MISSOURI TRANSPORTATION FINANCE CORPORATION
LOAN POLICY

Purpose

The purpose of this document is to provide written guidelines for the processing of applications and approval of direct loans by the Missouri Transportation Finance Corporation (MTFC) under the Missouri state infrastructure bank program.

Policy

1. **Organization**

   The authority to form and operate the MTFC is initially derived from the Transportation Equity Act for the 21st Century (TEA-21). The MTFC incorporated in August 1996, adopted bylaws and subsequently entered into a Cooperative Agreement (hereinafter "Cooperative Agreement") with the Federal Highway Administration (FHWA), the Federal Transit Administration (FTA), the Federal Railroad Administration (FRA), agencies of the United States Department of Transportation (USDOT) and the Missouri Highways and Transportation Commission (Commission). Under the authority granted initially by TEA-21, as amended by 23 U.S.C. 610, the Missouri Non Profit Corporation Act, Chapter 355, RSMo, and pursuant to the Cooperative Agreement, the Commission organized the MTFC to assist in financing transportation improvements.

   The MTFC is administered by an eight member Board of Directors. The Board will consist of three members from the Missouri Department of Transportation, three members of the Missouri Highways and Transportation Commission (MHTC) and two at-large members with knowledge of business or finance. The Board is responsible for the direction of the MTFC and approves all loans. All Board members are voting members.

2. **The Purpose of the MTFC**

   The MTFC provides direct loans for transportation projects within the state of Missouri. Loans are funded from available MTFC resources. The MTFC assistance may be any type authorized by 23 U.S.C. 610.

   The following are examples of potential financing options included in 23 U.S.C. 610:
   - Primary or subordinated loans
   - Credit enhancements
   - Debt reserve financing
   - Subsidized interest rates
   - Purchase and lease agreements for transit projects
   - Bond security

While state infrastructure banks have the authority to exercise all finance options included in 23 U.S.C. 610, the MTFC provides only direct loans. Financial Services staff must obtain pre-approval by the Board to pursue other financing options authorized by 23 U.S.C. 610 or the MTFC Articles of Incorporation.

These direct loans must help assist the Commission to achieve continued economic, social and commercial growth of Missouri, act in the public interest, or promote the health, safety and general welfare of Missouri citizens.

3. Source of Capitalization

The MTFC was originally capitalized with a mixture of federal and state funds. The MTFC makes direct loans from its original initiating deposits, principal and interest payments from its loan portfolio and interest earned on investment of the funds. Loans may also be financed by the issuance of bonds by the MTFC, which are secured by a pool of MTFC approved loans.

At the direction of the Board, securitization of the loan portfolio may be used to provide new capital for loans.

4. Accounting Practices

The MTFC accounting structure must maintain separate highway and transportation accounts when funds are provided from Title 23 and Title 49 programs.

- Highway Account - The Commission provided 20 percent state match from MoDOT's state road fund toward the initial capitalization of the MTFC. These funds shall be dedicated to providing direct loans consistent with 23 U.S.C. 610 for highway and bridge projects on the state highway system, permitted under Article IV, Section 30(b) of the Missouri Constitution. Any interest earned in this account from loans and investments can be used for administration expenses of the MTFC.
- Transportation Account - These funds shall be dedicated to providing loans consistent with the Cooperative Agreement for any highway project eligible for federal assistance under Title 23 of the U.S. Code and any transit capital project eligible for federal assistance as defined in Section 5302 of Title 49 of the U.S. Code. Any interest earned in this account from loans and investments can be used for administration expenses of the MTFC.

5. Application Process

The program is open to any public or private entity with a transportation project that meets the 23 U.S.C. 610 eligibility criteria. (See #6 "Types of Eligible Projects")

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All entities are required to submit a written application to the MTFC. For all applicants the following is required:

- Written application
- Current budget
- Project plan
- Timing of loan disbursement
- Dedicated revenue stream to repay the loan
- Form of collateral, if required by the Board
- Potential legal claims and/or liabilities pending or a statement that indicates they do not exist

In addition to the items listed above, private entities applying for a direct loan will be required to provide the following documentation:

- Audited financial statements from an independent CPA for the most recently completed business year
- Form of collateral

Financial Services staff will perform a preliminary evaluation of the application and required documentation. The staff will inform the applicant of any initial concerns. The staff may ask the applicant to provide additional documentation to resolve any concerns identified.

Prior to making recommendations to the Board, the following will be evaluated when reviewing the application:

- Whether the borrower is a public or private entity
- Term of the loan
- Credit quality of the applicant
- Security pledged
- Dedicated revenue source
- Borrower's repayment ability
- Funds available in the bank
- Financial feasibility of the project
- Reasonable cost estimate of the project
- Project benefit to statewide transportation needs

Financial Services staff coordinates with MoDOT district and Multimodal Division personnel to ensure the quality of the project requested in the loan application.

6. Types of Eligible Projects and Activities

Candidate projects for MTFC assistance include any highway project eligible for federal assistance under Title 23 of the U.S. Code and any transit capital project eligible for federal assistance as defined in Section 5302 of Title 49 of the U.S. Code. The MTFC can provide financial support to both public and private sponsors of eligible transportation projects, and can assist in financing any stage of the project's development. There are no federal share restrictions on the cost of the projects eligible to receive MTFC assistance. All loans are subject to federal requirements.

- All FHWA functionally classified highways are MTFC eligible except for local or rural minor collectors.
- All bridges within the state that are included within the FHWA's bridge inventory are also eligible.
- All mass transportation capital projects that would otherwise be eligible to receive federal funding are MTFC eligible projects.

Examples of potential projects could include:

- Road and bridge construction, reconstruction, rehabilitation, resurfacing, restoration and operational improvements for highways and bridges.
- Capital projects involving mass transportation.

7. Loan Loss Reserve Account

The MTFC has determined a loan loss reserve account is not necessary. The Corporation has no liabilities to depositors and has no need to offset a portion of this type of risk through a loan loss reserve account. Historically, the Corporation has not incurred loan losses and does not foresee loan losses as a significant potential risk in the future based upon the quality of loan applicants and the security provided.

8. Loan Amount

The size of an MTFC loan is dependent upon the amount of capital available, other demands for capital at the time of the loan application and the amount needed for the project. The minimum loan amount is $50,000. Financial Services staff may accept loan applications for loan requests of $10,000,000 or less. Any loan requests greater than $10,000,000 require pre-approval by the Executive Director, prior to acceptance of the loan application.

9. Rates of Interest

Section 23 U.S.C. 610 requires interest to be at or below market rates. The MTFC most often sets interest rates equal to municipal borrowing rates for both rated and non-rated entities. When determining which rating to use for non-rated entities, consideration is given to the debt coverage ratio, the number of dedicated revenue streams and the term of the loan.

Other factors considered in determining the interest rate include:

- Whether the borrower is a public or private entity
- Security pledged
- Availability of a dedicated revenue source for the length of the loan
- Borrower's repayment ability
- Length of time between loan approval and disbursement
- History of revenue collections, including during periods of economic stress
- Sensitivity of the revenues to changes in economic conditions
- Reliance on growth in the revenues to service debt

10. Loan Security

Loans will be secured to adequately safeguard the MTFC. If the MTFC is the sole lender in a project, the MTFC will take a first security interest in the collateral pledged. If the MTFC is lending in conjunction with other financings, the MTFC will consider taking a subordinate security interest in the collateral pledged.

Loans to local governments and other political subdivisions (hereinafter, local government) will be secured by any one, or a combination, of the following: (1) the local government obtaining voter approval of a properly worded ballot issue for a tax dedicated to secure payment of the debt for the specific project and for no other purpose whatsoever; (2) the local government issuing its own bonds and paying the proceeds into the Local Fund or the State Road Fund; (3) the local government agreeing, in the event of a default, that MHTC/MTFC attach any federal monies designated for the local government which are administered by MoDOT and apply those funds to the local government's indebtedness; (4) as a condition of the loan, the local government agreeing to annually appropriate its contract obligations and to provide annual certification that current revenues plus unexpended balances from prior years are sufficient to meet its obligation to pay MTFC. Annual certification and appropriation by the local government shall be monitored and enforced by Financial Services staff.

Loans to political subdivisions created for the purpose of financing certain transportation projects, such as Transportation Development Districts (TDD), Transportation Corporations (TC), etc., will be secured by the specific tax revenues, other special assessment revenues and any other acceptable collateral necessary to adequately safeguard the MTFC.

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The most important security feature of loans to local governmental jurisdictions and other political subdivisions will be the pledge of revenues to secure the loan. The revenue pledge may be a "gross" or a "net" pledge. A gross revenue pledge means that no other costs have a claim on the revenues prior to debt service, while a net revenue pledge means that other specified costs (usually operating expenses) are paid prior to debt service. Gross revenue pledges are customary when the pledged revenues are sales or property taxes. Net revenue pledges are found when the revenue is a user fee and the adequacy of operating expenses is necessary to maintain the facility which is generating the revenues necessary to pay debt service. An example of a net revenue pledge would be toll fees.

Loans to private entities will be secured by acceptable collateral such as (1) an irrevocable standby letter of credit; (2) pledge of cash, deposit account or other marketable securities; (3) pledge on a dedicated revenue stream; (4) or other acceptable collateral proposed by the applicants and acceptable to the MTFC, at its sole discretion to adequately safeguard the MTFC.

The collateral pledged on the MTFC loans will be negotiated individually based on the specific credit quality of the borrower and its resources. Listed below are the preferred types of collateral the MTFC considers to secure its loans.

(1) Irrevocable Standby Letter of Credit: The letter of credit is an engagement by a bank made at the request of the bank customer, who is the borrower, that the bank issuer will honor drafts or other demands for payment made by MTFC as a named party upon compliance by MTFC with the conditions specified in the letter of credit.

(2) Cash, Deposit Accounts or Marketable Securities:
- Cash/Money is the medium of exchange authorized and adopted by the United States government.
- Deposit Account is any demand, time, savings, passbook, checking or similar account maintained with a bank in the sole ownership name of the borrower.
- Marketable Security is a type of Investment Property, defined as a security, whether certificated or uncertificated, security entitlement, securities account, commodity contract or commodity account.

(3) Dedicated Revenue Stream: The borrower's right to payment of monetary obligation, whether or not earned by performance, related to obligation for property sold/leased/assigned or otherwise disposed; or for the services to be rendered.

Other types of collateral may be considered, but require pre-approval by the Executive Director, prior to acceptance of the loan application.

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11. Terms of Loans

23 U.S.C. 610(g)(5) gives the MTFC authority to require loan repayments to begin no later than 5 years after the project has been completed. For any loan repayments beginning more than 12 months after loan disbursement, pre-approval by the Executive Director should be obtained prior to accepting the loan application.

23 U.S.C. 610(g)(6) gives the MTFC authority to make loans with terms of up to 30 years after the date of the first payment on the loan or the useful life of the investment. However, loan terms will be limited to a maximum of 15 years. For any loan to be amortized over a period of time greater than 10 years, pre-approval by the Executive Director should be obtained prior to accepting the loan application.

12. Approval Process

After Financial Services staff reviews the application to ensure project eligibility with 23 U.S.C. 610 requirements and loan repayment ability, staff will make recommendations to approve or deny the loan application. Each of the eight Board members will have one vote, and a quorum will be defined as any five votes.

Financial Services staff will draft the loan's terms and conditions and will determine from a credit and security point of view, if they are adequate or inadequate. Additionally, the staff will review the loan for overall policy compliance and make a recommendation to approve or deny the loan. Prior to Board approval of the loan, staff will negotiate and seek initial agreement from the borrower of the loan terms. Financial Services staff will notify the applicant in writing whether the loan has been approved or denied.

13. Loan Closings and Standardized Documents

All loan closings shall be performed in accordance with procedures developed by the MTFC. All loan documents shall be prepared on the standardized forms developed by the MTFC.

All loans should be accompanied by the appropriate loan documentation including an ordinance or corporate Board authorization and authorizations by the MTFC Board. A draft loan agreement will be prepared prior to Board approval. Following loan approval by the MTFC Board, a loan agreement will be executed by the borrower within six months to prevent the loan from lapsing, unless an extension is approved by the Executive Director.

14. Loan Files

Each loan file will include an executed loan agreement, promissory note, amortization schedule and other documentation needed to support the transaction. Financial Services staff will be responsible for maintaining adequate and current files.

15. Operating Expenses

The MTFC may budget up to 0.1 percent of net assets to cover operating expenses. These monies will be used for the reasonable and necessary costs of administering the MTFC, as described in 23 U.S.C. 610.

16. Loan Fees

The loan fee will be 0.15 percent of the loan amount for public entities. The maximum amount charged for public entities will be $75,000 and the minimum amount will be $500. The loan fee will be 0.25 percent of the loan amount for private entities. A maximum amount charged is not applied for private entities, but the minimum amount will be $1,000. The difference in fees between a public entity and a private entity is to account for the increase in administrative review and monitoring of a private entity loan. The fee must be paid at the time of application submission and is non-refundable, unless the MTFC has no funds available.

17. Servicing Policies and Procedures

In the event the MTFC decides to contract out the servicing of loans, a competitive bidding process will be used.

All borrowers will be requested to make loan payments through the automated clearinghouse system (ACH).

Loans will be monitored annually for UCC-1 expiration dates, upcoming loan disbursements and compliance with annual budgeting requirements. The borrowers' financial statements will be reviewed annually.

Public entities are required to provide: 1) a letter certifying the current public entity’s revenues plus expended balances from prior years are sufficient to meet its obligation to pay the MTFC loan, 2) year-end financial statements and 3) the entity’s most recently approved budget including a separate line item for the payment of its MTFC loan obligation. These documents will be provided annually to the MTFC within 30 days of the approval of the entity’s budget.

Private entities are required to provide annually: 1) a letter certifying there are no other security interests attached to the collateral other than MTFC’s security interest 2) audited financial statements prepared by an independent CPA, 3) any other documentation required by any outside party associated with having the collateral in place and 4) the entity's most recently approved budget including a separate line item or footnote for the payment of its MTFC loan obligation. These documents will be provided annually to the MTFC within 30 days of the completion of the independent audit.

18. Noncompliance and Default

The Board will be notified when the borrower is no longer in compliance with the terms of the loan established by the loan agreement.

These are the steps Financial Services staff will take to address the noncompliance and default of a loan:

- Notify borrower of noncompliance
- Discuss issue and recommend expectation to resolve the problem with the borrower
- If noncompliance becomes default, follow procedures in the loan agreement to cure default
- Proceed to collect security indicated in the loan agreement

19. Late Payment Fees

A loan payment more than 15 days late will be assessed a two percent late payment fee on the amount of payment due.

20. Policy Review

Financial Services staff will perform a biennial review of the MTFC loan policy and make any recommended changes to the Board for their approval.