Summary of Key Differences Among PDP Securitizations, RBLs, VPPs, and High Yield Debt

	PDP Securitization	VPPs	RBLs	High Yield Debt
Investors	Insurance companies, pension funds, and asset managers	Broad investor base including private equity investors, specialty finance lenders, and banks	Commercial banks	Institutional investors
Structure	Securitization of a specified pool of assets	Not a financing transaction. A non-operating, non-expense bearing, limited term overriding royalty interest (ORRI) carved out of a producer's working interest in certain identified oil and gas leases (the VPP Leases) that gives the buyer the right to a certain amount of production from the assets subject to the VPP Leases.	Loans	Unregistered notes
Assets	Proved Developed Producing (PDPs) wellbores Notes may not receive the required investment grade rating if not backed by PDPs and cash flows not subject to development risk	All the assets covered by the VPP Leases	■ Proved Reserves (PDPs, Proved Developed Non-Producing(PDNP), and Proved Undeveloped (PUD)) ■ Probable Reserves. ■ Possible Reserves. No value is typically accorded to the latter two categories.	■ Proved Reserves (PDPs, Proved Developed Non-Producing (PDNP), and Proved Undeveloped (PUD)) ■ Probable Reserves. ■ Possible Reserves. No value is typically accorded to the latter two categories.
Collateral	First priority security interest on PDPs transferred to the SPE	First priority security interest on the producer's share to secure its performance of its obligations as a prudent operator and, where applicable, its obligations to market the VPP Holder's share of the production. This lien does not secure a guaranteed rate of return or create an obligation to produce hydrocarbons; or the producer's delivery of the agreed volumes.	First priority security interest on substantially all of the borrower's oil & gas assets	May be secured depending on the transaction. If secured, first priority security interest on substantially all of the issuer's oil & gas assets

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	PDP Securitization	VPPs	RBLs	High Yield Debt
Borrowing Base Redetermination	No	No	Yes and adjusted at the lenders' discretion	No
Credit Ratings	Investment grade	May be in more complex transactions, but not typically a condition to closing	No	Yes but not investment grade
Advance Rate	55% to 75% of PDP PV_{10} This may vary depending on the producer and the quality of the securitized assets with lower value assets allocated a lower advance rate.	No	Lenders typically base the advance rate on: ▪ 50% to 65% of the value of the borrower's PDP reserves. ▪ Up to 35% of the value of the borrower's PNDP reserves. ▪ Up to 25% of the value of the borrower's PUD reserves. In each case discounted at an annual rate of 10% (PV_{10})	Market-based
Pricing	Fixed: 5% to 7% (subject to change due to changes in prevailing market interest rates)	N/A	Floating	Fixed: 8% to 15% (subject to change due to changes in prevailing market interest rates)
Amortization	Scheduled	N/A	None	None
Financial Covenants	Interest only debt service coverage ratio (DSCR)	None	Total leverage ratios	Market-based
Expected Tenor or Duration	6 to 8 years	3 to 7 years	3 to 5 years	5 to 10 years
Prepayment Penalty	Yes	N/A	No	Yes
Use of Proceeds Restrictions	No	No	Yes	Yes
Recourse to Producer	No	No	Yes	Yes
Operational Risk	Yes	No	Yes	Yes
Bankruptcy Remote from Producer Insolvency	Yes: assets conveyed in a manner designed to produce a true sale for bankruptcy law purposes	Yes: safe harbor under Section 541(b)(4)(B) or true conveyance under 541(a) of the Bankruptcy Code	No	No
Liquidity Reserve	Yes: stated months of interest payments, Initially funded from issuance proceeds. (Has typically been 3-6 months to date)	No	No	No
Production Upside	Yes. SPE receives full value of the securitized assets. Any cash flow remaining after debt service and other transaction expenses and obligations then due and payable are paid may be distributed to the producer sponsor or retained at the SPE in a sweep account for future price downturns or production declines, prepay the notes	No. VPP holder only entitled to agreed share. Any excess is for the account of the producer	Yes. RBLs include voluntary and mandatory prepayment provisions in certain cases	Yes, because debt may be prepaid

	PDP Securitization	VPPs	RBLs	High Yield Debt
Timing	3 months at least. Typically longer if Rule 144A offering	varies	2 to 3 weeks	One month

The information in this chart is based on press releases, news reports, and other publicly available information in 2022 and may change based on market conditions and as the oil & gas securitization market and more transactions are consummated.

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