

refers to which loans get paid off first if a person or a company has multiple loans. Clearly, the most senior loan in the structure (the one paid off first) will be the most creditworthy and demand the lowest yield. This idea of seniority is going to be flipped on its head by Battery Finance's loan product, and you will soon see why.

Seniority is contractual, but it is also behavioral. It would only truly matter in the case of bankruptcy, where a judge would rule that assets be dispersed according to the priority specified in its contracts. Typically, a primary home would be a first loan, and a vacation home might be next. In the consumer case, a person cannot get a loan from a bank without disclosing all other outstanding loans in force. The structure lines up quite well with the consequences if someone were to be unable to honor all of their loans. They would likely naturally prefer to cover their primary home first, and perhaps their second home would be what the lender chooses to give up, if push comes to shove and they can only honor the terms of one. In the corporate realm, loans are typically structured according to the tradeoff between the yield they will pay and the covenants they are willing to accept. (An example of a covenant would be an agreement that the loan is in default if the company's return on assets ever goes below a certain level for two straight quarters.) A more desperate borrower would have to accept more stringent covenants to avoid paying such a high yield that it threatens the creditworthiness of all of their other outstanding loans.