

2024 FGFOA School of Governmental Finance

Considerations for Choosing a Bank Loan Versus a Negotiated Underwriting

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SPEAKERS



Mr. Miller extensive experience in municipal finance transactions of all types, including taxable bonds, bond issues for not-for-profit organizations (particularly educated institutions), mini bonds, community redevelopment financing, special taxing districts, single- and multi-family housing revenue bonds and lease financing.

Skip Miller

Greenspoon Marder LLP
Partner



Mr. Eaddy brings over 40 years of tax-exempt and taxable municipal finance experience in law, investment banking, and credit analysis. His Estrada Hinojosa Florida issuer-clients include the Village of Wellington and Northern Palm County Improvement District, in addition to the City of New York, Metropolitan Washington Airports Authority, District of Columbia, and City of Baltimore, to name a few.

Steve Eaddy

Estrada Hinojosa
Senior Managing Director

Term

| Bank Loan | Underwriting | Underwriting |
|--------------------------------------|--|--|
| \$ 30 million (private placement) | \$ 30 million (negotiated bond issue) | \$ 30 million (negotiated bond issue) |
| Up to 20 years | Up to 30 years | Up to 30 years |
| 15 years | 15 years | 30 years |

Interest Rate Mode

| Bank Loan | Underwriting |
|----------------------------|--------------|
| Fixed, variable or swapped | Fixed |
| Fixed | Fixed |

Compare Interest Rates

| Bank Loan (15 years) | Underwriting (15 years) | Underwriting (30 years) |
|--|--|--|
| True Interest Cost: 4.300% All in TIC: 4.339% Average Annual DS: \$2,290,710 | True Interest Cost: 3.434% All in TIC: 3.506% Average Annual DS: \$2,641,287 | True Interest Cost: 4.109% All in TIC: 4.151% Average Annual DS: \$1,771,182 |

Upfront Costs – Compare

| Bank Loan | Underwriting |
|-------------------------------|--|
| Issuer Counsel | Issuer Counsel |
| Bond Counsel | Bond Counsel \$62,500 (with expenses) |
| Financial Advisor \$45,000 | Disclosure Counsel \$45,000 |
| Lender's Counsel \$25,000 | Financial Advisor \$62,500 (with expenses) |
| Bank Counsel \$10,000 | Underwriter's "Spread" |
| | Underwriter's Counsel \$15,000 |
| | Paying Agent / Registrars \$1,550 |
| | Dissemination Agent \$2,500 (DAC) |
| | Rating Agency Fees \$27,500 (Fitch) \$27,500 (Moody's) Total: \$55,000 |

Ongoing Costs – Obligations

| Bank Loan | Underwriting |
|-----------|-----------------------|
| None | Continuing Disclosure |

Covenants

| | Bank Loan | Underwriting |
|---|---|---|
| Gross up if Bonds become taxable | Yes | No |
| Acceleration in event of default | Negotiable | Negotiable |
| Optional Redemption | <p>Yes, typically for a premium</p> <p>Option A: full or partial prepayment with 30 days written notice would warrant a Yield Maintenance Fee. Yield Maintenance Fee = [amount being prepaid x (stated interest rate – current cost of funds) x Days in the remaining term/360 days] + any accrued interest due “remaining term”</p> <p>Option B: No prepayment penalty would add 13 basis points to the quoted proposed loan rate.</p> | Yes, after a 5-10 years no call period |
| Amending documents | Requires Consent of Lenders typically not difficult | Requires consent of a specified percentage of bondholders; costly and time-consuming. |
| Issuance of additional parity debt | Ok, with coverage test | Or with coverage test |
| Default rate if late payment or other default | Yes | No |
| | Default: Default rate of interest shall be six (6) percentage points in excess of the Prime Rate as quoted in the Wall Street Journal. Prime shall have a floor of 3%. | |

Time Considerations

| Bank Loan | Underwriting |
|-----------------------|---|
| Approximately 60 days | Between 60-90 days dependent on due diligence requirements and marketing of bonds |

Impact on Issuer's Resources

| Bank Loan | Underwriting |
|---|---|
| Typically, information requested by lender is readily available | Information needed is dictated by disclosure requirements |



Q&A

Thank You!



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