Living with Infrastructure Loans Post Financial Close

The Joys and Pains of a Portfolio and Work Out Group

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Views expressed in this presentation represent the personal opinion of the Speaker and not necessarily those of the European Investment Bank.
Introduction

1. Scope
2. The relationships
3. When things go wrong
4. Lenders ...
5. The pains
6. The joys
7. Work outs
8. Conclusions

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1. Scope

- Project finance transactions
- Transportation infrastructure post signature
- Concession based
- Post financial close
- EIB often largest lender
- EIB in the project for the long-term
1. Scope (2)

- Project finance transactions
  - Transactions relying for the servicing of debt on cashflows generated by a single or limited number of assets being financed by such debt or pre-existing assets contractually linked to the project.
2. The relationships

- Users
- Sub-contractors
- Arbitrators/Adjudicators/Experts
- Grantor
- Borrower
- Equity
- Agent/Trustee/LTA
- Lenders
- Bondholders
- Monolines

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3. When things go wrong

- Pass through (EPR) regime
- When does it become a BORROWER and hence a LENDER issue?
- Lenders rely on the project for repayment
- Termination payments are a remote option, if available at all
3. When things go wrong

When does it become a borrower issue?

- Construction:
  - Insufficient liquidated damages
  - Pass through not working (EPR)
  - Grounds for termination
  - Contractor withdrawal
  - Insufficient third party security
3. When things go wrong

When does it become a borrower issue?

- **Operation:**
  - Insufficient revenue (ramp-up?)
  - Increased O&M cost
  - Construction problems appear
  - Withdrawal of the operator
  - Grounds for termination
  - Hostile grantor / change in policy

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4. Lenders: A Flock of Sheep?
Borrowers may believe that Lenders ...

- only rely on precedent
- follow a “leader”
- are indecisive
- can be pushed around
- have more to loose than anyone else
- will avoid a “fight” at any cost
- can easily be intimidated
- that their relationship with the grantor or shareholders will prevent action

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5. The pains

- Lenders don’t like:
  - to be surprised
  - kept in the dark
  - to be required to decide within short deadlines on an issue that has been around for months
  - be taken for fools
  - be drawn into a negotiation through the press

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5 The pains

- Common mistakes
  - too much / little information
  - unrealistic covenants, prompting the requirement for large numbers of waivers
  - unclear scope of lenders’ advisors post financial close
  - Unclear/unworkable decision making and dispute resolution process
  - too complicated

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5. The pains

- **Dangers**
  - No independent management of the borrower
  - Lenders’ technical advisor going native
  - Lenders being advised too late of an issue
  - Solutions being devised without lender involvement
  - Relationship with the public sector
  - PPPs turning too political

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6. The joys

- A recognition that all parties are in the same boat
- Expectation management
- Early warnings
- Regular information exchanges
- Realistic expectations
- Common sense
7. Work-outs

- Different approaches:
  - sale in the secondary market
  - restructuring
- Active restructuring
- Real threats and deadlines
- Role of secondary market participants
- All parties have ways in which to contribute:
  - public sector, lenders, sponsors

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8. Conclusions

- Lenders are part of the third “P” of PPP: Partnership
- Take into account that there is life beyond financial close
- Lenders can help to resolve issues

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