



U.S. Department of Transportation Maritime Administration (MARAD)

Federal Ship Financing Program (Title XI)

Federal Credit and Maritime Lending Industry Best Practices

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Overview

The purpose of this report is to identify best practices from Federal credit programs making loans similar to the Department of Transportation (DOT) Maritime Administration (MARAD) Federal Ship Financing Program (Title XI) in loan amount, sector, type, tenor, borrowers and/or lender, and the maritime lending industry.

The “Federal Credit Best Practices” section seeks to identify best practices exhibited from other Federal credit programs that share characteristics with the Title XI program. The “Maritime Lending Best Practices” section describes the common practices of private lenders in the maritime sector, as identified by interviews with banks in the maritime lending sector.





Federal Credit Best Practices

The purpose of this section is to identify Federal credit best practices that streamline program processes while maintaining credit quality and minimizing credit loss.

Peer Group

To understand the best practices of similar Federal programs, Summit compared the Title XI program administration to the administration of analogous Federal credit programs, both internal and external to DOT. Those programs (the peer group) all share at least three of the following defining traits with the Title XI program:

- Large (multimillion-dollar), individually underwritten loans
- Infrastructure-related loan programs
- Direct loan and/or loan guarantee structures
- Corporate credits
- Long loan tenor (greater than 20 years)

While the programs selected as part of the peer group all have some level of administrative burden, the Title XI program is often noted as having a much lengthier application process than any of the peer group programs.

Summit has analyzed several significant process components and critical roles, such as application vehicle, preliminary reviews, underwriting practices, approval processes, and the use of external advisors. Summit then reviewed the same processes within the peer group programs, which consist of:

- The Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) program at DOT
- The Title XVII Energy Loan (Title XVII) at the Department of Energy (DOE)
- The Structured Finance (SF) and Small and Medium Enterprise Finance (SMEF) programs at the U.S. International Development Finance Corporation (DFC)
- The Water Infrastructure Finance Innovation Act (WIFIA) at the Environmental Protection Agency (EPA)
- The Railroad Rehabilitation & Improvement Financing (RRIF) Express program at DOT

Table 1: Peer Group Program Characteristics

Program	Year Established	Portfolio Value (\$M)	Application Timeline	Application Vehicle	External Advisors
DOT Title XI	1970	\$2,229	18+ Months	Rolling	Finance ¹
DOT TIFIA	1998	\$33,300	6-12 Months	Rolling	Finance/Counsel
DFC SF/SMEF	1971	\$22,800	6-12 Months	Both	Finance/Counsel
DOE Title XVII	2005	\$35,690	6-12 Months	Solicitation	Finance/Counsel

¹ NDAA 2020 provides the Title XI program with the ability to retain outside legal counsel. While the Title XI program has not yet used this ability, it intends to do so on an as-needed basis for future deals.



Program	Year Established	Portfolio Value (\$M)	Application Timeline	Application Vehicle	External Advisors
EPA WIFIA	2014	\$4,700	9-12 Months	Solicitation	Finance/Counsel
DOT RRIF Express ²	2018	\$6,300	6-12 Months	Solicitation	Finance/Counsel

Findings

The following four sections (as shown in Figure 1) describe selected best practices exhibited by the peer group programs through the different parts of the general application lifecycle.

Figure 1: Federal Credit Program Best Practices Findings Sections



Intake

Application intake is the process by which Federal credit programs initially evaluate potential borrowers and generate a preliminary opinion on the feasibility of the project. Intake processes can be established with several concrete, publicly documented decision points, or can be incremental in nature, with fluid decision points. Well-developed intake processes should aim to have the following strengths:

EPA WIFIA's NOFA Process

At EPA WIFIA, within 90 days from the publishing of the NOFA, each applicant must submit a letter of interest, in which prospective borrowers demonstrate their project's eligibility, creditworthiness, engineering feasibility, and alignment with EPA's policy priorities. Based on this information, EPA selects projects which it intends to fund and invites them to continue to the application process.

- Establish applicant expectations
- Deliver prompt feedback
- Establish lines of communication
- Apply underwriting criteria to feasibility analysis
- Insulated from political interference

One of the characteristics of the current Title XI application process is that it employs a rolling application process. A rolling application process may lower overall credit quality because projects are not evaluated on a competitive basis. Additionally, the rolling application process provides less opportunity for the lender to highlight or promote the discrete or finite funding availability to the industry, which can raise interest and knowledge about the financing opportunities. As

a result of these drawbacks, several Federal credit programs operate using solicitation-based application processes. However, some programs, such as RRIF and TIFIA, successfully implement a rolling process for their non-express lanes which distributes staff workload throughout the year and allows adequate time to evaluate more complex applications as appropriate.

² While RRIF Express uses a solicitation-based process for application Intake, the RRIF program (non-express) takes applications on a rolling basis.



Under a solicitation-based application approach, Federal credit programs open funding rounds by publishing a Notice of Funding Availability (NOFA) or Notice of Funding Opportunity (NOFO) in the Federal Register. As part of this NOFA or NOFO, the program solicits interest from the public by providing the amount of funds available, instructions for applying, and timelines for the review process.

Solicitation-based approaches can lead to a more competitive process, in which projects are evaluated according to pre-defined selection criteria, and only the strongest projects are selected. Additionally, the solicitation-based process helps staff develop a predictable performance review schedule.

DOT RRIF Express' NOFO Process

In their NOFOs, RRIF only solicits applications for their Express program. Following submission of letters of interest at DOT RRIF Express, program staff must first determine whether proposed projects satisfy RRIF statutory requirements and Express Program eligibility criteria.

Prospective borrowers that do not meet the Express program's requirements may still be considered under the traditional RRIF program.

EPA WIFIA's Preliminary Risk Assessment

Following the initial completeness and eligibility reviews, the EPA WIFIA program performs a preliminary risk rating exercise using materials submitted as part of the letter of interest.

Though this exercise is primarily designed to estimate the credit subsidy cost of submitted letters of interest, it also outputs a risk rating range, which provides insight on the creditworthiness of those projects.

Several Federal credit programs employ a multi-stage application process to segment the entire application process into two stages, which ensure that only applicants which can be reasonably anticipated to proceed to closing are invited to submit a full application, thus reducing the burden for projects that do not meet the initial requirements. This segmented process is usually split into a letter of interest (LOI) stage, where the program reviews materials to verify eligibility and perform a preliminary risk assessment, and an application stage, where program staff and third-party experts perform a thorough underwriting of the project.

Underwriting and Credit Analysis

Underwriting and credit analysis is the process by which Federal credit programs identify risks associated with a proposed credit and assess mitigating strategies. All programs have processes which are designed to provide a detailed investigation into all risks presented by a proposed loan. Underwriting processes help the program office understand the creditworthiness of the project and allow the program to identify the most likely paths to payment default for each project. A strong underwriting process exhibits the following characteristics:

- Based on approved criteria
- Requires concurrence of domain experts
- Informs credit subsidy inputs
- Results in credit recommendations

EPA WIFIA's "As-Needed" Use of IFAs

The WIFIA program contracts IFA to assist with application evaluation on an as-needed basis for underwriting submitted applications. The WIFIA statute states that the Administrator may retain expert firms in the field of municipal and project finance. The statute specifies that WIFIA is not required to hire these organizations or entities.

Since the IFA analysis can be a lengthy (and often duplicative) process, this approach ensures that the IFA analysis does not delay the selection of projects.





TIFIA's Early Contracting of IFAs

While the Project Development Team begins eligibility reviews, TIFIA hires IFAs to ensure the application can transition smoothly from program staff to contractor review.

TIFIA underwriters are not required to accept IFAs recommendations or risk analysis, but the early information exchange with the IFAs provides the underwriters with early knowledge of any differences of opinion with the IFAs. Although TIFIA hires an IFA for each transaction, TIFIA transactions often have additional layers of complexity when compared to MARAD loans.

Federal credit programs often contract Independent Financial Advisors (IFA) to perform analysis and produce reports on prospective borrower creditworthiness. Currently, the Title XI program retains IFAs for most of its transactions. As a result, program participants have noted that processes involving IFAs frequently results in delays for the application process.

The extent to which IFAs are involved in the underwriting and credit analysis process varies depending on the program. While some programs opt to include IFAs early in the underwriting process, others elect to involve IFAs on an “as-needed” basis (generally for lower-quality credits and new applicants). Table 2, below, highlights the pros and cons of the different IFA involvement levels.

Table 2: Pros and Cons of IFA by Involvement

IFA Involvement Level	Pros	Cons
IFAs are retained at application intake	<ul style="list-style-type: none"> Comprehensive credit analysis of all applications 	<ul style="list-style-type: none"> Slow project selection process Oftentimes duplicative for high-quality credits Increased burden on applicants May deter smaller projects from applying
IFAs are retained only for the full underwriting of selected projects	<ul style="list-style-type: none"> Faster project selection process Comprehensive underwriting 	<ul style="list-style-type: none"> Oftentimes duplicative for high-quality credits Sequencing of IFA involvement may add to processing time
IFAs are retained on an “as-needed” basis	<ul style="list-style-type: none"> Efficient underwriting process Limits duplication of efforts Faster application process for high-quality credits 	<ul style="list-style-type: none"> Program staff may not be perceived to be qualified to identify all underwriting “red flags” associated with projects

Credit Approval

Credit approval is the process by which Federal credit programs perform approval steps prior to the issuance of a letter of commitment. Based on Federal credit best practices, well-developed approval processes exhibit the following characteristics:

- Key stakeholder concurrence
- Disclosure and documentation of transaction risks and risk mitigation strategies
- Inclusion of an independent committee review





Title XI borrowers have noted that the program's one-size-fits-all approval approach added a significant amount of time to the application process and deterred applicants who were able to receive comparable loan terms from commercial banks.

For any applicant, regardless of size or credit quality, to receive approval, the Title XI program's current processes require multiple iterations of back-and-forth communication between supporting offices, OMF and oversight bodies (*e.g.*, CRT, CCF, OMB, etc.). Additionally, CCF meetings are infrequent³, and can be inconclusive if CCF requires that additional information be collected or that terms be re-negotiated.

OPIC's Tiered Approval Process

OPIC has a tiered review and approval process in which the approval process becomes more rigorous for larger transactions.

This tiered approach delegates authority based on the impact risk of a credit underwriting error, and results in a fully documented approval recommendation that is signed by all relevant credit review functions. Additionally, this flexibility in authority and decision-making allows for a credit approval process that maximizes efficiency.

Programs that operate under solicitation-based application processes usually have pre-defined and publicly disclosed structures for the entire application process. This includes setting deadlines for applicants to submit materials but also includes defining the timeline of oversight bodies approval processes. Additionally, rather than presenting projects to oversight bodies individually, Federal credit programs with competitive selection and approval processes will generally convene approval bodies in a single meeting where the projects are ranked against each other and approved based on their ranking and subsidy availability.

Negotiation, Documentation, and Closing

The negotiation, documentation, and closing processes ensure that program staff are adequately addressing risks identified in the underwriting and approval processes. These processes provide both the standard terms to address thresholds required by counsel and the flexibility to react to unique risks. Well-developed negotiation, documentation, and closing processes exhibit the following characteristics:

RRIF Express Sample Term Sheet

The RRIF Express program publishes a sample term sheet on their website. The sample term sheet summarizes the basic terms of a loan agreement.

RRIF program staff and prospective borrowers can expedite the negotiation process by setting and understanding expectations early in the process.

- Based on established standards
- Provide flexibility for addressing unique risks
- Define monitoring and surveillance requirements
- Do not represent a significant source of delay

Title XI borrowers have previously cited the MARAD legal team as a significant source of delay throughout the application process, including during negotiation. Despite not needing to commit additional resources, legal review processes of private financing entities are significantly more

efficient and consistent than the Title XI program.

³ CCF meetings occur once per month.





To create an efficient negotiation process, Federal credit programs often retain third-party legal counsel for loan negotiation and legal reviews. Under this scenario, internal legal counsel serves in an oversight capacity to external legal counsel.

The ability and willingness to adopt unique and customized loan terms is essential for mitigating risk to the Government. Federal credit programs negotiate loan terms that include loan covenants, conditions precedent, and other structural supports that provide essential risk mitigation. The latter are especially necessary in project finance. Of the peer group programs, the Title XI program is the only one with regulatorily imposed financial covenants and thresholds. This significantly hinders the Title XI program's ability to tailor the terms of credit assistance to address the characteristics of a specific project and prevents the Title XI program from adjusting its terms and conditions to align with maritime lending best practices.

Custom Loan Terms at DOE Title XVII

DOE Title XVII can hire third party legal counsel to assist in the negotiation of loan terms for large, complex, and heterogeneous deals that make up the Title XVII program's portfolio. Although these legal experts start with a standardized template, in the interest of time, they can make substantiated modifications to those terms and conditions that can be used to mitigate unique project risks.



Maritime Lending Best Practices

As part of the effort to understand maritime lending best practices for assessing project risk, the Summit team and MARAD staff held interviews with leading figures of the private sector maritime lending industry.

Interview Subject Selection

As shown in Table 3, below, the Summit team and MARAD staff selected six interview subjects based on their experience in maritime lending, their experience financing Jones Act vessels, and their familiarity with the Title XI program.

Table 3: Maritime Lending Best Practices Interview Subjects

#	Title	Organization	Organization Characteristics
1	Senior Vice President	Hancock Whitney Bank	Small/Regional Bank
2	Senior Vice President	Bank of America	Large Bank
3	Vice President	Columbia Bank	Small/Regional Bank
4	Vice President	U.S. Bank	Midsized Bank
5	Partner	Shipping & Finance	Shipbuilding Brokerage Firm
6	Director	Regions Bank	Midsized Bank

Interview Methodology

Each one-hour interview with the six interview subjects above followed the same structure, described below:

I. MARKET NEED QUESTIONS

1. **Is there adequate access to financing in your market area(s)?**
 - a. *What are the available sources of financing?*
 - b. *How has Covid-19 impacted access to financing in your market area(s)?*
 - c. *If not, which vessel sectors and which geographic areas are most impacted?*
 - d. *If there does exist a lack of funding availability, is it a function of inadequate lender interest owing to capital constraints or unfavorable borrower risk dynamics?*
2. **Are you or your organization aware of any vessel classes or market segments that suffer from lack of access to credit?**
3. **Are you aware of any vessel operators holding back on new vessels as a result?**
4. **Are you aware of any shipyards losing orders due to lack of mortgage period financing?**

II. EXPEDITED PROCESS DEMAND QUESTIONS

5. **What types of vessels may benefit from Title XI funding availability?**
6. **How would you characterize current and future demand for replacement of smaller vessels in the loan size range that MARAD is exploring?**
 - a. *Does your organization have thresholds for what they consider a “small” loan or a “large” loan?*





- 7. Do maritime lenders provide technical assistance to borrowers for their application process? Would borrowers and other market participants benefit from technical assistance related to the Title XI program?**

III. IDENTIFICATION OF LOW-RISK APPLICANTS QUESTIONS

- 8. Is there a different approach for underwriting maritime loans based on size of loan, tenor, credit score, rating, collateral (secured vs. unsecured), or existing borrowers?**
 - a. If so, what factors determine the extent of the review?*
 - b. Has Covid-19 affected your organization's underwriting approach?*
- 9. Does the underwriting approach change if borrowers provide ratings from NRSROs (e.g., S&P, Moody's, Fitch, etc.)?**

Findings

Market Need

The Market Need section of the maritime lending industry interviews focused on access to financing and credit, and supply and demand for financing and credit. The interview questions covered the state of the market both prior to and following the outbreak of COVID-19 and the recent decline in oil prices.

Capital is largely available for maritime projects, but banks offer conservative terms

Interviewees indicated capital for shipbuilding and ship rehabilitation was abundant, particularly for smaller vessels. One interviewee qualified the pre-COVID-19 market for shipbuilding as exhibiting "exceptional liquidity".

However, that changed with the outbreak of COVID-19: interviewees noted that, while capital is still available, most commercial lenders are moving more slowly than they were before March 2020. Several interviewees stated that, as a result of these recent global events, banks are focusing on existing borrowers rather than financing projects from new clients. Many borrowers are experiencing increases in operating costs due to COVID-19 while seeing flat or decreasing revenues. One interviewee speculated that banks are only still open to financing projects with cash flow haircuts of up to 30% to 40%.

COVID-19 and dropping oil prices have resulted in delays in new construction projects

Several interviewees noted that these recent global events have resulted in delays in new construction projects. However, these delays in new construction projects are generally the result of uncertainty on the borrowers' side rather than a lack of financing opportunities. Several interviewees speculated that these impacts were not specific to the maritime sector but affected the entire economy.

Interviewees noted that oil/gas production and transportation vessels, as well as vessels with routes to Hawaii and Alaska, are paused for the foreseeable future due to the sudden drop in oil prices.

Cash flow lending is preferred to asset-based lending in the maritime industry

Interviewees stated that, since the 2007-2008 financial crisis, banks have switched from asset-based lending to cash flow lending and avoid lending into the maritime industry solely based on collateral.



Expedited Process Demand

The goal of the Expedited Process Demand questions of the maritime lending industry interviews was to gauge the demand for streamlined application processes and to understand which market segments would benefit most from such processes.

Maritime lenders believe large projects benefit most from the Title XI program

Several interviewees stated that, based on the current process and terms of the program, Title XI credit assistance is mainly sought out for larger projects. This is because the program's fees and the lengthy application process can be tolerated by large companies. However, several interviewees also noted that those projects would not have any difficulty obtaining funding from other sources such as banks.

Interviewees stated that most banks are able to offer 5 to 10-year loans with 10 to 15-year amortizations. Therefore, the Title XI program's terms are more attractive but are not being offered to those that need it the most.

Additionally, interviewees stated that while longer amortization schedule or more favorable terms would lead to increased demand in normal times, the current uncertain state of the market largely overwhelms those nuances.

Smaller projects are deterred from Title XI by the burdensome process and expensive fees

Interviewees stated that projects aimed at replacing smaller vessels generally would not consider Title XI financing because they are deterred by the program's fee structure and the lengthy and uncertain application process. While those projects would be interested in the terms offered by Title XI, the cost of assembling an application is greater than the cost for securing funding through private banks.

One interviewee cited the Title XI program's "make whole" provision is another significant deterrent for smaller projects.

Maritime lenders do not generally provide technical assistance to prospective borrowers

Interviewees cited that they did not provide technical assistance to prospective borrowers during their application process, with some citing liability issues. Maritime lenders stated that large companies seeking funding are able to complete the required materials without external assistance and that smaller projects are generally able to secure the services of industry consultants for assistance in completing applications. However, one interviewee stated that smaller companies may welcome technical assistance from Title XI program staff during the application process.

Identification of Low-Risk Applicants

The Identification of Low-Risk Applicants section of the interviews focused on the underwriting procedures employed by maritime lenders. The purpose of these questions was to understand whether any specific factors or project characteristics affected the banks' due diligence and underwriting processes.

Maritime lenders' underwriting methodologies focus on cash flow analyses

All maritime lenders interviewed stated that they considered themselves to be cash flow lenders. As a result, their proprietary risk rating methodologies are focused around an analysis of borrower cash flows. As mentioned in the Market Need section, interviewees noted that, since the 2007-2008 financial crisis, banks generally avoid lending into the maritime industry solely based on collateral.





Interviewees noted the following information as key elements of their underwriting process:

- Repayment ability based upon recurring cash flows
- History of performance
- Expected outlook for the borrower and industry segment
- Competitive outlook and position within the industry

Additionally, several interviewees singled out the following ratios as being important to their review:

- Debt Service Coverage (DSCR)
- Debt to EBITDA
 - 3x to 3.5x is an estimated average for maritime loans
 - 4x is highly leveraged

Moreover, maritime lenders generally stated that they monitor borrower financials on a quarterly basis.

Investment Grade Ratings impact credit terms and process

Several interviewees noted that the comprehensiveness of their due diligence and underwriting procedures was generally determined by the result of their credit analysis and whether the credit is investment grade (based on their proprietary risk rating methodologies). Non-investment grade rated loans would require a more intensive due diligence and would require additional covenants or security.

One interviewee noted that their organization does not perform vessel appraisals for high-quality credits with strong cash flows.

NRSRO rating opinions have little to no impact on bank underwriting processes

Maritime lenders stated that they generally do not consider NRSRO ratings when underwriting loans, for various reasons including:

- The maritime lenders' proprietary risk rating methodologies are more accurate representations of risk.
- Credit risk changes over time and NRSROs do not consistently update their ratings.

Interestingly, one interviewee mentioned that they have experienced problems when their internal risk ratings were better than the NRSRO risk rating. When this occurs, banks will generally resort to using the lower NRSRO rating, which results in the offering of less favorable terms.

Maritime lenders generally close on transactions in about 6 to 12 weeks

Maritime lenders revealed that the average time for closing a transaction was about 6 to 12 weeks. The interviewees noted that negotiations and the development of terms is generally the most time-consuming phase of the process. Additionally, several interviewees noted that the process is more efficient for their existing clients and, as a result, they tend to focus on building relationships and working with existing borrowers.





Appendix A Federal Credit Peer Group Program Review

Evaluation Methodology

Successful Federal credit program processes, procedures, and internal controls are designed to attract high-quality projects, make lending efficient, and maximize the impact of program funding while minimizing credit loss and risk. Summit has reviewed the processes of the peer group programs to identify best practices.

Although all peer group programs share common processes, the activities supporting these processes vary from program to program. The following section describes the best practices employed by peer group programs for accomplishing their programmatic goals.

DOT TIFIA Program

Overview

The Transportation Infrastructure Finance and Innovation Act (TIFIA) of 1998 was enacted as part of the Transportation Equity Act for the 21st Century (TEA-21) and amended in 2012 by the Moving Ahead for Progress in the 21st Century Act (MAP-21) and in 2015 by the Fixing America's Surface Transportation Act (FAST). TIFIA's goal is to leverage Federal funds by attracting substantial private or non-Federal investment in critical improvements to the nation's surface transportation system. DOT's TIFIA program provides credit assistance for qualified transportation projects of regional and national significance. The TIFIA program offers three forms of credit assistance to eligible applicants: direct loans, loan guarantees, and standby lines of credit. Eligible applicants include state and local governments, transit agencies, transportation authorities, special districts, railroad companies, or private entities who intend to finance large-scale surface transportation projects, including highway, transit, railroad, and intermodal freight projects, as well as port access projects.

Terms and Conditions

The maximum term of a TIFIA direct loan or guaranteed loan is 35 years from substantial completion. Debt service can be deferred up to 5 years after substantial completion to allow time for facility construction and ramp-up. A standby letter of credit can be made available for up to 10 years after substantial completion of project. The amount of TIFIA credit assistance may not exceed 33% of eligible project costs. Senior debt and TIFIA loan must receive investment grade ratings from at least two nationally recognized credit rating agencies (only one rating required if less than \$75 million). For loans with project costs under \$75 million, TIFIA may use up to \$2 million of its program administration budget each fiscal to cover costs in lieu of fees collected associated with such eligible loans.⁴ TIFIA loan interest rates are typically equal to the prevailing rate on U.S. Treasury securities of a similar term plus one basis point. However, if used for the purpose of a "rural infrastructure project," the interest rate can be as low as one-half of the prevailing rate on Treasury securities of a similar term plus one basis point. Other terms of TIFIA loans are highly flexible and dependent on the project economics, the cost and revenue profile of the project, and other relevant factors. The subordination of TIFIA debt to other project debt is a unique feature of the program. However, this subordinated position is subject to a "springing lien" provision, whereby the TIFIA loan is elevated to parity with senior project debt upon

⁴ 23 U.S.C. §605(f).





occurrence of a bankruptcy-related event. The absence of credit margins and reduced cost of capital associated with a subordinated Federal loan provide the borrower with a low, fixed rate source of financing. Additionally, the FAST Act required DOT to expedite projects thought to be lower-risk—those requesting \$100 million or less in credit assistance with a dedicated revenue stream unrelated to project performance and standard loan terms—but it is not clear what effect this could have, as only two projects have received TIFIA loans of less than \$100 million since the passage of the FAST Act. S. 3631 (115th Congress) proposed additional criteria for expedited loans for public agency borrowers.

DFC SF/SMEF Programs

Overview

The U.S. International Development Finance Corporation (DFC), formerly known as the Overseas Private Investment Corporation (OPIC), was established as an agency of the U.S. Government in 1971 and operates on a self-sustaining basis at no net cost to U.S. taxpayers. DFC was established to provide financing, guarantees, political risk insurance, and support for private equity investment funds to solve critical development challenges and advance U.S. foreign policy. DFI provides medium- to long-term financing through direct loans and loan guarantees to eligible investment projects in developing countries and emerging markets. DFC's SF program supports large-scale projects that require significant amounts of capital in sectors such as infrastructure, telecommunications, power, water, housing, airports, hotels, financial services, and natural resource extraction. The SMEF program is available for businesses with annual revenues under \$400 million spanning sectors from renewable energy and housing to agriculture and consumer goods.

Terms and Conditions

DFC financing policies require the U.S. equity or debt investor to assume a meaningful share of the risk, typically in the range of 25% of the project cost. Exceptions to the amount of investment may be made in cases where U.S. brand-name franchisors, operators, or contractors are significantly involved in the project on a long-term basis. DFC offers very flexible terms for direct loans and loan guarantees and can offer loans and loan guarantees for a minimum of \$350,000 and a maximum of \$250 million.

DOE Title XVII Program

Overview

The U.S. Department of Energy (DOE) Title XVII program, authorized under Section 1703 of Title XVII of the Energy Policy Act of 2005, provides loan guarantees in support of early commercial use of advanced technologies, including nuclear, solar, wind, and geothermal technologies. This financing is targeted at early commercial use only, not energy research, development, or demonstration programs. The goal of the Title XVII program is to promote investment in projects that avoid, reduce, or sequester air pollutants or anthropogenic emissions of greenhouse gases, and employ new or significantly improved technologies.

Terms and Conditions

The Title XVII program provides loan guarantees with terms up to 30 years. While the Title XVII loan program offers flexible terms, the program specifies that the applicant must meet an equity commitment and certain other conditions before closing. All loans that are 100% guaranteed by DOE are funded through the FFB. The interest rate on Title XVII direct loans is equal to the prevailing rates for Treasury securities of similar terms with a liquidity premium, typically 37.5 basis points. DOE offsets the credit subsidy cost through appropriation or payment of that cost by the borrower.





EPA WIFIA

Overview

The Water Infrastructure Finance and Innovation Act (WIFIA) of 2014 established a Federal credit program administered by the EPA. The WIFIA program accelerates investment in water and wastewater infrastructure of national and regional significance by offering loans to creditworthy borrowers for up to 49% of eligible project costs. WIFIA authorizes EPA to provide secured (direct) loans and loan guarantees to eligible water infrastructure projects. The goal of the WIFIA program is to accelerate investment in the nation's water and wastewater infrastructure by providing long-term, low-cost, supplemental credit assistance under customized terms to creditworthy water and wastewater projects of national and regional significance.

Terms and Conditions

The final maturity date of the WIFIA credit instrument must be the earlier of 35 years after the date of substantial completion of the relevant project or the useful life of the project (as determined by the Administrator). Debt service payments on the WIFIA credit instrument, in accordance with the debt service payment schedule, may be deferred on a case-by-case basis at the sole discretion of the Administrator. A standby letter of credit can be made available for up to 10 years after substantial completion of project. The amount of WIFIA credit assistance may not exceed 49% of the reasonably anticipated eligible project costs. WIFIA loan interest rates are typically equal to the prevailing rate on Treasury securities of a similar term plus one basis point. A WIFIA loan may not be subordinated in security and priority to other debt obligations such as bonds or State Revolving Fund (SRF) loans used to fund the project. A WIFIA loan may, on a case-by-case basis, be subordinate in priority and security to previous or future debt obligations an eligible entity may incur for purposes unrelated to the WIFIA project. Such cases will generally be limited to highly rated public agency borrowers with ongoing debt issuance programs (such as through a preexisting indenture) where the WIFIA loan is rated in the A category or higher.

DOT RRIF Express Program

Overview

The Railroad Rehabilitation & Improvement Financing (RRIF) program was established by TEA-21 and amended by the Safe Accountable, Flexible and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) and the Rail Safety Improvement Act of 2008. Under this program, the Department of Transportation is authorized to provide direct loans and loan guarantees up to \$35 billion to finance development of railroad infrastructure. Not less than \$7 billion is reserved for projects benefiting freight railroads other than Class I carriers. The funding may be used to: acquire, improve, or rehabilitate intermodal or rail equipment or facilities, including track, components of track, bridges, yards, buildings and shops, and including the installation of positive train control systems; develop or establish new intermodal or railroad facilities; reimburse planning and design expenses relating to activities listed above; refinance outstanding debt incurred for the purposes listed above. Direct loans can fund up to 100% of a railroad project, with repayment periods of up to 35 years and interest rates equal to the cost of borrowing to the Government. Eligible borrowers include railroads, state and local governments, government-sponsored authorities and corporations, limited option freight shippers that intend to construct a new rail connection, and joint ventures that include at least one of the preceding.

RRIF Express aims to reduce the time and costs associated with securing loans to modernize aging freight rail infrastructure. The 2018 Consolidated Appropriations Act appropriated \$25 million in budget





authority to the DOT to cover the cost to the Federal Government of RRIF credit assistance (Credit Risk Premium Assistance). Additionally, the 2016 Consolidated Appropriations Act and the 2018 Consolidated Appropriations Act provided \$1.96 million and \$350,000, respectively, of which approximately \$1 million remains available, to the DOT to fund certain expenses incurred by prospective RRIF borrowers in preparation of their applications for RRIF credit assistance (this approximately \$1 million assistance, called “Cost Assistance”). Using existing authorities and these new budget authorities, the DOT has established the RRIF Express program.

Terms and Conditions

Subject to the availability of funds, applicants accepted into the RRIF Express program may benefit from two types of financial assistance: (a) Cost Assistance up to \$100,000 per application to pay for a portion of the bureau's advisor expenses borne by applicants; and (b) assistance for those applicants that ultimately receive RRIF credit assistance, CRP Assistance up to 5% of the final RRIF loan amount to offset the CRP paid by the borrower. Any costs beyond \$100,000 and any CRP beyond 5% would be paid by the prospective RRIF borrower. These funds will be made available to benefit applicants accepted into the RRIF Express program on a first come, first served basis until each source of funding is expended or this notice is superseded by a new Notice of Funding Opportunity. Letters of Interest will be accepted in the order received and will be allocated Cost Assistance based on the date of acceptance into the pilot program. CRP Assistance will be allocated in the order of financial close.

