Prepayment Premiums and Make-Whole Payments

Date: 11/06/13

Source: The Bankruptcy Strategist. Vol. 31, November 2013

Many loan agreements include clauses that permit borrowers to repay debt prior to the maturity date only if they make additional payments that are typically referred to as "prepayment premiums" or "make-whole payments." The purpose of such prepayment premiums is to compensate lenders for what would otherwise be the loss of their bargained-for yields for the scheduled lives of their loans. Prepayment premiums are usually either based on a fixed fee, such as a percentage of the principal balance at the time of prepayment, or a yield maintenance formula that approximates the lenders' damages in the event of prepayment.

Attorney

- Joel H. Levitin