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Credit Documentation & Covenants

Reading and Testing a Credit Agreement
Course Summary

Six modules, one fund, every figure computed.

Educational material. Not legal or investment advice. Prepared with AI assistance.

About this course

This course reads a credit agreement the way a lender does, and tests it in Excel: the loan to Marston Applied Controls, a fictional US industrial company, over the four quarters of 2027. Covenant EBITDA and its add-backs; the leverage and cover tests with their headroom; the breach of the fourth quarter and the equity cure; the baskets for debt and dividends; the cash sweep and the margin ratchet; and the compliance certificate. It is written for analysts and associates of private credit funds, leveraged finance and restructuring teams, sponsors' finance teams, and lawyers who want the numbers behind the clauses. Marston is the borrower of the Private Credit Modeling course; this course stands on its own.

Module	Lessons	What you build
1. The agreement	1.1, 1.2, 1.3, 1.4	Covenant EBITDA: add-backs and caps
2. Financial covenants	2.1, 2.2, 2.3, 2.4, 2.5	The net leverage test, Headroom and cushion, The fixed charge cover ratio
3. When a test fails	3.1, 3.2, 3.3, 3.4	Size an equity cure, Cure as EBITDA or as debt reduction
4. Baskets	4.1, 4.2, 4.3, 4.4	Debt capacity: free-and-clear and ratio baskets, The builder basket and dividends
5. Cash and pricing	5.1, 5.2, 5.3, 5.4	The excess cash flow sweep, The margin ratchet
6. Monitoring	6.1, 6.2, 6.3, 6.4, 6.5	Build the certificate and its checks

How to use this summary

- Watch the lessons of a module, then read its pages here: key ideas, the numbers of the case, the mistakes to avoid.
- Build along with the step files (one start file and one solution file per build lesson), then do the module tab of the Exercise Workbook.
- Practice the module in the Quiz App or in your learner account, then take the certificate exam online: 40 questions, 60 minutes, 80% to pass.

MODULE 1

The agreement

What a credit agreement does, why the definitions come first, the case, and the covenant EBITDA with its add-backs and caps.

Key ideas

- A credit agreement gives the lender four things: information, control, preservation of value and priority. Affirmative covenants, negative covenants with their baskets, financial covenants.
- The definitions decide the ratios. Covenant EBITDA = reported EBITDA plus the add-backs the definition allows.
- Add-backs are limited by caps, time limits and evidence. A cap expressed as a share of EBITDA tightens when EBITDA falls.
- Two agreements with the same covenant level protect differently if EBITDA, debt and cash are defined differently.

The case in numbers

	Q2 2027	Q3 2027
32.00	29.50	
1.00	1.50	
4.00	4.00	
4.95	4.65	
4.00	4.00	
37.00	35.00	

Mistakes to avoid

- Testing the covenant on accounting EBITDA.
- Reading the covenant level without reading the definitions.
- Accepting an uncapped add-back for savings not yet achieved.
- Forgetting that a percentage cap moves with EBITDA.