

IADF BULLETIN



FINANCING LOCAL GOVERNMENT

Volume 1, Issue 9

November/December 2004

Year in Review- 2004

by Steve Thomas and Laura Robinson

2004 was a productive and successful year for IADF. After a brief hiatus, the organization was able to pick up where it left off and pursue an ambitious and useful agenda.

Key accomplishments of IADF include:

Website- www.developmentfunds.org

IADF launched their new website in February 2004 and relaunched a redesigned site in December 2004. The site is packed with information: it provides links to financial resources, municipal development funds, archives of past newsletters, news items, financial data, our MDF Database, Conferences information, Publications, and contact information for reaching the staff at IADF. Additionally, one may view information about the annual International Conference on Financing Municipalities & Sub-National Governments, including presentations from past conferences.

Newsletter- The IADF Bulletin

IADF kicked off the publishing of our monthly newsletter in March, and has since then consistently researched and distributed a newsletter at the end of each month thereafter. Each newsletter features a summary of relevant news items, and interview with a key player in global finance/international development, feature articles on a fund from a developing country and a developed country and articles on upcoming events. This newsletter is sent to a list of thousands of subscribers.

Municipal Development Fund (MDF) Database

2004 also saw the development and launch of the IADF MDF Database, available on our website. This unique, one-of-a-kind database contains information on all of the MDFs that our research has encountered and is useful for contact and benchmarking purposes. If your institution is not listed, please make sure to send us a copy of the MDF information request form (available on the website) so that we may include your institution.

International Conference on Financing Municipalities

The **2004 Second International Conference on Financing Municipalities & Sub-National Governments** which was organized by IADF with the help of **USAID, PPIAF, the World Bank and the Inter-American Development Bank** took place on September 30-October 2. Corporate sponsors included **Citigroup, Standard and Poor's, Dexia Credit Locale, Orrick, and MWH**. The conference was a huge success and brought together more than 300 participants from 42 different countries to discuss issues related to municipal finance and infrastructure financing. The conference was broken out over three days and featured keynote addresses by speakers including Enrique Iglesias, President, Inter-American Development Bank, Fred Schieck, Deputy Administrator of USAID and Kathy Sierra, Vice President of Human Resources, World Bank.

Additionally, there were panels of speakers addressing specific thematic topics throughout the course of both days as well as breakout sessions to discuss topics affecting particular regions. Further, the New York State Environmental Facilities Corporation hosted an additional session held on Saturday, October 2nd which discussed state revolving fund operations and infrastructure financing options.

The conference proved to be a success both in the significant participant turnout and the wealth of subject material brought to the conference and shared amongst the participants. Through the conference, IADF achieved its goal of sharing information and new developments in the field of municipal finance and infrastructure financing. We would like to thank our generous sponsors as well as the speakers for their valuable contributions.

**Further information on the conference and the IADF can be obtained from our newly redesigned website:
www.developmentfunds.org**

NEWS DESK

-Compiled by Laura Robinson and Stephen Medlock

TCV Funding Requirement 2004-05 Treasury Corporation of Victoria July 2004

Treasury Corporation of Victoria (TCV), as the central financing authority for the State of Victoria, issues Victorian government guaranteed debt for on-lending to state departments, agencies and government business enterprises. TCV and the State of Victoria are rated AAA by Standard & Poor's Corporation and Aaa by Moody's Investors Service.

For the year ending 30 June 2005, TCV's funding requirement will be \$A1.7 billion. This requirement comprises refinancing of \$A1.4 billion of maturing debt and \$0.3 billion of new raisings. The refinancing component of the 2004-05 funding requirement largely reflects the maturing of TCV's November 2004 Hotstock.

TCV maintains four key borrowing programs to facilitate its debt management activities. These are TCV Hotstocks (domestic bonds), euro medium term notes, domestic promissory notes and euro commercial paper.

TCV is committed to maintaining a presence in all four programs.

New unconditional grant funding mechanism unveiled New Brunswick 1298 Nov. 17, 2004

FREDERICTON (CNB) – Under a new unconditional grant announced by Finance Minister Jeannot Volpé, New Brunswick municipalities will receive funding increases totalling about \$21 million over the next four years.

Under the new mechanism, the municipal unconditional grant pool in 2005 will total \$62.8 million; in 2006, \$65.3 million; in 2007, \$66.6 million, and in 2008, \$67.9 million. For 2005 and 2006, municipalities with above-average tax bases per capita will retain their 2004 unconditional grant level. Municipalities with below-average tax bases per capita will receive additional funding corresponding to how far below the average they are.

In 2007, all 103 municipalities will see a 2 per cent increase from their 2006 unconditional grant level, and in 2008, they will see a further 2 per cent increase. The minister said a special payment will be provided to ensure that any municipality that received a one-time special grant in 2004 does not see its overall funding level fall relative to 2004.

Volpé said the provincial government provides municipalities with financial support in many more ways than the unconditional grant. For example, he said, municipalities are eligible for millions in funding from various government programs for infrastructure projects, official languages, economic development, highways and emergency services.

Municipalities are being notified of the results of the new mechanism. The unconditional grant pool for local service districts for 2005 will remain at the 2004 level of \$3.2 million. The necessary legislation to implement this funding mechanism will be introduced during the fall session of the legislature.

Hansabank's banking operations in Russia November 25, 2004 www.hansagroup.com

Hansabank's Council approved the increase of the share capital of Hansabank's future banking subsidiary in Russia to EUR 81 million.

Hansabank signed a purchase agreement of the Russian Kvest bank in Moscow in September of this year. Closing of the transaction is subject to receiving regulatory approvals. Hansabank will pay approximately 3.4 million US dollars (2.8 million euros) for 100% of the bank's shares. After closing of the agreement Hansabank will raise the share capital of the bank to the above mentioned level. The Estonian Financial Supervisory Authority has already given Hansabank its approval for the said acquisition. In the nearest future Hansabank will submit an application also to the Russian Central Bank.

Hansabank Group expanded to the Russian market in 2002. According to the strategy approved this year, the Group will operate in the Moscow, St. Petersburg and Kaliningrad regions and focus on serving its Baltic, Scandinavian and Russian corporate clients.

USD 1 billion issue by Nederlandse Waterschapsbank N.V. (NWB) November 17, 2004

Nederlandse Waterschapsbank (NWB) placed a USD 1 billion issue. The lead managers are ABN AMRO Bank N.V., Citigroup Global Markets Limited and Barclays Capital. NWB is an AAA/Aaa rated public sector bank.

The bond, which was issued under the EUR 25 billion EMTN program, will be repaid in full on December 19, 2007. The settlement date is 24 November 2004. The coupon is 3.50% and the issue price is 99.94%. The bonds will be listed on Euronext Amsterdam.

BNG Increases US Bond Issue November 9, 2004 ww.bng.nl

BNG, the Dutch Public Sector Agency, rated AAA/Aaa/AAA, has increased by USD 250 million the USD 1 billion 3.75%, due July 15, 2013 issue, originally launched on July 1, 2003. This fourth increase brings the total outstanding amount to USD 2 billion.

This new tranche has an issue and a re-offer price of 94.868%. Based on this re-offer price, the yield is 4.475%. Settlement date is November 16, 2004, plus 121 days accrued interest. This tranche will be fungible with the original issue 40 days after settlement. The issue will be listed in Amsterdam. Lead managers are RBS and Goldman Sachs.

Kommunalbanken November 10, 2004 www.kommunalbanken.no

Through RBC Capital Markets, Kommunalbanken is delighted to have been able to tap its 5.75% of 2007 Kangaroo issue by AUD100mm, taking the total size to AUD300mm. This is the institution's 6th appearance in the Kangaroo market in 2004 with 2 new issues and 4 taps in total. Recent non-deal related marketing included investor meetings in Sydney, Brisbane and Melbourne.

**LANDBANK of the Philippines Sells P13.5B Non-Performing Assets under SPV Law
November 10, 2004**

Land Bank of the Philippines President and CEO Gary B. Teves announced on November 10, 2004 that LANDBANK successfully completed the competitive auction of two pools of non-performing assets to two investors, Deutsche Bank-Cargill Financial Services International, Inc. and J. P. Morgan.

LANDBANK's non-performing loan (NPL) ratio will be drastically reduced from approximately 14% to single digit-levels (approximately 8%). The gross face value of the assets sold is approximately P13.5 billion Philippine Pesos (equivalent to US\$241 million). The portfolio sold was composed of two pools of non-performing loans.

Thirteen bidders registered to participate in the sale, each paying a non-refundable registration fee of US\$30,000. These entities performed their due diligence since early September. Five bidders submitted conferring bids, each paying the US\$2 million bid deposit.

Ernst & Young Transaction Advisory Services, Inc. serves as LANDBANK's financial advisor for this sale. The transaction process followed global best practices and were patterned after similar transactions done in Japan, Korea, Thailand and Taiwan. Both the Asian Development Bank (ADB) and the International Finance Corporation (IFC) have provided letters of support for the transaction. These multilateral agencies will make available financing to the winning bidders.

**For the First Nine Months of 2004, SBABs Net Operating Income Amounted to SEK 547 million
November 4th 2004
www.sbab.se**

SBABs retail market loan portfolio has grown over the first nine months of 2004 and now amounts to SEK 72.7 billion (SEK 59.4 billion) of which amount securitized loans make up SEK 15.9 billion (SEK 16.3 billion).

The property-company loan portfolio has decreased and amounted to SEK 81.9 billion (SEK 94.6 billion) of which amount securitized loans make up to SEK 9.5 billion (SEK 10.1 billion).

The net loan losses position continues to report positive development.

**Bank Austria Creditanstalt Signs Agreement to Acquire Hebros Bank in Bulgaria
November 3, 2004
www.ba-ca.com**

On November 3, 2004 Bank Austria Creditanstalt (BA-CA) signed an agreement to purchase Hebros Bank, a bank in Bulgaria. The sellers of the 99.9 percent interest are SWC BV and SWR Investments, independent investment management companies. "By acquiring Hebros Bank we have significantly strengthened our market position in Bulgaria. We are thereby increasing our market share to the level of 10 per cent that we have sought in this strategic core market," says Erich Hampel, CEO of Bank Austria Creditanstalt. The acquisition is subject to approval by all relevant authorities.

Hebros Bank has total assets of EUR 291 million (as at 30 June 2004) and a market share of 2.9 percent, which makes it number 10 in the Bulgarian banking market. With a country-wide network of 92 offices and a total of 1,000 employees, the bank serves 210,000

customers. The bank was created through the merger of eight state-owned banks in 1993. In 2000, it was sold to the Regent Pacific Group. The bank has been restructured and modernized over the past four years. Today, Hebros Bank uses a modern IT system and operates an extensive network of branches. The bank focuses on retail customers and small and medium-sized businesses.

BA-CA is already active in Bulgaria through its subsidiary HVB Bank Biochim. HVB Bank Biochim is currently the fourth-largest local bank, with total assets of EUR 793 million, some 1,500 employees, 151 branches and more than 400,000 customers. BA-CA plans to integrate HVB Bank Biochim and Hebros Bank in 2006.

**Bank Austria Creditanstalt (BA-CA) Signs Agreement to Acquire Eksimbanka in Serbia
November 22, 2004
www.ba-ca.com**

On November 19, 2004, Bank Austria Creditanstalt (BA-CA) signed an agreement to purchase Eksimbanka, a Serbian bank headquartered in Belgrade. The sellers of the 58.7 percent majority interest are the German Investment and Development Company DEG, the European Bank for Reconstruction and Development (EBRD), the investment management company Futura Investment as well as SEEF Holding (a member of the Soros Group). Due to legal requirements in Serbia, a binding, public takeover offer will be submitted to all the shareholders of Eksimbanka. "By acquiring Eksimbanka we will significantly strengthen our market position in Serbia", says Erich Hampel, CEO of Bank Austria Creditanstalt. Together with Eksimbanka, BA-CA will hold a market share of 5.3 per cent in Serbia.

The acquisition is subject to approval by all relevant authorities as well as acceptance of the public takeover offer. Details of the transaction will not be disclosed until submission of the public takeover offer, which is planned for the beginning of December 2004. The purchase price will be a double-digit figure in millions of euros. CA IB, BA-CA's investment banking arm, acted as adviser to BA-CA on this acquisition.

Eksimbanka has total assets of EUR 144 million (as at 30 September 2004) and a market share of 2.4 percent, which makes it number 12 in the Serbian banking market. With a country-wide network of 32 offices and a total of 300 employees, the bank serves 60,000 customers. The bank was created in 1991. It was the first Serbian bank to receive capital from a number of renowned international investors. Eksimbanka has been restructured since then. Today, Eksimbanka operates an extensive and modern network of branches. The bank focuses on small and medium-sized businesses and retail customers. The book value of total equity of Eksimbanka was EUR 15.9 million as at the end of June 2004. BA-CA has been active in Serbia since December 2001 through its subsidiary HVB Bank Serbia and Montenegro. HVB Bank Serbia and Montenegro is currently the ninth-largest local bank, with total assets of about EUR 180 million, 125 employees, 4 branches and some 10,000 customers. It is planned to integrate HVB Bank Serbia and Montenegro and Eksimbanka by the end of 2005.

INTERVIEWS

Interview with Dr. Krishnaswamy Rajivan Senior Urban Finance Specialist Cities Alliance

By Stephen Medlock

IADF: What organization do you work for?

KR: I currently work with the Cities Alliance, here in DC. For six years I worked with the Tamil Nadu Indian Fund, which did pool financing for small and medium cities to access markets.

IADF: Please tell us more about your experiences with the Tamil Nadu Fund and the challenges you faced

KR: Getting to debt markets. This is something which is unheard of for small towns, partly for two reasons: one, which we call a culture gap—the banking community and the city management community come from vastly different cultures. Secondly, the fact is that the sides don't talk to each other, because the size of the transactions are way too small for the capital market and there's a huge transaction cost, so there are these two gaps, and there's a role for an intermediary, to make these two sides come together, and that's what pool financing is really all about. Combining small cities' financing needs, which are repetitive, and help them bridge the gap with the domestic capital market. There's no other goal for long-term investment in water, sanitation, and solid waste.

IADF: Are there innovations that would be applicable to other countries ?

KR: The needs of small cities around the world are universal. The needs of solid waste, money to do water, sanitation—these are small cities' financing needs, whether you're in Australia, or in Africa, or India—they're universal. The demands are universal. The fact that you need to get domestic debt denominated in local currency is also well understood. So where's the bridge? You need to build a trust, and a link between two sets of people. And which language you court this trust, the law, is a matter of detail. But, building the bridge, building the trust, and the relationship is an action, which an intermediary needs to do.

Interview with Anne Charreyron-Perchet Head, Urban Department, ISTD

By Olga Zelenova

IADF: Tell us about your organization.

ACP: My organization is a non-profit organization, which works a little bit like a foundation or institute, with private and public members—it's a private and public partnership, I would say—and we have a partnership with different organizations, one is the Cities Alliance, and we are in charge of disseminating their documents in other countries, especially in North Africa. And also, we work in Europe on projects for the European Community in the field of environment and urban development, and also a part of the activity involves transportation.

IADF: Could you tell us more about experiences in working with North Africa.

ACP: We are involved in capacity-building projects in Algeria, and also in Tunisia. In Algeria, we are assisting the Ministry of Urban Planning and Housing, the urban re-housing process in the city of Algiers, and trying to redevelop all the traditional functions

of the city in Algiers. We help the people working in the Ministry to start processes of rehabilitation. We train them on all the socioeconomic and technical aspects of rehabilitation.

IADF: Can you tell us more about the work ISTD does in Europe? Is it infrastructure in cities and towns, or is it more information-based?

ACP: When we work for the European Commission, there are different European countries involved in the project. For instance, we have a project in Asia dealing with the field of environment. We are working with the Netherlands to try to develop information tools to inform the population about floods. It's a development project, I would say. Also, we publish a newspaper, called *Vie en développement*, we have a lot of subscribers in developing countries and in Europe, too.

SPOTLIGHT: **BANOBRAS (Mexico)**

By Laura Robinson

Location	Mexico D.F.
Year founded	1933
Legal Status	Government Owned Entity
Chief Executive	Luis Pazos de la Torre
Clients served	Federal and local governments and their organizations; private companies dedicated to investing in public works and services
Main sectors of lending	Urban Development, Infrastructure, Public Services, Housing, Communications and Transportation

Historical Background:

To meet infrastructure and public services requirements, the Urban Hypothecating National Bank and Obras Publicas, S.A., which is now known as the Banco Nacional de Obras y Servicios Públicos (National Bank of Public Works and Services, S.N.C.), or BANOBRAS, was created in 1933. By statutory law, BANOBRAS was certified as a development bank in 1986.

The responsibility of the Bank is not limited to the granting of credits, but also provides technical assistance, helps with the organization of municipal companies, advises and evaluates projects of social interest, and overall acts as a solid support to the regional development.

The activities of BANOBRAS are aimed at meeting the objectives and priorities of the National Plan of Development 2001-2006, and are in agreement with regional programs as well as state and municipal plans.

In accordance with its charter, BANOBRAS lends for projects that provide public infrastructure and public services. It also serves as the trustee and executor of the Infrastructure Investment Fund (FINFRA), whose purpose is to encourage private investment in public infrastructure.

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Mission:

To finance infrastructure projects and public services with socioeconomic and financial yield, to promote the development of Mexico.

Objectives:

- To finance infrastructure and public services projects.
- To support the financial and institutional strengthening of local governments.
- To administer the bank efficiently and with good government.

Responsibilities

The responsibility of the Bank is to grant credits, provide technical assistance, advise and evaluate projects and support regional development in general. The activities of BANOBRAS are subject guidelines of the National Plan of Development 2001-2006, and are in agreement with other state and municipal plans.

Local governments rely on the institutions and instruments provided through the technical and financial assistance of BANOBRAS to evaluate and to finance their investment projects.

Supervision

BANOBRAS is supervised by its Board of Directors. The board approves the budget, annual report, programs and internal procedures of the Bank, and overall direction of activities.

Capital Sources:

BANOBRAS is owned by the Mexican government and finances its loans with Mexican currency, the capital markets as well as with loans from the World Bank, the Inter-American Development Bank and other international financial institutions (both private and public).

Lending:

BANOBRAS' lending rates are mainly semi-fixed-spread loans based on TIIE (the interbank lending rate for pesos). Spreads are determined by multiplying a specific factor by the TIIE rate, and have a floor and ceiling (e.g. a typical rate would be TIIE x 1.3 with a floor of TIIE + 1.5% and a ceiling of TIIE + 19.0%). The factor for each loan is determined by integrated costs (operation costs and credit risk reserves), and is revised whenever the credit rating for a debtor changes.

Per Mexican banking regulations (based on the Basle accords), BANOBRAS builds reserves on individual loans according to their credit risk. It does not have a trust fund or such vehicle for these reserves, but rather includes them in its equity account.

Under its public finance line of business, BANOBRAS has lent to municipalities, state governments and public entities at the municipal and state levels.

Under its project finance line of business BANOBRAS has additionally lent to private entities involved in the provision of public infrastructure and public services (utilities, roadways, etc.).

Under its financial agent line of business, BANOBRAS has lent to executors of projects funded by multilateral agencies, as determined by the federal government.

There is no minimum borrowing requirement. Its smallest loans are typically around MXN 200,000. During 2003 BANOBRAS lent MXN 11,057 million in public and project finance, and MXN 4,291 as financial agent for the federal government.

Projects

Infraestructura Carretera

The Infraestructura Carretera project, dealing with roads and transportation infrastructure, is fundamental for economic and social development of the country. The highway network has not been developed in accordance with the level of population growth and BANOBRAS, through the Infraestructura Carretera project, is working to address this issue.

Infraestructura Básica

During the past recent decades, Mexico has experienced high population growth and significant levels of migration to the urban centers. This growth and migration has created basic infrastructure needs. To address these issues, BANOBRAS works to provide resources to the appropriate sectors within the state and municipal governments to develop much needed infrastructure.

The objective of the Infraestructura Básica project is to finance the construction, extension, maintenance, rehabilitation, operation and/or modernization of basic infrastructure works and communications like bridges, libraries, airports, waterways, railroads, phone lines, networks of domestic gas and wire nets, as well as the equipment necessary to carry out these actions.

Infraestructura Cultural

The objective of BANOBRAS' financial support to this area is to provide technical and credit assistance to institutions which work to fortify, protect, preserve and share the cultural arts throughout Mexico.

Services

Mesa de Dinero

Through the Mesa de Dinero, the bank's trading floor, BANOBRAS offers a flexible and reliable service to customers, which allows them to obtain competitive market yields, and terms that adjust to their liquidity and investment requirements.

What the Mesa de Dinero offers:

- Investment opportunities for treasury funds;
- Investment flexibility (in terms and yield);
- Products with excellent credit quality, guaranteed by BANOBRAS;
- Wide range of available products including: certificates of deposit – short term and long term, banking bonds and promissory notes with liquefiable yield.

Fondo de Inversión en Infraestructura (FINFRA)

The federal government set up FINFRA through BANOBRAS, with the intentions of increasing national and foreign investment participation in basic infrastructure projects. FINFRA works to find ways to maximize the effects of combining federal public sector resources and investment on the development of basic infrastructure within Mexico.

FINFRA Objectives:

- To generate infrastructure projects with social benefit with the help of private sector investment;
- To develop investment opportunities;
- To increase greater national and foreign investment

Financial Structures

BANOBRAS also provides services to create financial structures with the following objectives:

- To develop alternate sources of financing.
- To contribute to the institutional fortification of state finances, municipalities and their public entities.
- To obtain long term and low cost resources to finance basic functions of the government.

Technical Assistance

BANOBRAS offers technical assistance to many areas of development including the following:

Water Sanitation

The objective of BANOBRAS assistance in this area is to address the water sanitation needs of the growing urban population by financing the construction and maintenance of sanitation equipment. BANOBRAS also works to strengthen the local organizations responsible for the operation and administration of the water sanitation system.

Road Infrastructure

The objective of BANOBRAS work in this area is to provide financing and technical assistance to the states' and municipalities' organizations to develop effective plans for the construction, improvement and conservation of the road infrastructure and to improve the efficiency of urban transport management.

SPOTLIGHT:
Mississippi Business Finance Corporation
(MBFC)

By Laura Robinson

Location	Jackson, Mississippi
Date Founded	XXX
Legal Status	Public, Non-Profit Corporation
Total Lending Since Founding	XXX
Main Sectors of Lending	Public Sector
Executive Director	Bill Barry
Credit Rating	XXX

Mission

To coordinate a variety of state resources in order to assist businesses and industry in obtaining financing and in positioning the State as an aggressive competitor in the global market.

Responsibilities

MBFC's financing programs assist in establishing new facilities and expanding existing businesses. MBFC represents a cooperative effort between the public and private sectors to stimulate both commercial and industrial development and expansion by administering financing programs that provide competitive or below market interest rates and tax incentives for qualified projects. MBFC works in cooperation with financial institutions and economic development entities statewide with the goal of increased employment and capital investment in Mississippi.

Ownership, Structure and Operation

MBFC is governed by a membership of 25 representatives from the public and private sectors. Legislation in the 2001 session ended a statutory relationship between MBFC and the Mississippi Development Authority (MDA); however MBFC continues to work cooperatively with MDA and all other Mississippi economic development entities in the creation of new jobs and increased capital investment.

Programs

Examples of MBFC programs include:

Industrial Development Revenue Bond Program

The Industrial Development Revenue Bond Program reduces the interest costs of financing projects for companies through the issuance of both taxable and tax-exempt bonds. Sales tax exemptions are granted for this type of public financing.

Eligibility

The company must be a private enterprise located, or to be located, within the State of Mississippi. Under limited circumstances nonprofit entities may qualify.

Use of Proceeds

The proceeds of a bond issue may be used for the acquisition and construction of real property, machinery and equipment, capitalized interest, and necessary reserve funds as approved. A limited amount may be applied to bond issuance expenses.

Loan Amounts and Terms

The maximum term of a bond issue will be equal to 120% of the average life of the financed facility or 30 years, which is less, or a lesser term if required by MBFC or applicable law. The bonds may contain a call provision. The interest rate on the bonds may be fixed or variable. The effective loan rate to a company under this program will be determined using a combination of the following: (i) the interest rate on the bonds; (ii) the costs of issuing the bonds; and (iii) the annual fixed costs attributable to the fees of MBFC, the bond trustee, and the paying agent, and if applicable, any credit facility issuer and the letter of credit issuer.

Mississippi Small Enterprise Development Finance Program

The Mississippi Small Enterprise Development Finance Program (SED) enables the (MBFC) to make loans to qualified private companies that will increase employment and investment in the State of Mississippi. The State issues general obligation bonds as the source of funding under the SED Program. The bonds are issued on a composite basis. The costs of issuance are prorated to each company participating in the issue, allowing companies to obtain tax exempt financing that would otherwise be unavailable due to prohibitive costs.

This program provides tax-exempt financing for small projects, and gives banks in the State, which meet MBFC criteria, an opportunity to issue letters of credit to support these efforts. The combination of lower than market interest rates and a fixed term make this program an attractive alternative for projects requiring loans of \$4 million or less. Sales tax exemptions are granted for this type of public financing

Eligibility

Eligible businesses are manufacturers and processors.

Use of Proceeds

Loan proceeds may be used for fixed-asset financing, including land, buildings, and machinery and equipment. No used equipment may be financed with loan proceeds.

Loan Amounts and Terms

The aggregate amount outstanding for any one borrower may not exceed \$4 million. Interest rates on these loans are equal to the net interest rate on the bonds issued by the State, plus a servicing fee. This rate excludes the letter of credit fee. Maximum loan term is fifteen years.

Mississippi Loan Guaranty Program

The Mississippi Loan Guaranty Program, administered by the MBFC acting on behalf of the State of Mississippi, strengthens and builds the small business concept in the State by enabling small businesses to obtain term financing through the use of loan guarantees. As a result of the loan guarantee protection, lending institutions are more likely to provide financing not otherwise available to small businesses by substantially reducing their exposure in the event of defaults.

Eligibility

The business must be located in the State. The business may be a sole proprietorship, partnership, corporation or limited liability company. The applicant must provide information that reflects the business is, or has the potential of, operating profitably. The business owners must have equity in the project for which financing is being requested. Lenders must be authorized to do business in the State.

Use of Proceeds

The Loan Guaranty Program may be used to finance all project costs associated with the establishment and/or expansion of a small business, including fixed assets, working capital, start-up costs, interest expenses during construction, and professional fees relating to the project.

Loan Amounts and Terms

The MBFC maximum guarantee is 75% of the bank's loss in the event of a default or \$375,000, whichever is less. Loans may have a maturity of up to 20 years, with the interest rates established by the lender. All loan servicing is handled by the lender, including closing, collection, and liquidation in the event of a default.

The lender will require the necessary collateral to reasonably secure the loan. No loan to be guaranteed by MBFC can exceed 90% of the fair market value of the collateral pledged. The lender must appraise the collateral and submit a copy of the appraisal with the loan guaranty application. Insurance will be required on all loans guaranteed by MBFC and shall include, hazard insurance to cover all collateral, general liability insurance, workers' compensation insurance (if required by State statute), and life insurance on the borrower and/or guarantors assigned to the bank for the amount of the loan.

**International Association of
Development Funds**

**Chairman...Lubomir Ficinski
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Executive Director....Steven Thomas**

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