The ABCs of Private Credit

Olive the owl lends money and looks after it carefully



FundOpsHQ



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Agreement

Every loan starts with an agreement. It says how much is lent, how much interest is paid and when the money comes back.



Borrower

A borrower needs money now and promises to pay it back later. Olive's borrower is a toy maker who wants a bigger workshop.



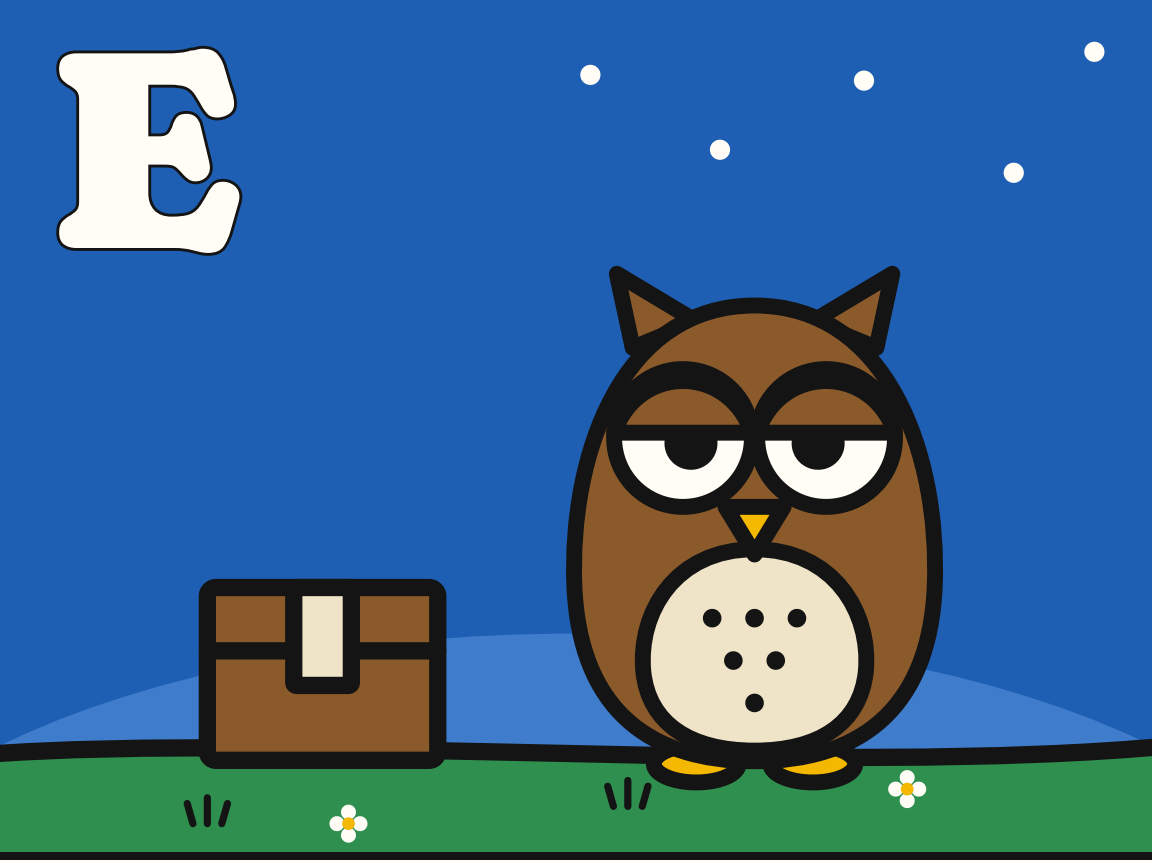
Covenant

A covenant is a promise inside a loan, such as keeping enough cash on hand. It helps the lender know that all is well.



Direct lending

In direct lending, a fund lends straight to a company, with no bank in the middle. Olive knows her borrowers by name.



Equity

Equity is the owners' money in a company. If times get hard, it takes the first losses, which protects the loan like a cushion.



Floating rate

A floating rate moves up and down with a base rate, like a little boat on the water.



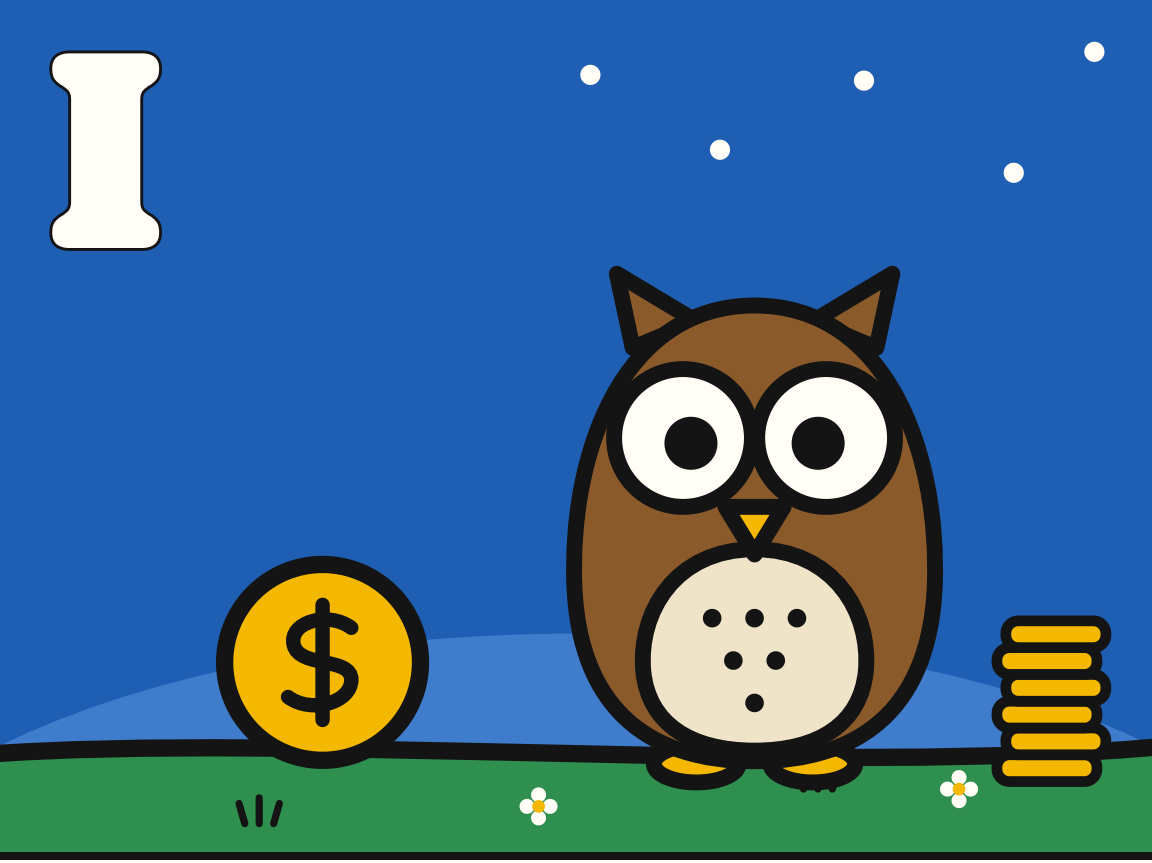
Grace period

A grace period is a few extra days to make a payment. It is a small kindness written into the agreement.



Holding

Many credit funds keep their loans until they are repaid, instead of selling them on. Olive is happy to wait.



Interest

Interest is the cost of borrowing. Borrow a hundred, and each year you pay a little extra until the hundred is paid back.



Junior debt

Junior debt is paid after senior debt. It takes more risk, so it earns more interest.



Knowing your borrower

Before she lends, Olive visits, reads the numbers and asks good questions. Knowing your borrower is the heart of lending.



Loan-to-value

Lend sixty on something worth a hundred, and the loan-to-value is 60%. A lower number leaves more room if its value falls.



Maturity

Maturity is the day a loan is due to be paid back. It is written in the agreement from the very start.



NAV loan

A NAV loan is a loan to a whole fund, backed by the value of what the fund holds.



Original issue discount

Lend ninety-eight and get back a hundred. That two is called the original issue discount, and it is part of the lender's return.



Payment in kind

Sometimes interest is not paid in cash. It is added to the loan, to be paid later. That is called payment in kind, or PIK.



Quarterly report

Every three months, the borrower tells the lender how the business is doing. Regular news keeps everyone close.

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Repayment

Bit by bit or all at once, the money comes home. Repayment is the day the promise is kept.



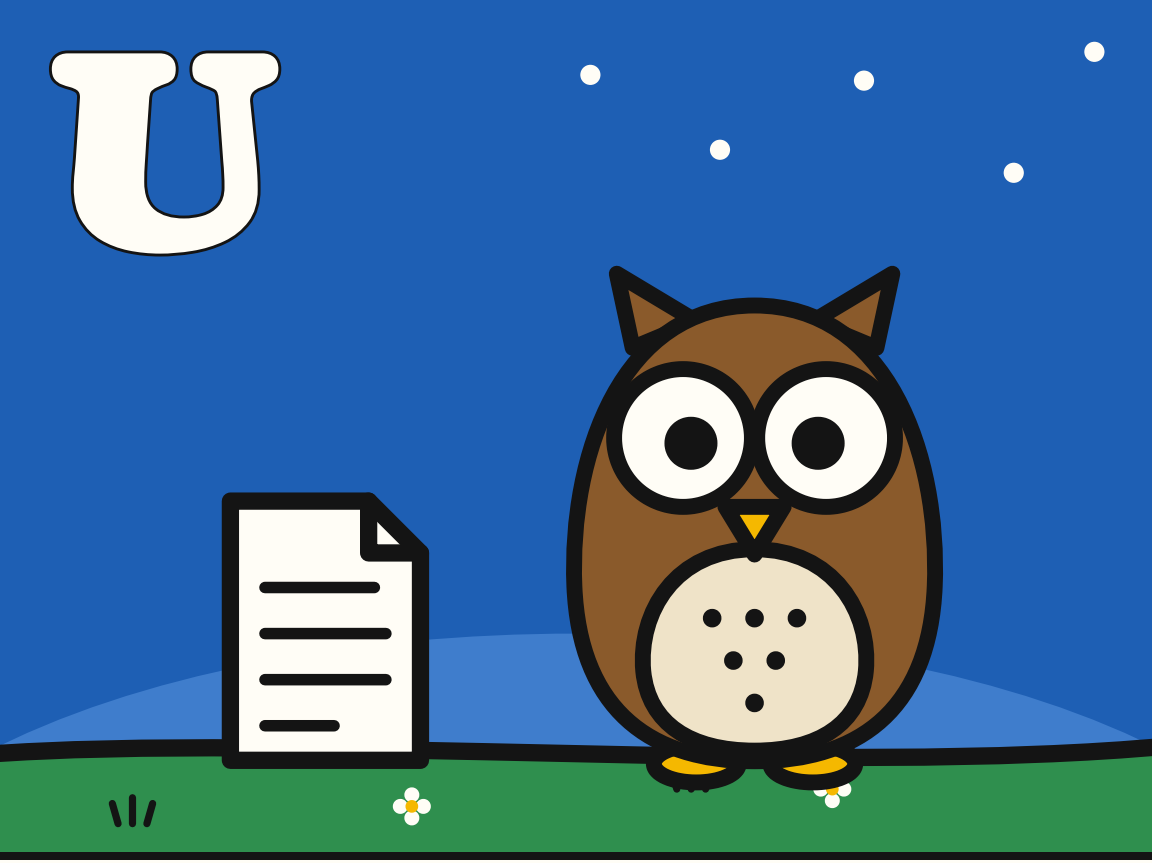
Senior debt

Senior debt is first in line to be repaid. It is the safest place to stand, so it earns less than the loans behind it.



Tranche

Tranche is the French word for slice. A loan can be cut into slices, each with its own risk and its own reward.



Unitranche

A unitranche is one loan doing the job of two, with one rate and one agreement. It keeps things simple for the borrower.



Value

Lenders ask what a business is worth, because that value stands behind the loan.



Workout

When a borrower has trouble, lender and borrower can work on a new plan together. That is called a workout.



Cross-default

Under a cross-default clause, missing a payment on one loan can count against another. So every promise matters.



Yield

Yield is what a lender earns in all, from interest, fees and any discount.



Zzz

While the toy maker sleeps, Olive keeps watch. In the morning, it is her turn to rest.



A note for grown-ups

The words in this book are real ones, explained simply. The animals and examples are made up, and real terms vary from fund to fund. It is here to help you read and talk together, and it is not advice.

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