



FAME BUSINESS WEBINAR SERIES

FAME Bond Programs:

How to Save Substantial Interest Expenses on Eligible Project Financing

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Q: What are the differences between the Municipal Securities Approval Program (MSAP) and the Revenue Obligations Securities Program (ROSP), and why would a borrower choose one over the other?

A: The real difference in these two programs is the identity of the bond issuer—in MSAP, the issuer is the municipality where the project is located; in ROSP, FAME is the issuer. That results in a few other distinctions:

In MSAP, FAME is involved in the Public Hearing process, but not the documentation and closing process. Accordingly, the FAME issuance fee is 10 basis points less for MSAP than for ROSP. However, FAME's fee as issuer in a ROSP includes the cost of issuer's counsel (FAME uses in-house counsel). A municipal issuer in MSAP may use outside counsel and pass that additional cost on to the borrower. Thus the actual fee savings could be substantially less than 10 basis points.

In addition, municipalities have differing processes in authorizing the issuance of bonds, even though the municipality is not liable—for example, bond issuance may need to be approved at a town meeting or selectman's meeting, which could be more political than some borrowers would prefer. FAME is independently authorized to issue bonds once the statutory criteria are met.

Some municipalities may not have issued bonds or conduit bonds before, so they may not be familiar with the concept or process. That may result in a more challenging process to close the transaction. FAME issues many bonds each year, has vast experience in these transactions, and in most cases has local counsel representing banks and borrowers, which often results in faster and smoother transactions.

Finally, if a municipality issues less than \$10 million in bonds in the year in question (including those for the project), the issue might qualify for "bank-qualified" treatment. Bank-qualified treatment adds an additional tax benefit to the lender as bondholder (on top of the interest income being tax-free) which could result in additional reductions in the interest rate charged. Some banks have reported that this additional savings could be as much as 35-40 basis points, depending on the situation. FAME cannot issue bank-qualified bonds, since it typically issues more than \$10 million in bonds every year and is considered part of the State of Maine as an issuer for this purpose.

Q: How long does it take to get through the FAME bond issuance process?

A: From the beginning (filing an application, which can be done prior to selecting bank/bondholder) to the closing takes a minimum of about 60 days, but more typically closer to 90 days. This time period takes into account the statutory notice and appeal timeframes.

Q: What additional costs are incurred by doing a tax-exempt bond over a traditional commercial loan transaction?

A: The additional costs are FAME fees: \$5,000 application fee; 0.2% or 0.3% (minimum \$10,000) issuance fee; and the costs of the extra legal work of "Bond Counsel." Bond counsel services will vary in cost depending on whether bond counsel is also serving as borrower's counsel or as bank counsel (rather than as an independent party), the law firm selected, and on the size and complexity of the transaction. It's difficult to estimate given these variables, however, the additional legal cost is likely to exceed \$20,000.

Q: Do you have recent examples of transactions with manufacturers?

A: We've recently done transactions with SIGCO, a glass panel manufacturer in Westbrook, and Schlotterbeck & Foss, a specialty foods & flavorings manufacturer. We've also worked with Jasper Wyman & Sons (blueberry processor), Labree's Bakery, and J.S. McCarthy Printers.