



## Private Bank Debt Market

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## Revolving Credit Facilities

A revolving credit facility is an open line of capped credit

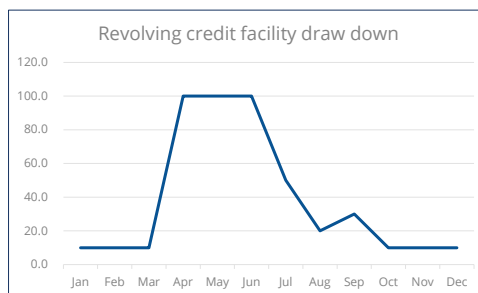
Typically revolving credit facilities have a 364 day to 5 year term

The renewal of a revolving credit facility presents "rollover risk"

A revolving credit facility may be used to backstop commercial paper

Lenders charge a commitment fee on the undrawn amount

Borrowers may also be charged facility and security trustee fees



Borrowing Base	Value
Accounts receivable	220.0
Less balances over 90 days	(20.0)
Eligible amount at 80.0%	160.0
Maximum loan amount	170.0
<b>Total funds available</b>	<b>160.0</b>

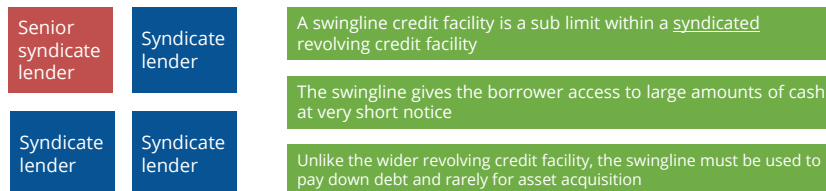
Secured revolving credit facilities require regular review of the borrowing base

The revolving credit facility was drawn down by 100.0 in Q2

Revolving credit facility	Value
Balance owing	100.0
Reserve position	60.0
Interest at 3.0%	3.0
Commitment fee at 1.0%	0.6
Facility fee per quarter	0.5
<b>Total fees</b>	<b>4.1</b>

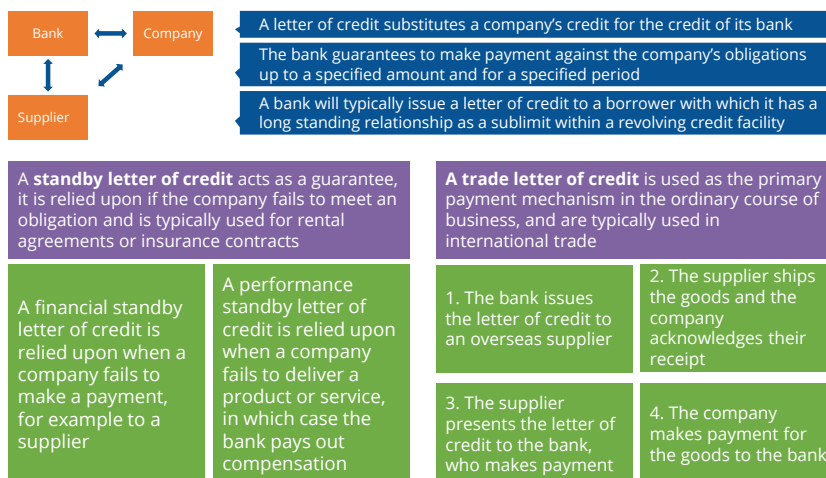
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## Swingline Credit Facilities



Swingline credit facility	Value	
Swingline loan amount	20,000,000.0	There will be a minimum limit on the amount that can be borrowed, which could be as low as 100,000
Term (days)	10.0	The swingline can typically be requested and drawn down on the same day and must be repaid within usually no more than 15 days
Interest rate (annual)	3.0%	
Interest	16,438.4	The senior syndicate lender typically advances the swingline, releasing other syndicate members from having to offer this low margin facility

## Letters of Credit



## Term Loans

	Year 0	Year 1	Year 2	Year 3	Year 4
Cash flow for debt service		100.0	100.0	100.0	120.0
Interest rate	5.0%				
Marginal tax rate	30.0%				
Beginning balance		384.7	298.2	208.6	115.9
Add interest		13.5	10.4	7.3	4.1
Subtract interest & principal repayment		100.0	100.0	100.0	120.0
Ending balance	384.7	298.2	208.6	115.9	0.0

**Amortizing loan**  
The principal is repaid incrementally over the term

The loan amount is determined using the NPV function based on 4 years of cash flow for debt service

Interest is calculated at  $5.0\% \times (1 - 30.0\%) = 3.5\%$  on the beginning balance each period

	Year 0	Year 1	Year 2	Year 3	Year 4
Cash flow for debt service					500.0
Interest rate	8.0%				
Marginal tax rate	30.0%				
Beginning balance		472.0	472.0	472.0	472.0
Add interest		26.4	26.4	26.4	26.4
Subtract interest & principal repayment		26.4	26.4	26.4	498.4
Ending balance	472.0	472.0	472.0	472.0	0.0

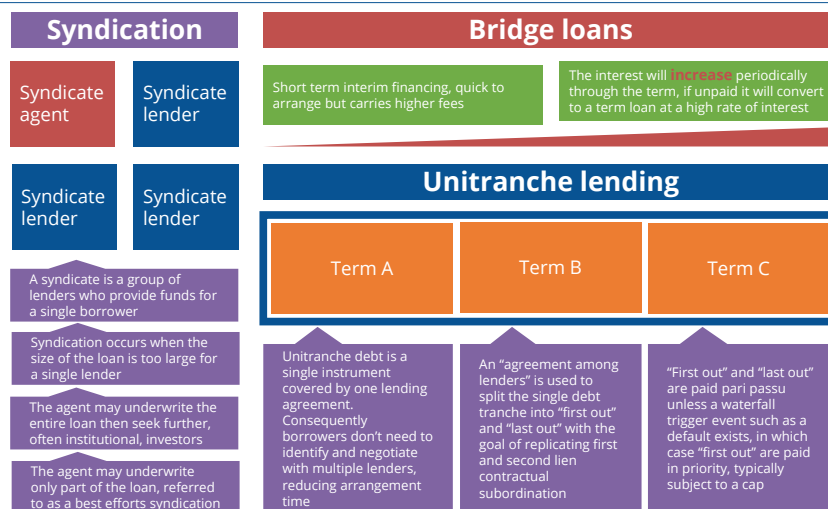
**Bullet loan**  
The principal is repaid at the end of the term

At redemption a proportion of the cash flow for debt service will need to be allocated to paying interest

Interest is "cash pay", calculated at  $8.0\% \times (1 - 30.0\%) = 5.6\%$  on the beginning balance each period

**Covenants**  
Maintenance covenants, such as debt/EBITDA, are checked regularly  
Incurrence covenants are tested for compliance when a specified event occurs

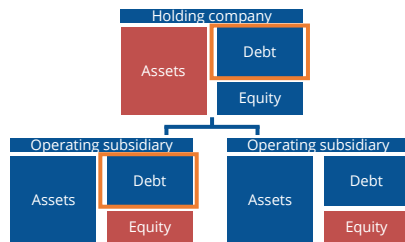
## Term Loans



## Subordination

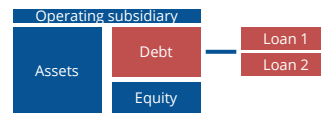
Subordination is an arrangement by which one creditor is paid in preference to another

**Structural subordination:** The senior lender lends into an operating subsidiary at the bottom of the organisational structure



The holding company's assets are its investment in its operating subsidiaries, failure to receive a distribution from their liquidation impairs its ability to pay its own structurally subordinated debt holders

**Contractual subordination:** Loans are made into the same entity, subordination is achieved by agreement between lenders



Pari passu loans are treated on an equal footing, the distribution of liquidated assets is distributed proportionally

Lien gives lenders security against assets. On liquidation, proceeds from the sale of pledged assets must fully satisfy 1<sup>st</sup> lien debt before 2<sup>nd</sup> lien debt. On full distribution of these proceeds any outstanding amount of 1<sup>st</sup> and 2<sup>nd</sup> lien debt becomes pari passu with senior debt

Negative pledge prevents a borrower from offering assets as collateral, if that would reduce the security of certain other lenders