

EXERCISE

PAYOFF LETTERS

Background

Your firm's client, Median National Bank, makes a lot of loans to growing companies. You've been asked to prepare a payoff letter for an outstanding loan that's being paid off. You check in with the client and they confirm the following:

- The loan is set to mature in three years;
- The borrower has an outstanding letter of credit with Median National Bank that they'd like to leave in place; and
- The borrower is refinancing its loan with another lender, and your client wants the new lender to share in the borrower's surviving obligations.

You agree with the client that you'll put together a rough draft of a payoff letter and then meet again.

Instructions

Come prepared to discuss what you'll include in the payoff letter and any follow-up questions you have for the client, including:

- What components you'll include in the final payoff amount?
- How you can keep the letter of credit in place?
- What are the borrower's surviving obligations likely to be, and how will you ensure the new lender shares in those obligations?
- Will your client have any affirmative obligations under the payoff letter that you should remind them of?