

Leveraged loan glossary

364-day facility

A revolving credit facility that has a term of a year or less.

Administrative agent

Bank that handles all interest and principal payments and monitors the loan.

Administrative agent fee

Annual fee typically paid to administer the loan (including to distribute interest payments to the syndication group).

Affirmative covenants

These covenants state what action the borrower must take to be in compliance with the loan. They are usually boilerplate and require a borrower to, for example, pay the bank interest and fees, provide audited financial statements, maintain insurance, pay taxes and so forth.

Agent

Arranger title used to indicate the lead bank when there is no other conclusive title available, as is often the case for smaller loans.

Amend to extend

This technique allows an issuer to push out part of its loan maturities through an amendment rather than a full-out refinancing. These transactions have two phases; the first is an amendment in which at least 50.1% of the bank group approves the issuer's ability to roll some or all existing loans into longer-dated paper. The new paper is *pari passu* with the existing paper, but since it has a longer term, it carries a higher rate and sometimes more attractive terms. The second phase is the conversion, in which lenders can exchange existing loans for new loans.

Amendment fee

Compensation paid to lenders if the borrower asks for a change in terms, e.g., via an amendment after a loan closes.

Arranger fee

Fee earned by the arrangers for working on the deal. A new leveraged loan can carry an arranger fee of 1-5% of the total loan commitment, depending on the complexity of the transaction, market conditions, and whether the loan is underwritten.

Arrangers

Commercial or investment banks that have a hand in underwriting and syndicating a loan.

Asset-based lending

Loans that are secured by specific assets and usually governed by a borrowing formula (or a borrowing base). The most common type of asset-based loans are receivables and/or inventory lines.

Asset sales

One of the standard mandatory prepayments. Defined as net proceeds of asset sales, normally excluding receivables or inventories.

Assets under management (AUM)

The market value of all funds managed by a specific investment manager on behalf of investors.

Assignment sale

Type of secondary sale. The assignee becomes a direct signatory to the loan and receives interest and principal payments directly from the administrative agent.

Average break price

The average price at which loans or bonds are initially traded in the secondary market after they close and allocate.

Average new-issue clearing level

Simple average final all-in spread post flex, inclusive of current LIBOR or LIBOR floors, if any.

Average pro rata spread

The average spread of the revolver and term loan A tranches.

Average retail new-issue fee

The average fee paid by the arranger to lenders joining the syndicate, tiered so that larger commitments earn larger fees. Fees on the pro rata tranches generally differ from those paid on the institutional tranches.

Axe sheets

Lists from dealers with indicative secondary bids and offers for loans. Axes are simply price indications.

Base rates

Minimum rate that the loan will pay. LIBOR/Euribor are the most common base rates, but these can include Prime, CD and an array of other formats.

Best-efforts deal

The arranger group commits to underwrite less than the entire amount of the loan, leaving the credit to the vicissitudes of the market. Traditionally, best-efforts syndications have been used for risky borrowers or for complex transactions.

Bids wanted in competition (BWIC)

A secondary auction of a portfolio of loans or bonds. Typically an account will offer up a portfolio of facilities via a dealer. The dealer will then put out a BWIC, asking potential buyers to submit for individual names or the entire portfolio. The dealer will then collate the bids and award each facility to the highest bidder.

Bifurcated collateral structures

Issuer divides a collateral pledge between asset-based loans and funded term loans. Asset-based loans are secured by current assets like accounts receivable and inventories, while term loans are secured by fixed assets like property, plants, and equipment. Current assets are considered to be a superior form of collateral because they are more easily converted to cash.

Big boy letters

These letters typically ask public-side institutions to acknowledge that there may be information they are not privy to and they are agreeing to make the trade in any case. They are, effectively, "big boys" and will accept the risks.

Bilateral credit line

Loan agreement with only one lender and where the debt is not syndicated to a group.

Book building

The process by which arrangers revise terms to benefit borrowers but also ensure that enough lenders are willing to participate in the transaction.

Borrowing base

The specific assets that secure asset-based loans. The size of the attached credit line is limited by a margin formula tied to the valuation of the underlying collateral.

Break price

The price at which loans or bonds are initially traded into the secondary market after they close and allocate.

Bridge loan

Loan that is intended to provide short-term financing to provide a bridge to an asset sale, bond offering, stock offering, divestiture, etc. Generally provided by arrangers as part of an overall financing package.

Build-out financing

Financing that supports a particular project, such as a utility plant, a land development deal, a casino or an energy pipeline.

Business development company (BDC)

A US public company whose sole business purpose is to invest in small and mid-sized companies.

Buyback

When an issuer or its private equity sponsor/owner buys back its senior debt below par in the secondary market in an attempt to reduce total debt.

Compounded annual growth rate (CAGR)

Annualized measure of an investment's growth rate over a multiyear time period.

Capital expenditures (CapEx)

Investments in physical assets, such as a plant, property or equipment.

Cash flow loan

Form of asset-based lending. A loan that may be secured by collateral but is repaid by cash flow.

Cash flow metrics

Various analytics to evaluate and monitor the cash flow generated by a company. They include operating cash flow and free cash flow.

CCC downgrade rate

The number of issuers who have had their corporate credit ratings lowered to CCC over a given 12-month period divided by the number of corporate credit ratings at the beginning of that period.

Change of control

When an issuer's ownership structure is significantly altered. It can be triggered by a merger, an acquisition of the issuer, or a change in the majority of the Board of Directors.

Chapter 7

The US Bankruptcy Code that governs the process for liquidating a company and its assets.

Chapter 11

The US Bankruptcy Code that governs the process for restructuring a company and its assets.

Circled

When a loan or bond is fully subscribed at a given price it is said to be circled. After that, the loan or bond moves to allocation and funding.

Clearing yield

Yield at which an instrument first breaks into the market.

Collateralized loan obligation (CLO)

A structured security backed by a pool of loans. It uses leverage and is usually tiered with ratings ranging from AAA to equity.

CLO risk retention

Regulations for ensuring that CLO investors retain risk in the vehicles they are structuring, or "skin-in-the-game." CLO managers, beginning on Dec. 24, 2016, under Section 941 of Dodd-Frank, as investment managers, are required to retain no less than 5% of the credit risk of assets they securitized, except for pools of qualified mortgages. This retention requirement can be satisfied by either retaining a horizontal interest, which is subordinated to all other interests—e.g., part of the equity tranche of a debt vehicle—or a vertical interest, which would receive a portion of payments made into each class of debt issued by the securitization. However, as a result of the LSTA's lawsuit against the Fed and the SEC, in February 2018, the US Court of Appeals for the District of Columbia Circuit ruled that CLOs were exempt from the Dodd-Frank Act. In Europe, risk retention still requires 5% skin in the game.

Club deal

A smaller loan (usually \$25–100 million, but as high as \$150 million) that is premarketed to a group of relationship lenders. The arranger is generally a first among equals, and each lender gets a full cut, or nearly a full cut, of the fees.

Co-agent/Managing agent

This title is used mostly as an award for large commitments and is generally meaningless with regards to loan administration responsibilities.

Commercial bank

Financial institution that provides services such as accepting deposits and issuing loans.

Commercial paper

Unsecured short-term corporate debt.

Commitment fee

Fee paid to lenders on undrawn amounts under a revolving credit or a term loan prior to draw-down.

Competitive auction

When putting together financing for a transaction, a sponsor usually solicits bids from arrangers before awarding a mandate.

Competitive bid option (CBO)

Allows the borrower to solicit the best bids from its syndicate group. The agent will conduct what amounts to an auction to raise funds for the borrower, and the best bids are accepted.

Continuously offered closed-end funds

Investors can buy into these funds each day at the fund's net asset value (NAV). Redemptions, however, are made via monthly or quarterly tenders rather than each day.

Contributed equity

The sponsor's contribution to finance the LBO, calculated as the sponsor's equity divided by total transaction amount.

Cost of funds

A bank's own funding rate.

Coupon-clipping

A period when investors can expect income from yield without capital appreciation or loss.

Covenant amendment/waiver/relief

When an issuer has failed to maintain its financial covenants, it can appeal to lenders to relieve it of its requirements and waive the maintenance of those covenants for that time period. It can also, or alternatively, ask to amend the covenant levels to make them less rigorous.

Covenant-lite

Loans that have bond-like financial incurrence covenants rather than traditional maintenance covenants that are normally part and parcel of a loan agreement.

Covenants

Various assurances by borrowers to do, or not do, certain things during the life of a credit.

Cover bid

The level at which a dealer agrees to essentially underwrite a BWIC or an auction. The dealer, to win the business, may give an account a cover bid, effectively putting a floor on the auction price.

Coverage covenant

Requirement that the borrower maintain a minimum level of cash flow or earnings relative to specified expenses, most often interest, debt service (interest and repayments) and fixed charges (debt service, capital expenditures and/or rent).

Coverage ratio

A measure of the company's ability to meet its financial obligations, for example interest coverage. The higher the ratios, the better the ability to meet these commitments.

Credit agreement

Document that contains the final terms and conditions of the loan.

Credit estimates/Private ratings

Assessments made by the ratings agency on the creditworthiness of the company that are not publicly disclosed.

Cross-border

A transaction that issues tranches in two markets, usually the US and Europe.

Cross-guarantees

Formal assurances that the varied operating units associated with a borrower guarantee its assets as collateral.

Cure period

The amount of time that is granted to a borrower to cure any default.

Current assets

Balance sheet assets that are the most liquid—cash, cash equivalents, accounts receivable.

Current liabilities

Balance sheet liabilities that are most subject to payment on demand—short-term debt and accounts payable.

Current ratio coverage

Requirement that the borrower maintain a minimum ratio of current assets (cash, marketable securities, accounts receivable and inventories) to current liabilities (accounts payable, short-term debt of less than one year).

Daily-access funds

Traditional open-end mutual fund products into which investors can buy or redeem shares each day at the fund's NAV.

Debt issuance

Generally, debt issuance refers to the volume of a high-yield or loan deal, or the collective volume of high-yield and loan deals over a set period of time. In a loan deal, one of the prepayments from the lender to the borrower is net proceeds from debt issuance. The typical percentage required is 100%.

Debtor in possession (DIP)

DIP loans are made to bankrupt entities in the US. These loans constitute super-priority claims on the bankruptcy distribution scheme, and thus sit ahead of all pre-petition claims. Many DIPs are further secured by priming liens on the debtor's collateral, or gaining a collateral lien that has priority over any pre-petition liens.

Default

There are two primary types of loan defaults: technical defaults and the much more serious payment defaults. Technical defaults occur when the issuer violates a provision of the loan agreement. For instance, if an issuer does not meet a financial covenant test or fails to provide lenders with financial information or some other violation that doesn't involve payments. A payment default, as the name implies, happens when a company misses either an interest or principal payment. There is often a preset period, say 30 days, during which an issuer can cure a default (the cure or grace period). After that, the lenders can take appropriate action, up to and including accelerating, or calling, the loan.

Default rate

Calculated by either number of loans or principal amount. The formula is similar. Typically defined as a loan that is any of the following: rated 'D', made to an issuer that has filed for bankruptcy, in payment default on interest or principal, or restructured in such a way as to create a material loss to the lender.

Default rate by number of loans

The number of loans that default over a given 12-month period divided by the number of loans outstanding at the beginning of that period.

Default rate by principal amount

The amount of loans that default over a 12-month period divided by the total amount outstanding at the beginning of the period.

Default risk

The likelihood of a borrower being unable to pay interest or principal on time.

Delayed-draw term loan

Lines of credit that may be drawn down for a given period—The issuer pays a fee during the commitment period (a ticking fee) and the lines are then repaid over a specified period (the term-out period). These are primarily used to purchase specified assets or equipment, or to make acquisitions (acquisition or equipment lines).

Direct lenders

A form of corporate debt provision in which lenders other than banks make loans to companies without intermediaries such as an investment bank, a broker, or a private equity firm. The borrowers are usually smaller or mid-sized companies.

Disintermediation

The process where banks are replaced (or disintermediated) by institutional investors.

Distressed exchange

A negotiated tender in which classholders will swap their existing paper for a new series of bonds that typically have a lower principal amount and often a lower yield.

Distressed loans

Credits that are considered to be at a higher risk of defaulting. In the loan market, loans traded at less than 80 cents on the dollar are usually considered distressed. In the bond market, the common definition is a spread of 1,000 bps or more.

Distressed ratio

Share of the Morningstar® LSTA® Loan Index that is trading below 80.

Dividend financing

When a company takes on debt and uses proceeds to pay a dividend to shareholders.

Documentation agent

Bank that handles the documents and chooses the law firm.

Earnings before interest, taxes, depreciation, and amortization (EBITDA)

Often used as a proxy for cash flow.

Equity bridge loan

A bridge loan provided by arrangers that is expected to be repaid by a secondary equity commitment to a leveraged buyout.

Equity cures

These provisions allow issuers to fix a covenant violation—exceeding the maximum leverage test for instance—by making an equity contribution.

Equity infusion

Typically seen in distressed situations. In some cases, the private equity owners agree to make an equity infusion in the company, or a new investor steps in to provide fresh capital to strengthen the company's balance sheet.

Equity issuance

The net proceeds of an issuer selling stock. Leveraged loans may require a borrower to prepay with proceeds of equity issuance. The typical percentage required is 25–50%.

European credit funds

Open-ended pools of debt investments that are not subject to ratings oversight or restrictions regarding industry or rating diversification. They are generally lightly levered (2 to 3 times) and allow managers significant freedom in picking and choosing investments.

Evergreen

The option for the borrower—with consent of the syndicate group—to extend the facility each year for an additional year.

Excess cash flow

Cash flow after all cash expenses, required dividends, debt repayments, capital expenditures, and changes in working capital. A borrower is sometimes required to prepay a leveraged loan with proceeds of excess cash flow.

Exchange-traded, closed-end funds (ETFs)

Funds that trade on a stock exchange. Typically, the funds are capitalized by an initial public offering. Thereafter, investors can buy and sell shares, but may not redeem them.

Executive summary

Part of the information memorandum or bank book. Provides a description of the issuer, an overview of the transaction and rationale, sources and uses of the debt being raised, and key statistics on the financials.

Exit financing/Exit loans

These are loans that finance an issuer's emergence from bankruptcy in the US. Typically, the loans are prenegotiated and are part of the company's reorganization plan.

Facility fee

Paid on a facility's entire committed amount, regardless of usage. It is often charged instead of the commitment fee on revolving credits, as these typically have competitive bid options that allow a borrower to solicit the best bid from its syndicate group.

Fair value

Evaluation of price at which an asset would transact in the secondary market.

Finance companies

Companies that borrow money to fund their loans. Finance companies tend to play in smaller deals. They exist almost exclusively in the US, where they consistently represent less than 10% of the leveraged loan market.

Financial covenants

Requirements of a borrower's minimum financial performance, e.g., that it must maintain a higher level of current assets than of current liabilities. There are two types of financial covenants, maintenance and incurrence.

First-lien debt (FLD)

Senior debt that holds the first priority on security.

First-lien debt to EBITDA (FLD/EBITDA)

Ratio of first-lien debt to EBITDA. One of the main ratios used in leverage analysis and financial covenants.

Fixed-and-floating lien

A lien that allows the borrower to dispose of assets without consent (thus the floating aspect). However, the proceeds must go through certain channels, including certain designated accounts, so that the borrower has the right to freeze those assets (fixing them) under certain circumstances.

Flex

Margin flex language allows the arranger to change spreads during syndication to adjust pricing. To entice investors to buy the credit, spreads are raised, or flexed up. When liquidity is high and demand outstrips supply, the spread is decreased, or reverse-flexed. A structural flex occurs when the arranger adjusts the size of tranches during syndication to reflect liquidity levels. In highly liquid times, an arranger may move debt from the more expensive tranches, such as mezzanine, to cheaper tranches, such as second-lien or first-lien.

Floating rate

A spread over a base rate, typically LIBOR, that is periodically reset. Borrowers usually can lock in a given rate for one month to one year.

Forward calendar

A list of loans or bonds that have been announced but not yet closed. These include instruments that have yet to come to market and those actively being sold but not yet circled.

Four-B loans

Loans rated BB+ to BB- or rated Ba1 to Ba3 by Moody's.

Free-and-clear tranche

A form of covenant-lite loan that allows issuers to tap the market for additional loans that are free of the restrictions of incurrence tests.

Full vote

When all lenders are required to approve material changes such as RATS (rate, amortization, term, and security) or collateral rights.

General corporate purposes

Use of a loan for working capital, general operations, and other business-as-usual purposes.

Go-anywhere fund

Global allocation funds are also called go-anywhere funds because they are very flexible with regards to the types of investments they can make. They can invest across all regions and asset classes, based upon the decisions of the management team.

Hard fee

A fee that may be applied to all repayments under a loan, including from asset sales and excess cash flow.

High-yield takeouts

High-yield bonds that are issued to refinance loans.

Highly leveraged loan

For before 1996, refers to loans with margins of L+250 and above, and from 1996 to present, refers to loans with margins of L+225 and above.

Hurdle rates

The minimum required rate of return.

Incurrence covenants

Requirement that if an issuer takes a certain action involving financing (paying a dividend, making an acquisition, issuing more debt), it would need to still be in compliance after that activity.

Industry overview

Part of the information memorandum or bank book. Provides a description of the company's industry and competitive position relative to its industry peers.

Information memo (IM)/Bank book

A description of the terms of the transaction. This typically includes an executive summary, investment considerations, a list of terms and conditions, an industry overview, and a financial model. If the issuer is seeking capital from non-bank investors, the arranger will prepare a "public" version of the IM (bank book) stripped of all confidential information.

Institutional debt/Institutional facilities

Tranches sold primarily to institutional investors. They traditionally have a bullet repayment with little (1% per annum) or no amortization, a maturity of eight to nine years, and a spread of +250-325. They are frequently subject to a pricing grid and sometimes carry call premiums/prepayment fees.

Institutional investors

Loan and bond investors who are primarily funded by pooled funds. The funds can take the form of structured vehicles (CLOs), mutual funds, hedge funds, and pension funds.

Intercreditor agreement

Agreement as to the subordination and priority of repayment to all lenders, senior and subordinated, in the case of default. It applies to lenders across borders and codifies their positions in the absence of intervention from individual bankruptcy courts.

Interest

Payment to lenders for providing funding for a transaction, usually in the form of a spread over a base rate, and an array of fees.

Internal rate of return (IRR)

The percentage that represents the level at which the net present value of costs (negative cash flows) of the investment equals the net present value of the benefits (positive cash flows) of the instrument.

Investment bank

Financial institution that provides services such as raising capital by underwriting or acting as agents for clients. Unlike commercial banks, they do not take customer deposits.

Investment considerations

Part of an information memorandum or bank book. This section typically is utilized as management's sales pitch for the deal.

Investment grade

The credit segment where issuers are rated BBB- or higher.

IPO

An issuer lists—or, in the case of a P2P LBO, relists—on an exchange. A portion of the equity proceeds of the listing are typically used to repay some debt and the company can often issue new debt at more favorable terms.

Jumbo loan

Transaction that is greater than \$1 billion.

Junior bondholders

The bondholders who are lowest in payment priority.

Junior DIPs

Facilities typically provided by bondholders or other unsecured debtors as part of a loan-to-own strategy.

Junior equityholders

The equityholders who are lowest in payment priority (behind preferred shareholders).

LBO

Buyouts of a company by a sponsor. Excludes recapitalizations, refinancings, and follow-on acquisitions.

LCD flow-name composite

A sampling of the loan market consisting of tranches that are widely traded in the secondary market, per LCD's discussion with dealers and investors in the market. A version is compiled for the US market as well as the European market.

Lead arranger/Bookrunner

A league table designation used to indicate the top dog in a syndication.

League table

A ranking of specific metrics for the loan market, for example lead arranger or sponsor.

Letter of credit (LOC)

Guarantees provided by the bank group to pay off debt or obligations if the borrower cannot.

Leverage covenant

A cap on the maximum level of debt, relative to either equity or cash flow, with the total-debt-to-EBITDA level being the most common.

Leveraged lending guidance (LLG)

Rules placed by the Federal Reserve Board (FRB), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) in 2013 stating that loans that fail to meet credit standards will be deemed criticized or special mention by bank regulators. Banks that either underwrite or hold such loans could face penalties.

Leveraged loan

A loan that (1) is rated BB+ or lower, **or** (2) is either not rated or rated BBB- or higher but (a) has a spread of LIBOR+125 or higher and (b) is secured by a first- or second-lien. Under this definition, a loan rated BB+ that has a spread of LIBOR+75 would qualify, but a non-rated loan with the same spread would not.

LIBOR floor

An interest rate floor for a loan's base rate.

Liquidity

Measure of how easy it is to sell a loan in the secondary market. Something that is easy to transact is considered liquid. Something that is difficult to transact is considered illiquid.

Loan 100 Index

Short for the Morningstar® LSTA® U.S. Leveraged Loan 100 TR USD, this index is designed to reflect the performance of the largest facilities in the leveraged loan market.

Loan commitment

Agreed-upon funded size of a borrowing.

Loan credit default swaps (LCDS)

Standard derivatives that have secured loans as reference instruments.

Loan Syndications & Trade Association (LSTA)

The US trade association representing the leveraged loan markets. The LSTA advances the interests of the asset class through research, documentation, education, and wide-ranging advocacy and support.

Loan-to-own

A strategy in which lenders—typically hedge funds or distressed investors—provide financing to distressed companies. As part of the deal, lenders receive either a potential ownership stake if the company defaults, or, in the case of a bankrupt company, an explicit equity stake.

LOC fee

Line-of-credit fee. The most common—a fee for standby or financial LOCs—guarantees that lenders will support various corporate activities.

Local currency options

In Europe, facilities can fund in a number of currencies other than the euro, particularly the British pound and the US dollar.

London Interbank Offered Rate (LIBOR)

Standard base rate for calculating interest paid on bank loans. Rate at which banks can borrow from other banks.

Loss given default

Measures the severity of loss the lender is likely to incur in the event of default. Investors assess this risk based on the collateral (if any) backing the loan.

Maintenance covenants

These pledges are far more restrictive than incurrence covenants, because they require an issuer to meet certain financial tests every quarter, whether or not it takes an action.

Managed accounts

Separately managed investment accounts tailored to the particular requirements of the investor.

Mandated lead arranger (MLA)

The most significant lender title for the bank(s) providing the primary arrangement and initial underwriting, and receiving the majority of fees. Only used in Europe.

Mandatory prepayments

Certain corporate activities and events trigger a prepayment requirement on leveraged loans. They include excess cash flow, asset sales, debt issuance, and equity issuance.

Mark-to-market

Mechanism by which loans are valued using available price data (bid/ask levels reported by dealer desks and compiled by mark-to-market services) rather than fair value (estimates based on whether the loan is likely to repay lenders in whole or in part).

Market technicals

The balance between market supply and market demand. If there are a lot of dollars chasing little product, then issuers will be able to command lower spreads. If, however, the opposite is true, spreads will need to increase for loans to clear the market.

Market-clearing level

The price or spread at which a deal clears the primary market.

Markit LCDX

An index of 100 LCDS obligations that participants can trade. The index provides a straightforward way for participants to take long or short positions on a broad basket of loans, as well as hedge their exposure to the market.

Maximum capital expenditures

Limitation on the borrower's ability to make capital expenditures (purchases of property, plants, and equipment).

Mergers & acquisitions (M&A)

Leveraged finance markets feature corporate mergers and acquisitions or M&A activity. This is where companies seek financing to buy or combine with other companies.

Mezzanine

A subordinated instrument that carries second-ranking security or, if the capital structure also includes second-lien, third-ranking security.

Mezzanine funds

Investment pools that traditionally have focused on the mezzanine market, providing subordinated debt for buyouts.

Middle market

An issuer with no more than \$50 million of EBITDA.

Morningstar[®] LSTA[®] Leveraged Loan Index (LLI)

A market value weighted index based on market weightings, spreads, and interest payments tracking the US loan market. The LLI is run in partnership between Morningstar[®] and the Loan Syndications & Trading Association[®] (LSTA), the US loan market's trade group.

Most-favored-nation (MFN) protections

Resets the yield of the existing loan to the rate of the new loan to make sure it remains on market.

Most-favored-nation (MFN) sunset

Time period (12 or 18 months) after which the MFN yield protection ends.

Multi-currency line

Allows the borrower to borrow in one or more alternative currencies (in most agreements this option is capped).

Negative covenants

These agreements limit the borrower's activities in some way. They are highly structured and customized to a borrower's specific condition, and can limit the type and amount of acquisitions and investments, new debt issuance, liens, asset sales, guarantees, etc.

Negative pledge

Issuers agree not to pledge any assets to new lenders to ensure that the interests of the loan holders are protected.

New-issue volume

The par amount of paper issued into the primary loan market for any stated time period.

Non-core acquisition

When a corporate issuer sells a division to a private equity firm.

Offers wanted in competition (OWIC)

A BWIC in reverse. Instead of seeking bids, a dealer is asked to buy a portfolio of paper and solicits potential sellers for the best offer.

Original issue discount (OID)

A way of remunerating primary lenders, usually institutional investors, by offering them a discount to par. Varies according to demand for the deal.

Par

Stated face or nominal value of the underlying instrument, usually expressed as a percentage.

Pari passu

Meaning equal footing. Describes situations where two or more assets are equally ranked by seniority without any display of preference.

Participation agreement sale

Form of secondary sale. The buyer takes a participating interest in the selling lender's commitment in the loan.

Payment in kind (PIK)

A type of debt whose interest payments come in the form of additional debt accrued onto existing debt.

Performance grids

Loan spread adjustments based on one or more financial criteria.

Performing loans

Loans that are not in default.

Platform acquisition

When a private equity group purchases a company in a unique business space in order to make subsequent acquisitions in the same business space. The first acquisition is the platform, with additional purchases to follow.

Portugal, Ireland, Italy, Greece, Spain (PIIGS)

Southern European countries of the eurozone and Ireland.

Prepayment fee

Fees paid by the issuer if the debt is repaid before maturity.

Price talk

The original target spread or spread range launched to the market.

Pricing grid (aka margin ratchet)

A set of financial measures that allows the issuer to pay lower interest on the facilities. For example, if the issuer's debt to EBITDA is less than 3x, pricing is LIBOR+275; if such ratio decreases to 2.5x, pricing is LIBOR+250.

Primary assignment

Form of secondary sale, in which the agent holds the loan on its books for a short period after the loan closes, and then sells it to the investors. Primarily used by offshore accounts (principally CLOs and hedge funds) that are subject to certain tax consequences from buying loans in the primary.

Primary LBO

First-time sale of a company to private equity sponsors.

Prime rate

Refers to a bank's prime lending rate. The rate is reset daily, and borrowings may be repaid at any time without penalty. This is typically an overnight option, because the prime option is more costly to the borrower than LIBOR.

Priming lien

During the bankruptcy process, DIP lenders may request additional collateral in the form of a priming lien—a lien that is senior or equal to any preexisting lienholder.

Printing a deal/inking a deal

Clearing a deal at a specific price and spread.

Private equity firm/Financial sponsor

Company that provides financial backing and makes investments in the private equity of companies.

Pro forma financials/Financial models

Detailed model of the issuer's historical, pro forma, and projected financials including management's high, low, and base case for the issuer.

Pro rata

Facilities sold to banks (revolving credit, TLA, acquisition facility, CapEx facility). These tranches generally have a gradual amortization until maturity (except for the revolver) and a maturity of six to seven years. They will usually carry a spread of +200 and greater and might have two to four step-downs based on a pricing grid.

Public to private (P2P)

A buyout of a publicly listed company by a private equity firm resulting in its delisting from the stock exchange.

Ratings-based grids

Adjustments in loan spread based on rating; typical in investment-grade loans.

RATS (Rate, Amortization, Term, Security)

Types of changes to an agreement that usually require a full vote of lenders.

Recapitalization

Changes in the composition of an entity's balance sheet mix between debt and equity either by (1) issuing debt to pay a dividend or repurchase stock, or (2) selling new equity, in some cases to repay debt.

Recovery

This is the opposite of loss given default—it is the amount a creditor recovers, rather than loses, in a given default.

Refinancing

The issuance of a new loan or bond to refinance existing debt.

Relative value

This can refer to the relative return or spread between (1) various instruments of the same issuer, comparing for instance the loan spread with that of a bond; (2) loans or bonds of issuers that are similarly rated and/or in the same sector, comparing for instance the loan spread of one BB rated healthcare company with that of another; and (3) markets, comparing for instance the spread on offer in the loan market with that of high-yield or corporate bonds. Relative value is a way of uncovering undervalued, or overvalued, assets.

Reorganization plan

Debtor's plan upon emerging from bankruptcy for returning to normal business and repaying pre-petition creditors.

Repayments

The total par outstanding amount of loans in the Morningstar® LSTA® Leveraged Loan Index paid down in the specified time period.

Repricing

An amendment to the change in spread. In a market where spreads on new issues are declining, borrowers already in the market will ask lenders to allow them to reduce the existing spread on their loans.

Required lenders level

Usually just a simple majority used for approval of nonmaterial amendments and waivers or changes affecting one facility within a deal.

Rich/Cheap

This is terminology imported from the bond market to the loan market and refers to the investor's—and not the borrower's—perspective. If you refer to a loan as rich, it means it is trading at a spread that is low compared with other similarly rated loans in the same sector, so it can be sold for a gain. Conversely, referring to something as cheap means that it is trading at a spread that is high compared with its peer group. That is, you can buy it on the cheap.

Roll-up DIPs

Combined pre-petition claims in the DIP facility. In some bankruptcies, DIP providers were given the opportunity to roll up pre-petition claims into junior DIPs that rank ahead of other pre-petition secured lenders.

Rollover equity

Reinvesting funds contributed to the company under previous ownership into a new company under new ownership.

Running the books

Generally the loan arranger is said to be running the books, i.e., preparing documentation, and syndicating and administering the loan.

European Leveraged Loan Index (ELLI)

A market value weighted index based on market weightings, spreads, and interest payments tracking the European loan market.

Secondary/Tertiary LBO

A secondary LBO (and tertiary LBO) is a sale from one sponsor to another sponsor.

Second-lien debt (SLD)

Loan that has second-priority interest on security. Subordinated to senior loans (TLA, TLB, TLC, etc.) but senior to mezzanine, high-yield, PIK notes, and equity. They are floating-rate-instrument-like senior loans, priced roughly 200–300 bps higher than senior loans. Second-liens are more expensive to prepay than senior debt since many second-liens have prepayment penalties in the first two years. Their maturity is usually one-half to one year longer than the TLC.

Second-lien debt/EBITDA (SLD/EBITDA)

Ratio of second-lien debt to EBITDA. A ratio commonly used in financial analysis and covenants.

Secured Overnight Financing Rate (SOFR)

US overnight borrowing rate collateralized by Treasuries. Designated as the future replacement for LIBOR.

Senior secured

The highest ranking instrument in priority of payment.

Seniority

Refers to where an instrument ranks in priority of payment. Based on this ranking, an issuer will direct payments with the senior-most creditors paid first and the most junior equityholders last.

Shadow default rate

The number of loans to issuers that, over a 12-month period, are (1) paying default interest, (2) in forbearance agreements (lender agreements to reduce or suspend payment requirements for a specified length of time), or (3) represented by restructuring advisors (specialists in reorganizing issuer balance sheets), divided by the number of loans at the beginning of that period.

Simple majority

The basic required lenders level used for approval of nonmaterial amendments and waivers or changes affecting one facility within a deal.

Single security agreement

Places second-lien lenders in the same creditor class as the first-lien lenders from the standpoint of a bankruptcy

Single-name total rate of return swaps (TRS)

A way for participants to purchase loans synthetically on margin. A participant buys from a counterparty, usually a dealer, the income stream created by a reference asset.

Soft call

Premium paid by issuer for early redemption.

Soft fee premium

This is paid by issuer for early redemption.

Speculative grade

Speculative grade is a rating of BB+ or lower on an issuer. It is also considered the leveraged range.

Sponsor to sponsor (S2S)

Deals in which one private equity firm sells a portfolio property to another.

Spread/Margin

Amount over the base which the loan pays as interest. For example base+350 means that the spread is 350 bps.

Spread/Yield to call (STC/YTC)

The spread/yield to call is the primary spread adjusted for the break price over the stated call term, usually 3 or 4 years. The secondary spread/yield to call is the current spread adjusted for the current secondary market price over the stated call term.

Spread/Yield to maturity (STM/YTM)

The spread/yield to maturity is the primary spread adjusted for the break price over the stated term of the facility. The secondary spread/yield to maturity is the current spread adjusted for the current secondary market price over the remaining term of the loan.

Springing liens/Collateral release requirements

Language stating that the borrower must attach or release collateral if the issuer's ratings change. It is primarily attached to borrowers on the cusp of investment grade versus speculative grade.

Standstill agreement

In the case of two discrete security agreements, divided by a standstill agreement, the first- and second-lien lenders are likely to be divided into two creditor classes. Second-lien lenders do not have a voice in the first-lien creditor committees.

Staple financing

A financing agreement stapled onto an acquisition, typically by the M&A advisor. If a private equity firm is working with an investment bank to acquire a property, that bank, or a group of banks, may provide a staple financing to ensure that the firm has the wherewithal to complete the deal. Because the staple financing provides guidelines on both structure and leverage, it typically forms the basis for the eventual financing that is negotiated by the auction winner, and the staple provider will usually serve as one of the arrangers of the financing, along with the lenders that were backing the buyer.

Stock repurchase

When a company uses debt proceeds to buy back stock.

Strategic acquisitions

Acquisitions undertaken by borrowers that are not related to private equity. The borrowers are usually corporations in the same or a related industry segment as the target company.

Structural flex

An arranger's adjustment of the size of tranches during syndication to reflect current liquidity levels. In highly liquid times, an arranger may move debt from the more expensive tranches, such as mezzanine, to cheaper tranches, such as second-lien or first-lien.

Structured finance

A complex financial instrument vehicle based upon an underlying pool of assets. For loans, the primary format is the Collateralized Loan Obligation (CLO), which securitizes a pool of loans and includes some amount of leverage.

Subpar loan buyback

Opportunity for issuers with the financial wherewithal and the covenant room to repurchase loans via a tender, or in the open market, at prices below par.

Subordinated bondholders

Debt holders who are ranked below the senior level.

Subsidiary guarantees

Assurances that the assets of subsidiaries are part of the asset pledge, so if an issuer goes into bankruptcy all of its units are on the hook to repay the loan.

Supermajority

Share of lenders, typically 67–80%, required for certain material requests such as changes in amortization in term loan repayments and release of collateral. It is a threshold higher than the simple majority level set for the approval of nonmaterial amendments.

Swingline

A small overnight borrowing line, usually provided by the agent.

Syndicated loan

A commercial credit provided by a group of lenders. It is structured, arranged, and administered by one or several commercial or investment banks, known as arrangers.

Syndication agent

Bank that handles the syndication of the loan.

Tangible net worth covenant

Requirement that the borrower maintain a minimum level of tangible net worth (net worth less intangible assets, such as goodwill, intellectual assets, excess value paid for acquired companies).

Term loan (TLA, TLB, TLC)

This facility is simply an installment loan, such as a loan one would use to buy a car. The borrower may draw on the loan during a short commitment period and repay it based on either a scheduled series of repayments or a one-time lump-sum payment at maturity (bullet payment). The term loan A (TLA) is a pro rata facility, structured to meet the requirements of bank investors. The institutional term loans are the term loans B, C, and higher (TLB, TLC, etc.), and are structured to meet the needs of institutional investors.

Term out

This option allows the borrower to convert revolving borrowings into a term loan at a given date.

Terms & conditions (T&Cs)

Preliminary term sheet describing the pricing, structure, collateral, covenants and other terms of the credit.

Total rate of return swaps (TRS)

A program under which a participant buys the income stream created by a loan from a counterparty on margin. The participant receives the spread of the loan less the financial cost plus base rate on its collateral account. If the reference loan defaults, the participant is obligated to buy it at par or cash settle the loss based on a mark-to-market price or an auction price.

Tranche

A layer of debt in a structured vehicle such as a CLO or syndicated loan. Tranches within a single structure may have different risk and reward profiles. Also known as a facility.

Undertakings for Collective Investment in Transferable Securities (UCITS)

An investment vehicle created through EU regulations. These pooled funds are registered to Europe but can be sold to investors worldwide. They exist because regulations in the UK restrict the marketing of loans directly to retail investors.

Underwriter

Financial institution that commits the funds needed for the transaction and distributes (syndicates) the debt.

Underwritten deals

Transactions in which arrangers guarantee the entire commitment, then syndicate the loan. Some banks use this strategy to win mandates and earn lucrative fees.

Unitranche financing

A structure in which separate debt tranches, i.e., first and second lien, are rolled into a single loan facility, typically provided by a single lender. They can be sliced up behind the scenes into “first out/last out” structures governed by an intercreditor agreement.

Unsecured

Loans that are not backed by collateral.

Upfront fee/new-issue fee

Fee paid by the arranger to lenders joining the syndicate, tiered so that larger commitments earn larger fees.

Usage fee

Fee paid when the utilization of a revolving credit is above a set level or more often below a certain minimum.

Voting rights

The percentage of lenders required to approve amendments or changes to a loan agreement. The levels may vary depending on the type of change (supermajority versus simple majority).

Watch list

A list of key credit issuers whose activity you want to follow.

Weighted average bid

A price at which an investor is willing to buy a loan, weighted by the par amount outstanding. By definition, larger deals will have a stronger influence on the average.

Weighted average institutional spread

Average spread of TLB and TLC tranches weighted by the size of each tranche.

Working capital

Current assets minus current liabilities.

About PitchBook and LCD

LCD is the industry standard for leveraged loan data, news, analysis and indexes, providing coverage across the full lifecycle of loans. The leveraged loan market data provider has been acquired by PitchBook, which delivers data, research and technology covering the breadth of the private and public capital markets. This unique combination will provide investors with unmatched transparency into every aspect of the leveraged finance market.

Contact PitchBook

demo@pitchbook.com

Contact LCD

support@lcdcomps.com

Visit the website

pitchbook.com/leveraged-commentary-data

About Morningstar Indexes

Morningstar Indexes was built to keep up with the evolving needs of investors—and to be a leading-edge advocate for them. Our rich heritage as a transparent, investor-focused leader in data and research uniquely equips us to support individuals, institutions, wealth managers and advisors in navigating investment opportunities across major asset classes, styles and strategies. From assessing risk and return with traditional benchmarks to helping investors effectively incorporate ESG objectives into their investment process, our range of index solutions spans an investment landscape as diverse as investors themselves. We help investors answer today's increasingly complex questions so that they can more easily reach tomorrow's goals.

Contact Morningstar Indexes

Indexes@morningstar.com

Visit the website

Indexes.morningstar.com

COPYRIGHT © 2022 by PitchBook Data, Inc. All rights reserved. No part of this publication may be reproduced in any form or by any means—graphic, electronic, or mechanical, including photocopying, recording, taping, and information storage and retrieval systems—without the express written permission of PitchBook Data, Inc. Contents are based on information from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Nothing herein should be construed as investment advice, a past, current or future recommendation to buy or sell any security or an offer to sell, or a solicitation of an offer to buy any security. This material does not purport to contain all of the information that a prospective investor may wish to consider and is not to be relied upon as such or used in substitution for the exercise of independent judgment.

pitchbook.com/leveraged-commentary-data