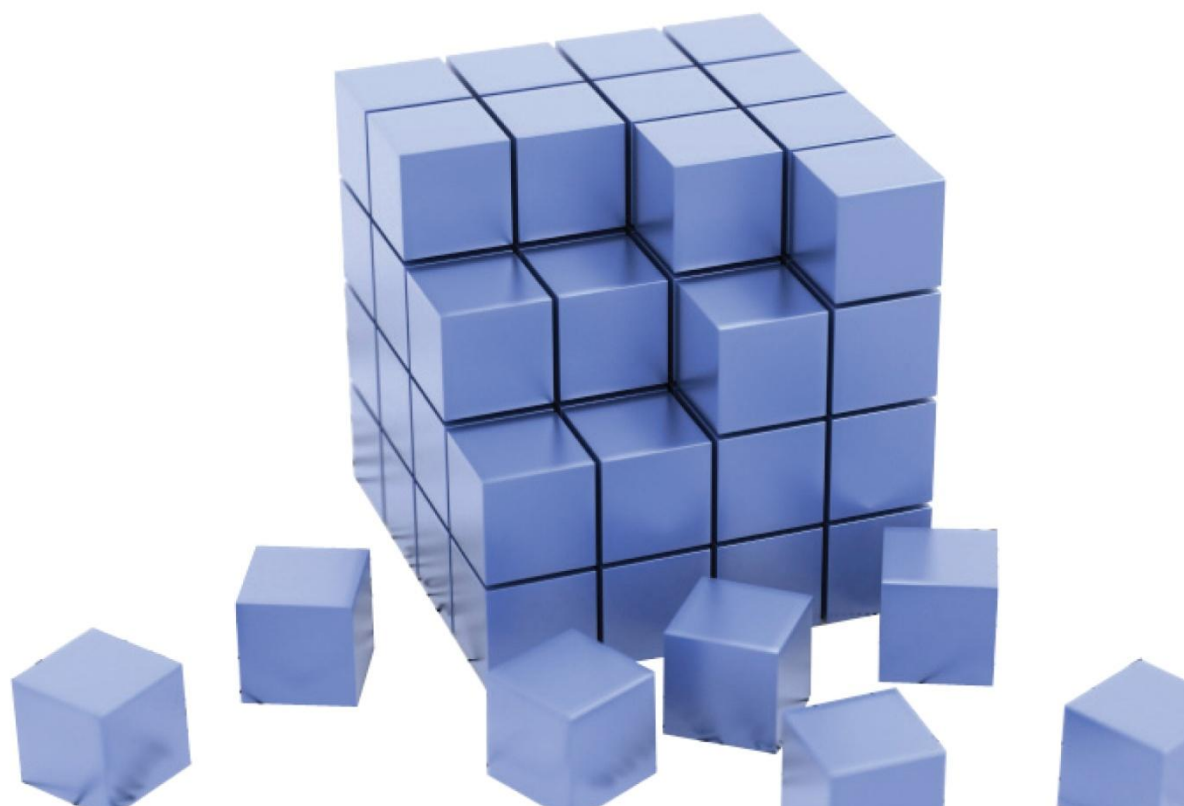


## Conversion Offer

**IDB OFFERS BORROWERS  
NEW OPTIONS FOR CUSTOMIZING DEBT**



# The Inter-American Development Bank is committed to providing flexible, market-based products that enable borrowing member countries to meet their asset/liability management needs.

The IDB is offering borrowers the opportunity to convert disbursed and undisbursed loan balances under the Single Currency Facility (SCF) and Currency Pooling System (CPS) Adjustable (ADJ) rate to U.S. dollar LIBOR-based or fixed-rate loans or a combination determined by the borrowers ("Conversion Offer" or "Offer"). The Conversion Offer will have two execution dates: August 1, 2009, and August 1, 2010, with the respective sign-up periods ending on June 30, 2009, and June 30, 2010. In addition, effective July 1st, 2009, the IDB will discontinue approving loans under the SCF-ADJ product.

## Rationale for the Conversion Offer

The Conversion Offer will enable borrowers to customize IDB debt to achieve the following benefits:

1. **More flexible management of IDB debt.** In new IDB loans, borrowers can create their own mix of floating/fixed-rate exposures using SCF-LIBOR and SCF-FIXED products. With old loans, borrowers through the offer will have the option of managing interest rate exposures and executing asset/liability operations to better manage IDB debt.
2. **Greater access to hedgeable, market-standard financial products.** Growth in capital markets has resulted in the creation of new financial instruments that give borrowers access to needed funding with desired currency and/or interest rate exposures. This Offer will enable the IDB to provide borrowers with this same flexibility.
3. **Increased opportunities to design comprehensive portfolio management strategies.** By using the Offer to convert the IDB's CPS-ADJ and SCF-ADJ loans to market-based loans, borrowers will reap the benefits of blending IDB funding with market sources to hedge unwanted debt exposures.
4. **Greater price transparency and ability to forecast lending rates in converted rate IDB loans.** Pricing of adjustable rate IDB loans is based on a weighted average cost of fixed- and floating-rate IDB borrowings, which is not replicable by borrowers. Libor -based loans available through the Conversion Offer will provide borrowers with the desired price transparency.

## Implementation of the Conversion Offer

Extensive dissemination is key to ensuring that borrowers have sufficient information on the Conversion Offer to make decisions on its use. Through dedicated internet and extranet websites, the IDB will provide detailed information on loans eligible for the Conversion Offer, model loan contracts to execute the Offer, loan cash flows, semi-monthly indicative quotes on pricing, and other technical requirements. In addition, IDB staff are available to conduct videoconferences, bilateral presentations, and conference calls to discuss technical aspects of the Offer and answer questions.

For further information, please refer to the webpage [www.iadb.org/conversion](http://www.iadb.org/conversion) or contact the IDB's Country Office and/or Claudia Franco ([cfranco@iadb.org](mailto:cfranco@iadb.org)) or Carlos Herrera ([carlosh@iadb.org](mailto:carlosh@iadb.org)), IDB Finance Department, Washington, DC.

## Conversion Offers

Features	Terms and Conditions
<b>Eligible Loans</b>	Currency Pooling System Adjustable Rate (CPS-ADJ) loans and Single Currency Facility Adjustable Rate (SCF-ADJ) loans. Conversion is offered at the loan level.
<b>Execution Dates</b>	First sign-up deadline is June 30, 2009; second is June 30, 2010. Execution dates are August 1, 2009, and August 1, 2010, respectively. Borrowers can opt out by sign-up period deadline.
<b>Minimum Conversion Amount</b>	None
<b>Loan Repayment Schedule after Conversion</b>	No change
<b>Currency after Conversion</b>	USD
<b>Interest Rate after Conversion</b>	LIBOR-based or fixed rate or any combination selected by borrower. Undisbursed balances carry the LIBOR-based rate and are available for rate fixings (see Rate Fixing).
<b>LIBOR-based Rate after Conversion</b>	Three-month LIBOR rate plus fixed spread (corresponds to IDB's funding cost for conversion) plus OC Lending Spread.
<b>Fixed Rate on or after Conversion</b>	Fixed-rate equivalent of LIBOR-based rate plus OC Lending Spread.
<b>OC Lending Spread</b>	IDB's variable lending spread approved periodically by Board of Executive Directors.
<b>Rate Fixing of Undisbursed Loan Balances</b>	After disbursement, either automated or discrete rate fixing, subject to the larger of \$3mn or 25% of net loan approval amount (approved minus cancelled loan amount).
<b>IDB's Funding Cost (to LIBOR-based rate)</b>	IDB's weighted average funding cost.
<b>Conversion Fee</b>	None
<b>Prepayment</b>	Pass-through to borrowers of IDB's cost/gain from redeployment of funds.
<b>Loan Contract Amendment</b>	Required
<b>Non-execution Conversion Provision</b>	Conversion will not be executed if LIBOR-Based rate exceeds 50bps of last indicative quote provided by IDB to borrowers

## Timetable

<b>January 14, 2009</b>	<b>Launching of the Conversion Offer</b>
<b>January 14 – June 30, 2009</b>	Conversion Offer sign-up period. Execution of loan contract modifications
<b>January 31 – June 30, 2009</b>	Semi-monthly indicative quotes on Conversion Offer pricing
<b>June 30, 2009</b>	Conversion Offer first sign-up deadline. Cease approval of new loans in SCF-ADJ product
<b>August 1, 2009</b>	Conversion Offer first execution date
<b>June 30, 2010</b>	Conversion Offer second sign-up deadline
<b>August 1, 2010</b>	Conversion Offer second execution date



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