Interpreting Your Debt Financing Term Sheet

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A term sheet is a point-in-time summary of what your credit facility is expected to look like. While it can come in different shapes / sizes, it will contain key elements that lay the groundwork for your credit agreement.

If you haven't come across many debt financing term sheets, the below can help you interpret and contextualize the various elements that may (or may not) be included. Note order may vary.

Disclosure	Language qualifying the terms presented are non-binding and subject to change.
The Parties	The groups involved in the financing, including the **Lender(s)** providing the funds – potentially a single lender through one or more entities / vehicles or a group of lenders (or "syndicate") – the **Borrower(s)**, receiving the funds and responsible for repayment, and the **Guarantor(s)** who guarantee repayment will take place (often one-in-the-same with the Borrower).
The Debt Facilities	The financing structure, which may include a **Revolving Credit Facility** (Revolving Line of Credit or Revolver), which can be drawn / repaid / redrawn, and / or a **Term Loan Facility**, funded once and repaid in installments with any remainder due at the end of the **Term** or on the **Maturity Date**. Often includes what the facilities are secured by (**Security**), or what will be put up as Collateral against the loans. If there is a Revolver or a "Delayed Draw" Term Loan, may include **Availability**, or the timing and other conditions under which the Borrower is permitted to use the facilities, as well as approved **Use of Proceeds**, or what the borrowed money is allowed to be used for.
Costs	The costs associated with borrowing, including **Interest,** which can be a "floating" rate (spread / margin to a Base Rate) or a fixed rate, as well as other ongoing servicing costs, such as **Administrative Fees** and / or **Unused Fees** (carrying costs on any undrawn portion of a facility). Usually includes an **Upfront / closing fee,** which may be added to the principal balance and funded to the Borrower (or netted from the money sent - an Original Issue Discount (OID)). Can also include **Early Prepayment fees** or exit costs on unscheduled principal repayment.
Repayment & Additional Reqs.	The terms of how the loan will be repaid, such as through **Amortization** (regular scheduled principal payments) and / or "sweeping" of **Excess Cash Flow** (periodic allocations of residual net operating cash flow / profits). May include additional facility requirements, such as preliminary covenant detail – including **Financial Covenants**, or credit metric performance boundaries to be maintained, as well as **Affirmative Covenants** and **Negative Covenants**, or things the Borrower promises to do and not to do while borrowing the money.
Conditions Precedent	What needs to happen before funding can occur, including conditions required to complete the transaction, such as satisfactory completion of lender due diligence and underwriting procedures and meeting certain closing financial thresholds.

What if I don't receive a term sheet?

A term sheet can also be called an "indication of interest" or "letter of intent". If you're talking to one long-standing existing lender, you may not need an indication. Maybe high-level terms are just discussed via phone or email. It's worth noting that anything preceding a signed credit agreement holds the same relative weight in comparison (near zero).

The "fine print"

It's important to be mindful of the "fine print", or details on terms that are not yet present or defined. Consider what has and hasn't been spelled out. Term sheets won't be exhaustive, but the language will be intentional. Pay special attention to capitalized terms, as those will have a specific meaning.

Conclusion

While no two term sheets will be exactly alike, all will include key elements that summarize the point-in-time understanding of what your credit facility is expected to look like. By better understanding what is and is not spelled out, borrowers can more fully interpret their term sheets.

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