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Glossary of Syndicated Loan Market Terms

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A glossary of syndicated loan market terms brought to you by Practical Law and The Loan Syndications and Trading Association.

Affiliated Lender – An affiliate of the borrower and, where applicable, the sponsor, other than the borrower and its subsidiaries. Affiliated lenders are typically subject to several restrictions under the credit agreement.

Assignment – The sale of all or part of the rights and obligations of a lender under a credit agreement to another party (assignee). The assignee assumes a direct contractual relationship with the borrower for its portion of the loan and has privity with the borrower. This is in contrast to a participation, which is a transfer by a lender of an interest in its rights under a credit agreement to another party (the participant); however, there is no direct contractual relationship or privity between the participant and the borrower.

Builder Basket – A carve-out in the credit agreement which, so long as there is no existing default, allows the borrower to make restricted investments, prepay subordinated debt, pay dividends and repurchase stock. This basket had been based on a percentage of excess cash flow that was not required to prepay the loans, but now can also be up to 50% of consolidated net income. Adding declined prepayments to the basket is generally accepted regardless of whether the basket is based on 50% of consolidated net income or retained excess cash flow.

Covenant-lite – Broadly characterized as syndicated leveraged loan facilities with: (a) no financial covenants or financial covenants (usually the leverage ratio) that apply to the revolving loans only and not the term loans and (b) a negative covenant package similar to or based on those used in high-yield bonds, which are usually given on an "incurrence" (met at the time of the specific event) rather than a "maintenance" (met at all times or at periodic intervals) basis.

Direct Lending – Lending by alternative debt capital providers that extend loans directly to borrowers without using intermediaries such as investment banks. Most or all of the loan is typically held by the originating lenders.

Disqualified Institutions List/DQ List – A list of disqualified institutions given by the borrower to the agent, and updated from time to time with competitor entities. An institution on this list is prohibited under the credit agreement from acquiring the relevant loan in the secondary market (or in the primary syndication if identified as of the date of the credit agreement).

EBITDA Add-backs – Adjustments a borrower can make to its EBITDA for purposes of calculating compliance with its financial covenants. EBITDA add-backs are often heavily negotiated. Examples include: gain (or loss) from discontinued operations (or operations disposed of outside of the ordinary course of business); extraordinary, nonrecurring or unusual items (for example, gain or loss from the sale of capital assets other than in the ordinary course of business); non-cash items (for example, non-cash stock-based compensation expenses or unrealized foreign currency gains or losses).

Flex Language – A provision in the fee letter (to keep it confidential) that permits the agent banks to change the amount, pricing, structure, yield, tenor, conditions and other terms of the financing if necessary to successfully syndicate the loans. Typical types of "flex" are pricing flex, structure flex, call premiums and covenant flex. Conversely, if a loan is "oversubscribed" because more lenders are willing to commit greater amounts to the loan than the borrower needs, the agent bank may change the terms of the loan to make it more favorable to the borrower (reverse flex).

Grower basket – A carve-out in the credit agreement which, so long as there is no existing default, permits the borrower to take certain actions under the covenants in the credit agreement. A grower basket increases the dollar exceptions for various covenants based on a percentage of the borrower's total assets or EBITDA.

Incremental Facility/Accordion Feature – A feature of some credit agreements that allows the borrower to add a new term loan tranche or increase the revolving credit commitments under an existing loan facility up to a specified amount under certain terms and conditions. The advantage of this feature is that the maximum amount of the increase is pre-approved by the lenders, although the lenders do not at that time commit to providing any additional loans. When the borrower wishes to use the accordion, it must only obtain sufficient

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commitments from among the lenders but not the consents of non-committing lenders.

Institutional Investors/Institutional Lenders – Organizations whose primary purpose is to invest their own assets or those entrusted to them by others. Typical institutional investors include banks, pension funds, insurance companies, hedge funds, debt funds and mutual funds.

Leveraged Lending Guidance – The Interagency Guidance on Leveraged Lending was published in May 2013 by the three banking regulators (OCC, FDIC and the Federal Reserve). The Guidance is used by bank examiners when examining a bank and it applies to loans held by and originated by the bank. While not a rule, the Guidance states that loans exceeding 6x leverage are concerning for most industries and leveraged borrowers ought to show an amortization capacity of 50% of their total debt within a five to seven year period.

Leveraged Loan – A loan made to a company with non-investment grade ratings (or with high levels of outstanding debt). Leveraged loans are senior secured, floating-rate loans made to companies seeking to refinance existing debt, finance acquisitions or leveraged buyouts, fund projects and other corporate endeavors, such as dividend recapitalizations. Although investment grade lending volume is much greater than leveraged lending volume, leveraged loans comprise nearly all of the loans that are traded in the secondary market.

Middle Market – For corporate loans it is generally defined by either the size of the borrower (annual revenues of less than $500 million or annual EBITDA of less than $50 million) or the size of the loan (less than $500 million).

Most Favored Nations Provision/MFN – A concept that the first party will be entitled to at least as favorable terms as a second party in specified circumstances. In syndicated loans, for instance, an incremental loan provision may have an MFN clause that says that the interest rate on the existing term loan will be increased so that it is not less than 25 basis points lower than the interest rate on the incremental loan. The MFN typically applies to the all-in yield and may "sunset" after a certain period of time.

Primary Market – The market where a syndicate of lenders extends a loan or loans to a borrower pursuant to a credit agreement.

Pro Rata Tranche– Includes revolver and Term Loan A loans. These loans are typically held by banks. Revolvers usually have a five to six year tenor, while TLAs typically amortize over a three to six year (majority five to six year) period to ensure repayment.

Reclassification – The borrower's ability to reclassify certain amounts (such as debt or liens) incurred under a general basket in a credit agreement covenant from the general basket to the leverage-based basket in that covenant when, at a later date, the borrower is able to meet the applicable leverage test set out in a leverage-based basket.

Revolver – A committed loan facility allowing a borrower to borrow (up to a limit), repay and re-borrow loans. This is in contrast to term loans that cannot be reborrowed once paid. Typically, these revolving loans can only be reborrowed if certain conditions precedent are satisfied and the outstanding revolving loan amount is less than the aggregate commitments of all revolving lenders. The revolver is usually used for working capital, capital expenditures, and the issuance of letters of credit. Lenders typically have some financial covenant protection, however, springing covenants, where protection is triggered upon a certain event, are very common.

Secondary Market – The market where lenders trade loans after a loan has been originated in the primary market. Loans trade at a percentage of par. The trade is structured either as an assignment or a participation. Par loan trades are documented on an LSTA trade confirmation and an Assignment & Assumption Agreement.

Term Loan B/Institutional Loan – A term loan made by an institutional investor whose primary goal is maximizing the long-term total returns on its investments. TLBs typically mature within six to seven years and have a small repayment schedule (usually about 1% of the principal amount of the loan per year, payable quarterly) during the term of the loan, with the remainder due on the maturity date. The majority of institutional loans are covenant-lite.

ABOUT THE LSTA

The Loan Syndications and Trading Association (LSTA) is a not-for-profit trade association that is made up of a broad and diverse membership involved in the origination, syndication and trading of commercial loans. With more than 400 member institutions, the LSTA's membership includes commercial banks, investment banks, broker-dealers, hedge funds, mutual funds, insurance companies, fund managers, and other institutional lenders, as well as law firms, service providers and vendors. The LSTA undertakes a wide variety of activities to foster the development of policies and market practices designed to promote just and equitable marketplace principles and to encourage cooperation and coordination with firms facilitating transactions in loans. Since 1995, the LSTA has developed standardized practices, procedures, and documentation to enhance market efficiency, transparency, and certainty.

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