



Financing Economic Development

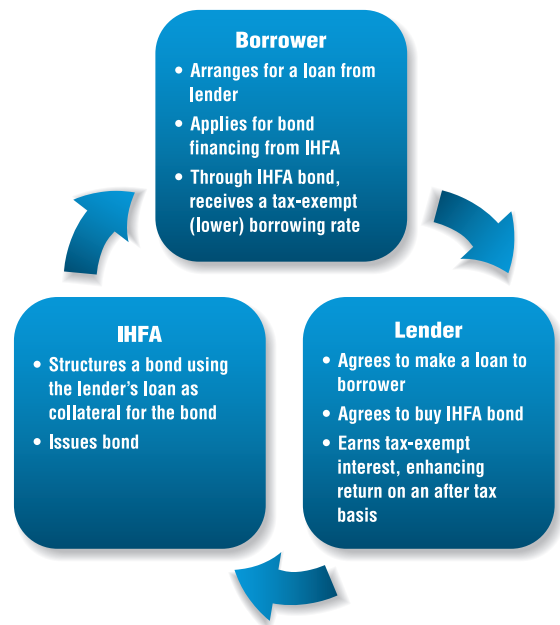
Bank Placement Bonds for Facility Loans



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Idaho Housing and Finance Association (IHFA) offers Bank Placement Bonds for Facility Loans. These loans offer Idaho community lending institutions the flexibility to offer tax-exempt interest rates and finance industrial, commercial, and other projects that promote economic development throughout Idaho. Customers building, remodeling, or acquiring certain qualified facilities can take advantage of this tax-exempt bond financing. This bond financing option offers a significant financial advantage to Idaho companies when they construct or purchase a qualified facility, allowing them to be more competitive in the global and domestic marketplace. As the state's largest bond issuer, IHFA is able to offer this program to promote economic development in Idaho.

These bonds are issued in partnership with private financial institutions and state or local economic development entities. Because some areas of the state do not have local issuers established to issue such bonds, IHFA is the central, statewide point of contact for issuance of bonds for economic development projects. By issuing these bonds, IHFA increases the availability of low-cost financing that meets IRS qualifications.



Qualified Facilities

Manufacturing

Qualified manufacturing facilities generally allow financing for facilities and related equipment used for processing, assembly, or conversion of raw materials into a finished product. Until January 1, 2011, finished products may include intangibles such as computer software or other intellectual property. Space for offices, employee break rooms, and storage is limited to a percentage of the total facility space. Organizations may not refinance an existing facility.

Nonprofit Owned

Facilities owned by qualified 501(c)(3) nonprofit organizations and used for the organization's exempt purposes may be financed with tax-exempt bonds. Refinancing of prior commercial loans may be permitted under certain circumstances.

Recovery Zone Property

Under the American Recovery and Reinvestment Act of 2009 (ARRA), facilities used in any trade or business, except residential rental property, are eligible for tax-exempt financing. Bond financing for Recovery Zone Property can be used for new construction and acquisition of new buildings. Refinancing of an existing loan does not qualify. To qualify, a borrower must:

- Obtain bonding authority from the applicable governmental jurisdiction where the property will be located (City of Boise, most counties, or Idaho Department of Commerce)
- Finance a facility located within the designated Recovery Zone; and
- Complete the financing by December 31, 2010.

Other Facilities

Other types of industrial facilities which can qualify for tax-exempt financing include: solid waste disposal facilities, privately-owned sewage facilities, privately-owned facilities for furnishing of water to the general public, local district heating or cooling facilities, and qualified hazardous waste facilities. These types of facilities are subject to detailed IRS requirements, and refinancing of an existing facility does not qualify. If a lending institution is considering a loan on this type of a facility, an IHFA representative can provide more information about tax-exempt financing options.



Financing Benefits

The interest earned on bonds issued by IHFA is exempt from federal and state income taxes, which can provide borrowers with an interest rate 1% to 2% lower than market rates. Interest rates are negotiated between the bank, the borrower, and IHFA. If the financing amount is limited through Treasury Code restrictions, taxable bonds may be issued along with tax-exempt debt to meet the borrower's financing requirements.

With bank placement bonds, a community lending institution underwrites and establishes applicable loan terms and conditions acceptable to the lender and its borrower, but at a reduced interest rate to reflect the benefit of tax-exempt financing. A lender's security for the bond investment is their borrower's loan. Repayment terms for the bond investment are identical to the underlying loan terms. Loan payments made by the borrower are passed through to the lender/investor as debt service on the bond. A delinquent loan payment would correspondingly result in a delinquent bond debt service payment. The lender's recourse for lack of payment is the same as if the lender had made a direct commercial loan.





Financing Terms

IHFA will charge the following application and origination fees, which cover IHFA's processing and underwriting costs. Additionally, there will be a cost for IHFA's bond counsel services relating to the issuance of tax-exempt bonds. This fee will depend on the financing size and complexity. Other lender fees are determined separately between the borrower and their lending institution.

- Application fee: \$500
- Origination fee: .5% of the loan principal
- Annual servicing fee: .125% of the principal, unless the community lending institution assumes servicing responsibilities

Loan documentation will vary depending on the type of commercial facility financing. However, to the extent feasible, traditional commercial lending documentation will be used, including in some cases the lender's own loan documents. Additional documentation will be required relating to the tax-exempt financing. Sample documentation may be obtained from an IHFA representative.

How to Apply for Bonds

Borrowers and their lending institutions interested in pursuing bank placement bonds for facility loans can begin by contacting an IHFA representative to discuss their financing proposal and application.

Idaho Housing and Finance Association, a financial services and housing organization, provides funding for economic development and affordable housing. IHFA is a self-supporting corporation that must generate all revenue necessary to cover the cost of its operations. It does this by earning fees for work performed and does not use any state-appropriated funds for its operations.

Legislation passed in 2007 permits the financing of economic development projects through the issuance of revenue bonds by IHFA. No assets of the state are pledged for issuance of these bonds. This bill permits the financing of industrial, commercial, and other projects to promote economic development throughout the state in partnership with private financial institutions and state or local economic development entities and will allow the pooling of loans for such projects to save financing transaction costs.



Treasury Department

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