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Pandemic Finance

How Some Companies Boosted Their Finances Under a Little-Used Federal Program

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A northern New Jersey-based infrastructure contractor. A New York City-area buildings construction manager. A Denver-based energy industry builder.

Overshadowed by the tens of thousands of small federal rescue loans made under other programs, a less-noticed federal financial aid boost for much bigger companies—the Main Street Lending Program—has operated during the pandemic months to benefit these three companies and a handful of other contractors and engineers that were able to borrow far larger amounts or expand their credit by tens of millions of dollars.

But the window of opportunity for the Main Street program loans, for all practical purposes, has closed.

The U.S. Treasury Dept. intends to discontinue the program Dec. 31, and Congress, haggling over the details for the next relief package, is focused mainly on continuing the Paycheck Protection Program, where most of the amounts lent to companies were far lower. The Main Street program was unique in that its lending was backed by the Federal Reserve.

Jack Callahan, a partner in accountant CohnReznick's construction practice, said the Main Street program was designed to be more of a hedge against impending trouble than a lifesaver for companies that had seen the bottom drop out of their business. To qualify, contractors had to show evidence of financial stability, among other things, Callahan noted.

"For those folks, it wasn't so much a lifesaver as a backstop," he said.

For Main Street loans and credit arrangements, borrowers had to pay significant bank fees and demonstrate financial wherewithal.

Looking ahead, the end of the Main Street lending program is likely to have more serious implications in the months ahead as contractors face a slowdown of new projects coming in, Callahan said. Lending to the hard-hit sectors like hotels and restaurants has dried up, and Callahan worries that construction could be next if signs of a slowdown in the sector begin to mount.

Because of construction's cyclical nature, financial institutions have long struggled with construction lending, he said.

“That is the real concern,” Callahan said. “We are in such an uncertain time, and we don’t know where the markets are going and what the business model (and the availability of) credit is going to be. There could be much more of a need for these loans.”

Warren Hennagin, a partner at accountant Marcum, said the Main Street Lending Program was much more of a lifesaver for his contractor clients, who obtained smaller loans in the $2 million range.

“They are clients that really had very few other options on where to go for it because of their credit or because of their companies being a little bit on the downslide,” Hennagin said.

In one case, the bank suggested to the client, a San Diego road and heavy construction contractor, that it get half the loan it had sought through the lending program.

The other client that obtained a Main Street loan is an architect with a thriving consulting/owner’s rep business before the pandemic wiped out demand among hotels and restaurants, some of his biggest clients.

A comparison of the PPP and Main Street programs highlights a big difference.

Banks made 4.8-5.2 million PPP loans, according to various sources, with a total value of about $521 billion. The average loan value was around $107,000, according to the Small Business Administration, which ran the program.

Main Street loans and credit arrangements, by contrast, came to only about 420 total loans by summer's end, with a value of $4.2 billion at the original August deadline. The average amount was just shy of $10 million.

One big difference is that many of the PPP loans were forgivable if borrowers met certain conditions. Main Street loans must be repaid.

Another crucial difference between the programs is the attestation or certification that borrowers had to make. Under the PPP program, all borrowers had to attest to is that economic uncertainty made the future of the company unclear, and then demonstrate its ability to keep current staffing levels.

Under the Main Street program, the borrower had to certify that it was in good financial shape, that it would follow restrictions on stock repurchases and bonuses and that it would "make commercially reasonable efforts to maintain its payroll and retain its employees during the time the Eligible Loan is outstanding."

While some contractors who applied for the Fed-backed loan were initially unaffected by the pandemic, they are feeling more secure with the loan locked in as the pace of new work begins to slow.

“I have had others say I didn’t need the money when I got it, but now I am glad to have it because I have run out of work,” Hennagin said.

“When the pandemic started, the pipeline turned off, and it has started to trickle back, but it’s definitely not back to where it was,” he added.

Two of the three construction-related companies that apparently made the most of the Main Street program are in the New York City area.

The New Jersey-based loan recipient, Ferreira Construction, is a transportation, power and utility contractor. It reported $403 million in 2019 revenue, according to ENR's ranking of The Top 400 Contractors. Another New York City-area contractor of a similar revenue level, White Plains, N.Y.-based LRC Construction LLP, also received approval for a large amount of money. Working with the same bank, these companies borrowed or expanded their credit by $35 million and $48.5 million respectively, according to Treasury Dept. information.

An energy contractor based in Denver, Bighorn Construction and Reclamation, working with a different bank, borrowed or expanded its credit by $22.3 million, Treasury Dept. records show.

None of the three companies could be reached for immediate comment on their participation, and banks declined to comment about client loans.

Callahan said he helped arrange Main Street program financing for two contractor clients, one for $20 million that was used to consolidate other, higher-interest-rate debt, the other for $15 million.

Mixed Reviews on Mechanics of Main Street Loans

Experts like Callahan and Hennagin, as well as a banker who agreed to speak on background, gave mixed reviews to the mechanics of the program, noting it has some drawbacks.

While an initial interest-free period of more than a year can be helpful, after that, the rate increases to be more in line with the market, Callahan noted.

And bankers have been reluctant to get involved. The Main Street loan fees, including 1% of the loan value, are added to the borrowers' costs but must be passed along to the Federal Reserve's special purpose vehicle for the program. The fees that the bank could collect were significantly lower than those for the Paycheck Protection Program or even the federal government's long-standing small business lending initiative.

“They don't even want to get involved in the program—it's less than what they get from an SBA loan,” Hennagin said.

One banker involved with construction lending at a West Coast bank agreed with that assessment but also pointed to what he described as onerous regulations that can extend the Fed's oversight to other, unrelated debt on the bank's books.

“We are always looking to help our clients,” noted the banker, who said he did not have authorization to speak publicly. “We are not looking to gouge anybody, but we are looking to make sure we are being compensated.”