

## CAPITAL CALL LINES OF CREDIT

# Explaining the terms in our capital call loan and security agreement

When you apply for a capital call line from Carta, you can sign in as little as one business day.<sup>1</sup> With most banks, approval for a capital call loan takes weeks.

One reason we're able to accelerate this timeline is by eliminating negotiations. Everyone gets our best offer from the get-go, including fair and transparent terms.

To help explain what we mean by fair and transparent terms, we've outlined the important sections of our Loan and Security Agreement ("Agreement") in plain English below. We recommend you review the Agreement with your lawyer before signing, but hope this document helps you get comfortable.

We're partnering with Coastal Community Bank, Member FDIC, to bring you these loans; Coastal will be your lender.

## SECTION 1: DEFINITIONS & CONSTRUCTION

This section outlines key terms that are referred to throughout the Agreement. While they're all important (if they weren't, we'd have gotten rid of them!), there are some definitions that are key to understanding the terms of your line of credit.

### Revolving Line

This tells you the total amount that you can borrow from the Bank at any one time. For funds that are closed, this is usually a fixed amount - say \$5MM - but for funds that are still fundraising, it may be the lesser of a fixed amount or 15% of Closed Commitments. This allows a fund that has currently raised \$20MM but intends to raise \$50MM to increase its borrowing capacity (until it has reached its upper limit) as its closes commitments.

### Availability Amount

This calculates how much you can borrow at any given time. It is the lesser of the Revolving Line and the Borrowing Base, minus any amounts you've already borrowed and are yet to repay.

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<sup>1</sup> 24 hour turnaround time begins upon receipt of all required information, and excludes federal holidays and office closures. Current Carta Fund Admin customers can close in as little as one business day. New Carta customers may require additional time due to our diligence requirements.

## **Borrowing Base**

Generally speaking, this is the amount of money a lender will loan to you, based on the value of the collateral. In this Agreement, we calculate it as 50% of your Uncalled Committed Capital minus your debt, meaning that you can never borrow more than 50% of the Uncalled Committed Capital. This means that as you make investments and Capital Commitments are exhausted, your ability to draw on your line of credit is reduced proportionately.

## **Uncalled Committed Capital**

This is the amount of capital contributions that you are yet to call from your limited partners (“LPs”), with several key exclusions that are important to understand. First, we do not count funds committed by partners that are in default under the term of your limited partnership agreement (the “LPA”). Second, your LPs are each capped at 20% of capital commitments - any commitments beyond 20% are excluded for our calculation - this helps us to manage our exposure which helps you by keeping costs down. Finally, with respect to LPs that have exercised their right to cancel or claimed an excuse, the amounts affected by the cancellation or excuse aren’t included in our calculation.

## **Permitted Indebtedness**

There is a list of things you’re not allowed to do while the Agreement is effective (we call these “Negative Covenants”, discussed in Section 7 below). For example, in Section 7.4 of the Agreement, you, the Borrower, are prohibited from incurring new debt, unless it’s permitted by the Agreement. That’s where the definition of Permitted Indebtedness comes into play. Permitted Indebtedness generally includes (i) the revolving line the Bank is providing to you under the Agreement, (ii) debt that you’ve already incurred and disclosed to the Bank, and (iii) guarantees of your portfolio companies’ debt. We’ve gone a step further than most and given you additional flexibility to run your business by also including unsecured debt incurred in the ordinary course of business, and a few other exceptions you should read in full. We’re sure that we’ve included a much broader range of exceptions here than some of our competitors!

## **Permitted Liens**

This is another concept that you’ll see in every loan agreement. It’s one of the ways in which a lender reduces the risk of a default. In exchange for receiving a loan, you grant the Bank a security interest/a lien on certain of your assets. As you can imagine, we’d prefer that there aren’t other liens on those same assets, or at least, if there are, we’d like to know about them upfront. The liens that you disclose to the Bank are the “Permitted Liens”. We’ve also included liens for taxes and other governmental charges in the definition as well. The definition of Permitted Liens is important because, remember the Negative Covenants we mentioned above, well, in Section 7.5 of the Agreement, you, the Borrower, are prohibited from “encumbering” any of the collateral with other security interests and liens, unless it’s permitted by the Agreement, i.e., unless it’s included in the definition of Permitted Liens. In Section 5.3, you also represent that there are no

encumbrances, liens or security interests on your assets, other than those listed in the definition of Permitted Liens- meaning that you otherwise have valid, free and clear title and can grant the Bank a security interest in the collateral (see Section 4.1 and Exhibit A which describe the collateral).

### **Included Investors**

One of the items the Bank requests during due diligence is a list of your general partner(s) and LPs. The Bank reviews and approves this list and every person or entity listed is called an “Included Investor”. We’ll discuss this later, but, if during the term of the Agreement you receive a new investor or one of your LPs transfers its interest to another person or entity, you’ll have to inform the Bank because it’ll have to update its list of Included Investors.

### **Alternative Investment Vehicle**

An AIV is any entity that can enforce or receive capital calls from your partners. If you form an AIV that can receive capital calls (just like you, the Borrower), then it will need to join the Agreement as a co-borrowing entity. If you form an AIV that has the right to call capital or enforce capital calls, then it should join the Agreement on terms that are similar to the terms entered into by the General Partner. Forming an AIV that can do either of these things without notifying the Bank and getting the right documentation in place could be an “Event of Default” because you would be violating one of the Negative Covenants in Section 7.

### **Initial Capital Contribution**

Before you can receive an Advance on your line of credit, you need to call and receive at least 5% of your capital commitments from your partners. The Bank will request evidence of this if you’re not already a Carta Fund Admin client. (If you are a Carta Fund Admin client, then we can provide this to the Bank on your behalf.)

## **SECTION 2: LOAN AND TERMS OF PAYMENT**

### **Section 2.1(b): Advances**

This section describes how you can request and receive Advances (i.e. draw down on your line of credit). Funds can be deposited into your account on the same business day if you submit a valid Advance request before 12PM PST, Monday through Friday. Each Advance must be repaid in full within 90 days.

### **Section 2.1(d): Extended Maturity Date**

To provide you with additional flexibility, we provide the option of extending the line for an additional year. This section explains the process for submitting this request to the Bank, which we refer to as a “Rollover Request”. Some traditional banks don’t contemplate that you might need the flexibility to extend your line of credit after a year, but don’t worry - we’ve got you!

**Section 2.2(a): Interest Rates**

Carta is not a bank, so we are not looking to make money through charging exorbitant interest and we've chosen our bank partner carefully with this in mind. All of the loans bear interest at the annual rate of Prime Rate, minus 0.50% with deposits at Coastal Community Bank or Prime Rate, minus 0.25% without deposits at Coastal Community Bank.

**Section 2.2(b): Default Rate**

If an Event of Default occurs, until it is cured, your interest rate will increase by 3%.

**Section 2.2(c): Payments**

You agree to pay the unpaid amounts borrowed under the Agreement and agree to pay all interest on the first day of each month.

**Section 2.2(d): Computation**

For simplicity, we use a 360 day year for calculating interest. To calculate your daily interest for any given day, take the aggregate balance of all outstanding Advances at the end of such day, multiply by the interest rate and divide by 360.

**Section 2.2(e): Overadvance**

See the definition of Borrowing Base above. As you call capital, your capacity to borrow from the Bank decreases. If your Borrowing Base decreases to such an extent that you have borrowed more than you are allowed, you'll need to make a repayment for the balance.

**Section 2.2(f): Late Charge**

As noted above, interest payments are due on the 1st day of the month. We understand that life can be unpredictable so we've allowed for a 10 day grace period. If you fail to make an interest payment within 10 days of its due date, you'll incur a late charge of 5% of the missed payment amount. This is standard in the market.

**Section 2.3(a): Subscription Fees**

With most lines of credit from other providers, you will be charged, among other fees, a facility fee and an unused facility fee (for not using the line). We've taken a different approach and, we charge only a simple annual subscription fee, paid quarterly (along with the interest at cost, discussed in Section 2.2(a) above). Your first quarterly installment of the subscription fees are due on the day we close on your Agreement (the Effective Date), and after that, fees are due on the first Business Day of each subsequent quarter.

**Section 2.3(b): Bank Expenses**

We estimate closing costs to be around \$3k for Carta Fund Administration customers and \$10k - \$15k for non-Carta Fund Administration customers based on deal complexity.<sup>1</sup>

<sup>1</sup> Deal complexity is based on fund size, strategy and structure. The associated closing fees range from \$10-\$15k. Fund administration clients are not subject to this pricing.

## SECTION 3: CONDITIONS OF LOANS

### Section 3.1: Conditions Precedent to Initial Advance

There are several items we'll need from you before the Bank can process your first Advance, and these items are listed here. Most of these items will have been collected as part of your loan application and/or during the diligence process (e.g. copies of the executed LPA and subscription agreements, and organizational documents of the fund). However, we'll also need the loan documents signed by you and your General Partner as well as a deposit account control agreement (a "DACA") signed by you and your deposit bank. There's more on the DACA in Section 4.1 below.

### Section 3.2: Conditions Precedent to all Advances

This section simply highlights that (i) there are ongoing reps and warranties that you attest to each time you submit an Advance request and draw on your line, and (ii) you can't draw on your line of credit if (a) those representations and warranties are no longer true and (b) there is an ongoing Event of Default.

## SECTION 4: CREATION OF SECURITY INTEREST

### Section 4.1: Grant of a Security Interest

You (the Borrower) and your General Partner grant and pledge to the Bank a security interest in the Collateral and agree that the security interest granted is a first priority security interest (unless otherwise disclosed in the Schedules to the Agreement). The Collateral is fully described in Section 4.4 and Exhibit A, and that Collateral is the Bank's security for your line of credit.

You may be wondering why your General Partner is pledging a security interest. As you'll notice in your LPA, your General Partner has the right to make and enforce capital calls as well as collect and receive capital contributions from your LPs. The General Partner assigns these rights to the Bank and these rights serve as the primary security for the line of credit, meaning that if you default on the loan, the Bank can exercise these rights and call capital from your LPs directly. Another form of security for the Bank is ensuring that it will be able to access the proceeds of any capital calls that you have already received if there is an Event of Default. (This is why the Bank requires a "DACA" for your primary bank account - it will allow the Bank to take control of your bank account if necessary).

### Section 4.4: Right to Inspect

The Bank may, if it provides you with prior written notice and during your normal business hours, inspect your books and records related to the Collateral. We've limited this to once a year, unless there has been an Event of Default which has not been cured.

## SECTION 5: REPRESENTATIONS AND WARRANTIES

This Section contains a list of statements that you or your General Partner, as applicable, promise to be true at the time that you enter into the Agreement as well as each time you submit an Advance request. If any of these items turns out to be untrue, that would constitute an Event of Default under Section 8.11. For example, you represent that the fund is in good standing in its state of formation and is licensed to do business. Some key reps and warranties are discussed below.

### **Section 5.2: Due Authorization; No Conflict**

You represent and warrant that you're allowed to enter into this Agreement and that entering into and performing under this Agreement won't cause you to default on some other agreement you have already entered into. You also represent and warrant that you are not currently in default under any material agreement you've entered into.

### **Section 5.3: Encumbrances**

You represent and warrant that you own your assets and that, if the Collateral is subject to any liens, those liens are permitted by the Agreement (they fall within the definition of Permitted Liens, discussed above).

### **Section 5.5: Capital Calls**

You represent and warrant that there are no restrictions on the right to make capital calls or the obligation of your partners to fund capital calls (other than any restrictions and conditions outlined in the Fund Documents). You also represent and warrant that only you and the General Partner are entitled to receive capital call proceeds and make capital calls, respectively.

### **Section 5.7: Litigation**

You represent and warrant that there is no material litigation against you.

### **Section 5.8: No Material Adverse Change in Financial Statements**

You represent and warrant that all financial statements provided to the Bank are accurate and that there has not been a material adverse change in your financial condition since the date of those financial statements.

### **Section 5.12: Investments**

You represent and warrant that you have disclosed all investments to the Bank. If you're a Carta Fund Admin client, we already have this information (and can provide to the Bank), so we just need you to verify that it's up-to-date.

**Section 5.13: Government Consents**

You represent and warrant that you have obtained all material approvals and authorizations and made all filings necessary with governmental authorities to operate your business.

**Section 5.14: Investment Period**

You represent and warrant that the investment period has not expired or has not been suspended. The investment period is the period where your General Partner is allowed to make capital calls to your LPs so that you can make new investments or additional investments in your portfolio companies.

**Section 5.15: Sanctions; Anti-Corruption; Patriot Act Compliance**

You represent and warrant that you and your partners will comply with anti-corruption and sanctions laws.

**Section 5.16: Full Disclosure**

You represent and warrant that you have not misstated material facts or omitted material facts in what you've provided to us and to the Bank.

## **SECTION 6: AFFIRMATIVE COVENANTS**

The Affirmative Covenants are things that you as Borrower or General Partner, as applicable, must always do as long as your Agreement is in effect.

**Section 6.2: Government Compliance**

You must comply with applicable laws, rules and regulations to which you are subject.

**Section 6.3: Financial Statements, Reports, Certificates**

After each calendar quarter, you must deliver quarterly Financial Statements to the Bank, along with a Compliance Certificate and various other items such as any reports you delivered to your partners during the quarter. After each calendar year, you'll need to do the same, except the annual Financial Statements must be audited and GAAP-compliant. You must also provide notice of any pending or threatened litigation, failure to receive capital contributions within 10 business days of the due date and other financial information that the Bank may (reasonably) request. To make it easier for you, the due dates for providing these statements and reports to the Bank will mirror the deadlines for providing them to your LPs, as noted in your LPA.

**Section 6.4: Fund Agreement**

This is very important - if you amend your LPA, it must not adversely affect your or the General Partner's rights to receive or make or enforce capital calls and no amendment can affect the Bank's rights or remedies under the loan documents.

**Section 6.5: Taxes**

It goes without saying, but we'll remind you anyway: you must pay your taxes.

**Section 6.6: Deposit Accounts**

You must maintain the same accounts that you disclosed to the Bank at closing if capital call proceeds are deposited in those accounts and provide prior notice of any new accounts where capital call proceeds will be deposited.

**Section 6.7: Use of Proceeds**

You must only use your loan proceeds to fund investments and cover investment related expenses. This capital call line of credit is not the same as a working capital loan or GP line of credit. And under no circumstances should it be used for personal, family or household expenses.

## **SECTION 7: NEGATIVE COVENANTS**

This Section contains a list of things you as Borrower or General Partner must never do while your Agreement is in effect.

**Section 7.1: Dispositions**

You must not sell, transfer or dispose of your business or property, other than certain transfers that occur in the ordinary course of business.

**Section 7.2: Change in Business, Key Person or Executive Office**

You must not relocate (principal office or state of formation) without giving the Bank written notice. You definitely can't change your business altogether - this line of credit is available to venture capital and private equity funds only!

**Section 7.3: Mergers or Acquisitions**

You cannot merge with or consolidate into any other business.

**Section 7.4: Indebtedness**

You can't incur debt - unless it's permitted. See "Section 1: Permitted Indebtedness".

**Section 7.5: Encumbrances**

You can't grant new security interests or create liens on your assets/property - unless they're permitted. See "Section 1: Permitted Liens".

**Section 7.6: Distributions**

You can't pay dividends or make payments to your Partners unless you're (a) permitted to do so by your LPA and (b) you're not in default under this Agreement.



**Section 7.8: Transactions with Affiliates**

You must not enter into any transaction with any of your affiliates, except if it's permitted by your LPA, and it must be an arms-length transaction, i.e. with terms similar to a deal with a non-affiliate. You'll notice that we have not included any covenant regarding transactions with a Reg W affiliate of the Bank. We understand that it's quite difficult for borrowers to comply with, so we've removed from our form.

**Section 7.9: Compliance**

You cannot become an "investment company" (as defined in the Investment Company Act) or use the Advances to purchase margin stock.

**Section 7.10: Transfers by Partners; Admission of Partners**

If any of your partners transfers its interest and that interest is equivalent to 5% or more of your committed capital you must notify the Bank 5 business days prior to the transfer and provide related transfer documents. If the person or entity acquiring the interest is not an Included Investor, you may be responsible for prepaying a portion of any outstanding Advances.

**Section 7.11: Alternative Investment Vehicles**

You can't form an AIV that has the right to make or receive capital calls without notifying the Bank and getting the right documentation in place. See "Section 1: Alternative Investment Vehicle".

## SECTION 8: EVENTS OF DEFAULT

The occurrence of an "Event of Default" gives the Bank certain options that we hope it never has to exercise. That said, it is important to understand what constitutes an Event of Default so that you can try to avoid it as far as possible.

**Section 8.1: Payment Default**

Simply put, you need to make your payments when due: (i) repay each Advance/principal borrowed within 90 days (or by the maturity date of your facility, if sooner); (ii) pay interest on the first of each month, and (iii) pay your subscription fee on the first business day of each quarter. Failure to make payments when due is a payment default, which is an Event of Default.

**Section 8.2: Covenant Default**

Generally speaking, if you fail to fulfil the requirements listed under Affirmative Covenants (Section 6) or breach any of the Negative Covenants (Section 7) then you will cause an Event of Default. Similarly, if any material term in the Agreement is violated, that would also be an Event of Default.

**Section 8.3: Partnership**

If your General Partner (or if you have multiple General Partners, if any) ceases to be a General Partner, or any event occurs that results in the termination of your LPA or your status as a limited partnership, that will be an Event of Default.

**Section 8.4: Material Adverse Effect**

An Event of Default will also occur if there is a material adverse effect - a material adverse (negative) change in your business condition or a material adverse change in the collateral or the Bank's lien on the collateral.

**Section 8.9: Capital Call Funding**

If you make a capital call from your partners and more than 5% of the capital call amount is still outstanding 10 business days after it was due (regardless of any grace period in your LPA), then you would be in default under this Agreement.

**Section 8.10: Investment Period**

In Section 5.14 you represent and warrant that your investment period has not expired. If this isn't true, if the investment period is terminated or suspended, that would be an Event of Default because it would mean that you no longer have the right to call capital from your LPs.

**Section 8.12: Misrepresentations**

If any of the representations and warranties in Section 5 turn out to be untrue in a significant way, or if any of the materials you provided to us or attested to turn out to be materially incorrect, this would also be an Event of Default.

## **SECTION 9: BANK'S RIGHTS AND REMEDIES**

This section outlines the actions that the Bank is allowed to take if an Event of Default occurs and while it is continuing.

**Section 9.1: Rights and Remedies**

Section 9.1(a) is the "nuclear" option - the Bank will have the right to call your loan. This means that everything you owe to the Bank in terms of loan principal, interest, fees and expenses is immediately payable. Also, once an Event of Default occurs, the Bank may stop extending credit to you until the default is cured.

**Section 9.2: Right of Setoff; Deposit Accounts**

This section authorizes the Bank to set off and apply all amounts that the Bank may owe to you to pay down your obligations/amounts owed to the Bank under the loan documents.

**Section 9.3: Power of Attorney; Capital Calls**

In this section, you appoint the Bank as your attorney-in-fact, your agent, meaning that, once an Event of Default occurs and is continuing, the Bank can "step into your shoes" and

take a variety of actions, including making capital calls to your LPs, directing them to make all payments directly to the Bank, enforcing the payments and terms under the LPA, and settling any outstanding claims on the collateral, in each case, in order to repay the debt you owe. The Bank will also execute on the DACA you signed at closing; the Bank will notify your deposit bank that you have defaulted under the Agreement and this will give the Bank sole control of your bank account.

## **SECTION 10: NOTICES**

This is an easy one! This section just outlines physical mailing addresses and email addresses for notifications and other communications for you as well as the General Partner. We contemplate that most of our communications will be via email and the Carta app, unless an Event of Default occurs and/or we enter into formal legal proceedings.

## **SECTION 11: CHOICE OF LAW AND VENUE, JURY TRIAL WAIVER**

This section notes that the Agreement is governed by New York law.

You'll notice that we've highlighted the rest of the section. The highlighted portion means that both you, General Partner and the Bank agree that, in the unlikely event of a legal dispute that cannot be resolved, it is still in everyone's best interests to avoid a jury trial which can be both expensive and time-consuming; we generally prefer a bench trial (i.e., with a judge) and we're guessing that you will too! Based on our experience, most legal agreements between businesses include a waiver of a jury trial.

## **SECTION 12: GENERAL PROVISIONS**

This section contains standard legal language that you'll see in most agreements, including how the Agreement can be amended (signed writing by all three parties) and executed (in counterparts, meaning not all signatures have to be on the same page) and noting that the Agreement can be signed electronically). We've noted three of the most significant sections below.

### **Section 12.2: Indemnification**

Some banks ask you to indemnify them against all third party claims and all expenses, without regard to how such claims arose or whether you're the only liable party. We don't think that's fair to you. In this Agreement, you are only required to indemnify the Bank against claims from third parties if those claims were not caused by the Bank's own gross negligence, willful misconduct or bad faith.

**Section 12.9: Advice of Counsel**

We're providing this Explainer because we think you will find it helpful. That said, you should still consult an attorney before signing the Agreement and other loan documents. In fact, we recommend that you do. This section says that you and your General Partner have freely and voluntarily entered into this Agreement after you've had sufficient time to review and consult with your own counsel.

**Section 12.10: Confidentiality**

We know you'll expect nothing less, but here's where we confirm that the Bank will hold your information in confidence, with the same degree of care that it uses for its own confidential information, and will not disclose to third parties, except (i) where required by law, (ii) to its affiliates who provide you with services, or (iii) to any lender who succeeds the Bank in providing these loans to you.

**EXHIBIT A**

This exhibit describes the collateral, the Bank's security for your line of credit. As you'll see, the collateral includes the right to make capital calls and receive the proceeds (or, if the proceeds of capital calls have already been received and are sitting in your bank account, then those funds too).

**EXHIBIT B**

This is an example of a complex Advance request or payback form that you might need to use if your line of credit was with a traditional bank. We've been working to make this even easier for you to complete and use -with Carta as your admin agent, you can initiate Advance requests and payback through the Carta app.

**EXHIBIT C**

Each Advance request must be accompanied by a "Borrowing Base Certificate" that shows the maximum amount that you are allowed to borrow/advance.

As noted above, this is what your traditional form would look like. With Carta as your admin agent, you will complete this form through the Carta app. And, if you're a current Carta Fund Admin client, the fields will be pre-populated for your convenience, so you can simply review the information, confirm that it is correct and submit.

**EXHIBIT D**

As you'll recall, before the Bank makes an Advance, you are required to make certain reps and warranties and comply with covenants. We don't make you provide due diligence materials each time because, well, we're pretty sure no one wants that. Instead, you

provide the Bank with a Compliance Certificate, certifying that you are in compliance with the covenants and that the representations and warranties you made on the date of closing are all still true as of the date of the Compliance Certificate.

## **EXHIBIT E**

As we've mentioned above, you can request a one year extension of the Revolving Line. If the Bank consents to your rollover request, its response, an Extension Notice, will be similar to this.