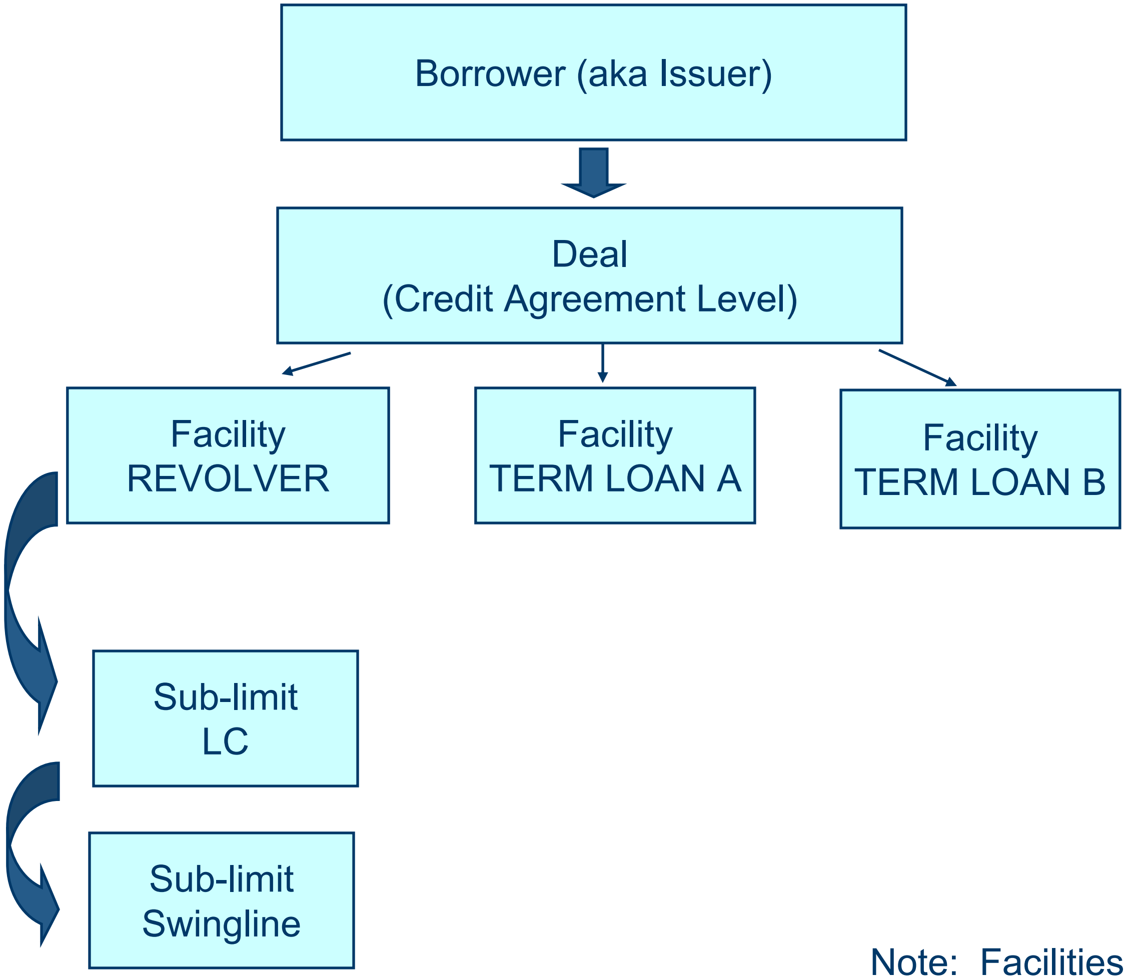
What is a Facility?

- Individual commitment(s) with unique terms under a deal
  - Maturity Date
  - Type
  - Borrowing Options
- All facilities under the same deal share the same credit agreement date and effective date
- Usage = utilization/outstandings
- Unused portion is a contingent liability – important for Basel I & Basel II
- Lenders may be paid an up-front (one-time) fee on their pro rata share of the facility
- Shared National Credit reporting
- Assigned a Facility level CUSIP

Produced by: Julia Kingsbury
Date: August 2006

Common Language of Loans

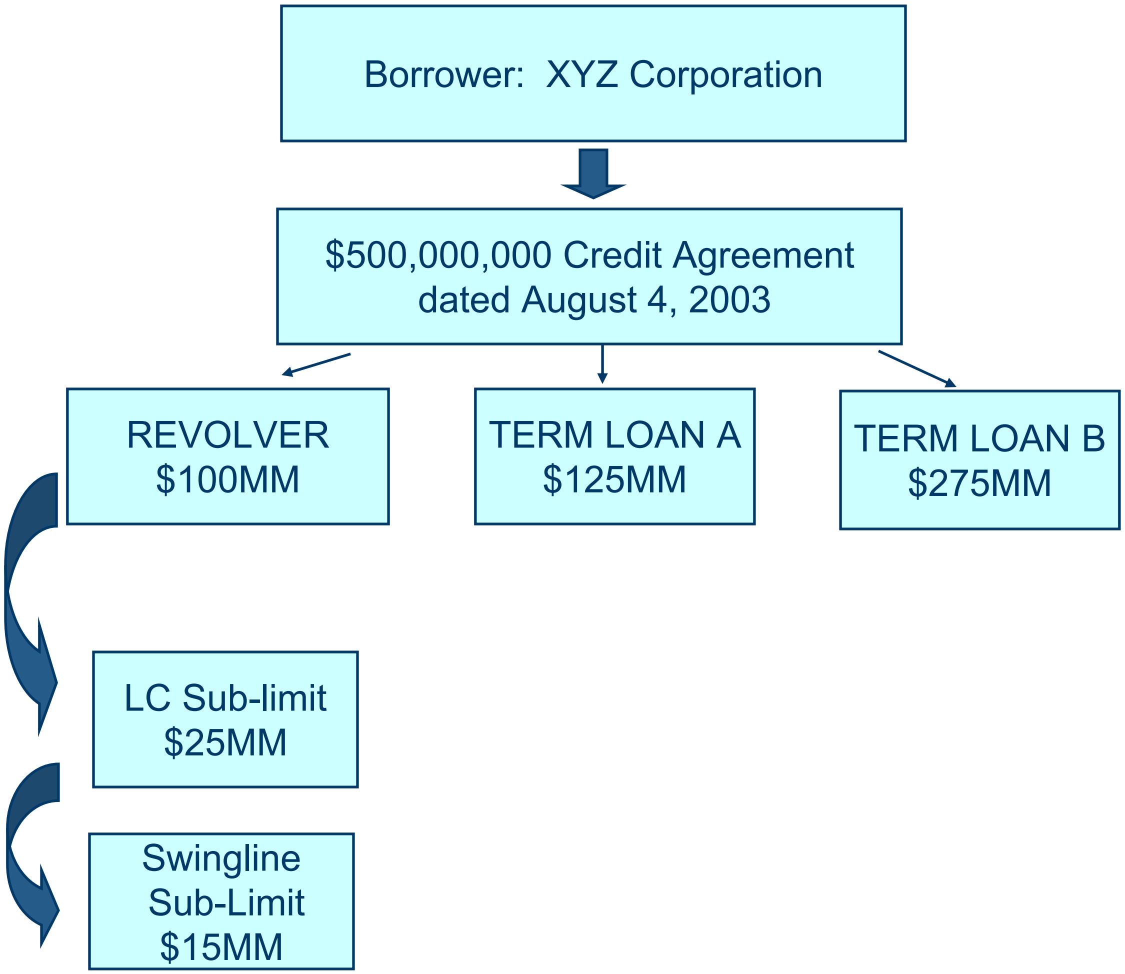

Borrower (aka Issuer)
Deal
(Credit Agreement Level)
Facility
REVOLVER
Facility
TERM LOAN A
Facility
TERM LOAN B
Sub-limit
LC
Sub-limit
Swingline

Note: Facilities are often referred to as “tranches”

CREDIT SUISSE

Produced by: Julia Kingsbury
Date: August 2006

Sample Deal Structure



Borrower: XYZ Corporation

$500,000,000 Credit Agreement dated August 4, 2003

REVOLVER $100MM

TERM LOAN A $125MM

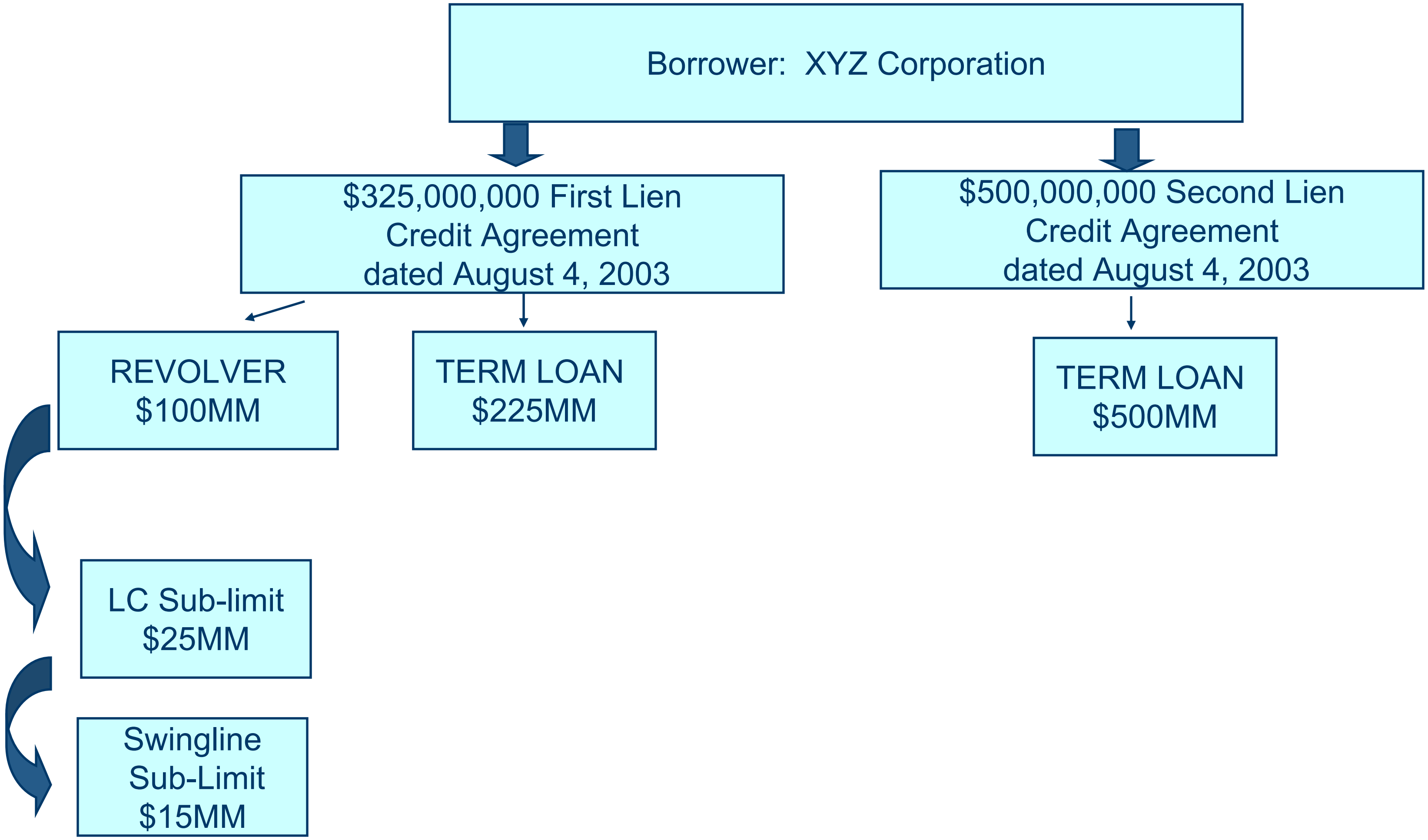
TERM LOAN B $275MM

LC Sub-limit $25MM

Swingline Sub-Limit $15MM

Sample Deal Structure

1st Lien/2nd Lien Example



Borrower: XYZ Corporation

$325,000,000 First Lien
Credit Agreement
dated August 4, 2003

$500,000,000 Second Lien
Credit Agreement
dated August 4, 2003

REVOLVER
$100MM

TERM LOAN
$225MM

TERM LOAN
$500MM

LC Sub-limit
$25MM

Swingline
Sub-Limit
$15MM

Maturity Date

- Maturity date is the date upon which all loans under a facility must be repaid in full
- Each facility has its own maturity date
- Facilities may have different maturity dates despite being part of the same credit agreement (deal)
- Maturity date is specified in the credit agreement
- Revolvers typically have a 364-day to 5 year maturity
- Term loan maturity dates usually range from 5 – 7 years

Expiration Date vs. Maturity Date

- The expiration date (or expiry date) indicates the date at which availability under the facility expires
  - Revolvers
  - Delayed Draw Term Loans

- The maturity date is the date the facility terminates and all outstanding loans are due and payable

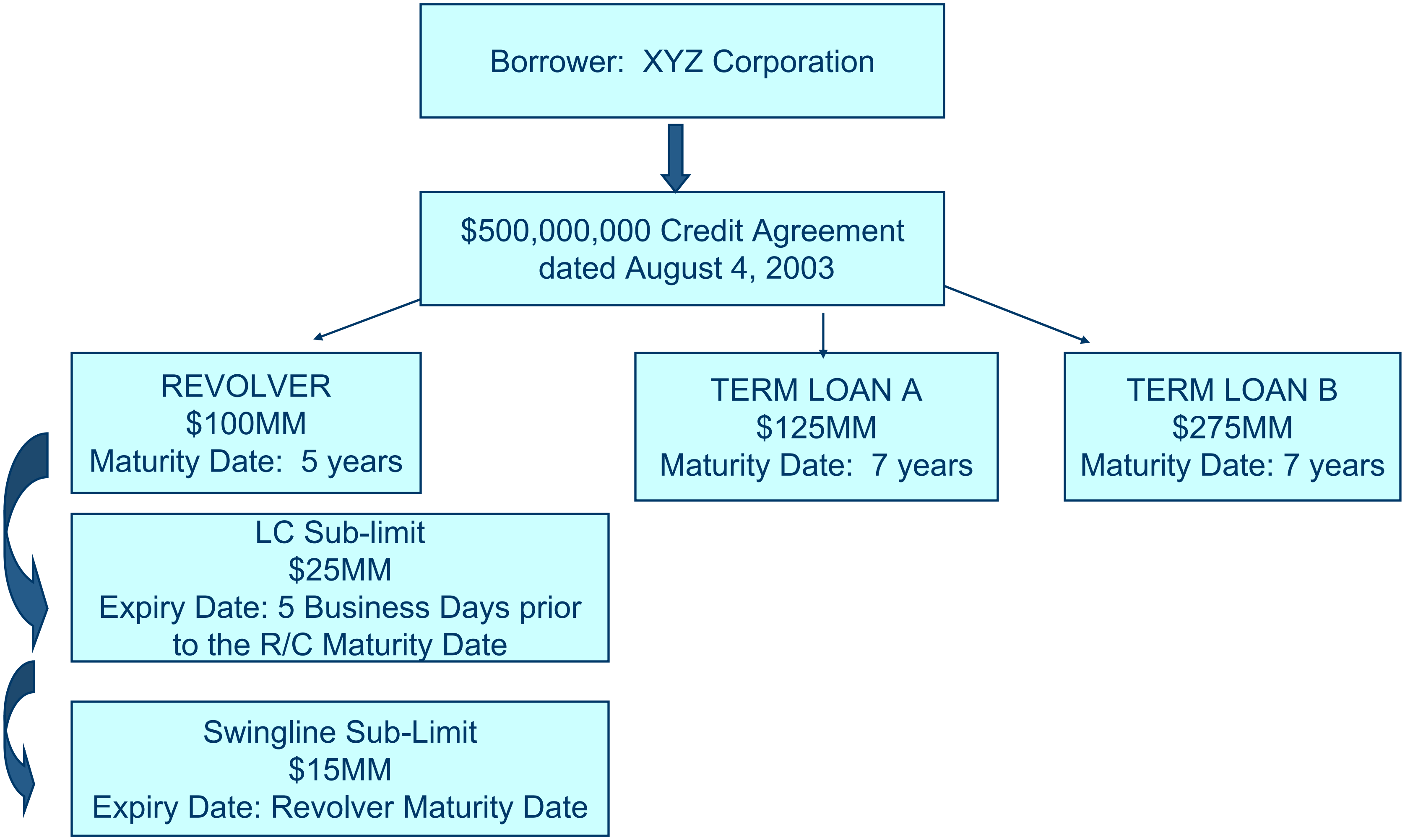
  Example
  - Effective Date of Delayed Draw Term Loan: 12/31/07
  - Expiration Date of a Delayed Draw Term Loan: 5/31/08
    - Any unused amount available for borrowings under the facility reduces to zero on this day
  - Maturity Date of Delayed Draw Term Loan: 12/31/14
    - This is the date the facility terminates and all outstanding loans must be repaid, along with interest and fees

- There is typically a different expiration date related to Letters of Credit sub-limits

Maturity vs. Expiration Date – Important Points

- Loans cannot be outstanding beyond the Maturity Date
- Loans cannot be made after the Expiration Date
- LCs cannot be issued after the Expiration Date

Sample Deal Structure



Borrower: XYZ Corporation

$500,000,000 Credit Agreement
dated August 4, 2003

REVOLVER
$100MM
Maturity Date: 5 years

TERM LOAN A
$125MM
Maturity Date: 7 years

TERM LOAN B
$275MM
Maturity Date: 7 years

LC Sub-limit
$25MM
Expiry Date: 5 Business Days prior
to the R/C Maturity Date

Swingline Sub-Limit
$15MM
Expiry Date: Revolver Maturity Date

CREDIT SUISSE

Types of Facilities

Types of Facilities

- Revolver
- Revolver with Term-out option
- Asset Based Loan Revolver
- Term Loan
- Delayed Draw Term Loan
- PIK Term Loan
- Credit Linked Deposit

Revolver Characteristics

- Borrower can borrow and repay and re-borrow money during the availability period – it "*revolves*"
- It behaves similarly to a credit card – borrower can borrow, repay, borrow, etc. as they desire
- Loans must be repaid at facility maturity (usually 364-days or 5 year tenors); no amortization schedule
- Typically has sub-limits
  - Swingline
  - Letters of Credit
  - Foreign currencies
  - Multiple borrowers
- Typical investors are traditional banks due to likely unfunded nature of facility

Revolver Characteristics

- In a syndicated revolver, all lenders fund a pro rata share of borrowings and receive their pro rata share of any repayment (vs. sub-limits which maybe funded by one or a sub-set of lenders)

- Fees charged on available/unused balances = commitment fee

- Fees charged on entire facility regardless of usage = facility fee

- Other types of revolvers:
  - Evergreen – credit agreement specifies that the facility will automatically renew for a specified period of time upon maturity, if not otherwise notified by the borrower
  - Term-Out – some credit agreements provide for a revolver to convert to a term loan at a specified date
  - Asset Based Loan

Asset Based Loan Revolver

- Revolving facility where the availability of the facility is based on the company’s receivables which are discounted

- Borrowing Base Certificate submitted by the borrower calculates revolver availability from time-to-time, pursuant to a schedule prescribed in the credit agreement

- Collateral Agent plays a major function in the monitoring and calculation of the availability

Term Loan Characteristics

- Behave similarly to an auto loan or mortgage
- Typically a single borrowing on the closing date OR
- A Delayed Draw Term Loan which permits several borrowings in order to fully utilize the facility
- Repayment occurs through:
  - an amortization schedule (monthly, quarterly, semi-annual or annually)
  - “bullet” repayment at maturity
- Lenders range from commercial banks to institutional investors
- Traded more heavily than a revolver

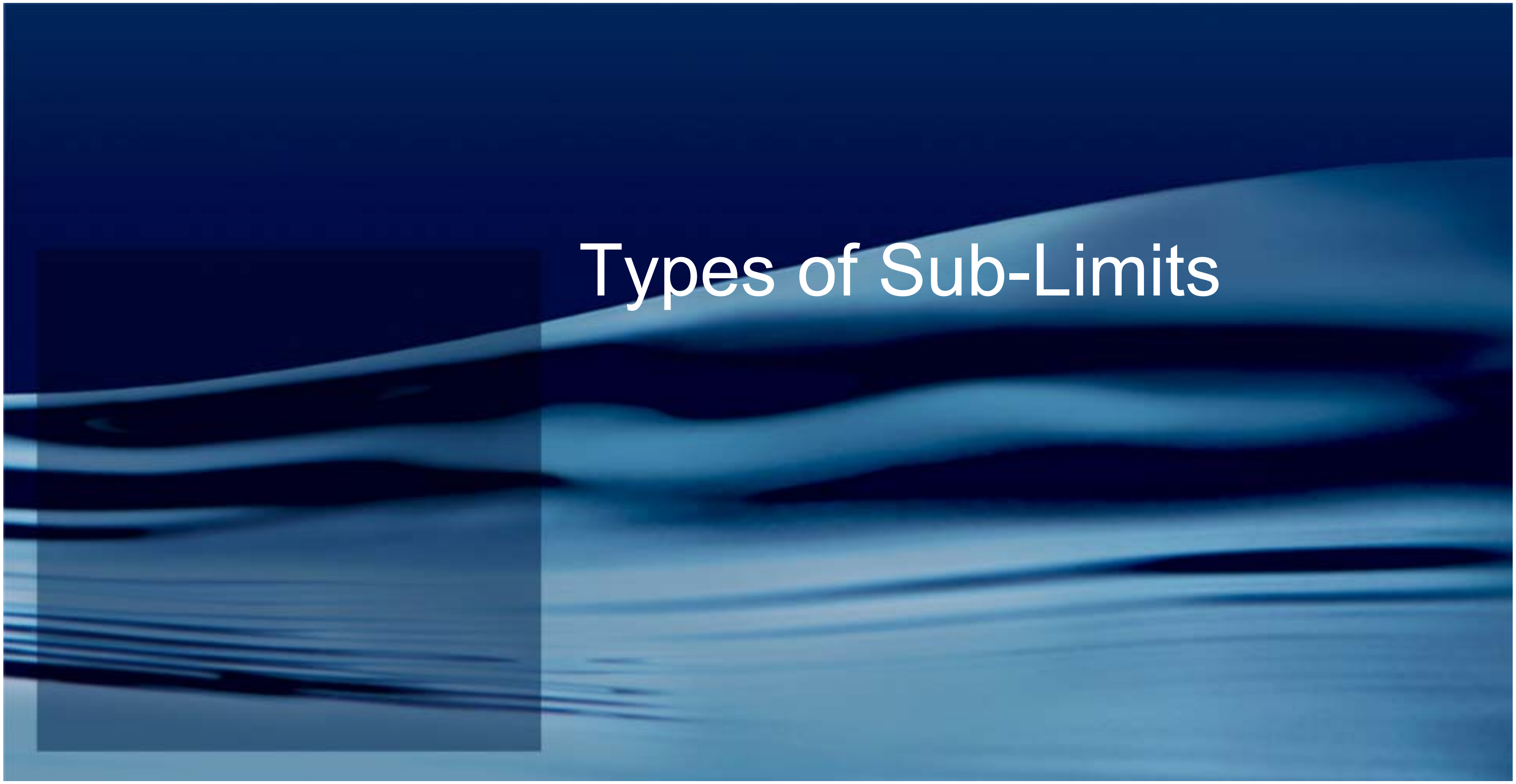
Term Loan Characteristics

- Term Loan A
  - Shorter tenors/maturity dates
  - Regular repayment/amortization schedules
  - Lower pricing
  - Typically bank investors

- Term Loan B, C, D
  - Longer tenors/maturity dates
  - Irregular, delayed repayment schedules
  - Higher pricing
  - Typically institutional investors

PIK Term Loan

- A type of term loan whereby interest is capitalized/compounded on each interest payment date
- Capitalize/compound – to add the amount of interest due to the principal amount
- With the interest now considered principal, interest accrues on the new principal amount
- PIK Toggle
  - Option defined in credit agreement that allows borrower to choose to pay cash or PIK interest at the end of an interest period
  - Interest on that portion of interest that is PIK'd can accrue either using:
    - The same applicable margin that is used to accrue interest on the original principal amount OR
    - An applicable margin that is greater than the applicable margin used for loans



Types of Sub-Limits

Sub-Limits

- An amount under a facility that is allocated for a specific purpose; most commonly a sub-limit is under a revolver facility

- The aggregate amount outstanding under a sub-limit plus other amounts outstanding under the facility cannot exceed the facility amount

- Under a revolver, these are typically:
  - Swingline
  - Letters of Credit
  - Foreign currency
  - Multiple borrowers
  - Competitive Bids

- Term loans typically do not have sub-limits. However, if they do, they are typically related to certain borrowers and the amounts each can borrow or to foreign currency limits

Swingline

- A Swingline, as defined in the U.S. market, is a sub-limit of the revolver available for same day borrowings by the borrower
- One bank, on behalf of the other lenders, lends the money directly to the borrower
- Lenders do not fund their share of the swingline as it is *fronted* by the Swingline Bank
- Lenders do *risk participate* in the Swingline
  - This means that the Swingline Lender can "put" the amount of outstanding swingline back to the banks at any time; they would then convert the Swingline loan into a regular loan under the revolver whereby each bank would fund its pro rata share

Produced by: Julia Kingsbury
Date: August 2006

Swingline

- Swinglines offer convenience and flexibility to the borrower (same day borrowings)
- The bank who administers/lends the swingline is referred to as the "Swingline Lender" or "Swingline Agent"; voluntary role
- Typically, it is the Administrative Agent who agrees to be the Swingline Lender

Swingline – Utilization Impact Under the Revolver

- The Swingline impacts the amount available for borrowings under the facility

- Even though other lenders do not fund their pro rata share of any Swingline borrowing, it impacts their available amount based on their pro rata share of the revolver
  - Note: This may or may not impact the commitment fee calculation. You must refer to the language in the credit agreement to determine the Swingline's impact on fees.

- As it relates to the Swingline Lender's ability to lend money to the borrower, the Swingline does not count 100% against the Swingline lenders revolver commitment amount

- Utilization under the Swingline Lender's revolver commitment is impacted only as if it had funded its pro rata share of the Swingline

Letters of Credit

- Letters of Credit are used to guarantee a payment by the borrower to a given counterparty (Beneficiary); if the borrower fails to pay the Beneficiary, the Issuing Bank is required to make the payment on behalf of the borrower and the bank group is obligated to reimburse the Issuing Bank

- LCs are not loans; they are non-funded, off-balance sheet, contingent liabilities

- LCs count against utilization even though lenders do not fund LCs unless they are drawn/invoked

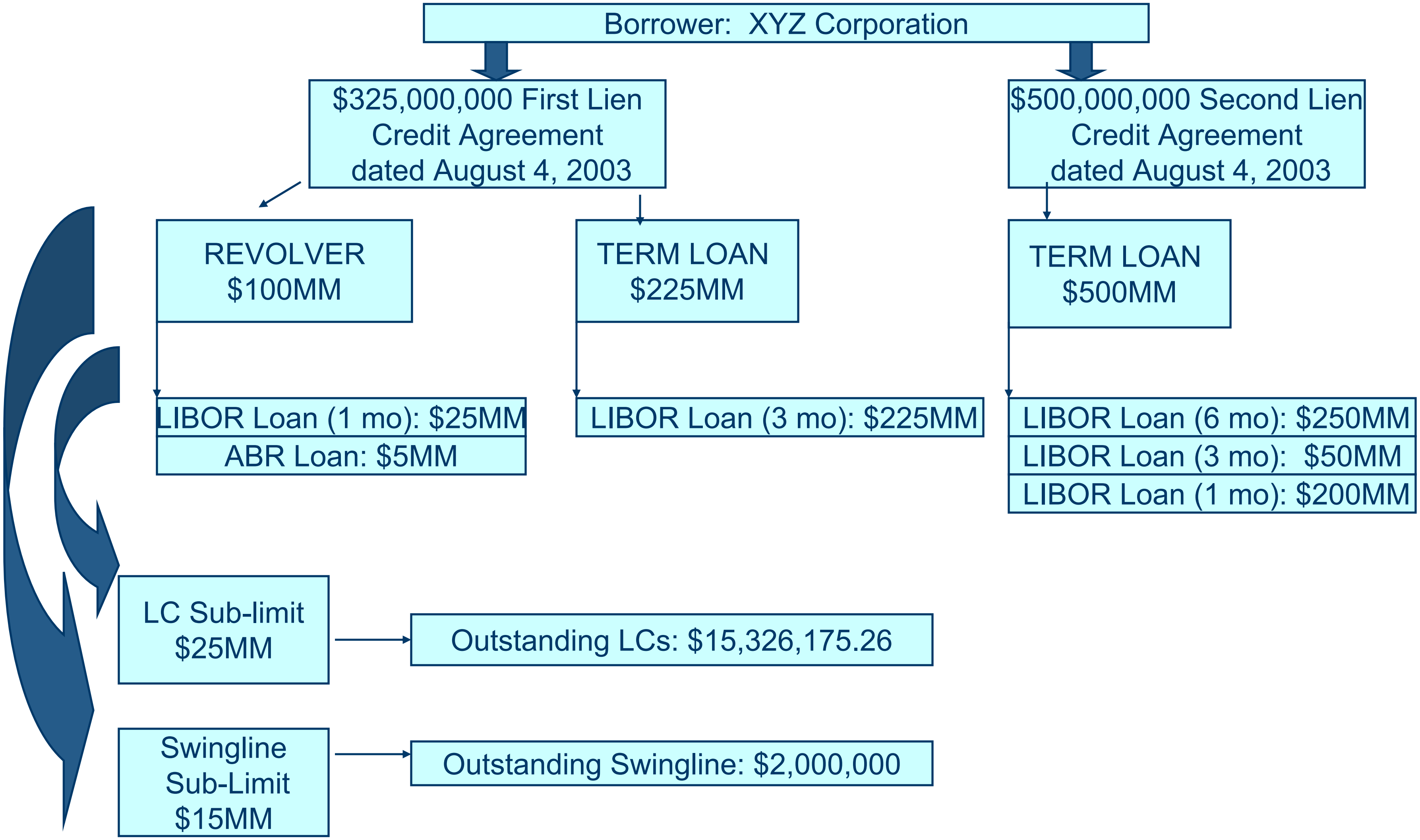
- Lenders in a deal get paid for the risk of drawing on their books; this Letter of Credit Fee is typically equal to the LIBOR margin

- If LCs are drawn upon (i.e., not reimbursed by the borrower), they then become a loan

Types of Letters of Credit

- The two most common LC types you will encounter:
  - Standby LCs – supports a contract between the borrower and another party (Beneficiary); the LC Issuer promises to pay the Beneficiary if the borrower fails to pay/perform under the contract; the LC can be amended from time-to-time
    - Evergreen LCs – usually LCs expire 12 months after they are issued; however, the "evergreen" provision automatically renews the LC at maturity for another like tenor
  - Trade LCs or Commercial LCs – used in relation to delivery of products or services; Beneficiary draws on LC for payment; typically short-term in nature

Sample Deal Structure - 1st Lien/2nd Lien with Outstanding Loans & LCs



Borrower: XYZ Corporation

$325,000,000 First Lien Credit Agreement dated August 4, 2003

$500,000,000 Second Lien Credit Agreement dated August 4, 2003

REVOLVER $100MM

TERM LOAN $225MM

TERM LOAN $500MM

LIBOR Loan (1 mo): $25MM

ABR Loan: $5MM

LIBOR Loan (3 mo): $225MM

LIBOR Loan (6 mo): $250MM

LIBOR Loan (3 mo): $50MM

LIBOR Loan (1 mo): $200MM

LC Sub-limit $25MM

Outstanding LCs: $15,326,175.26

Swingline Sub-Limit $15MM

Outstanding Swingline: $2,000,000

De-mystify Deals & Facilities: Get a Copy of the Credit Agreement

- Read **Section 2** which provides detailed information about different borrowers who have the ability to borrow, facility types, facility behaviors/characteristics, sub-limits, repayment terms, interest rate options, and fee types and calculations.
- Any term that is capitalized is clearly defined in the first section of Definitions
- You are entitled to receive a copy of the credit agreement prior to the execution of an assignment agreement; insist upon a copy during the settlement period
- Read the assignment provisions
  - When is borrower consent required?
  - Who is considered an eligible assignee?
  - What are the minimum and multiple assignment amounts?