

Structural Approaches

Council of Development

Finance Agency: The
Advanced Bond Finance

Course

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Pooled Bond Funds

- A pooled bond fund is a bond fund under which bonds are issued by a governmental entity, the proceeds of which are loaned to borrowers.
- Characteristics
 - Common Security - pool of assets
 - Credit Rating
 - Multiple loans to various borrowers
 - Fixed rate loans

Pooled Bond Funds cont.

- Quasi-Blind Pools
 - Reasonable expectations-based
 - Large bond issue- multiple loans
 - Prior Law:
 - If more than \$5 million of proceeds are expected to make loans for a third party, 95% of proceeds must be spent within three years.
 - New Law:
 - For pools other than State Revolving Funds, 30% of the ultimate borrowers must be identified prior to bond issuance

Pooled Bond Funds cont.

– New Law cont.

- All pools must lend 30% of the net bond proceeds in the first year and 95% by the end of three years -- or those outstanding bond proceeds must be redeemed
- The arbitrage rebate small issuer exception for entities that host a pool is eliminated
- The provisions are effective for pooled bonds issued after May 17, 2006

– Note that tax-exempt blind pool-esque program useful only to governmental borrowers

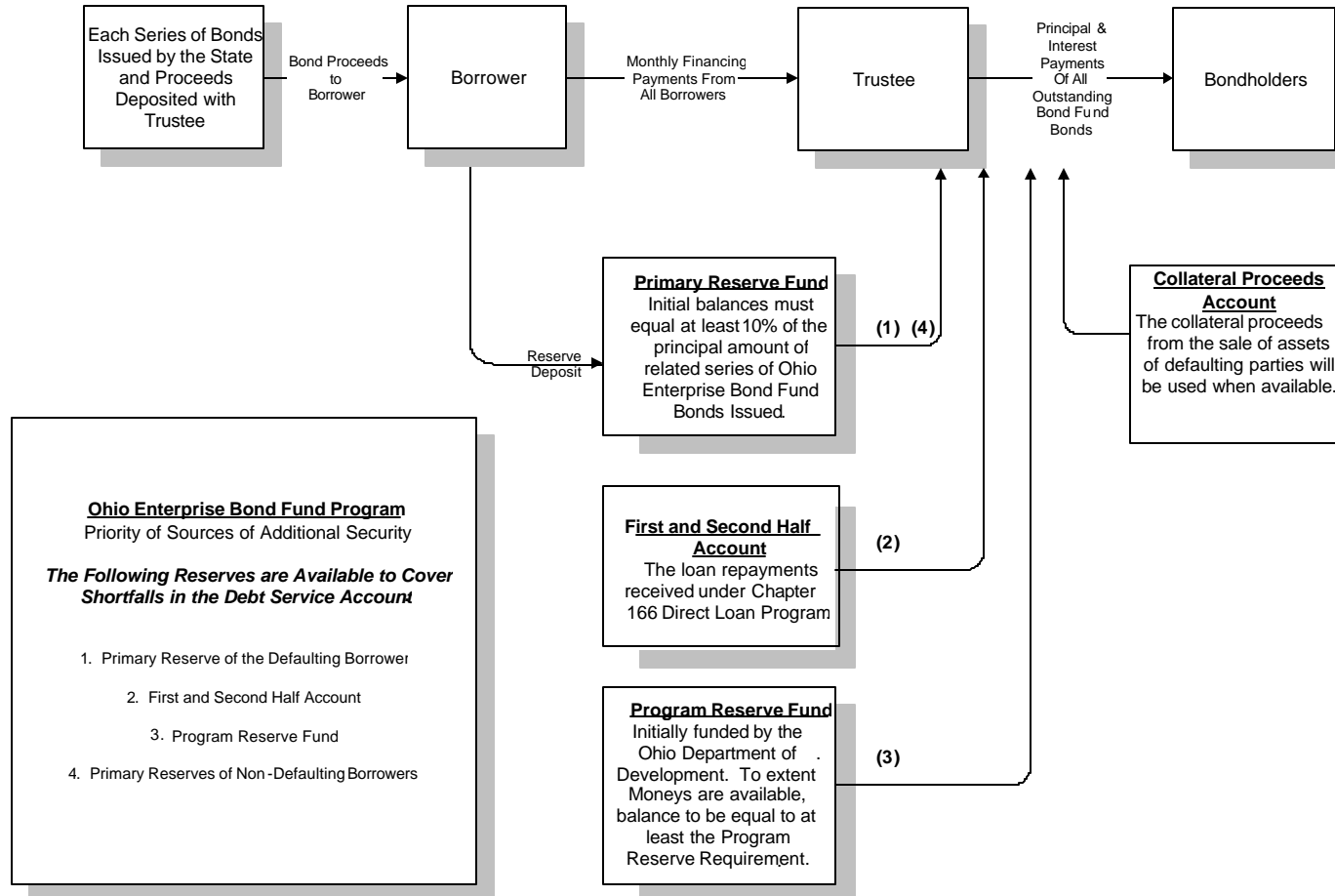
Pooled Bond Funds cont.

- Market Based Pools
 - Characteristic - one bond issue, one borrower
 - Taxable and tax-exempt issues
 - Common Funds yield restricted on a pro-rata basis
 - Single issue rules apply in case of tax-exempt issues

Pooled Bond Funds cont.

- Port Authority Bond Fund
- Ohio Enterprise Bond Fund
 - 1982 - Senior Liquor Profit Bonds issued to seed loan programs
 - 1988 - Initial issue of Enterprise Bond Fund Bonds issued
 - Approximately 90 bond issues under the program through 2006.
 - Rated "AA" by Standard & Poor's

Pooled Bond Funds cont.



Pooled Bond Funds cont.

- Reserves
 - 10% Bond Reserve for each Borrower
 - Available to all bond issues under meltdown scenario
 - Dedicated first to borrower then last after all other reserves
 - Collateral Proceeds Account
 - Proceeds from sale of defaulting entities
 - First and Second Half Accounts
 - Funded with proceeds of loan payments

Pooled Bond Funds cont.

- Reserves (cont'd)
- Program Reserve Fund
 - Standing Reserve of \$9,500,000
 - Initially funded with bond proceeds
- Additional credit enhancements
 - Letters of credit
 - Key man life insurance

- Other Issues

- Disclosure

- 20% of the debt service
 - Annual financial statements from borrowers
 - Minimal disclosure about conduit borrowers in original bond issuances.

- Advantages

- Low transaction fees
 - Almost unlimited funding source