The Structure, Benefits and Optionality of Master Note Facilities

Discussion, November 30, 2022

Guy Haselmann, Head of Thought Leadership at MetLife Investment Management, recently sat down with Geert Henckens, Managing Director, Corporate Private Placements, to discuss the unique beneficial characteristics of Master Note Facilities.

Guy: ***When I hear you talk about Master Note Facilities, I can sense your excitement. To me it has a name that sounds exciting, but let's simply start with what it is.***

Geert: A Master Note Facility is basically a pre-approved financing vehicle that allows companies exceptionally quick access to medium to long-term fixed rate debt financing. It is a readily available and cost-effective way to create additional debt capacity because all the terms are agreed upon and full legal documentation is executed, ahead of time. Importantly, the facility provides great optionality to a company because there is no obligation to use it, even in part, nor do any commitment fees apply to undrawn amounts.

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Guy: ***Are all terms agreed upon ahead of time?***

Geert: The only variable not determined ahead of time is the coupon or interest rate. The coupon is determined when the company requests a draw from the facility and will be based on market rates prevailing at that time and changes in the credit quality of the company, if any. And that's really the point, the Facility is set up so the underwriting and legal work is completed ahead of time should a company have a need for a quick source of capital.

Guy: ***It seems to me that a Master Note Facility is basically a line of credit. So, is the legal document similar to a bank lending document with similar types of terms?***

Geert: I believe that your analogy is reasonable albeit that the documentation is more akin to a typical debt private placement transaction, where terms and covenant protections are fully customized. As mentioned before, a major difference with a revolving credit facility provided by banks is the absence of any commitment fees or non-utilization fees.

- Maturities for drawn capital range from 5 to 20 years or more, which is typically much longer than traditional commercial bank financing.
- Generally speaking, when MIM establishes a Facility for a company, it typically has a 3-year term with optional renewals. Total Facility amounts typically are in a range between $100 million and $250 million[1] and enable draws of $10 million clips (or equivalent in other currencies).
- Since MIM maintains an international credit platform with a physical presence in various countries across the globe. MIM can offer companies multi-currency facilities enabling borrowers to issue debt to MIM in several currencies (e.g., $, €, £, CAD, AUD, or ¥ to name a few).

Guy: ***When can the Facility be drawn? And, how often and in what increments?***

Geert: The facility can be drawn down at any time, and as many times as needed up to the cap. Each note can also have a different maturity and/or repayment structure, offering real flexibility to companies.

Guy: ***I can see the flexibility and optionality for a company. When a company goes to the wider market and issues debt it typically takes, say, 8 to 12 weeks to complete the transaction. It is very expensive too. The proceeds are all available all at once, but the cost from coupon interest also begins accruing on the day of settlement. With your master note facility, interest only accrues when money is drawn and only on the amount requested. How long does it take to set the coupon and deliver the requested financing?***

Geert: When a Master Note Facility is in place, it typically takes 3 to 10 days to set the coupon and provide the financing. That said, MIM also offers the option to delay funding by months from the date of setting the coupon, resulting in a reduced cost of carry for companies. So you are absolutely right in terms of flexibility and the ability for a borrower to tailor the issuance of debt to its actual needs, impacting favorably its interest expenses.

***Guy:* What occurred at the height of the Pandemic? I assume that when the economy was shuttered that many needed to draw from their Facility.**

Geert: During COVID, the facilities operated the way that they were designed. They are a "shelf" facility that came off the shelf. The Facilities were able to provide quick capital when cash flows abruptly halted, and companies were keen to increase their liquidity buffers given the high levels of uncertainty at the time.

Let me just add that strong relationships are a key aspect to successful direct lending agreements. We firmly believe that the goodwill MIM receives by being a good partner leads to longer lasting engagement and 'first calls' when other business opportunities arise.

***Guy:* Do you have a sense what the proceeds are typically used for when the facility is tapped? If so, what types of use?**

Geert: We consider ourselves partners with those in the facility agreement, so we typically have a good idea. The proceeds could be used for a variety of purposes, but are often for capital expenditures, merger & acquisition activity, refinancing of bank or existing debt, or simply to recapitalize the company's capital structure. In our experience, these facilities are often considered as an efficient and effective alternative to a bridge loan when an M&A opportunity arises.

***Guy:* This has been helpful and informative, thank you.**

Geert: Thank You.

Endnote

[1] As of March 31, 2022

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