

# The Debt Dictionary

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**Administrative Agent Fee:** an annual fee paid to the lender designated as the Administrative Agent for administration-related services to support the credit facility (e.g., communications, payments, etc.).

**Affirmative Covenants:** credit agreement provisions that describe certain actions the borrower must take to be / remain in compliance, such as providing regular and accurate financial reporting and maintaining proper insurance coverage.

**Amortization:** the required scheduled repayment of outstanding loan principal prior to the loan's Maturity; common for Term Loan facilities; may be quoted as a percentage of the original principal amount or a dollar number, which can be fixed or vary over time / until Maturity based on a schedule; differs from amortization regarding depletion in intangible asset value on your balance sheet, which is a non-cash expense.

**Borrowing Base:** a formula used in asset-based credit facilities to determine the borrowing capacity available under the facility, typically based on a percentage of the value of the underlying assets securing the loan.

**Collateral:** assets pledged to secure a loan (i.e., subject to a security interest for the benefit of a secured lender); may include specific assets (e.g., accounts receivable, inventory, equipment, etc.) or all tangible assets; can consist of an equity / stock pledge.

**Default Rate:** the additional interest rate charged to a borrower during an Event of Default.

**Delayed Draw Term Loan (DDTL):** committed term loan capacity that can be "drawn down" within a specific period post-closing (in part/whole) for designated Use of Proceeds; may be referred to as a Multiple Draw Term Loan (or MDTL).

**Equity Pledge:** an agreement that creates a security interest in the equity ownership / shares of a company (allowing it to serve as loan Collateral).

**Equity Cure:** a credit agreement provision that allows a borrower to remedy / resolve (cure) a covenant violation by making an equity contribution to the business.

**Event of Default:** the point at which a default under the credit agreement has not been cured, resolved or waived within the required / provided time frame.

**Excess Cash Flow:** residual net operating profits / cash flows, a portion of which may be required to be applied towards repayment of outstanding loan principal (typically annually).

**Financial Covenants:** credit agreement provisions that describe certain financial performance tests a borrower must meet / maintain to be in compliance, such as a maximum leverage ratio or a minimum fixed charge coverage ratio; may be referred to as maintenance covenants.

**Guarantor:** an entity that assumes liability and is responsible for repayment of a debt obligation if the direct obligor/borrower is unable to satisfy repayment.

**Hedge:** a strategy used to reduce the financial impact of market volatility by entering into a derivative contract that takes an offsetting position, such as an interest rate cap.

**Interest Rate:** the annual rate charged / required to be paid on the outstanding loan balance as the cost of borrowed funds; may be called the coupon rate; may be floating (based on a Spread to a base) or fixed.

**Junior (Debt):** refers to an obligation's priority ranking being secondary (or "junior") in the capital stack or below more "senior" lenders (e.g., paid out after more senior lenders in a liquidity event).

**Know Your Customer (KYC):** a closing diligence process wherein lenders perform customer-identification security checks mandated under the USA Patriot Act (to prevent fraud, money laundering, etc.).

**Leverage:** a financial/credit metric, typically referring to a ratio of debt-to-EBITDA.

**Mandatory Prepayments:** Specified events / occurrences that require the borrower to repay (in part/whole) loan obligations.

**Maturity:** the date on which a loan must be repaid in full; may be quoted via a loan term (e.g., 5 years), or the time after issuance that the loan will come due.

**Negative Covenants:** credit agreement provisions that prohibit the borrower from engaging in certain activities to remain in compliance, such as incurring new debt or selling assets; may include specific carve-outs / exclusions unique to the borrower's business.

**Obligor:** another name for the borrower or the party with the obligation to service and repay the loan.

**Upfront Fee / Original Issuance Discount (OID):** a closing fee paid to the lender(s), sometimes structured / referred to as an original issuance discount, which is the percentage of the principal amount issued in cash to the borrower at closing (e.g., 98, 99, etc.), or inversely retained by the lender(s) as the closing fee.

**Payment-In-Kind (PIK) Interest:** interest that is capitalized (added to the loan principal balance due) instead of being paid out in cash.

**Prepayment Penalty (or Early Prepayment Fee):** a fee charged to the borrower in the event of early or unscheduled prepayment of loan principal; typically expressed as a percentage of par to be repaid, including the fee (e.g., for a "102" prepayment fee, if you repaid \$100 of principal, you'd pay an additional \$2 as an early prepayment fee/penalty).

**Quality of Earnings (QoE):** a report produced by an independent CPA firm to verify/present historical financial statements (in accordance with GAAP) and assess/evaluate the accuracy of the company's financial systems and controls.

**Restricted Payments:** payments restricted or not permitted under the terms of the credit agreement; often relating to payments made to security interests that are junior relative to secured lenders (e.g., including equityholders / dividends); typically contained in the negative covenants.

**Revolving Credit Facility (Revolver):** a credit facility whose commitment "revolves" or can be borrowed, repaid, and re-borrowed during the term / until Maturity, so long as applicable conditions are met / satisfied (e.g., satisfy a Borrowing Base formula, etc.).

**Spread (Applicable Margin):** the incremental rate (above the base) applied to calculate the interest rate charged for a floating-rate loan.

**Term Loan:** a loan for a specific amount borrowed on day one and then repaid over time (e.g., based on an Amortization schedule) / in full at Maturity.

**Tranche:** French for “cut” or “slice” - refers to a portion or different tiers in a company's capital structure.

**Unitranche:** a financing that “combines” senior and junior leverage capacity into a single facility / tranche of debt.

**Unused Fee:** a fee paid on the unused portion of a committed credit facility (e.g., a revolving credit facility or delayed draw term loan); may be called a commitment fee.

**Use of Proceeds:** permitted / allowable spending categories when using borrowed funds.

**Voluntary Prepayment:** optional, unscheduled repayment of Term Loan principal made at the borrower's discretion.

**Working Capital:** a financial measure calculated by taking the sum of operating current assets (accounts receivable, inventory, etc., excluding cash) less the sum of operating current liabilities (accounts payable, accrued expenses, etc.); used as a measure of liquidity (change in Working Capital is a source / use of cash on the cash flow statement); key Working Capital assets (e.g., receivables/inventory) can serve as Collateral for a Working Capital revolver.

**Yank-a-Bank:** a credit agreement provision that allows a borrower to replace a minority, dissenting lender if they won't agree to an amendment that the majority of lenders participating in the facility are in agreement on.

**Zero-volatility spread (Z-spread):** The fixed spread added to a benchmark rate that makes the price of a bond equal to the present value of its cash flows.

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