

# Flexible Financing Facility (FFF) Interest Rate Options\*



## About the FFF

The FFF offers financial solutions to further borrowers' risk management capabilities in projects, lending programs and asset-liability management strategies. Sovereign borrowers can choose from a menu of embedded options to tailor financial terms of Ordinary Capital (OC) loans. The FFF also offers stand alone hedges to transform risk characteristics of all IDB obligations. These financial solutions address borrowers' changing needs during the life of IDB loans.

## Transforming FFF loans

Through built-in options in FFF loans, borrowers have the ability to change the interest rate basis or manage interest rate volatility. These options are available at any time during the life of a loan, on a partial amount or on the full outstanding loan balance, subject to market availability.

The FFF also offers loan tranching –creating sub loans within a single loan– to facilitate project cash flow management. Each tranche can carry different financial structures, such as currency, repayment schedule, and interest rate basis.

## Lending Rate

Standard FFF loans carry a lending rate composed of:

- Variable rate based on 3-month USD-LIBOR that resets on the 15th of January, April, July and October; plus,
- IDB funding margin relative to USD LIBOR, offering borrowers the expected benefits of IDB's comparative funding advantage as AAA issuer in the capital markets; plus,
- IDB OC variable lending spread, periodically determined by the Bank.
- For all non-US\$ financing, the lending rate is (i) the currency equivalent of LIBOR +/- estimated funding margin or actual funding cost at the time of execution, plus (ii) the IDB lending spread.

## Interest Rate Options

Subject to market availability, interest rate options include:

- Fixing both or either one of the LIBOR base rate components, i.e., 3-month LIBOR and/or IDB's funding margin;
- Floating the fixed rate basis;
- Converting to an inflation-linked rate;
- Contracting an option to fix the LIBOR base rate at a predetermined level on a future date;
- Structuring an interest rate cap and/or collar.

## At a Glance

- Flexibility to manage interest rate exposures by fixing or floating the interest rate basis and/or by limiting interest rate volatility.
- Available throughout the life of a loan on a partial or full outstanding loan balance subject to minimum amounts.
- Subject to market availability; cost is on a pass-through basis plus applicable lending margin and fees.
- Prepayment of converted amounts is subject to pass through of IDB's cost/gain from redeployment of funds.

While borrowers can choose to convert the interest rate basis, the IDB lending spread remains variable. Rate fixings up to the net approved loan amount are limited to four per loan. Further rate fixings or un-fixings carry a transaction fee. Minimum conversion amounts apply.

For LC financing, interest rate options are subject to IDB's ability to efficiently intermediate funds in the desired currencies and rate types. Please refer to [www.iadb.org/finance](http://www.iadb.org/finance).

Interest rate options may be made available to loans approved under prior modalities, i.e. pre-FFF. This may require loan contract modifications and would be subject to market availability and IDB's operational considerations.

## Pricing and Transaction Fees for Interest Rate Options

Conversions are subject to market availability and pricing is on a cost pass-through basis plus applicable lending margin and fees.

Pricing of Interest Rate Conversions is based on 3-month LIBOR +/- the estimated funding margin or actual funding cost at the time of execution. Interest rate caps and collars are priced depending on desired coverage by the borrower.

For applicable Transactions Fees, please refer to [www.iadb.org/rates](http://www.iadb.org/rates).

Please consult with us for these and other Interest Rate Options.

\* All loans negotiated after January 1<sup>st</sup>, 2012, are approved under the Flexible Financing Facility.

## Flexible Financing Facility (FFF) | Terms and Conditions

Currency of loan approval	- US dollars or regional local currencies (LCs) that the IDB can efficiently intermediate.
Maturity, amortization and WAL	<ul style="list-style-type: none"> <li>- Investment loans: typically 25 years final maturity, 5.5 years grace period and semiannual straight line amortization thereafter, corresponding to a Weighted Average Life (WAL) of 15.25 years.</li> <li>- Policy Based Loans (PBLs): 20 years final maturity, 5.5 years grace period and semiannual straight line amortization thereafter, corresponding to a WAL of 12.75 years.</li> </ul>
Lending rate	<ul style="list-style-type: none"> <li>- For US denominated financing, lending rate is LIBOR base rate plus IDB lending spread: (i) LIBOR base rate is US\$ 3-month LIBOR +/- IDB's funding margin, which are reset on the 15th of January, April, July and October; plus (ii) IDB's Ordinary Capital (OC) lending spread, periodically determined by the Bank.</li> <li>- For Major Currencies (MC)/LC financing, lending rate is (i) the MC/LC equivalent of LIBOR +/- estimated funding margin in US\$ or actual funding cost at the time of execution, plus (ii) IDB lending spread.</li> <li>- For applicable loan charges and conversion option fees, please refer to <a href="http://www.iadb.org/rates">www.iadb.org/rates</a>.</li> </ul>
Loan tranching	<ul style="list-style-type: none"> <li>- Refers to sub loans within a single loan, each with different financial structures, such as currency, repayment schedule, and interest rate basis.</li> <li>- For financing in MCs, up to four tranches each of at least \$3 million. For financing in LCs, flexible number of tranches to accommodate for market constraints.</li> <li>- Each tranche can be denominated in a different currency.</li> </ul>
Currency conversion options	<ul style="list-style-type: none"> <li>- Conversion options available during the life of the loan for disbursements or outstanding loan balances include: (i) conversion to other MCs; (ii) conversion to regional LCs subject to market availability; and (iii) fixing the exchange rate at a predetermined level on a future date (forward starting swap).</li> <li>- Loan obligation remains in the converted currency.</li> <li>- For non-US dollar conversions, arrears accrue interest at a floating rate of the overdue currency plus 1%. Additional charges assessed, if necessary, consistent with a full cost pass through. This applies for currency in which the IDB does not have treasury operations.</li> <li>- Please consult with us for these and other currency options.</li> </ul>
Flexible repayment options	- Standard FFF loans carry a semiannual straight line amortization schedule. Other repayment options include bullet repayment structures, extended grace periods, uneven amortization schedules, and shorter repayment periods subject to: (i) the cumulative WAL of all tranches cannot exceed the loan's original WAL, and (ii) the loan's original final maturity date, which cannot be exceeded.
Interest rate conversion options	<ul style="list-style-type: none"> <li>- Options available during the life of the loan for partial or full loan conversions include: (i) fixing both or either one of the LIBOR base rate components (3-month LIBOR and/or funding margin); (ii) floating the fixed rate; (iii) converting to an inflation-linked rate; (iv) contracting an option to fix the LIBOR base rate at a predetermined level on a future date (forward starting swap); (v) purchasing a interest rate cap and/or collar.</li> <li>- Minimum amounts apply based on operational and market considerations.</li> </ul>
Commodity Conversion options	<ul style="list-style-type: none"> <li>- Commodity conversion options are embedded in FFF loans and are linked to outstanding loan balances.</li> <li>- Conversion options available during the life of the loan include: (i) buying a call option to protect from commodity price increases; and (ii) buying a put option to protect from commodity price decreases.</li> <li>- Option types include: (i) European; (ii) fixed-strike arithmetic Asian; and (iii) binary options.</li> <li>- Conversions will be structured on a case-by-case basis, are settled in cash only, and are subject to market availability, operational and risk management considerations; minimum conversion amounts apply.</li> <li>- Conversion cost is on a pass-through basis.</li> </ul>
Other risk management options	- Please consult with us for availability.
Prepayment	<ul style="list-style-type: none"> <li>- Full or partial loan prepayments are subject to IDBs ability to unwind its funding operations with the market.</li> <li>- Converted loan amounts under any of the options offered by the FFF are subject to pass through of IDB's cost/gain from redeployment of funds.</li> </ul>
Conversion fees	<ul style="list-style-type: none"> <li>- Fees for currency, interest rate, and/or commodity conversions apply, except for the initial rate fixings up to the net approved loan amount.</li> <li>- For a complete list of transaction fees, please refer to <a href="http://www.iadb.org/rates">www.iadb.org/rates</a>.</li> </ul>