Project vs. Balance Sheet Financing: Can Securities Match Risk?
Innovative Financing for Rural America

Richard S. Monson
President
Southwest Georgia Farm Credit
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Innovative Financing for Rural America
Agricultural Outlook Forum 2008
Discussion...

on the varied forms of public and private placement financings being used in the rural marketplace.
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.
Securities vs. Loan...Size matters

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 Financing Risk Continuum

Ratings Moody’s/S & P

Investment Grade

Range of discussion
(For profit and Non-profit)

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

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:**
**Can Securities Match Risk?**

**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
Achieving favorable pricing

Using tax-exempt

Tax-exempt
Revenue Bond
$XX,XXX,XXX
Fully underwritten and placed by Rural America Capital Group
Anywhere County

Credit enhancement

Highly public rated
Tax-exempt issuances

Municipals-infrastructure
Manufacturing - <$10mm
<$20 mm project
Environmental-solid waste
Recycling and disposal
Multi-family low income housing

Tax-exempt General Obligation Bond
$XX,XXX,XXX
Fully underwritten and placed by
Rural America Capital Group
Anywhere County
**Project Financing Risk Continuum**

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)*
Methods of Credit Enhancement

- Bond insurance
- Letters of Credit (LC)
- Guarantees - USDA Community Facility/B&I
- Other Guarantees

Taxable/Tax-exempt Revenue Bond
$XX,XXX,XXX
Fully underwritten and placed by Rural America Capital Group Anywhere County
Favorable Pricing Through Credit Enhancement

Public placement
Bond insurance
Letter of Credit

Private placement
Guarantees-USDA
Community Facility-non profit
Business & Industry-for profit

Non-Rated Revenue Bond
$XX,XXX,XXX
Fully underwritten and placed by Rural America Capital Group Anywhere County
Basic Financial Structures

Debt service reserve

Sinking fund

Depreciation reserve

Waterfalls

Taxable/Tax-exempt Revenue Bond

$XX,XXX,XXX
CUSIP 2739283737
Fully underwritten and placed by Rural America Capital Group
Anywhere County
### National Municipal Bond Yields: Triple-A Rated, Tax-Exempt Insured Revenue Bonds

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

*Source: Bloomberg.com*
### Project vs. Balance Sheet Financing:
**Can Securities Match Risk?**

<table>
<thead>
<tr>
<th>Public Placement</th>
<th>Tax-Exempt Rate</th>
<th>Taxable Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA Issuer, AAA insurance, fixed rate bonds</td>
<td>4.48</td>
<td>0.75</td>
</tr>
<tr>
<td>AA Issuer, no insurance, fixed rate bonds</td>
<td>0.10</td>
<td>0.95</td>
</tr>
<tr>
<td>Direct pay LC, fixed rate bonds</td>
<td>0.10</td>
<td>1.20</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Private Placement</th>
<th>USDA Enhancement</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Secured</td>
<td></td>
<td>2.50 - 3.50</td>
</tr>
</tbody>
</table>
Project vs. Balance Sheet Financing: Can Securities Match Risk?

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
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
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
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