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The PFM Group

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PFM Asset Management, LLC
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The Rise of Private Placements - Adequate Issuer Policies?



- Conduit Issuers typically develop bond issuance guidelines
 - Provide a framework for considering applications for financial assistance
 - May outline required security and structural provisions
 - Often vary by rating category
 - Examples:
 - ✓ Requirement to include real property security (mortgage)
 - ✓ Need for a Debt Service Reserve Fund
 - ✓ Minimum bond denominations
 - ✓ Investor limitations (e.g., Qualified Institutional Buyer)
 - Primary focus relates to fixed rate debt and borrower financial condition at the time of issuance



The Rise of Private Placements - Adequate Issuer Policies?



- Bond issuance guidelines focus on borrower credit quality
 - Investment grade (or higher, in gradients) borrowers have fewer or less stringent security and sale/structure provisions
 - Below investment grade OR unrated borrowers have additional or more stringent provisions
- Private placements present challenges in finding the applicable guideline/policy
 - Banks often do not require a rating
 - Reserves funds are uncommon
 - Rates may not be fixed for the entire financing term
 - Variable or rate reset risk
 - Syndication or participation of the loan

The Rise of Private Placements - Adequate Issuer Policies?



- Challenging circumstances/examples:
 - Investment grade borrower with an unrated bond issue
 - Low- or unrated borrower with a qualified institutional buyer and a fixed rate loan
 - Subsequent changes to public credit ratings
 - Loss of a “proxy” for borrower credit quality?
 - Qualified Institutional Buyer and/or Traveling Investor Letter?
 - What to require, if anything, for disclosure?
 - Regulated lenders generally want to avoid marking their loan to market (fluctuating valuation)

The Rise of Private Placements - Adequate Issuer Policies?



- Possible Policy Direction
 - Risk-oriented assessment
 - What could go wrong and when?
 - Will a public credit rating on the lien be available while the private placement is outstanding?
 - Do subsequent investors (through syndication or participation) have any unique rights or does the initial lender remain the “bondholder?”
 - Need for new policies to address private placement
 - Can the gaps in current policies be identified?
 - Can using “exceptions” to current policies be sufficient?
 - New policy guidance may be prudent...