As with financial assistance provided through the “Coronavirus Aid, Relief and Economic Security Act,” or CARES Act, the Main Street Lending Program comes with strings attached, including limits on executive compensation.

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The Main Street loans will be made by banks and can take the form of new or expanded loans. The lending financial institution will hold five percent of the loan and sell the remainder to the Main Street Lending Facility. The size of the loans ranges from \$1 million to \$25 million, or four times 2019 earnings before interest, taxes, depreciation and amortization (EBITDA). Principal and interest on the loans are deferred for one year to give businesses time to recover.

The strings attached to the loans require that the borrower will:

- Make a good-faith effort to retain and compensate workers.
- Not use the loan to pay down existing debt, or cancel lines of credit.
- Refrain from paying dividends to shareholders and repurchasing shares for the duration of the loan and one year after.

In addition, the borrowers must agree to adhere to the same executive compensation limits as those outlined in Section 4003 the CARES Act:

Main Street Lending Program Executive Pay Limitations

Officers or Employees of Business Receiving Aid	Total Compensation Limit	Examples: Annual Total Compensation	
		CY 2019	CARES Limit
Those whose total compensation exceeded \$425,000 in 2019	<ul style="list-style-type: none"> • Equal to total compensation received by the individual in 2019, <i>or</i> • Limit on severance pay/termination benefits of two times total compensation received in 2019 	\$500,000	\$500,000
Those whose total compensation exceeded \$3 million in 2019	<ul style="list-style-type: none"> • \$3 million, <i>and</i> • 50 percent of total compensation over \$3 million received in 2019 	\$4 million	\$3.5 million

If an officer or employee's total compensation fell below \$425,000 in 2019, the individual is not subject to limitations under the program. In addition, union employees are not subject to the limits. Borrowers must adhere to the executive compensation limits for the duration of the loan and for one year after.

As Compensation Advisory Partners (CAP) noted in its [article about the executive compensation limits in the CARES Act](#), additional guidance is needed on certain issues, including:

- Whether equity compensation should be valued at grant or when received.
- How compensation for employees who worked a partial year in 2019 should be handled.
- How to handle employees hired in 2020.

CAP expects that guidance will be issued in the future to clarify these ambiguities, as was the case with the Troubled Asset Relief Program (TARP) after the 2008 financial crisis. However, the federal government is focusing on big-picture guidelines for financial assistance to ailing businesses in an effort to keep people employed and calm the stock market. The timeline for additional guidance on the executive compensation limits is unclear.

Businesses that are considering loans through the Main Street Lending Program should examine their current compensation programs, and begin compiling a list of officers and employees who earned more than \$425,000 in 2019. Where ambiguities on the compensation limits exist, CAP recommends that businesses proceed by making good-faith efforts to follow the intent of the guidelines. Given the unprecedented economic fallout from the COVID-19 pandemic and the high U.S. unemployment levels, businesses should consider the risk of negative public reaction to executive compensation programs that could be deemed excessive in the current economic environment.

CAP will continue to monitor new regulations surrounding executive pay programs and provide updates as they evolve. Updates will be published in CAP's [COVID-19 Resource Center](#), which also includes a searchable database that tracks business actions related to COVID-19. Additional details of the Federal Reserves program can be found [here](#).



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