

PROJECT VS. BALANCE SHEET FINANCING:  
**CAN SECURITIES MATCH RISK?**

INNOVATIVE FINANCING FOR RURAL AMERICA  
AGRICULTURAL OUTLOOK FORUM 2008



PROJECT VS. BALANCE SHEET FINANCING:  
CAN SECURITIES MATCH RISK?

*Discussion...*

**on the varied forms of public and private placement financings being used in the rural marketplace.**



PROJECT VS. BALANCE SHEET FINANCING:  
CAN SECURITIES MATCH RISK?

*Balance sheet finance...*

generally characterized by claims on all revenue sources, full recourse and security, and balance sheet capitalization by the lender.

*Project finance...*

generally characterized by claims on specific revenue sources, non-recourse with illiquid or short lived security. May be financed through traditional bank loan or securities offering.



PROJECT VS. BALANCE SHEET FINANCING:  
CAN SECURITIES MATCH RISK?

*Securities vs. Loan...Size matters*



*Vs.*

**Promissory Note**

**Any Bank USA**

February 22, 2008

The undersigned agrees to all terms and conditions associated with this transaction and agrees that any failure to comply with said conditions will constitute an event of default.

Furthermore the undersigned agrees to all terms and conditions associated with this transaction and agrees that any failure to comply with said conditions will constitute an event of default and all remedies associated with available to Lender.

According to all conditions and agreements heretofore agreed the undersigned accepts the terms and conditions without reservation.



PROJECT VS. BALANCE SHEET FINANCING:  
CAN SECURITIES MATCH RISK?

*Project Financing Risk Continuum*  
*Ratings Moody's/S & P*

Aaa/AAA  
Aa1/AA+  
Aa2/AA  
Aa3/AA-  
A1/A+  
A2/A  
A3/A-  
Baa1/BBB+  
Baa2/BBB

Baa3/BBB-  
Ba1/BB+  
Ba2/BB  
Ba3/BB-  
B1/B+  
B2/B  
B3/B-  
Caa/CCC

**Investment Grade**

*Range of discussion*  
*(For profit and Non-profit)*

**Non-Investment Grade  
or Speculative**



# PROJECT VS. BALANCE SHEET FINANCING: CAN SECURITIES MATCH RISK?

## Ratings Moody's/ S & P

Investment Grade

Aaa/AAA  
Aa1/AA+  
Aa2/AA  
Aa3/AA-  
A1/A+  
A2/A  
A3/A-  
Baa1/BBB+  
Baa2/BBB

Speculative

Baa3/BBB-  
Ba1/BB+  
Ba2/BB  
Ba3/BB-  
B1/B+  
B2/B  
B3/B-  
Caa/CCC

*Typically lack size and access to public rating*

- Rural Hospitals & health facilities
- Low to moderate income housing
- Rural educational and cultural
- Community Infrastructure
- Agri-Business and Processing
- Rural Infrastructure and Utilities



PROJECT VS. BALANCE SHEET FINANCING:  
**CAN SECURITIES MATCH RISK?**

*Private Placement*

Using USDA guarantees and innovative pricing, rural entities can access debt at costs very close to the publicly rated or tax-exempt market.

*Public Placement*

Municipal or non-profit entities of sufficient public rating can access extremely attractive debt costs through tax-exempt public issuances.



PROJECT VS. BALANCE SHEET FINANCING:  
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*Public Placement*

**Attractive funding cost**

**Complex and inflexible**

**High issuance costs**

**Lengthy time frame**

**Low financing cost**

*Private Placement*

**Higher funding cost**

**Simpler, more flexible**

**Lower issuance costs**

**Shorter time frame**

**Slightly higher cost**



PROJECT VS. BALANCE SHEET FINANCING:  
CAN SECURITIES MATCH RISK?

*Achieving favorable pricing*



**Using  
tax-exempt**

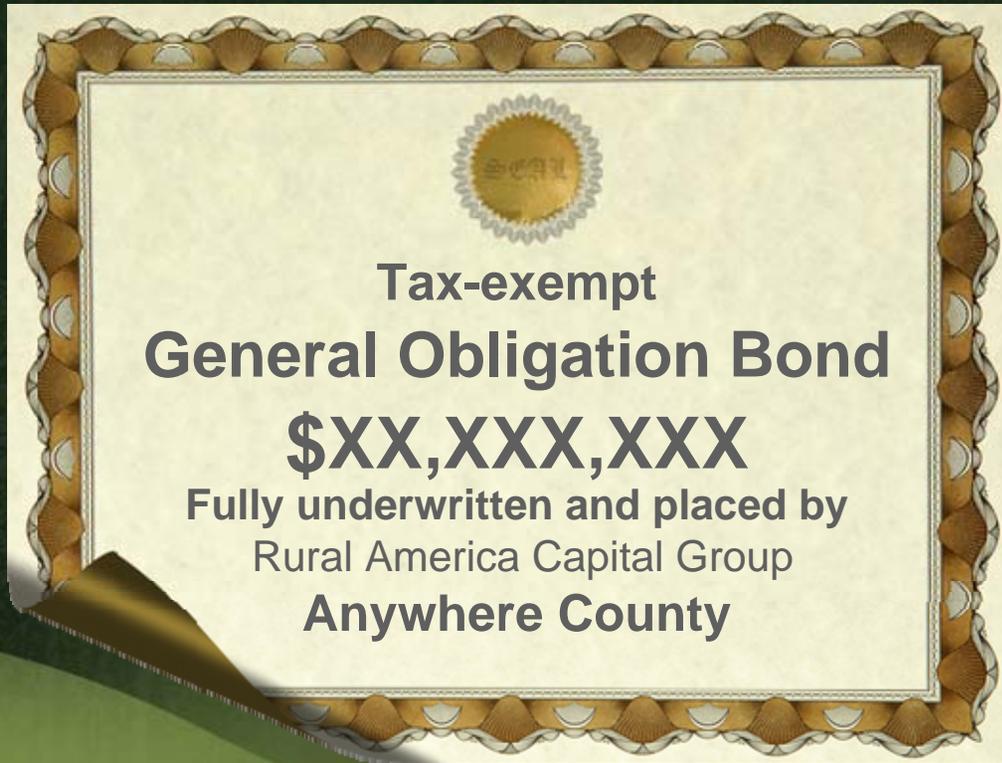
**Credit  
enhancement**

**Highly public  
rated**



PROJECT VS. BALANCE SHEET FINANCING:  
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*Tax-exempt issuances*



**Municipals-infrastructure**

**Manufacturing - <\$10mm**

**<\$20 mm project**

**Environmental-solid waste  
Recycling and disposal**

**Multi-family low income  
housing**



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Ratings Moody's/ S & P

## *Project Financing Risk Continuum*

Investment Grade

Aaa/AAA  
Aa1/AA+  
Aa2/AA  
Aa3/AA-  
A1/A+  
A2/A  
A3/A-  
Baa1/BBB+  
Baa2/BBB

**Hold or acquire favorably rating by rating agency** (*Highly predictable cash flow*)

**Generally need credit enhancement for favorable pricing** (*Less predictable cash flow*)

**Senior secured, significant equity contributions and/or credit enhancement** (*Unreliable or volatile cash flow*)

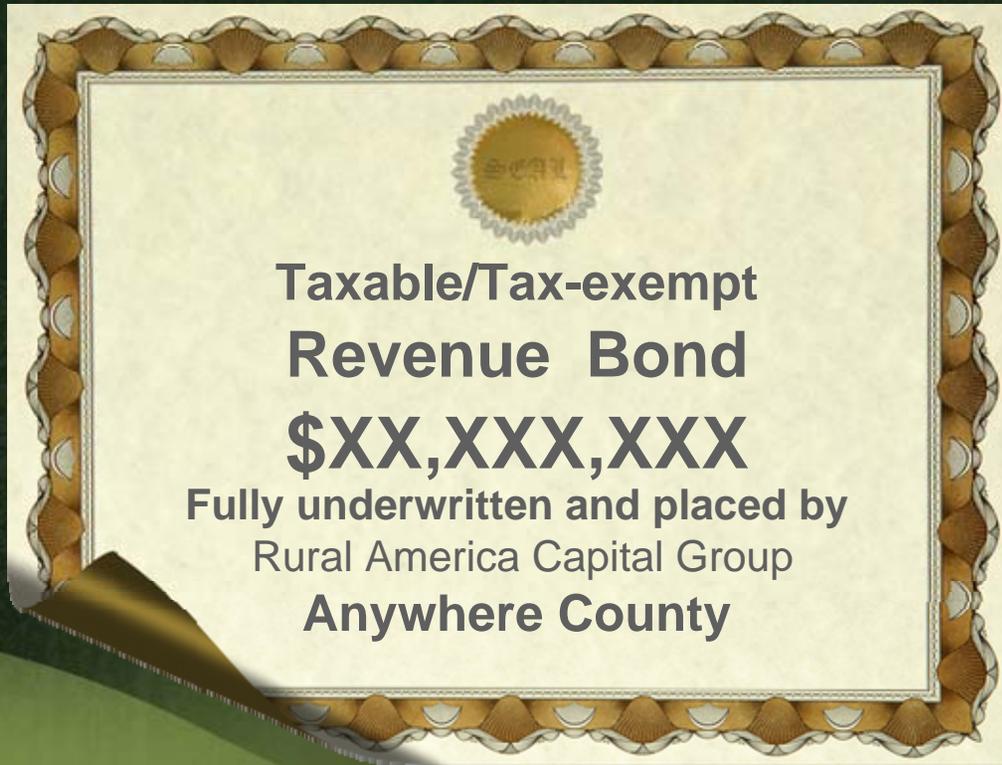
Speculative

Baa3/BBB-  
Ba1/BB+  
Ba2/BB  
Ba3/BB-  
B1/B+  
B2/B  
B3/B-  
Caa/CCC



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## *Methods of Credit Enhancement*



**Bond  
insurance**

**Letters of Credit  
(LC)**

**Guarantees-*USDA*  
Community Facility/B&I**

**Other Guarantees**



PROJECT VS. BALANCE SHEET FINANCING:  
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*Favorable Pricing Through  
Credit Enhancement*



**Public placement**

**Bond insurance**

**Letter of Credit**

**Private placement**

**Guarantees-USDA**

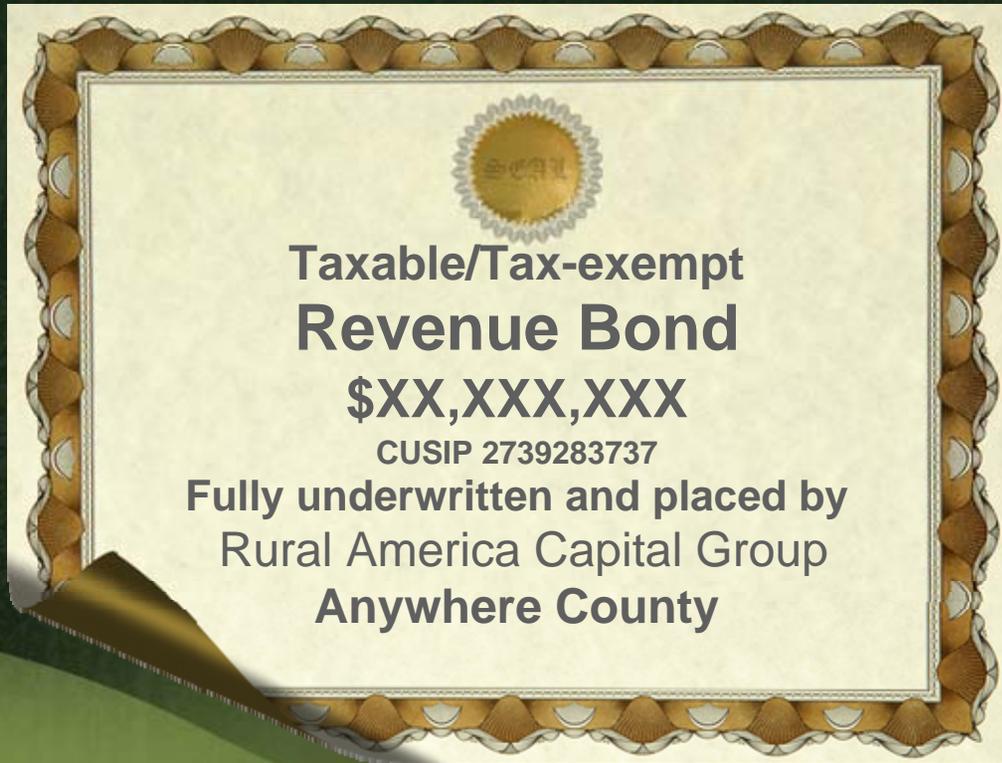
**Community Facility-non profit**

**Business & Industry-for profit**



PROJECT VS. BALANCE SHEET FINANCING:  
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## *Basic Financial Structures*



**Debt service  
reserve**

**Sinking fund**

**Depreciation  
reserve**

**Waterfalls**



PROJECT VS. BALANCE SHEET FINANCING:  
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**National Municipal Bond Yields:  
Triple-A Rated, Tax-Exempt Insured Revenue Bonds**

	CURRENT YIELD	PREVIOUS YIELD	PERCENT CHANGE	28% EQ YIELD	1 WEEK PRIOR YIELD	6 MONTH PRIOR YIELD
2-Year	2.70%	2.71%	-0.01%	3.75%	2.75%	3.82%
5-Year	2.93%	2.94%	-0.01%	4.07%	3.04%	3.93%
7-Year	3.13%	3.13%	0.00%	4.35%	3.20%	4.02%
10-Year	3.60%	3.59%	0.01%	5.00%	3.62%	4.21%
15-Year	4.16%	4.15%	0.01%	5.78%	4.20%	4.46%
20-Year	4.41%	4.38%	0.03%	6.12%	4.40%	4.63%
30-Year	4.48%	4.45%	0.03%	6.22%	4.45%	4.66%

*Bloomberg.com*



# PROJECT VS. BALANCE SHEET FINANCING: CAN SECURITIES MATCH RISK?

		Tax-Exempt Rate	Taxable Rate
Public Placement	AA Issuer, AAA insurance, fixed rate bonds	4.48	0.75
	AA Issuer, no insurance, fixed rate bonds	0.10	0.95
	Direct pay LC, fixed rate bonds	0.10	1.20
Private Placement	USDA Enhancement		1.50
	Senior Secured		2.50 - 3.50



PROJECT VS. BALANCE SHEET FINANCING:  
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**Publicly Placed (Unrated)  
Taxable and Tax-exempt Revenue Bonds**

Investor Oriented (Project Cash Flows – Senior Secured)  
\$3,000,000 Series A Tax-Exempt Bonds (*Environmental*)  
\$10,000,000 Series B Taxable Bonds

**30 year fixed rate, semi-annual interest, level debt service**

**Letter of Credit (Direct pay) provides access to AA rating**

**6 Month Debt Service Reserve**

**Waterfall cash sweep with sinking fund**

Tax-Exempt rate = 4.58%      Taxable rate = 7.20%

**All In Rate = 7.04% including issuance cost**



PROJECT VS. BALANCE SHEET FINANCING:  
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**Privately Placed** (Accredited Investor)  
**Taxable Revenue Bonds**

Non-Profit, (Project Cash Flows)

\$8,000,000 Series A Taxable Bonds (USDA CF guarantee)

\$2,000,000 Series B Taxable Bonds

**30 year fixed rate, semi-annual interest, level debt service**

**Lender of Record construction guarantee**

**Mark-to-market call provision**

**Monthly Sinking Fund**

**6 Month Debt Service Reserve**

**Waterfall cash sweep**

**Blended All In Rate = 6.45%** including issuance cost



PROJECT VS. BALANCE SHEET FINANCING:  
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**Privately Placed** (Accredited Investor)  
**Taxable Revenue Bonds**

For-Profit, (Local occupancy tax)  
\$8,000,000 Series A Taxable Bonds

30 year fixed rate, semi-annual interest, level debt  
service

Mark-to-market call provision  
Monthly Sinking Fund  
6 Month Debt Service Reserve  
Waterfall tax revenue sweep

All In Rate = 7.07% including issuance cost



PROJECT VS. BALANCE SHEET FINANCING:  
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**Privately Placed** (Accredited Investor)  
**Taxable Revenue Bonds**

For-Profit, (Project Cash Flows)  
\$1,500,000 Series A Taxable Bonds - Senior Secured

30 year fixed rate, semi-annual interest, level debt service

Mark-to-market call provision  
Monthly Sinking Fund  
6 Month Debt Service Reserve

All In Rate = 7.68% including issuance cost



?

