

Financial Solutions

Non-Rated and Unenhanced Debt Offerings

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Member NYSE, SIPC

Traditional Debt Offerings

- Variable Rate Demand Bonds (VRDBs) enhanced with an LOC – usually rated VMig1/P1
- Insured Bonds – AAA/Aaa, AA/Aa, or A rated
- Rated But Uninsured, Unenhanced

The Ratings Game

S&P

Moody's

AAA

Aaa

AA; +/-

Aa 1,2,3

A; +/-

A 1,2,3

BBB; +/-

Baa 1,2,3

Below Investment Grade?

Non-Rated, Unenhanced Bonds

- No letter of credit
- No insurance or other enhancements
- Investment decision based on the underlying credit
- Long-term, fixed-rate obligations
- Taxable or tax-exempt

Types of Projects

- Industrials
- Hospitals
- Colleges and Universities
- Power Plants/Energy Deals
- Solid Waste Facilities
- Special Taxing Districts or
Tax Increment Financings (TIFs)
- Multifamily Housing

Advantages

- Customized – no set structure
- Market access for difficult credits
- No interest rate risk or market risk
- Higher leverage/equity requirements
- Guarantees

These are “story bonds.”

Disadvantages

- More expensive: 100 bps – 250 bps
- Market timing is important
- Not available for all credits/situations
- Restrictions in certain states/localities/authorities

Who Are The Buyers?

- Mutual fund companies
- Insurance companies
- Money managers
- Individuals – where appropriate

Methods of Sale

- Negotiated
- Private Placement
- Public Offering
- Direct Placement
- Taxables – Finding an Exemption from Registration

Determining Financial Feasibility

- Cash Flow Coverage
- Collateral
- Management
- Fundamentals
- Mitigating Risk
- Size: Minimum \$3 million

Thinking Like an Underwriter

- What is the weak link?
- Evaluating supply sources
- Evaluating contractual obligations – take or pay, length of term
- Evaluating the market
- Management experience
- Construction risk
- Transaction size

Taxable vs. Tax-Exempt Offerings

- Tax-exempt markets are more flexible, have longer terms.
- Taxable markets have shorter term horizons
- Certain sectors (i.e., healthcare) more difficult to execute in taxable market
- Registration issues
- Size issues

Impossible Situations

- Commercial multi-tenant ventures
- Real estate facilities with a short-term operating lease – i.e., need a 25-30 year amortization but only have a 10-year lease with XYZ Company
- Start-up operations without a distinct market advantage or proprietary process or product

Role of Underwriter/Placement Agent

- Assistance with project feasibility and structuring
- Typically earn fees only upon successful closing of the transaction
- Early input is essential to craft a deal that will be accepted in the capital markets.

Questions?
