



BNY MELLON

Task Force on Bond Accountability

TRUSTEE SERVICES

Presented by:

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Trustee or Agent ... What's the difference?

Simple to complex roles – levels of involvement depend on the type of financing and security your holders require.

Paying Agent

Payment of Principal and Interest to your bondholders

Fiscal Agent

In addition to paying agent duties, perform certain administrative duties on Issuer's behalf

- Primary recordkeeping/tracking of bond proceeds. Custodian of investments representing bond proceeds. Maintenance of reserve, project, and debt service funds.
- Monitor and collect compliance documentation required under the financing documents

Trustee

In addition to Paying and Fiscal Agent duties, act as fiduciary for bondholders upon event of default.

Other Functions

Registrar

Maintain registered security holder records (bond holdings) and if securities are in physical form register transfers from one holder to another

Dissemination Agent

(appointed under a separate agreement)

Receive obligated party's ongoing required disclosure information and forward it to the secondary marketplace

Administrative Duties of a Trustee or Fiscal Agent

Interaction with the Trustee ... What does the Trustee do for you?



Establishment of Trust Funds & Accounts



Who holds what?

- All driven by the governing documents
- Some funds & accounts may be held by the Issuer
- Many are held by the Trustee
 - Typically: Bond Fund, Principal and Interest Accounts, Reserve Fund, Rebate Fund, Redemption Fund

Investment of Trust Funds



The Investment of bond proceeds in accordance with the direction of Issuer or obligor



Permitted investments – directed in the indenture



Settlement procedures and timing requirements of various investment types



Tracking market value of investments, in County investment pool, GIC's, or LAIF vs. standard investments



Pay arbitrage rebate out of funds provided by the issuer or obligor



A trustee is not an investment advisor ... but may have resources within its organization

Administration of Trust Funds

All dictated by the governing document(s).

- Accounting processes...project fund, maintenance of Reserve, etc.
- Tracking and transfer of interest earnings – project period vs. post completion
- Tracking of revenues, lease payments, etc. - the re-payment process ...waterfall through funds (transfers between accounts)
- Disbursements - Project/Construction Payments, Costs of Issuance, Principal and Interest, Fees
- Receipts - Revenues (project revenues, taxes), Issuer/Obligor payments

**How often do you need your statements; what about other departments and auditors?
Internet or online access to view your activity and assets held in trust?**

The Construction or Project Fund Phase



Payment of requisitions
as you build your project



Requisition
disbursement
requirements as dictated
under the indenture or
contract (authorized
disbursements and
signatures are required)



Vendor payments and
timing requirements –
cash on hand vs.
investments held



Payments to vendors vs.
reimbursement to issuer



Completion certificates
required under the
Indenture

Debt Service Process



- Courtesy billing, collection of tax revenue, lease payments, etc. for eventual payment to bondholders...
- Credits via interest earnings or capitalized interest
- Fixed vs. variable rate bonds
- Debt service schedules
- Sinking fund requirements
- Issuer/Obligor's responsibility for timely payments, consequences of non-timely payments
- DTC Book-entry

Security and Collateral



The Trustee typically holds the security and/or collateral supporting the bond issue (insurance, credit facilities etc.)



Courtesy reminders of expirations



May have to draw on credit facilities upon non-renewal



May collect insurance proceeds in event of property damage



May exercise liens and/or foreclose per security holders direction in event of default

Compliance Monitoring

Trustee tracks certain covenant requirements under the Indenture

- Trustee's role: follow document requirements, receive items from issuers/obligors, send courtesy reminders to issuers and obligors

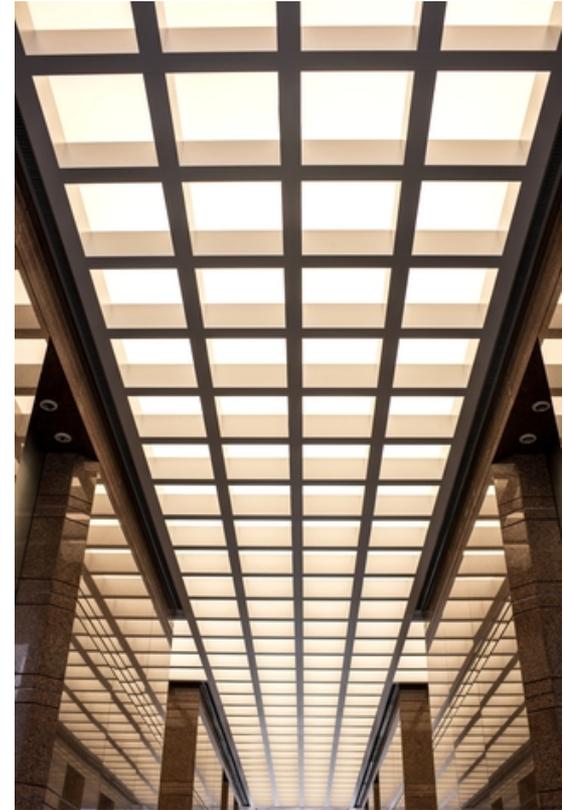
Tickler system to track what continuing documentation, reports and certificates you need to provide the trustee (they are build in protections for your bondholders, agreed upon prior to bond issuance)

- Insurance Certificates vs Statements of Compliance
- Budgets and preliminary budgets
- Rebate requirements
- Change in authorized signatories
- Copy of Annual Disclosure reports
- Disclosure dissemination (if appointed as Dissemination Agent)

Covenants

Positive & Negative Covenants

- Positive – requires some definite action on the part of the obligor
- Negative – restrict activities of obligor for the purpose of protecting the interests of the investor or lender
- Issuer/Obligor is responsible for complying with all covenants
- Trustee only monitors covenants that governing document directs trustee to monitor
- Failure to observe covenants can have consequences.



Defaults

Defaults

- Payment Defaults, Covenant Defaults
- Cure Period
- Pursue remedial provisions under the Indenture

Event of Default

- Notices of default and bondholder communications
- Holder Direction
- Creditors' committee

Potential Remedies

- Acceleration of bonds
- Exercise of ownership on collateral held

Pre-Closing ... Before it's too late

The issuer and trustee will have to work within this Indenture for the next 30 years, make certain the contract reads the way you want it to read.

Things to consider:

Maintenance of security interest(s)

Establishment of sub accounts

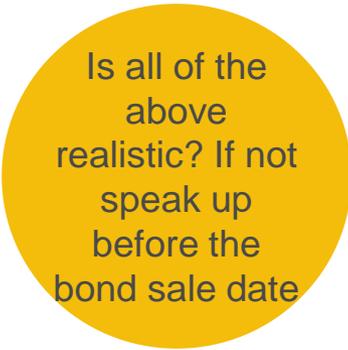
Waterfall of revenue or lease payments

Permitted investment language

Compliance and documentation requirements

Covenant restrictions

Document and invoice requirements surrounding disbursements for construction funds



Is all of the above realistic? If not speak up before the bond sale date

Questions?

Now,

Or anytime in the future:

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