

OPIC Finance Program FAQs

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

OPIC's Finance Program offers three basic products: 1) Direct Loans, 2) Investment Guaranties Funded by OPIC Certificates of Participation and 3) Investment Guaranties to Third Party Lenders. The application process is the same for all products.

Direct Loans:

- Only projects that include the significant involvement of a U.S. Small Business (see definition below) are eligible to obtain this product.
- OPIC lends directly to an eligible borrower. The loan agreement and the promissory note are between OPIC and the borrower.
- OPIC's source of funding for these transactions is the U.S. Treasury. The interest rate is a fixed rate based on the cost of U.S. Treasury obligations with a similar tenor at the time of disbursement plus a risk premium.
- OPIC disburses the funds for these transactions directly, invoices the borrowers directly and receives all principal and interest payments directly.

Investment Guaranties Funded by OPIC Certificates of Participation:

- Projects that benefit from meaningful contributions by any size U.S. participant are eligible for this product.
- OPIC lends directly to an eligible borrower. The loan agreement and the promissory note are between OPIC and the borrower.
- To fund these transactions, OPIC issues Certificates of Participation ("COPs") in the U.S. debt capital markets. COP holders are guaranteed payment by the full faith and credit of the U.S. Government.
- The term of the COPs matches that of the loan agreement and promissory note between OPIC and the borrower, and the borrower makes payment to the COP holder through a Paying Agent. If the borrower were to make insufficient payment to service the COPs, OPIC would pay the COP-holders under its guaranty.
- OPIC's base interest rate may be either a fixed or floating rate based on various U.S. Treasury securities, or in some instances, may be a LIBOR-based floating rate. OPIC adds a risk premium called a Guaranty Fee to the base rate.
- OPIC 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 OPIC loan proceeds to the borrower, and, 2) a Paying Agent that prepares various supporting calculations and manages invoicing, payment of principal and interest to COP-holders, and payment of the Guaranty Fee to OPIC.

Investment Guaranties to Third Party Lenders:

- Projects that benefit from meaningful contributions by any size U.S. participant are eligible for this product.
- A Third Party Lender (“TPL”) that is an Eligible Investor (see definition below) lends directly to an eligible borrower.
- OPIC provides a guaranty to the TPL such that if a borrower fails to make payments on their loan from the TPL, then the TPL may make a claim to OPIC for payment.
- The base interest rate (usually a LIBOR-based rate) and any administrative spread are negotiated between the TPL and the Borrower. OPIC adds a risk premium called a Guaranty Fee to the base rate.
- The TPL handles administration of the loan and forwards the Guaranty Fees to OPIC on a periodic basis.

Q: What is an “Eligible Investor” mentioned above?

An Eligible Investor is defined as: (a) a United States citizen; or (b) a corporation, partnership or other association, including a nonprofit association, created under the laws of the United States or any state or territory thereof or the District of Columbia and more than fifty percent (50%) beneficially owned by United States citizens; or (c) a foreign corporation, partnership or other association wholly owned by one or more such United States citizens, corporations, partnerships or other associations; *provided, however*, that the eligibility of such foreign corporation shall be determined without regard to any shares, aggregating less than five percent (5%) of the total of issued and subscribed share capital, held by other than the United States owners.

Q: How does OPIC define “U.S.” for the purpose of determining “U.S. involvement”?

- Any for-profit entity organized in the United States with at least 25% of its equity/share capital owned by U.S. citizens or lawful permanent residents.
- Any for-profit entity organized outside the United States with more than 50% of its equity/share capital owned by U.S. citizens or lawful permanent residents.
- U.S. citizens or lawful permanent residents (i.e. Green Card holders).
- Any non-profit entity that is organized in the United States.

Q: How does OPIC define a “small business” in the U.S.?

For OPIC to consider an investor to be a small business, they must meet one of the following three criteria:

- An enterprise with annual revenues during the last fiscal year of less than \$400 million; **or**
- An individual citizen/lawful permanent resident or an entity that does not produce “revenues” with a net worth less than or equal to \$100 million; **or**
- An enterprise with 500 or fewer employees.

Q: What kind of terms should I expect when obtaining a loan issued or guaranteed by OPIC?

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

- Term: The loan term is usually a minimum of 5 years and a maximum of 15 years, depending upon the type of project and its debt servicing capability. 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) to allow for project construction. Payments are usually made quarterly or semi-annually.
- Leverage: 50% debt to 50% equity is standard for project capitalization for a new project. Higher leverage is possible if circumstances warrant (e.g. an expansion).
- Interest rates – The interest rates on the three products are determined as follows:

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

- Other fees:
 - Up front Retainer Fee to cover due diligence costs such as travel to the project site.
 - Facility/Origination Fee – A one-time, flat fee usually paid at the time of loan 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:
 - Completion guaranty – for many projects (especially those involving major construction), a completion guaranty provided by the project owners/sponsors is standard. Under such a guaranty, the owners/sponsors would guaranty the payment of all of the project company’s obligations (including any payment on the OPIC loan) 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, OPIC may require a guaranty that lasts through the life of the loan rather than through completion only.
 - Pledge of shares of the project company (and other entities as applicable) – standard for all projects.
 - Debt service reserve account – standard for most projects.
 - Liens/mortgages – depends on circumstances; OPIC usually requires a mortgage or a lien on or assignment of project assets.
 - Pledge of insurance proceeds – standard for most projects.

- Financial Ratios and Reporting:
 - Maintenance of 1) Maximum Debt/Worth Ratio, 2) Minimum Current Ratio, 3) Minimum Debt Service Coverage Ratio. 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.
- 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, OPIC will specify the international standards that should be followed.
- Payments or Reimbursement of Expenses: OPIC may require the services of outside consultants or attorneys, the cost of which is paid by the project or sponsors. The project/sponsors would also reimburse OPIC 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 are the Basic Steps in the Origination Process?

1. Sponsor(s) submit a Finance Application, Office of Investment Policy Questionnaire and Sponsor Disclosure Report(s) on-line.
2. OPIC officer “screens” the project with management and gets approval to send a Retainer Letter.
3. Sponsors sign the Retainer Letter and pay the Retainer Fee.
4. The origination officer and the internal project attorney work with the sponsors 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 OPIC’s Office of Investment Policy (environmental, economic effects, worker rights, human rights)
 - Credit and background checks
 - Cable to the US Embassy
 - Preparation of a credit memo and term sheet for management approval
5. During the due diligence process, as the OPIC personnel gain a thorough understanding of the project, there will be discussions with the sponsors regarding specific terms of the loan and preparation of the term sheet.
6. If the evaluation of project documents described above revealed significant flaws or omissions, the project team will work with the borrower/sponsors to correct or remediate those flaws or omissions.
7. Once the credit memo and term sheet have been prepared, the time that it takes to obtain credit and management approval of the loan terms depends upon the size of the loan. Loans of \$20 million and under may be approved by senior credit and management personnel. Loans between \$20 million and \$50 million must be approved by OPIC’s Credit Committee and Investment Committee, necessarily a longer, more involved process. Loans over \$50 million must be approved by the Credit Committee, Investment Committee and Board of Directors (which meets only periodically).
8. Once the loan terms have been approved, OPIC and the sponsor (with attorneys) complete negotiation/drafting of the financing documents.
9. Once the financing documents have been executed, OPIC can begin disbursing as soon as the project is ready for the funds and the sponsors have complied with the loan terms for disbursement.
10. After the first disbursement, the origination officer generally transfers ongoing monitoring of the loan to OPIC’s Portfolio Management Division (PMD). PMD may assign the project to a monitoring officer within OPIC or may outsource this function to an external servicing company. In either case, the project sponsors/management will be notified of the transfer and introduced to the new contact.

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 OPIC 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 sponsor'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: How long will it take to process my loan?

Your loan will be processed as quickly as you and OPIC, working together, are able to complete the necessary documentation and procedures to complete the loan. This time period varies depending on a number of factors (much of which is in the control of the borrower), 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 OPIC.

Q: Why do the shareholders of the project company, even minority shareholders, need to fill out a Sponsor Disclosure Report?

OPIC requires all shareholders beneficially holding (whether directly or indirectly) 5% or more of the shares of a project company, or parties providing credit or other significant support to a project, to complete a Sponsor Disclosure Report. OPIC not only relies on the representations made in the Sponsor Disclosure Report, but uses it as a basis for its review and approval of each sponsor (similar to commercial banks' "Know Your Customer" policies). The Sponsor Disclosure Report also provides an authorization to OPIC to perform credit and background checks on the sponsor. The Sponsor Disclosure Report is an integral part of any OPIC application for financing.

Q. Why is there an open-ended requirement that I pay OPIC's out-of-pocket, consultant and legal costs to process and document the loan? How can I control these costs?

It is customary banking practice for all lenders' costs to be covered by the borrower. OPIC does not typically agree to caps on these costs because it is difficult to predict what legal and technical requirements may arise as the loan is processed. However, OPIC does keep costs in mind when determining the scope of work for various consultants and does negotiate fee discounts with its providers. The most important thing that a sponsor/borrower can do to control costs is to ensure submission of accurate and complete information or documentation to OPIC.