

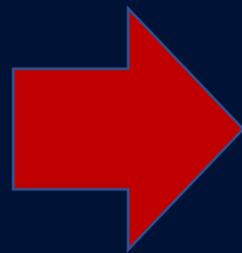


Facility/Loan Agreement

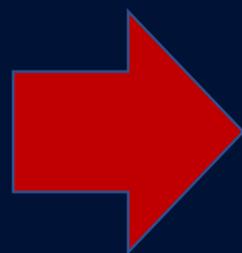


Knowledge Series 2 – Episode 3

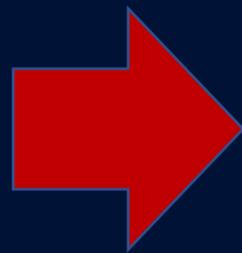
Key Learnings



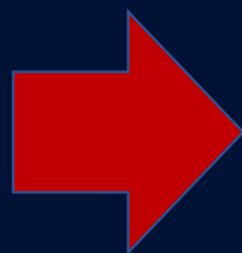
Meaning



Need for an FA



Coverage of FA



Glossary

Meaning

- Facility Agreement (FA) or a Loan Agreement is a legally - binding contract between lender and borrower as well as all related parties in order to formalize the loan process.
- All the broad terms and conditions which needs to be fulfilled by the parties involved are mentioned in FA.
- Parties to an FA are lenders and borrowers/co-borrowers.

Need for an FA

- While sanction letter briefly covers broad terms of the loan facility, a Facility Agreement covers detailed terms and conditions along with all covenants and recourse actions available to both parties executing the agreement.
- Once FA is executed, borrower is legally bound to repay the loan amount as per terms and conditions specified in FA.
- It provides recourse options and rights to be exercised by the lender in case of Event of Default (EOD) on the part of borrower/co-borrower.

Coverage of FA

Commercial Terms:

- Facility/Loan Amount
- Rate of Interest
- Loan Tenor
- Conditions Precedent/Subsequent
- Capitalization / Standing Instruction
- Disbursement Schedule
- Prepayment Charges
- Penal Interest
- Cross Collateralization
- Peak Exposure, if any
- Security and Receivables Cover

(Please refer to Glossary at the end for explanation of key terms.)

Coverage of FA

Non - Commercial Terms:

- Covenants
- Event of Default (EOD)
- Consequences of EOD
- Undertakings
- Governing Laws and Jurisdictions
- Representation and Warranties
- Indemnity Clause
- Details of Security offered

Capitalization/Standing Instruction %:

- When proceeds from sale of flats are realized in escrow accounts, certain percentage of these collections are utilized towards repayment of loan. This is called Capitalization/Standing Instruction.

Cross Collateralization:

- Cross Collateralization is a method used by lender to use the collateral (security) of one loan in order to secure another loan.
- It comes into effect when multiple projects of the borrower have been financed by a single lender.

Disbursement Schedule:

- Disbursement Schedule refers to the schedule of amount to be disbursed to the borrower by lender during the term of the loan.

Covenants and Event of Default (EOD):

- Covenants refers to promise, or agreements made by borrower to the lender to perform/not perform certain acts which will be beneficial to the interests of the lender.
- If the covenants are not fulfilled by the borrower even after the expiry of cure period offered by the lender, then it is treated as an EOD.

Glossary

Event of default (EOD):

- EOD means an occurrence of any adverse event which entitles the lender to terminate the agreement and demand the outstanding loan amount from borrower.
- Lender may exercise following rights in case of an EOD:
 - ✓ Take the possession of the secured property.
 - ✓ Transfer the secured property in favor of lender by way of lease, sale or otherwise.

Indemnity Clause:

- It compensates the lender against any losses or damages suffered by the lender due to any acts of the borrower.

Glossary

Peak Exposure :

- It refers to the maximum outstanding amount of loan to an entity or group an FI can expose itself to, at any given point in time.
- E.g., supposing the peak exposure on a developer group X by the FI is fixed at Rs 40 crores. The FI has sanctioned a total of Rs 50 crores. It will not lend the remaining Rs 10 crores or a part thereof unless the outstanding goes below Rs 40 crores through repayment of the loan.

Security Clause:

- It specifies list of movable/immovable properties offered by the borrower to secure the repayment of the loan.

**It is Impossible to Un-sign a
Contract, So Do All Your Thinking
Before You Sign.**

- Warren Buffett

*Stay tuned for
more knowledge*

