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## Loan Refinancing

Urban and Environment Credit Program (**UEC**) loans may be refinanced in accordance with the terms and conditions agreed upon by borrower and investor with the consent of G/ENV/UP. G/ENV/UP may, from time to time, place a notice in the Federal Register indicating that certain UEC loans are eligible for refinancing; stating procedures and conditions; and advising interested parties to contact G/ENV/UP or borrowers for further information. Such a notice might be done when market interest rates have dropped significantly from the level at which some existing loans were contracted.

USAID prefers that the borrower pursue refinancing through competitive negotiation procedures, as is usually done with original loans, where prospective investors make proposals at the same time on terms of new loans that would be used to replace existing loans. G/ENV/UP may consider, however, approval of refinancing proposals resulting from direct negotiations between borrower and investors. The term of the new loan may not extend the term of the original loan. USAID has in the past waived its front-end fee of one percent for refinancing but continued its fee requirement of one half of one percent on the outstanding principal refinanced.

The borrower must send a letter to USAID requesting USAID's approval of the refinancing (**with a copy of the investor's proposal attached**). Unless otherwise agreed to by USAID, the letter should include **(1)** a detailed outline of all approvals (**of public and private entities**) that must be obtained in order for the borrower to execute the new notes and related loan documents, **(2)** a schedule specifying the timeframe within which the borrower will complete each step of the process it has outlined, **(3)** the borrower's acknowledgment of the importance of timely completion of the outlined process and the serious consequences of its failure to complete the process prior to the closing date, **(4)** a certification that the borrower can and will complete the outlined process in a timely manner.

Once USAID receives this letter G/ENV/UP will then evaluate the proposal. Provided that G/ENV/UP is satisfied that the proposed refinancing is in the best interests of the borrower and USAID, G/ENV/UP will draft an Action Memorandum to the authorizing official in USAID requesting approval to refinance the loan. This memorandum must be cleared by GC/G and FM/LM. If it is approved, G/ENV/UP will then issue an approval letter to the borrower.

There are strict time constraints that are unique to loan refinancing which all parties must clearly understand. The terms of existing UEC loans typically provide **(a)** that they may be refinanced only on a semi-annual payment date and **(b)** that notice of prepayment must be provided to existing noteholders within 30-45 days prior to the

payment date. There is a serious risk that borrowers will not complete their own governmental approval processes and/or the loan document negotiations in time to contract the loan from the new lender. The closing date of the new loan must correspond with or be prior to the payment date of the original loan. If the notice of prepayment has been given and the borrower fails to close the new loan by the prepayment date, the borrower and USAID are left with an accelerated note for the entire loan amount. For this reason, the letter to the borrower providing USAID's approval of the refinancing proposal will request the information listed in the second paragraph above, if it has not already been provided. Also, because of the strict time deadlines involved, it is USAID's policy that after it has approved a refinancing proposal submitted by a borrower, it will not consider for approval any subsequent refinancing proposals prior to the closing dates, whether solicited or unsolicited. This policy is also stated in the letter from G/ENV/UP to the borrower approving the refinancing. It is also USAID's policy that any arrearages on the original loan must be paid prior to refinancing. The approval letter would address this issue, if applicable.

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