DFC Finance Program FAQs

Q: What products does DFC's Finance Program offer?

The non-investment-fund Finance Program at DFC can offer direct funding products or a variety of guaranty structures where DFC provides a partial guaranty to other funding entities.

Direct Funding Products

Direct funding products are ones that DFC offers to clients that do not have a funding source of their own and will thus need for DFC to arrange for actual physical disbursement of funds. They may also be referred to as "funded transactions" (vs. "unfunded transactions" -- see Unfunded Guaranty Products below). There are two standard vehicles by which DFC's Finance Program might support a funded transaction:

Direct Loan -- maximum principal amount $1 billion

- DFC disburses funds directly from the U.S. Treasury and lends them to an eligible borrower.
- The loan agreement and the promissory note are between DFC and the borrower, and DFC invoices the borrower directly and receives all principal and interest payments directly.
- Generally, the interest rate is a **fixed base rate** provided by U.S. Treasury plus a risk premium.

Investment Guaranty Funded by Certificates of Participation (COPS IG) -- maximum principal amount $1 billion

- Even though this product has "guaranty" in the name, it is a direct funding product. The main difference between this product and the Direct Loan product is that the funds that DFC lends directly to the eligible borrower are raised by selling DFC Certificates of Participation ("COPs") in the U.S. debt capital markets. COP holders are <u>guaranteed</u> payment by the full faith and credit of the U.S. Government because DFC would pay the COP holders if the borrower does not pay.
- The funding amount may not exceed 80% of the total project costs of the defined project.
- This type of direct debt vehicle is sometimes used for transactions where the client requires a funded transaction with a **floating base rate**.
- As with the Direct Loan, the loan agreement and the promissory note are between DFC and the borrower. However, DFC does not disburse or receive funds or invoice these borrowers directly. The borrower pays for the services of: 1) a Placement Agent that prices and sells the COPs to institutional investors and wires the DFC loan proceeds to the borrower, and, in certain cases, remarkets the COPs, and, 2) a Paying Agent that prepares various supporting calculations and manages invoicing, payment of principal and interest to COP-holders, payment of the Guaranty Fee to DFC and prepayments.
- Floating base interest rates on COPs are pegged to various U.S. Treasury securities, or in some instances, may be based on another internationally-accepted rate. DFC adds a risk premium called a Guaranty Fee to the floating base rate.

Unfunded Guaranty Products

Unfunded guaranty products are ones that DFC offers to clients that have an independent funding source (or <u>are</u> an independent funding source in the case of financial institutions), but the funding source is unable to provide the funding without a guarantor like DFC to take on a substantial portion of the risk. Though all are considered **Third Party Lender Guaranties (TPL IGs)** in DFC's systems, the structure of these partial guaranties will differ depending upon the clients' needs and DFC's developmental goals:

Single Project Guaranty -- maximum principal exposure $1 billion

- A Third Party Lender (which could be an operating financial institution such as a bank or NBFI or could be a special purpose vehicle such as a trust created to issue a bond) lends to or raises funds for one specific project. The "project" could be a tangible physical project such as construction of a power generation facility or an intangible financial project such as the securitization of a mortgage-backed bond. The key is that there are not distinguishable sub-borrowers/ultimate borrowers identified. The project is the borrower, and its debt service performance will determine whether or not the TPL makes any claims under the guaranty.
- DFC may guaranty up to 80% of the funds lent/raised by the TPL and may cover both principal outstanding and regular interest accrued to the time of default.

Portfolio Facility Guaranty -- maximum principal exposure per facility $1 billion

- One or more Third Party Lenders (usually operating financial institutions such as banks or NBFIs) provide financial products (e.g. loans/leases) to multiple borrowers that meet pre-agreed criteria tailored to the financial parameters and developmental purpose of the facility.
- DFC may guaranty up to 80% of the funds extended via those financial products and may cover both principal outstanding and regular interest accrued to the time of default.
- The structure of the Portfolio Facility has a significant impact on the way the transaction(s) are originated/booked and monitored:
    - A **Framework** type of structure is one in which DFC and the TPL develop overarching goals of the facility and define a principal exposure limit, but DFC underwrites each sub-borrower individually, and makes separate commitments to the TPL for each sub-borrower (cumulating up to the pre-defined limit). If a particular sub-borrower defaults, the TPL will make a claim against the particular commitment made for that sub-borrower. Each sub-borrower commitment under this type of structure tends to be relatively large - at least a couple million USD and possibly tens of millions of USD.
    - A **Pooled** structure is one in which DFC makes an overarching principal exposure commitment to one or more TPLs, and the TPLs extend loans/leases to sub-borrowers that meet pre-agreed criteria and report the covered transactions in the portfolio on a periodic basis. If any covered transactions default, the affected TPL makes claims on DFC up to the maximum commitment. These types of structures tend to be used when the TPLs are lending to large numbers of small borrowers that it would be impossible for DFC to underwrite individually.

Q: What are the eligibility requirements?

DFC programs support long-term investments in developing countries and emerging markets. Financing is available to fund new investment activity; to expand and/or modernize an existing business; and for privatizations. Acquisitions of existing operations are also eligible for financing if the investor contributes additional capital for modernization and/or expansion.

DFC has developed the following eligibility checklist to help you determine if your project is eligible for support.

1. Will the project be located in a country where DFC programs are available?

   DFC prioritizes financing projects in less developed countries with low-income and lower-middle income economies. To review the list of countries where DFC support is generally available, please visit Where We Work.

2. Have investors sought financing from private lenders?

   DFC complements (rather than competes with) private sector lenders, and thus supports projects that have been unable to obtain sufficient support from private lenders. Confirmation that private-sector support is not available on terms that would make the project economically viable will be requested from applicants.

3. Is the investor seeking medium to long-term financing?

   DFC offers financing with tenors usually in the 3 to 15-year range to support medium to long-term investment projects. For companies seeking financing for export transactions only, please go to: https://www.exim.gov/tools-for-exporters/applications-forms.

4. Are the investors contributing an adequate level of equity to the project?

   Investors must be willing to establish sound debt-to-equity relationships that will not jeopardize the success of the project through insufficient equity or excessive leverage. Although the financial structure may vary with the nature of a specific business, DFC generally will consider lending up to 50% of the project cost but may consider a somewhat higher participation in the case of an expansion of an existing, profitable foreign enterprise or for projects with significate off-take agreements. DFC will not generally support more than 80% of the total investment.

5. Does the management have a successful track record in the industry?

   All projects must be within the demonstrated competence of the proposed management, which should be demonstrated by a recent, proven record of success in the same or a closely related business as evidenced by the most recent two years of historical financial statements, demonstrating a record of revenue generation and successful business operations.

6. Will the proposed project comply with DFC's Investment Policies?

   DFC requires that all projects it supports respect the environment, worker rights, human rights, and local communities, while also encouraging a positive host country impact.

Q: What kind of terms should I expect when obtaining debt issued or guaranteed by DFC?

Though terms vary by transaction, the basic parameters are as follows:

- Term: The term is usually a minimum of 3 years and a maximum of 15 years, depending upon the type of project and its debt servicing capability. If the investment has a construction or start-up phase, it is common to allow a 1-to-2 year "grace" period on principal repayment at the beginning of the term (during which the project pays interest only). Payments are usually made quarterly or semi-annually.
- Leverage: 50% debt to 50% equity (or a 50% unfunded guaranty) is standard for leverage for a new project. Higher leverage is possible if circumstances warrant (e.g. an expansion).
- Interest rates – The interest rates on the debt products are determined as follows:

Product	**Base Rate Basis**		**DFC Spread/Utilization Fee/ Guaranty Fee**
Direct Loan	Fixed Treasury	+	To be negotiated
COPs-Funded Guaranty	Floating Treasury or other benchmark	+	To be negotiated
TPL-Funded Guaranty	Basis and fixed/floating determined by TPL.	+	To be negotiated

- Other potential fees (not charged on all products – varies according to structure):

  - Up front Retainer Fee.
  - Facility/Origination Fee – A one-time, flat fee usually paid at the time of loan/guaranty agreement signing or first disbursement. Amount is negotiated.
  - Commitment Fee – An annual percentage charged on any undisbursed amount. The percentage is negotiated.
  - Maintenance Fee – An annual fee charged to cover the cost of monitoring the loan. Amount varies depending upon the size and complexity of the transaction.

- Types of Security/Collateral (varies depending on the transaction structure):

  - Completion guaranty – for many projects (especially those involving major construction), a completion guaranty provided by the project owners/developers is standard. Under such a guaranty, the owners/developers would guaranty the payment of all of the project company's obligations (including any payment on the DFC funding) until the project has achieved a state of physical completion, is able to demonstrate that it is operating successfully and is able to confirm that all licenses/permits, etc. are in place.
  - Life-of-Loan guaranty – in some cases, DFC may require a guaranty that lasts through the life of the transaction rather than through completion only.
  - Pledge of shares of the borrower (and other entities as applicable).
  - Debt service reserve account – if included, measured in months of debt service.
  - Liens/mortgages – depends on circumstances; DFC usually requires a mortgage or a lien on or assignment of project assets.
  - Pledge of insurance proceeds – if the project has been required to obtain insurance on physical assets.

- Financial Ratios and Reporting:

  - Financial ratios/covenants are different for Financial Services clients as compared to non-Financial Services clients. Financial Services clients are generally required to maintain certain Capital Adequacy, Liquidity and Asset Quality ratios (as well as any local financial institution regulatory requirements). Non-Financial Services clients are generally required to maintain certain Leverage, Liquidity and Debt Service Coverage ratios. Required levels depend on project projections.
  - Provision of quarterly unaudited and annual audited financial statements.
  - Provision of an annual project plan/budget for the upcoming fiscal year.
  - Provision of development impact information.

- Policy Covenants -- Most of those covenants fall into three areas:

  - Compliance with US Foreign Corrupt Practices laws and other applicable laws.
  - Environmental, Health and Safety requirements (usually based on International Finance Corporation guidelines).
  - Worker Rights requirements (right to form/join unions, minimum age, occupational health and safety, minimum wage, maximum work hours, etc.) – usually states that project will follow applicable local laws with regard to these issues. If there are no applicable local laws or local laws (and compliance) do not meet international standards, DFC will specify the international standards that should be followed.

- Payments or Reimbursement of Expenses: DFC may require the services of outside consultants or attorneys, the cost of which is paid by the borrower/guaranteed party/other key transaction party. The borrower/guaranteed party would also reimburse DFC for any expenses related to registration or notarization of documents, etc.

- Conditions Precedent to Disbursement: Standard requirements include execution of all loan documents, completion of legal opinions, local registrations and other "consents" such as permits, evidence of expenses for which the disbursement will be used (i.e. invoices), submission/completion of various certificates evidencing information in the borrower's representations, etc. Other requirements depend on the specific conditions surrounding each project. For a complex project in a jurisdiction where local law is unclear or quite underdeveloped, the list of conditions precedent can be quite lengthy and the process of completing the list can be very difficult and time-consuming.

Q: What type of equity is acceptable? Can I get equity credit for the time and effort I put in to develop the project? What about my development expenses?

In general, equity is to be contributed as cash, but DFC may consider in-kind contributions to the project if adequate documentation is available (e.g. independent appraisal of contributed assets). Certain documented, out-of-pocket development costs can also be considered as a form of equity. However, compensation for a developer's time contributed to a project, as well as undocumented development costs, do not fall into this category and will not be considered as equity.

Q. What is SAM.gov?

The *System for Award Management* (SAM.gov) is the U.S. government-wide system where recipients of U.S. federal financial assistance must register. Here is a link to DFC's user guide on the SAM.gov registration process. Please consult your DFC contact about whether/when it is appropriate to do this registration.

Q: How long will it take to process my transaction?

Your transaction will be processed as quickly as you and DFC, working together, are able to complete the necessary documentation and procedures to complete the transaction. This time period varies depending on a number of factors (many of which are in the control of the client), including the complexity of the transaction, the length of the negotiation, the nature of the security documentation, the responsiveness of outside counsel, and how quickly all relevant documentation is provided to DFC.

Q: What are the Basic Steps in the Origination Process?

1. Borrower/Guaranteed Party (i.e. DFC's potential client) discusses the potential transaction with a DFC Origination Officer.
2. The potential client submits a Finance Application (Form-001A) using DFC's on-line Forms Portal.
3. DFC Origination Officer "screens" the project with management to determine if there are any major obstacles to completing the transaction and to obtain advice on further due diligence.
4. If management has decided to request payment of a Retainer fee, then the client would sign the Retainer Letter and pay the Retainer Fee.
5. The DFC Origination Officer makes the Impact Assessment Questionnaire (Form 007), which gathers information required for the development policy clearances, available to the client. The officer also sends an activation code for the Personal Identification Form (Form 006), which collects information used to conduct DFC's Know Your Customer (KYC) analysis, to each transaction-related party on which/whom DFC will need to perform KYC due diligence.
6. The origination officer and the internal project attorney work with the client to do the due diligence analysis/underwriting as efficiently as possible, and sometimes outside consultants or attorneys are required. The length of this part of the process usually depends on how complex the project information is and how quickly it becomes available. Credit underwriting includes:

    - Evaluation of the business plan, financial projections, project documents (e.g. contracts, concessions, licenses, leases) and any other information relevant to the project's projected performance.
    - Completion of policy clearances by DFC's Office of Development Policy (environmental and social, developmental affects, worker rights, human rights).
    - KYC due diligence (which includes background and credit checks and consultation with other U.S. government agencies).
    - Preparation of a credit memo and term sheet/draft agreement for management approval

7. During the due diligence process, as the DFC personnel gain a thorough understanding of the transaction, there will be discussions with the client regarding specific terms of the transaction and preparation of the term sheet.
8. If the evaluation of due diligence materials described above reveals significant flaws or omissions, the project team will work with the client to correct or remediate those flaws or omissions.
9. Once the credit memo and term sheet/draft agreement have been prepared, the time that it takes to obtain credit and management approval of the transaction terms depends upon the size of the transaction. Transactions where DFC's exposure is $20 million and under may be approved by senior credit and management personnel. Transactions where DFC's exposure is between $20 million and $50 million must be approved by DFC's Credit Committee and Investment Committee, necessarily a longer, more involved process. Transactions where DFC's exposure is over $50 million must be approved by the Credit Committee, Investment Committee and Board of Directors.
10. Once the transaction terms have been approved, DFC and the client (with attorneys) complete negotiation/drafting of the transaction documents.
11. Once the transaction documents have been executed, DFC can begin disbursing (or give a guaranteed party notice that they may begin disbursing) as soon as the client is ready for the funds and has complied with the pre-disbursement requirements listed in the transaction documentation.
12. After the first disbursement, the Origination Officer generally transfers ongoing monitoring of the transaction to a Monitoring Officer/Relationship Manager. The client will be notified of the transfer and introduced to the new contact.