INDIANA BOND BANK
USDA-RURAL DEVELOPMENT INTERIM FINANCING PROGRAM
Presentation Overview

- Background of USDA-Rural Development Water and Environmental Direct Loan Program

- Summary of Proposed IBB USDA-Rural Development Interim Financing Program
Background of USDA Program

- The USDA-Rural Development’s Water and Environmental Programs ("WEP") provides loans, grants and loan guarantees for drinking water, sanitary sewer, solid waste and storm drainage facilities in rural areas and cities and towns of 10,000 or less.
- Public bodies, non-profit organizations and recognized Indian tribes may qualify for assistance.
- WEP also makes grants to nonprofit organizations to provide technical assistance and training to assist rural communities with their water, wastewater, and solid waste problems.
- The USDA-RD considers itself the "lender of last resort" for many small, rural communities.
Background of USDA Program, cont’d

- Borrowing long-term funds from the USDA-RD is a common practice among small, rural cities and towns which operate water and waste water utility systems.
- A borrower must be located in an area with a population of 10,000 or less.
- Loans are amortized over a period of up to 40 years.
- Interest rates on the USDA loans depend upon the income levels of the community. Beginning July 1, 2014, the lowest interest rate is 2.375%, the intermediate interest rate is 3.25%, and the market interest rate is 4.00%.
- Therefore, borrowers qualifying for the USDA’s WEP direct loan program are able to borrow funds at a fixed interest rate between 2.375% - 4.00%, which is amortized over 40 years and is prepayable at any time.
Background of USDA Program, cont’d

- Once approved for financing, a borrower’s funds are “obligated” by the USDA, and the USDA issues a “letter of conditions”.

- The “letter of conditions” sets forth certain conditions the borrower must satisfy in order to close on the long-term direct loan from the USDA-RD.

- Per USDA regulations, the “letter of conditions” typically requires that, “where funds can be borrowed at reasonable interest rates on an interim basis from commercial sources for the construction period, such interim financing should be obtained so as to preclude the necessity for multiple advances of USDA loan funds.”
Background of USDA Program, cont’d

- Conclusion...
  - While the USDA has previously provided interim financing to borrowers in Indiana through multiple draws, administrators of the USDA’s program in Indiana are now seeking to create an interim financing program in Indiana, similar to programs that have been established for the same purpose in other states.

  - Given the Indiana Bond Bank’s (“IBB”) experience working with many small, rural cities and towns throughout the State, its establishment and operation of similar financing pool programs, and its role as a State “lender of last resort”, the IBB has the legal authority and practical knowledge necessary to create a new program to provide interim construction financing for borrowers participating in the USDA’s WEP direct loan program.
Summary of Proposed IBB USDA-RD Interim Financing Program

- The proposed new program ("Program") would not require the use of the State’s moral obligation.
- The Notes would be issues only after there is sufficient demand from QE’s (i.e., there would be no “blind pool”).
- Under the Program, the IBB would issue fixed rate special program notes (the “Notes”) with a 1-year maturity date, for the purpose of making short-term construction loans to cities, towns and non-profit utilities (“QE’s”) participating in the Program.
- The IBB’s Notes would be secured by bond anticipation notes ("BAN’s") with a 1-2 year maturity date, issued by the QE’s participating in the Program.
- The BAN’s issued by QE’s would be secured primarily by the USDA’s written commitment to provide the long-term direct loan upon completion of construction (i.e., known as the “USDA interim construction take out letter”).
Summary of Proposed IBB USDA-RD Interim Financing Program, *cont’d*

- Once a QE receives its take-out letter from USDA, the IBB would enter into a loan agreement with the QE.
- The interest rate specified in the loan agreement and the QE’s BAN’s would be sufficient to cover the IBB’s costs of issuance and debt service to become due on the IBB’s Notes (*note*: this is identical to how the IBB sets the QE interest rate on its Advance Funding Program).
- The QE’s BAN’s would have a maturity date that is 30 days prior to the maturity date of the IBB’s Notes.
- The IBB would accept loan payoffs from QE’s that have closed on their USDA long-term direct loan, and would continue to make loans to QE’s throughout the 1-year period of the Notes as funds are available.
- In effect, the IBB Program would be a revolving loan program.
Summary of Proposed IBB USDA-RD Interim Financing Program, cont’d

- QE’s who have not completed construction during the initial 1-year maturity period for the Notes would be “rolled over” into the next Note issuance.
- New Notes (with a new 1-year maturity period) would be issued approximately 30 days prior to maturity of the outstanding Notes.
- Each series of Notes would finance new loans to QE’s approved to participate in the Program and would re-finance loans to QE’s already in the Program, but which have not yet completed construction.
Summary of Proposed IBB USDA-RD Interim Financing Program, cont’d

- QE’s participating in the Program would be required to draw down construction proceeds as needed.
- Following the QE’s execution of standard closing documents for the Program, draw request forms would be completed and signed by the QE, the QE’s engineer and a USDA Specialist as funds are needed for construction.
- This form would then be faxed to the Program trustee bank and the funds subsequently wired to the local bank of the QE within one or two business days.
Summary of Proposed IBB USDA-RD Interim Financing Program, *cont’d*

- **Funding for IBB Program:**
  - In the long-term, funding for the Program would be provided through the issuance of IBB’s Notes in a public offering (similar to the process involved with the issuance of IBB’s notes for the Advance Funding Program).

  - In the short-term, funding for the Program would likely require that the Notes be privately placed with the Treasurer of State, due to the initial small size of the pool and inevitable issues that will arise with any new program.
Summary of Proposed IBB USDA-RD Interim Financing Program, *cont’d*

**Timing for Program:**

- Eventually, the IBB staff envisions that the Program would have established dates for the issuance of each series of Notes (e.g., each March 1\textsuperscript{st} and September 1\textsuperscript{st}).

- QE’s seeking to participate in the Program would be required to file an application with the IBB by a deadline at least 30-days prior to the issuance of each series of Notes, so that the IBB staff and USDA specialists could ensure that each QE’s letter of conditions, take out letter and other required Program documentation are in place prior to the issuance of each series of Notes.
Summary of Proposed IBB USDA-RD Interim Financing Program, cont’d

- **Administration of Program:**
  - The finance team members involved in the Program would include the following members:
    - IBB Staff
    - Bond counsel to the IBB
    - Financial advisor to the IBB
    - Program bond counsel to the QE’s
    - Program financial advisor to the QE’s
    - Trustee
    - USDA specialists
    - Underwriter (once the Program reaches a sufficient volume)
    - Underwriter’s counsel (once the Program reaches a sufficient volume)
Summary of Proposed IBB USDA-RD Interim Financing Program, cont’d

- **Administration of Program (cont’d):**
  - In addition, the IBB could elect to engage a sponsor/marketer for the Program, such as the *Alliance of Indiana Rural Water*, given that organization’s ongoing contacts with local water and sewer issuers, in order to help promote the availability of the Program.

- Similar to the IBB’s advance funding program, the costs of issuance associated with the finance team would be paid from the proceeds of the Notes, and would be built into the interest rate charged to the QE’s participating in the Program.