EXERCISE
PRINCIPAL REPAYMENTS

Background
Your client borrowed $20M under a term loan facility two and a half years ago. They just sent an email telling you that they had a successful year, so they're planning to prepay $5M of the outstanding principal. Before they make the prepayment, they want to know whether it will have any implications under the credit agreement.

Before the call, you take a look at the credit agreement and find the following information:
- The loan is subject to straight line amortization of 1.00% per year, payable quarterly;
- Voluntary prepayments are allowed, but there's a minimum prepayment of 25% of the outstanding balance;
- Excess cashflow does *not* trigger a mandatory prepayment;
- Prepayments will be applied in inverse order of maturity; and
- There is a prepayment penalty of 2% of the amount being prepaid.

Instructions
Come prepared to discuss the following:
- Is the client allowed (or required) to make this planned prepayment?
- How would the prepayment affect future payments?
- Is the client likely to have any reinvestment rights for this type of prepayment?
- What's the typical process for making a prepayment?
- How much will the client owe in fees if it makes the prepayment as planned?