FIRST TRYON
ADVISORS

WALTER GOLDSMITH, Managing Director
1355 Greenwood Cliff, Suite 400
Charlotte, NC 28204
Office: (704) 926-2453
wgoldsmith@firsttryon.com

Bank placed vs. Publicly Sold Bond Issues

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Introduction to First Tryon Advisors

Overview of First Tryon Securities, LLC

- Founded more than twenty years ago and headquartered in Charlotte, North Carolina, First Tryon Securities, LLC is a regionally focused independent, privately owned securities firm.
- The firm is registered with both the Municipal Securities and Rulemaking Board and the Securities and Exchange Commission.

First Tryon Advisors

- First Tryon Advisors is a business of First Tryon Securities, LLC and operates as the Financial Advisory arm of the firm.
- First Tryon Advisors has a full service financial advisory practice serving the needs of cities, towns, counties, utilities, colleges/universities and not-for-profits in the southeast region.
- First Tryon does not serve as an underwriter and only provides financial advisory services to our clients.

First Tryon Advisors Client Base

Setting the Stage

Bank loan versus Publicly Sold Bond issue?

- What's the difference & who cares?
- What does it mean for your borrowers?
- How can borrowers frame the issue to make the best decision?

Public Sales vs. Bank Placements

- Borrowers have two primary marketplaces to issue bonds – public market and bank placement.
  - In the public market, an underwriter purchases the bonds and sells them to a variety of investors who may end up trading them to other investors at a later date.
  - In a bank placement, bonds are sold directly to a bank who typically holds the loan on its balance sheet for the duration of the term.
- The appropriate option depends on several factors—size of the borrowing, security for the bonds, borrower's credit quality, desired term, interest rate and market conditions.

From the Borrower's Perspective– Snap Shot Comparison

	Public Sale	Bank Placement
Upfront Cost	High	Medium
Staff Time Commitment	High	Medium
Drawdown Feature	No	Yes
Maximum Fixed Term Likely	30 Years	7-15 Years
Flexibility to Customize Debt Repayment	High	Medium
Covenants	Medium	Medium
Credit Rating / Public Disclosure	High	Low
Investor Pool Diversity	High	Low
Tax/Regulatory Risk to Issuer	Low	Medium-High

Tax Reform – Impacts on Bank Placements

Widening Spreads

Nudge to Capital Markets

Margin Rate Factor Negotiations

Beware When Resetting

The “Margin Rate Factor” Provision

Basic Concept

- The “margin rate factor” provision automatically adjusts the interest rate upward if the corporate tax rate is reduced in order to preserve the bank’s after-tax yield.
- The tables below show the impact the provision would have on a $25 million financing, amortized over 25 years with a current interest rate of 4.00%, if the corporate tax rate were reduced from 35% to 20%.

35% Corporate Tax Rate	20% Corporate Tax Rate
4.00% Current Interest Rate	**4.92%** Adjusted Interest Rate
$1.61 MM Current Annual Debt Service	**$1.77 MM** Adjusted Annual Debt Service
$40.37 MM Current Total Debt Service	**$44.83 MM** Adjusted Total Debt Service

Loan vs. Security: Why the Regulators Care

Regulatory Notices:

- "The MSRB and FINRA are aware of the increasing practice of privately placing municipal securities directly with a single purchaser (sometimes referred to as "direct purchases") and of the use of bank loans as alternatives to traditional public offerings in the municipal securities market."

- "Although it can be beneficial for potential issuers of municipal securities to consider such alternatives and the means of financing used is the issuer's choice, this development raises a number of concerns with respect to firms' conduct in connection with such alternative financings."

MSRB
Municipal Securities Rulemaking Board

Regulatory Notice

2016-12

Publication Date
April 4, 2016

Stakeholders
Municipal Securities Dealers, Municipal Advisors, Issuers

Notice Type
Market Advisory

Category
Market Transparency

Direct Purchases and Bank Loans as Alternatives to Public Financing in the Municipal Securities Market

Introduction

The Municipal Securities Rulemaking Board (MSRB) and the Financial Industry Regulatory Authority (FINRA)[1] are providing guidance to remind firms of their obligations in connection with privately placing municipal securities directly with a single purchaser and of the use of bank loans in the municipal securities market.

The MSRB and FINRA are aware of the increasing practice of privately placing municipal securities directly with a single purchaser (sometimes referred to as "direct purchases") and of the use of bank loans[2] as alternatives to traditional public offerings in the municipal securities market.[3] Although it can be beneficial for potential issuers of municipal securities to consider such alternatives and the means of financing used is the issuer's choice, this development raises a number of concerns with respect to firms' conduct in connection with such alternative financings. First, FINRA has observed and the MSRB is aware that firms may not be conducting sufficient due diligence and analysis to determine whether the

[1] *See* FINRA Regulatory Notice 16-10.

[2] A "bank loan" refers to a loan directly to a municipal entity evidenced by a loan agreement or other type of financing agreement between a bank and a municipal entity. A "municipal entity" is defined as "any State, political subdivision of a State or municipal corporate instrumentality of a State, including (A) any agency authority, or instrumentality of the State, political subdivision, or municipal corporate instrumentality; (B) any plan, program, or pool of assets sponsored or established by the State, political subdivision, or municipal corporate instrumentality or any agency, authority, or instrumentality thereof; and (C) any other issuer of municipal securities." Section 15B(e)(8) of the Securities Exchange Act of 1934 ("Exchange Act"). *See also* 17 C.F.R. §240.15Ba1-1(g) (defining "municipal entity" for purposes of municipal advisor registration with the Securities and Exchange Commission (SEC)).

[3] *See e.g.*, "California Private Placement Market May be Pivoting," The Bond Buyer (November 5, 2015) reporting that, based on data provided by Thomson Reuters, the private placement of municipal securities totaled about $24 billion in 2014.

Receive emails about MSRB regulatory notices.

msrb.org | emma.msrb.org 1

Loan vs. Security: Why Financial Advisors & Placement Agents Care

Reves Test

- The Supreme Court held that <u>**a note is presumed to be a security**</u> unless that presumption is rebutted by establishing that the note either:
  - falls within one of a short list of specific exceptions (e.g., notes evidencing consumer loans, mortgage loans, certain short-term, secured small business loans, etc.) <u>or</u>
  - bears a strong "***family resemblance***" to one of the specified exceptions.

- Four factors to be considered as part of the "family resemblance" analysis:
  - What would motivate a reasonable party to enter into the transaction?
  - Does the plan of distribution for the note involve common trading for speculation or investment?
  - What are the reasonable expectations of the investing public?
  - Is there an alternative regulatory regime that significantly reduces the risk of <u>not</u> applying the protections of the federal securities laws to the transaction?

Changes to SEC Rule 15c2-12

- Beginning February 27, 2019, municipal market issuers and obligated persons must add the following two new events—relating to their indebtedness and financial health—to the list of reportable events in their continuing disclosure undertakings:
  - The incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and
  - A default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.
- The Amended Rule defines "financial obligation" as a
  - (i) a debt obligation;
  - (ii) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or
  - (iii) a guarantee of either (i) or (ii).
- Regarding leases, the SEC provided guidance that the term "debt obligation" under the Amended Rule only includes lease agreements entered into by issuers and obligated persons to borrow money.

2019 Additions- Protections for the investing public

Event Disclosures Required by SEC Rule 15c2-12*

1. Principal and interest payment delinquencies
2. Non-payment related defaults
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions or events affecting the tax-exempt status of the security
7. Modifications to rights of security holders
8. Bond calls and tender offers
9. Defeasances
10. Release, substitution or sale of property securing repayment of the securities
11. Rating changes
12. Bankruptcy, insolvency or receivership
13. Merger, acquisition or sale of all issuer assets
14. Appointment of successor trustee
15. NEW **Financial Obligation – Incurrence or Agreement (as of February 27, 2019)**
16. NEW **Financial Obligation – Event Reflecting Financial Difficulties (as of February 27, 2019)**

*For a complete text of the rule, see https://www.sec.gov/rules/final/2018/34-83885.pdf

Note: Par outstanding estimated given information available

Where we will see the new rule come into play:

- *Almost* any time a borrower sells debt in the public markets it is subject to rule 15c2-12.

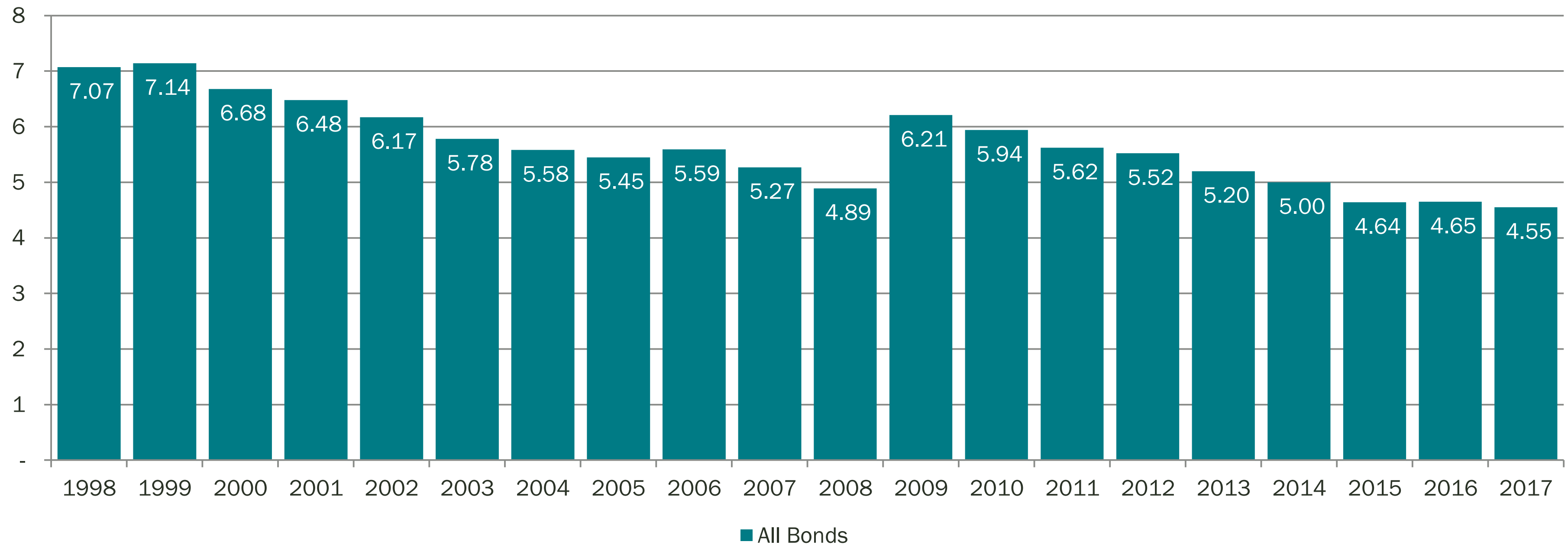
- The new disclosure requirements will apply if an entity issues a bond on or after Feb. 27, 2019, for which it enters into a new continuing disclosure agreement.

- After February 27th, the Continuing Disclosure agreement must include two new event disclosures.

- The additional disclosures must be made no later than 10 business days of the occurrence after the event.

Changing environment for Underwriting Fees on publicly sold bonds

- Underwriting takedowns have declined over the past 20 years



Source: Bond Buyer

Putting the Pieces Together – A Case Study

Existing Debt	$70 Million $4.5 Million MADS
Existing Structure	Direct Placement 3.5% Blended Rate 2022 Call Date
Options	Wait Restructure – Bank Placed Restructure – Public Offering
Implications	Bank Placed MADS - $4.8 Million Public Offering MADS - $5.3 Million

What Else Would You Want to Know?

What's Happened?

What's Coming?

What's the Strategy?

What's the Obstacle?

Other Potential Financing Impacts

Shift to Alternative Structures?

Call Provisions & Prepayment Flexibility

Conduit Issuer Shopping?

Impact on Bank Pricing?

Managing Tensions

Transaction vs. Portfolio

Certainty vs. Cost

Now vs. Later

Efficiency vs. Complexity

Evaluating Your Options

Develop the Right Tools

- Capital Planning
- Financial Targets & Policies
- Scenario Analysis

Build Consensus

- Frame the Issue
- Agree on the Pressure Points
- Paint the Picture

Building a Framework

Identify & Clarify Goals & Objectives 1	Identify Options & Structural Alternatives 2	Evaluate Risks & Tradeoffs 3
Craft Plan of Finance & Develop Timeline 4	Link Deal Terms and Metrics to Reinforce Goals 5	Execute Plan of Finance 6

Capital Planning – Peering Over the Horizon

1	2	3	4	5	6	7
Capital Projects and Refinancings						
On/Off	Description	Amount	Par / Project	Issued (FY)	Funding Type	Structure
On	Hotel	3,700,000		2018	Revenue Bond	Level D/S
On	Housing - Phases I & II	25,000,000		2018	Revenue Bond	Structured 1
Off	Housing - Phase III	11,500,000		2020	Revenue Bond	
Off	Dining	500,000		2018	Revenue Bond	
Off	Dining	500,000		2019	Cash	
Off	Health Clinic	400,000		2019	Cash	
Off	Welcome Center	1,000,000		2019	Revenue Bond	
Off	Welcome Center	1,500,000		2019	Cash	
Off	Occupational Therapy	400,000		2019	Cash	
[illegible]	[illegible]	[illegible]		2020	Revenue Bond	
[illegible]	[illegible]	[illegible]		2020	Cash	

Income Statement (Unrestricted)

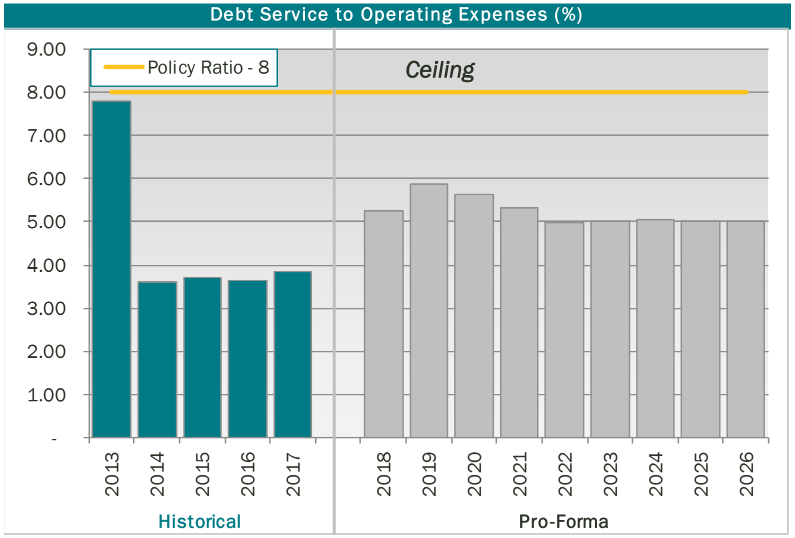
	FY 2016 Actual	FY 2017 Pro-Forma	FY 2018 Pro-Forma	FY 2019 Pro-Forma
Operating Revenues				
Gross Tuition and fees	74,683,565	79,339,0		
Less institutional grants and scholarships	(34,317,475)	(36,208,5		
Sales and services of auxiliary enterprises	17,230,266	13,378,5		
Private gifts	1,499,133	548,0		
Investment return designated for current operations	243,217	212,5		
Other Income, net	1,668,926	673,2		
Revenues from New Projects	-	-		
Total operating revenues and support	61,007,632	57,942,8		
Net Assets Released from restrictions	3,726,887	3,726,8		
Operating Expenses				
Instruction	27,225,750			
Academic support	3,680,594			
Student services	11,265,659			
Institutional Support	12,238,665			
Operation and maintenance of plant	2,837,265			
Total operating expenses	65,794,558	63,501,7		
Change in net assets from operating activities	(1,060,039)	(1,832,0		

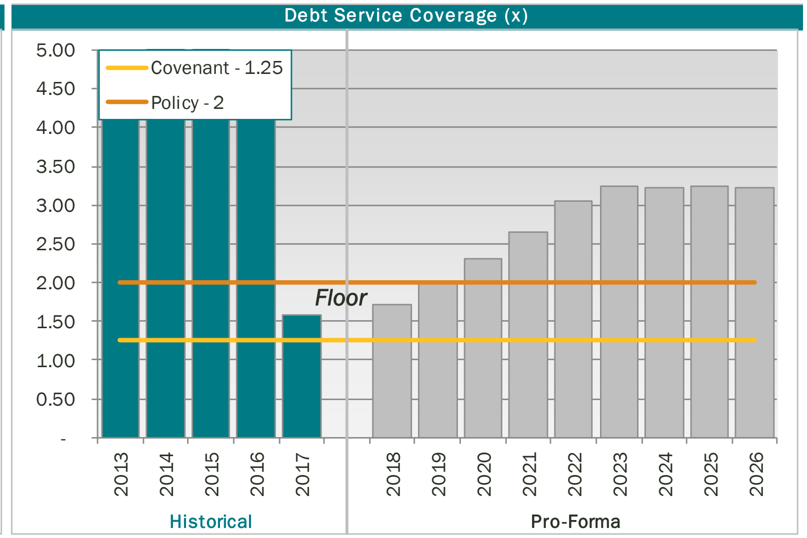
Pro-Forma University Ratios

	2017	2018	2019	2020	2021
Market Profile					
Total Operating Revenues ($, in Thousands)	64,377	73,024	78,935	84,388	91,207
Annual Change in Operating Revenues (%)	(4.08)	13.43	8.10	6.91	8.08
Total Operating Expenses ($, in Thousands)	63,502	70,204	75,887	80,723	87,973
Operating Performance					
Operating Margin (%)	1.36	3.86	3.86	4.34	3.55
Operating Cash Flow Margin (%)	12.01	14.05	14.92	14.98	13.65
Maximum Single Contribution (%)	87.78	88.35	88.58	88.96	89.29
Debt Service Coverage (x)	3.69	2.90	2.56	2.71	2.54
Wealth & Liquidity					
Total Cash and Investments ($, in Thousands)	82,214	83,464	86,109	109,573	111,803
Spendable Cash & Investments ($, in Thousands)	40,774	42,024	44,670	49,908	52,139
Total Cash & Investments to Operating Expenses (x)	1.77	1.13	1.19	1.55	1.62
Spendable Cash & Investments to Operating Expenses (x)	0.64	0.60	0.59	0.62	0.59
Monthly Days Cash on Hand (Days)	77	72	71	74	71
Leverage					
Total Debt ($, in Thousands)	46,420	74,102	72,433	70,706	68,920
Total Cash & Investments-to-Total Debt (x)	1.77	1.13	1.19	1.55	1.62
Spendable Cash & Investments to Total Debt (x)	0.88	0.57	0.62	0.71	0.76
Expendable Financial Resources to Total Debt (x)	1.02	0.70	0.79	0.91	1.02
Total Debt-to-Cash Flow (x)	6.00	7.22	6.15	5.59	5.53
Total Debt to Operating Revenue (x)	0.72	1.01	0.92	0.84	0.76
Debt Service to Operating Expenses (%)	2.14	3.50	5.01	4.71	4.32

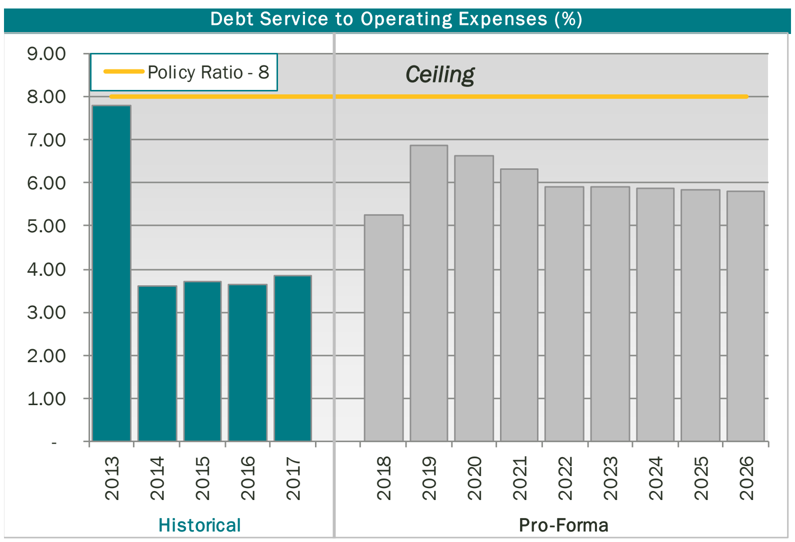
Capital Planning – Assessing Risk

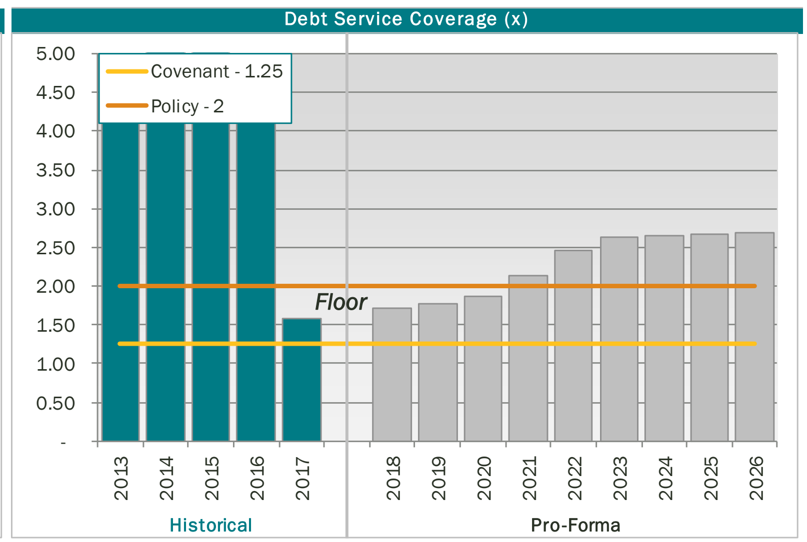
Option #1



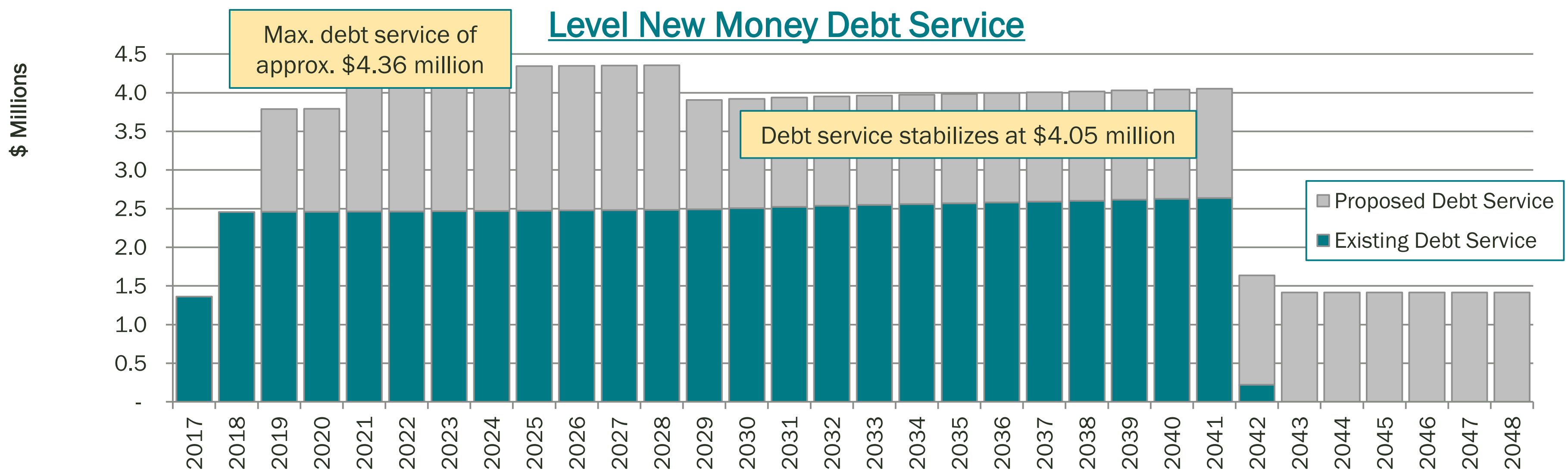


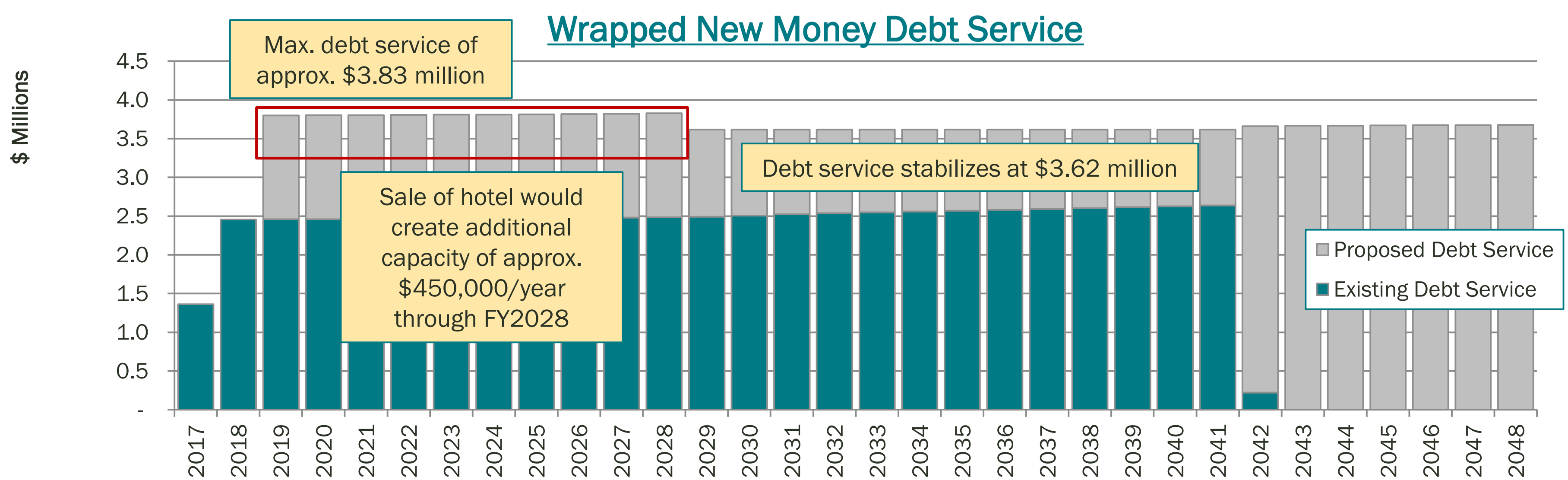
Option #2





Capital Planning – Telling the Story





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Investor Pool Diversity	High	Low
Tax/Regulatory Risk to Issuer	Low	Medium-High

Today's Takeaways: Bank Loan versus Publicly Sold

- If there is a message to send to Borrowers, it would be:
  - Understand the differences between the options available.
  - Avoid Complacency
  - Connect Your Debt Structure to the Institution's Broader Narrative
  - Utilize Planning Tools & Scenario Analysis to make informed decisions

Questions / Answers

Walter Goldsmith

First Tryon Advisors

Tel: (704) 926-2453

wgoldsmith@firsttryon.com

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