

SUBORDINATION

TYPE	DESCRIPTION	EXAMPLES
CONTRACTUAL	<p>One group of investors agrees, under certain circumstances, not to be paid until another group of investors is paid in full</p> <p>Documented in a subordination agreement or intercreditor agreement</p>	<p>Senior – typically bank loans, public bonds and commercial paper</p> <p>Subordinated – typically public or privately placed bonds issued by financial institutions and non-investment grade companies</p>
STRUCTURAL	<p>A <i>holding company</i> is a company whose primary assets are the stock in other companies (i.e. subsidiaries or <i>operating companies</i>)</p> <p>Even without a subordination agreement or intercreditor agreement, holding company creditors are considered subordinated to creditors of the holding company's operating subsidiaries</p> <p>In a bankruptcy, subsidiaries can not dividend money to the holding company until all subsidiary creditors are paid in full</p> <p>Outside of bankruptcy there may be regulatory or contractual restrictions on a subsidiary's ability to dividend money to the holding company.</p>	<p>Senior – obligations of an operating subsidiary, including debt and trade payables</p> <p>Subordinated – obligations of a holding company; typically bank loans, public bonds and commercial paper</p>
EFFECTIVE	<p>Senior, unsecured debt can be effectively subordinated if a substantial portion of a company's assets are pledge to other creditors</p> <p>Long-term debt can be effectively subordinated to shorter-term debt since a company will likely repay debt in the order in which it matures</p>	<p>Senior – secured creditors and short-term debt</p> <p>Subordinated – unsecured creditors and longer-term debt</p>
STATUTORY	<p>Bankruptcy laws in most countries grant a <i>super-priority</i> claim to certain types of creditors</p>	<p>Senior - Varies by country, but may include bankruptcy costs, taxes, wages, pension liabilities, mechanics liens, trade creditors and environmental liabilities</p> <p>Subordinated – Everyone else, including senior, secured creditors</p>