

Public Sector Advisors





PRESENTATION TO

NAHEFFA 2011 Conference

**The Future of Credit Providers and Bank Involvement
A Look at LOC's, Credit Enhancement Tools and Private
Placements**

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Presentation Focus – Bank Financing

- **Rise of Bank Financing**
 - Credit Markets constrain use of other finance options
 - Death of Bond Insurance
 - Variable Rate market dislocation/credit issues
 - Interest Rates – US Treasury & Public Finance
- **Preview of 2012 - 2014**
 - Economics – tax policy/legislation changes
 - Efforts to restrict or eliminate tax exemption?
 - Interest Rates – US Treasury & Public Finance
- **Predictions for 2015 & later**
 - How much will have changed?

Bank Financing Increase – Why?

Market Changes – Public Finance and Economic changes

- Credit Market history and changes
- Economic changes likely to be largely permanent, not temporary
- **Economic Disruption in Credit Markets**
 - Reduction in financing alternatives
 - Bank liquidity increases & desire/pressure to lend
- **Bank Qualification & bank liquidity**
 - Pressure to lend – using stronger lending standards
- **Issues & Trends in Higher Education**
 - Fewer “traditional” financing options

Bank Financing - Characteristics

- **Loan or Security**
 - Loan held on bank books & NOT marked to market
 - Security required to be marked to market
- **Stand Alone or Participation**
 - Single Bank
 - Multiple banks with Single lead bank
- **Rate Methodology**
 - Fixed Rate
 - Variable Rate
 - Interest Rate Swap availability or appropriateness

Bank Financing – Characteristics Cont'd

- **Term of Loan**
 - 1, 3, 5, 10 Years
 - Extension or restructuring options
- **Covenants**
 - Generally not required
 - Compliance with existing covenants
- **Credit Rating**
 - Generally not required
 - May be unrated, but may be treated as “On Credit”

Bank Financing – External Factors

- **Political risks and changes**
 - Taxable financing options (Build America Bond redux)
 - Constraints on tax exemption
 - 2011 Proposed Jobs Bill
 - Broad tax reform
 - Bank Qualification
- **Regulatory requirements**
 - Continuing Disclosure
- **Market Concentration**
 - Oligopoly pricing power
 - Bank regulations, capitalization requirements

Bank Financing – Rating Agency Issues

- **Moody's Special Comment September 15, 2011**
 - Expect expansion of Bank Direct Purchases
 - Rating methodology adjusted to include non-rated debt
- **Rating Risks**
 - Similar to Variable Rate Demand Obligation risks
 - Renewal risk
 - Interest rate risk (variable rate only)
 - Acceleration of principal payment risk
- **Disclosure**
 - “Key Determinate” of rating accuracy

Conclusions

- Bank Loans will increase in use across markets in 2011+
- Rating Agencies will adjust analysis to include bank loans as “on credit” debt
- Credit Market access improving, but lacks depth
 - Reduced financing options
- Public finance interest rates likely to gradually rise and flattening yield curve in 2012 and into 2013
- Basel III and Dodd-Frank present challenges
- Inflation remains benign - for now
- By 2015 tax exempt debt likely to be limited or eliminated

Information Sources

- Springsted – www.springsted.com
- Federal Open Market – www.federalreserve.gov
- Bloomberg – www.bloomberg.com
- SIFMA – www.sifma.org
- Bureau of Labor Statistics – www.bls.gov

NAHEFFA Annual Conference

San Diego, California, October 3-5, 2011

Thanks for your attendance, participation and attention. We expect the next few months to be volatile for issuers and borrowers as the market transitions from recession to recovery. The good news is that there are financing options available and we can help schools and Authority's manage and implement them. Contact me for additional information or follow-up on questions from today's Conference.

For questions, contact me at:

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