Private Activity Bonds Workshop

SESSION ONE: HIGHLIGHTS IN PROJECT FINANCE AND NEW BOND FINANCING STRUCTURES

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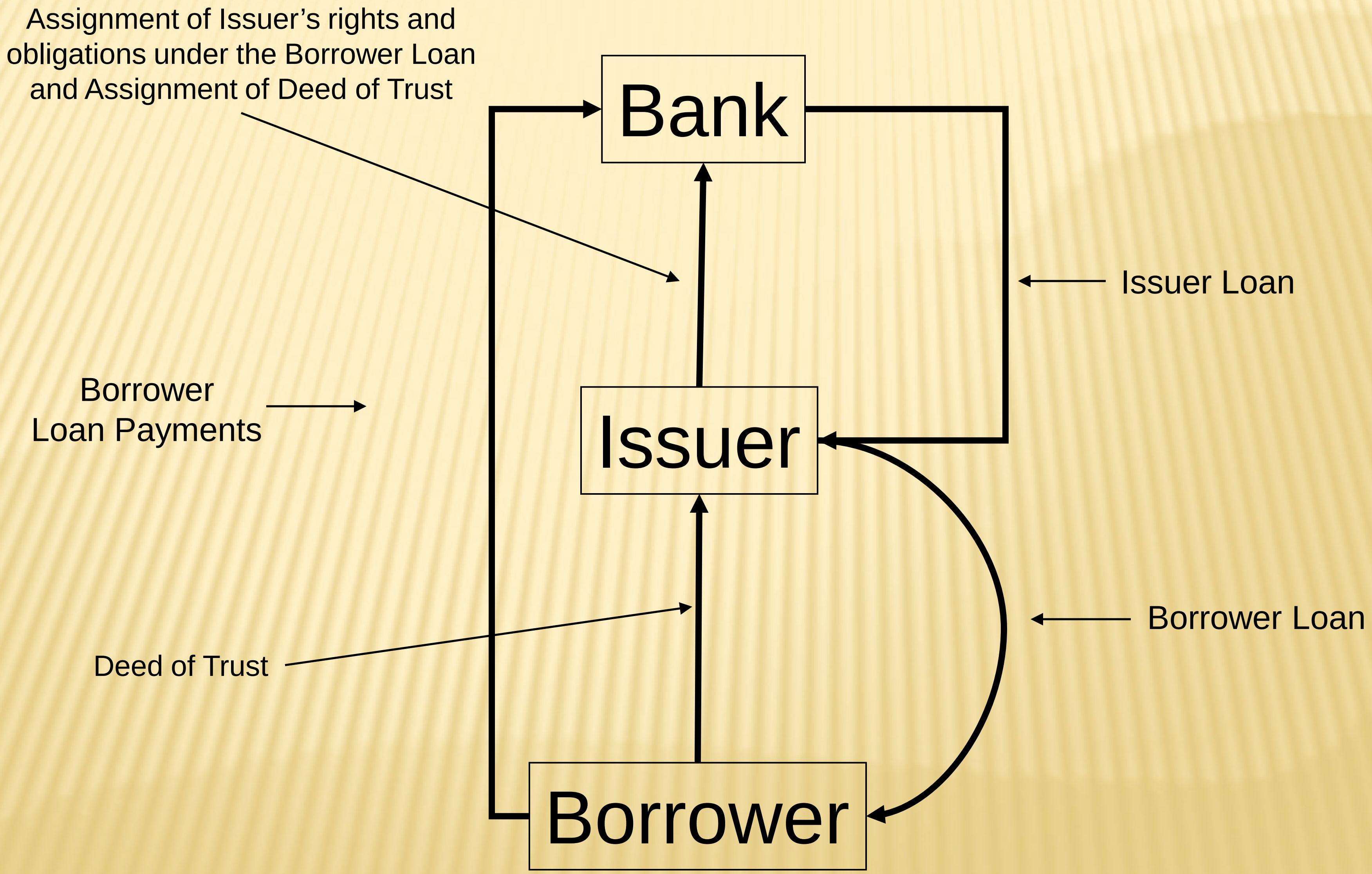
CASE STUDY #1

- Borrower is a manufacturer of injection-molded plastic products
- Facility was originally purchased using the proceeds of a tax-exempt Variable Rate Industrial Development Bond
- Borrower wanted to refinance the existing tax-exempt bonds into a tax-exempt loan proposed by a new bank
- Tax-exempt Loan provides for simpler structure and maintains the lower-rate benefits of a tax-exempt financing
- New 10-year tax-exempt loan rate equal to 4.009% (5/17/2011)
- Interest to the bank is tax-exempt but is not “bank qualified”

THREE PARTY LOAN AGREEMENT STRUCTURE



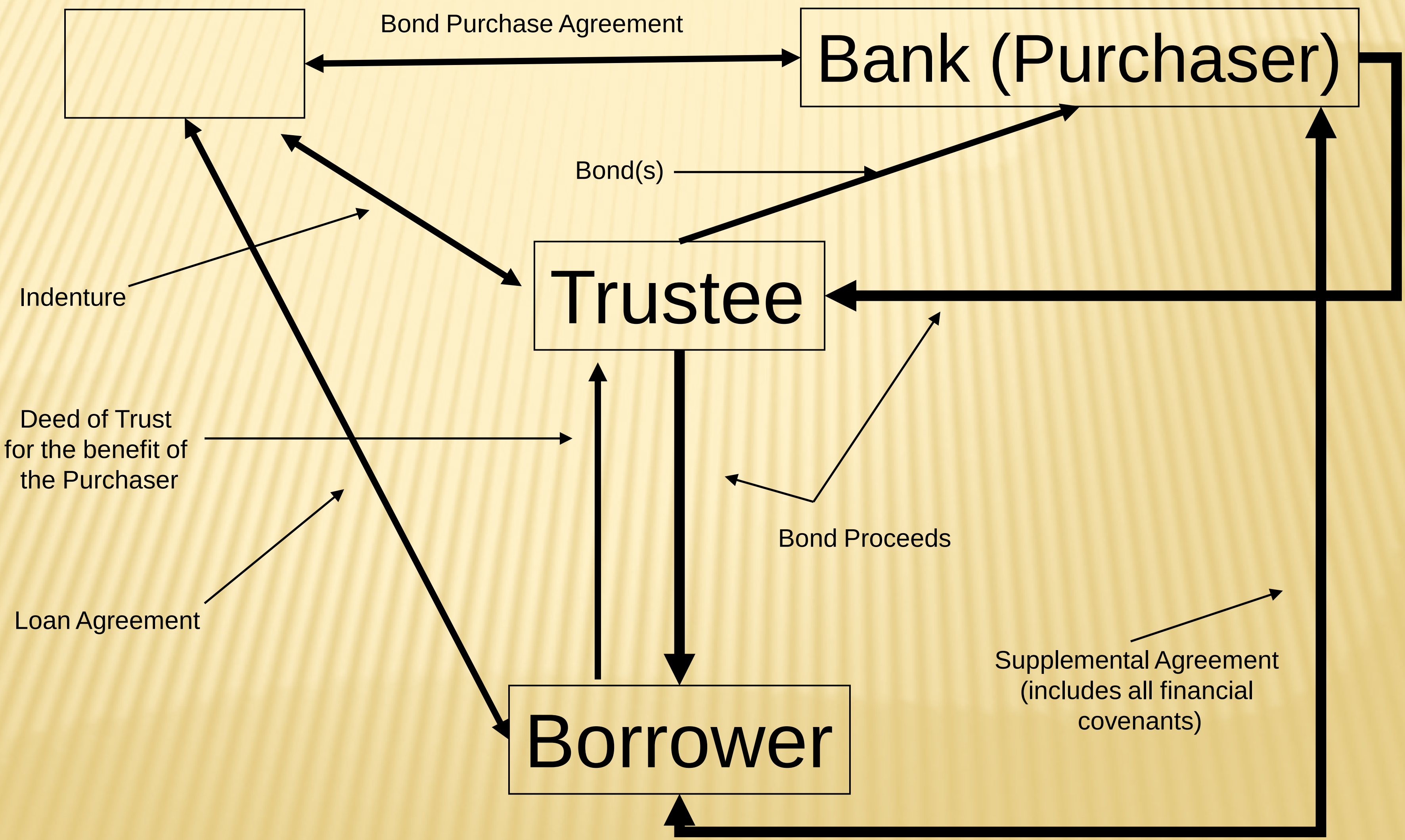
THREE PARTY LOAN AGREEMENT STRUCTURE

- Structural Simplicity
  - Interest with respect to the Issuer Loan is tax-exempt
  - By assigning its rights under the Borrower Loan, the Issuer ultimately only facilitates the tax-exempt loan
  - Payment structure is similar to a regular Lender/Borrower relationship
- Fewer Legal Documents Required
  - Loan Agreement
  - Bank Security Documents
    - Deed of Trust
    - Security Agreement
    - UCC-1
    - Environmental Indemnity

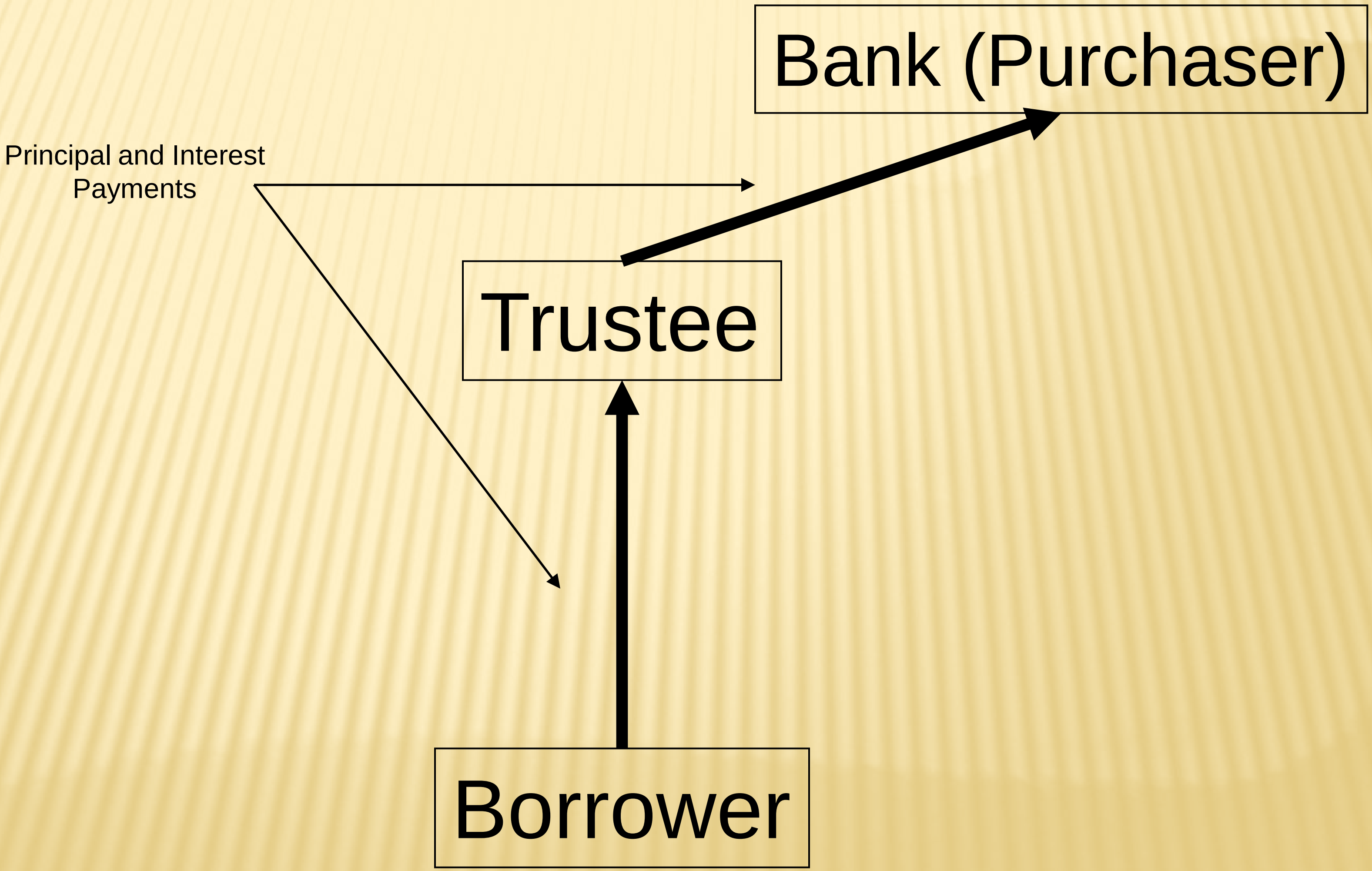
CASE STUDY #2

- A nonprofit school (also a 501(c)(3) organization) in downtown Los Angeles had an opportunity to purchase its building instead of continuing to lease the property
- Borrower wanted an initial interest rate based on negotiated terms with the Bank, but the flexibility to convert to other terms, including rates set by the capital markets
- Documents needed to have a simplified structure with the flexibility of other structures built-in

BOND ISSUANCE – PRIVATE PLACEMENT STRUCTURE AT CLOSING



BOND ISSUANCE – PRIVATE PLACEMENT PAYMENT STRUCTURE



BOND ISSUANCE
PRIVATE PLACEMENT STRUCTURE

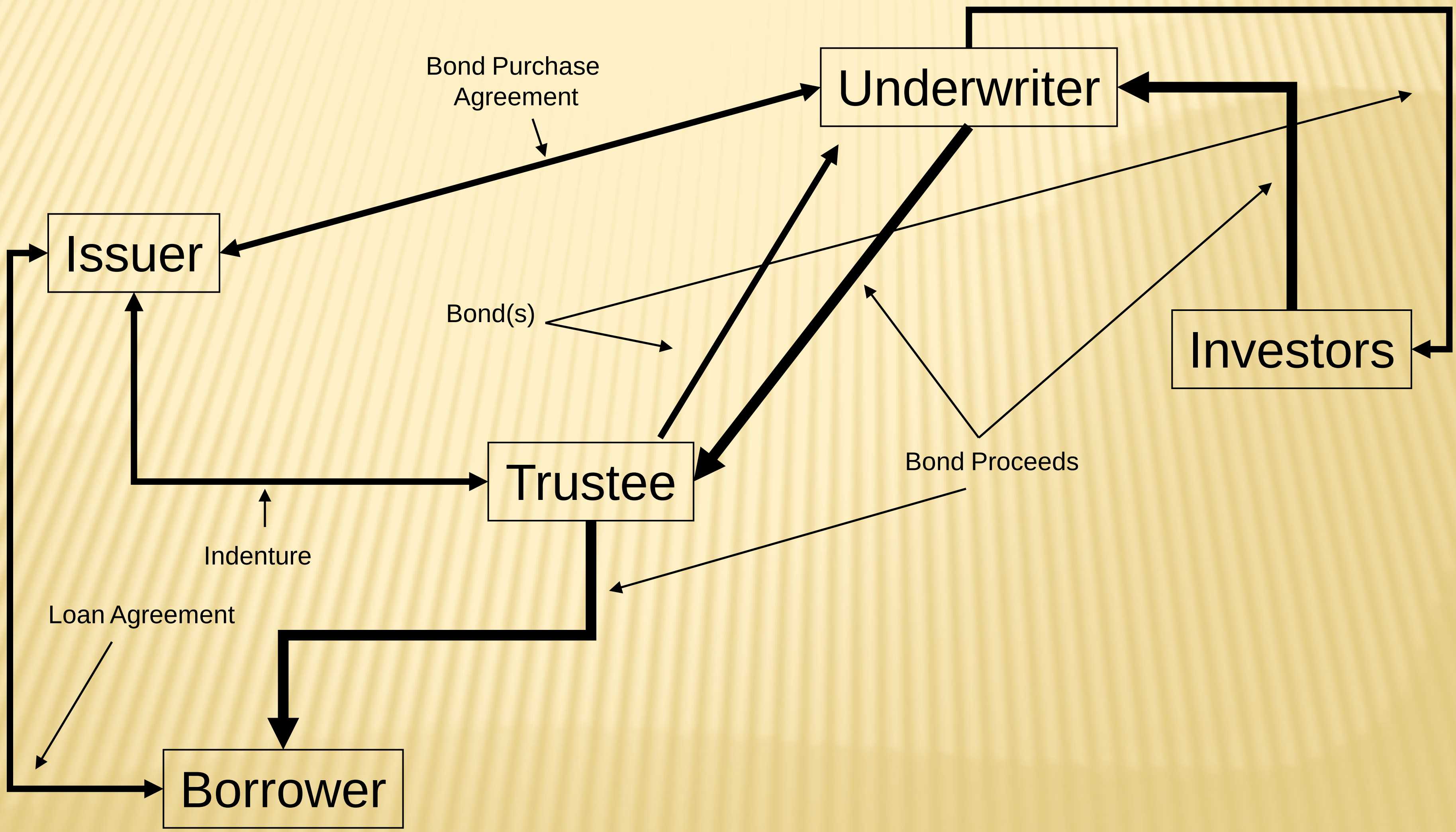
- At Closing
  - Issuer issues Bonds pursuant to an Indenture, the proceeds of which are lent to Borrower pursuant to a Loan Agreement
  - Trustee receives Bond proceeds in exchange for the Bonds
  - Bank purchases the Bonds as an investor
  - Bank and Borrower enter into a Supplemental Agreement or a Continuing Covenant Agreement setting forth relationship
  - Supplemental Agreement or Continuing Covenant Agreement can be transformed into a Reimbursement Agreement allowing for the issuance of a letter of credit

- Ongoing
  - Principal and Interest payments flow through the Trustee to the Bank
  - Borrower can requisition Bond proceeds from designated accounts held by the Trustee
    - Costs of Issuance Fund
    - Project Fund
  - Any required covenant changes are made by the Bank and the Borrower
  - Flexibility to convert to a letter of credit structure

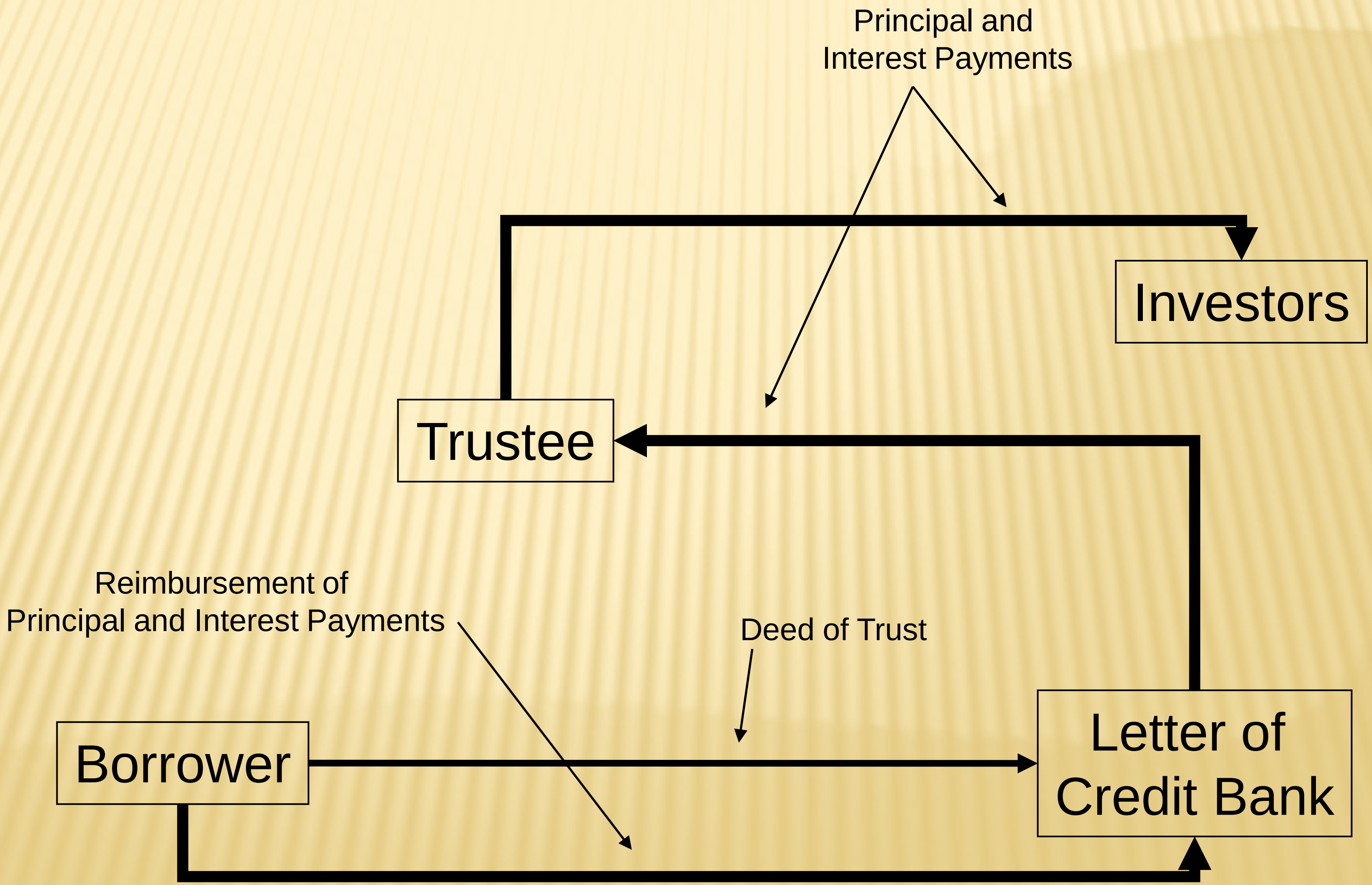
CASE STUDY #3

- Borrower is a manufacturer of professional quality photographic products had an opportunity to purchase a larger facility to expand production
- Borrower wanted to take advantage of low interest rates of a variable rate bond
- Borrower secured a commitment letter from a bank willing to issue a letter of credit to secure bonds
- Current (8/25/2011) bond coupons are approximately 0.25% with all-in rates of approximately 2.00% to 2.10%

BOND ISSUANCE – LETTER-OF-CREDIT STRUCTURE AT CLOSING



BOND ISSUANCE – LETTER-OF-CREDIT PAYMENT STRUCTURE



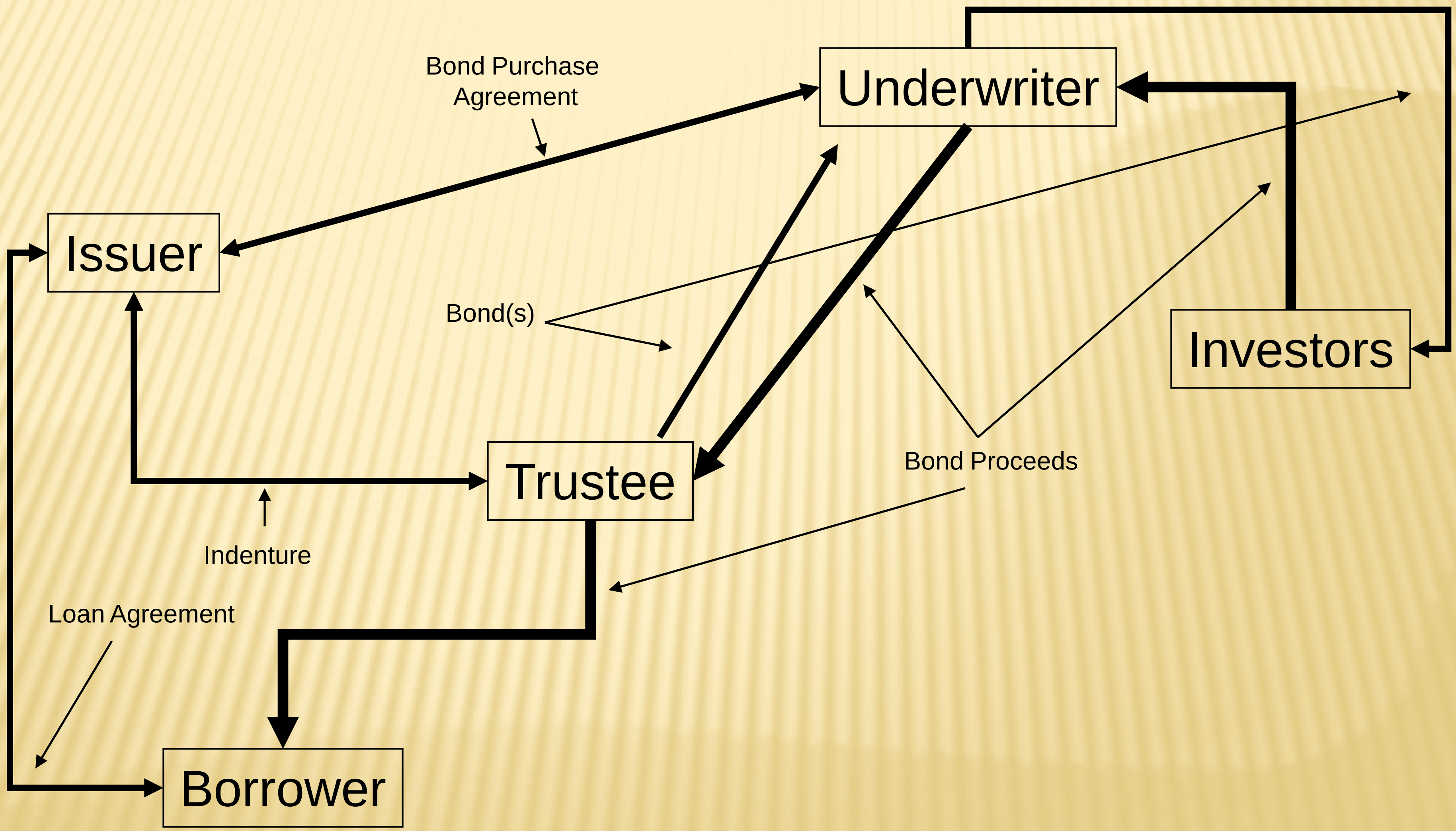
BOND ISSUANCE – LETTER-OF-CREDIT STRUCTURE

- At Closing
  - Issuer issues Bonds pursuant to an Indenture, the proceeds of which are lent to Borrower pursuant to a Loan Agreement
  - Trustee receives Bond proceeds in exchange for the Bonds
  - Underwriter purchases the Bonds and sells to investors
  - Same fundamental structure as a Private Placement, except that the Underwriter and Investors purchase the Bonds
- Ongoing
  - Issuer and Underwriter fade away
  - Letter-of-Credit Bank makes Principal and Interest Payments
  - Borrower reimburses L/C Bank for P&I Payments
- Benefits
  - Investors look to L/C Bank for all P&I Payments
  - Credit risk of the Bonds is based on the credit risk of the L/C Bank, not the Borrower
  - Borrower is able to borrow at the short end of the yield curve using the Bank's credit rating

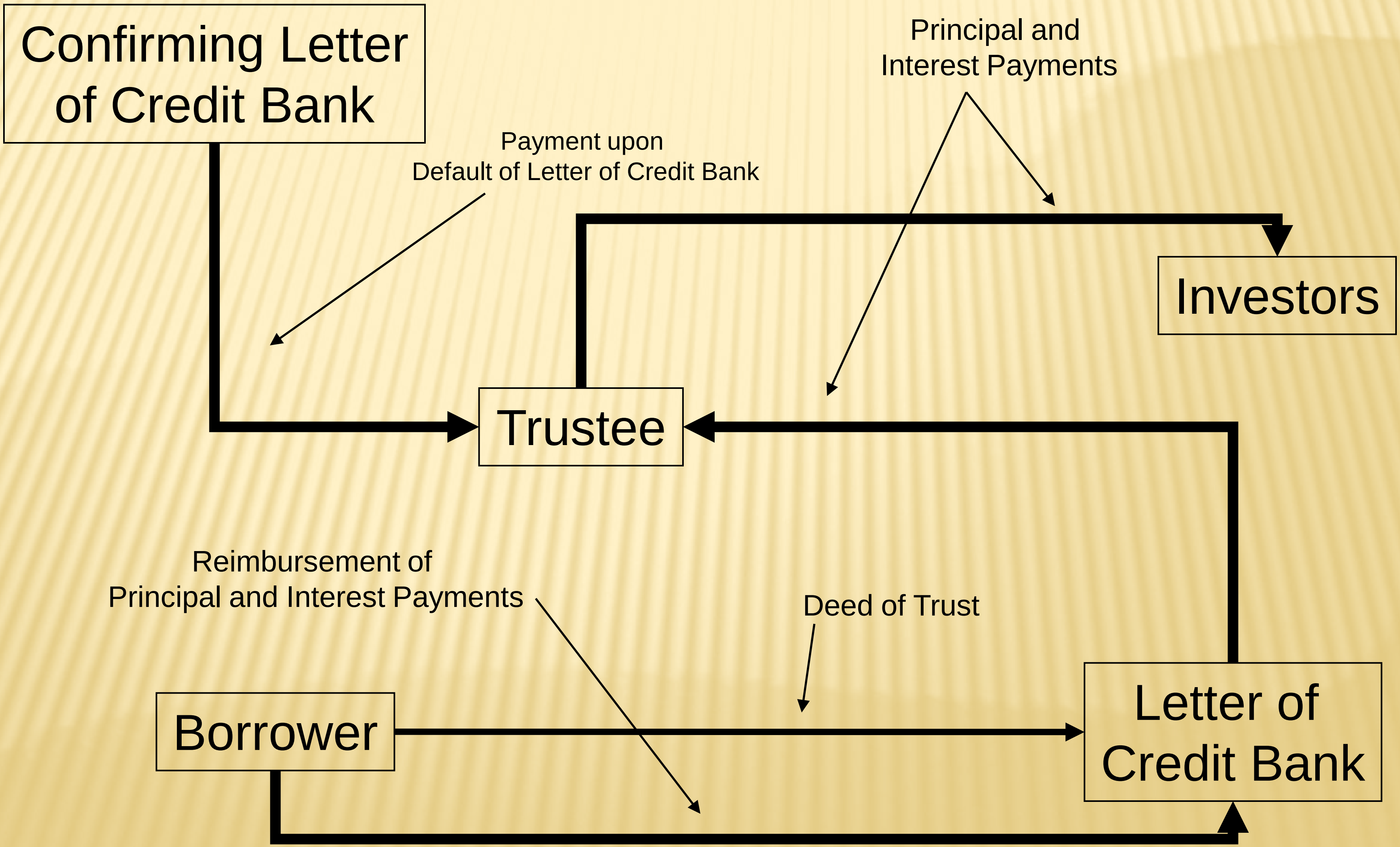
CASE STUDY #4

- BUT, what if the Letter-of-Credit Bank does not have the requisite credit rating?
- Purchasers of bonds generally require an investment-grade credit rating of "A" or better
- Smaller banks may not have investment-grade credit ratings
  - But the smaller banks have the relationship and want to maintain that relationship
- Banks with a lower credit rating can "piggyback" on the credit rating of another institution so that the overall credit rating assigned to the bonds is higher
- Bonds with a Confirming Letter-of-Credit are generally rated at the same credit rating as the Confirming Letter-of-Credit Bank

BOND ISSUANCE – LETTER-OF-CREDIT AND CONFIRMING LETTER-OF-CREDIT STRUCTURE AT CLOSING



BOND ISSUANCE – LETTER-OF-CREDIT AND CONFIRMING LETTER-OF-CREDIT PAYMENT STRUCTURE



BOND ISSUANCE – LETTER-OF-CREDIT AND CONFIRMING LETTER-OF-CREDIT

- At Closing
  - **Identical to Letter-of-Credit Structure**
  - Issuer issues Bonds pursuant to an Indenture, the proceeds of which are lent to Borrower pursuant to a Loan Agreement
  - Trustee receives Bond proceeds in exchange for the Bonds
  - Underwriter purchases the Bonds and sells to investors
- Ongoing
  - **Identical to Letter-of-Credit Structure**
  - Issuer and Underwriter fade away
  - Letter-of-Credit Bank makes Principal and Interest Payments
  - Borrower reimburses L/C Bank for P&I Payments
  - Upon L/C Bank default, Confirming Letter-of-Credit Bank makes a single payment to pay off the Bonds

BOND ISSUANCE – LETTER-OF-CREDIT AND CONFIRMING LETTER-OF-CREDIT

- Benefits
  - Investors look to L/C Bank for regular P&I Payments
  - Credit risk of the Bonds is based on the credit risk of the **Confirming Letter-of-Credit Bank**, not the L/C Bank or the Borrower
  - Upon L/C Bank default, investors are paid by the Confirming Letter-of-Credit Bank

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