

A Bigger Mission: WIFIA Loan Product Development

Discussion Outline

Version 1.1

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1 Objectives and Overview

Big Picture: Innovative debt financing will be a primary factor in US public infrastructure renewal due to fiscal constraints and long-term challenges faced by state & local public-sector agencies.

InRecap Current Focus: Federal infrastructure loan programs have the most practical near-term potential for effective innovation in large-scale public finance.

Specific Focus on WIFIA: The WIFIA Program is demonstrating many important principles in successful federal infrastructure loan program development.

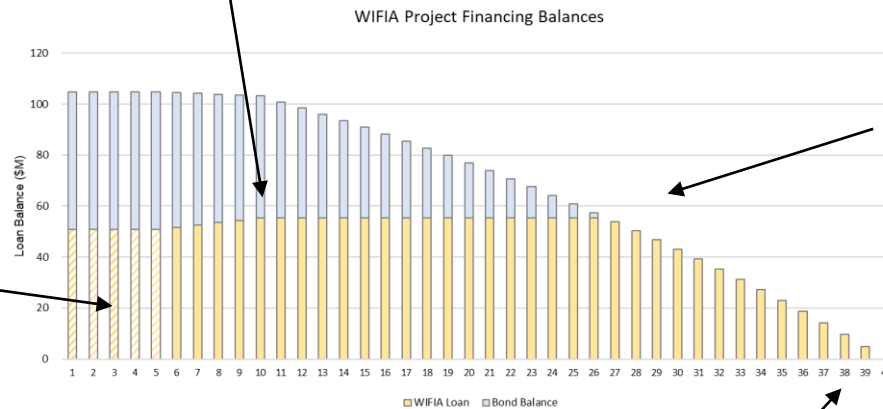
WIFIA Loan Product Development: Now that WIFIA has established an institutional lending capability, the Program is positioned to pursue a bigger mission. Most immediately, that means developing new loan products that align with the current Administration's priorities.

- Current loan products are primarily centered on interest rate management.
- Interest rate products are effective and popular, but diversification should be considered.
- Areas of possible loan product development include climate adaptation, water affordability & equity, and SRF leverage.

2 Current WIFIA Interest Rate Management Products

Deferral & Capitalization

- Cap Interest at Loan Rate
- Optional Future Use



Interest Rate Lock

- No Negative Arb
- Can Use as Call Option
- Rate Re-execution
- Master Agmt Scope
- No Breakage Penalty

Sculpting

- Max UST Flat-Forward
- Allows Shorter Bond

35-Year Term

- Outside 30YR TE Market
- No Prepayment Penalty

Possible Enhancement: A 55-Year Term would increase the value of all current interest rate management products. This would require a specific legislative change and minor additional FCRA resources.

3 Why Develop New Loan Products?

Scale of FCRA Cost Re-Estimates: A portfolio of WIFIA loans to highly rated borrowers based solely on interest rate products will be exposed to significant FCRA interest cost re-estimates. Interest re-estimate cost increases don't require appropriations, but their aggregate scale may become increasingly visible. Active diversification into non-rate sensitive products will improve the long-term portfolio profile.

Real-World Impact: Interest rate products are immensely valuable for long-term infrastructure financing, but their real-world impact is subtle and indirect. Loan products with more obvious and broadly understandable impact will engage a larger stakeholder base.

Competition with Municipal Bond Market: A WIFIA loan is currently similar in many ways to a highly rated tax-exempt municipal water revenue bond with special interest rate features. New loan features will help reduce direct competition with this market.

Opportunity Cost: Most importantly, WIFIA now has a proven capability to develop new and innovative loan products that can be specifically aligned with Administration priorities. This is an important and potentially transformational opportunity that should not be missed.

4 Possible Areas of Loan Product Development

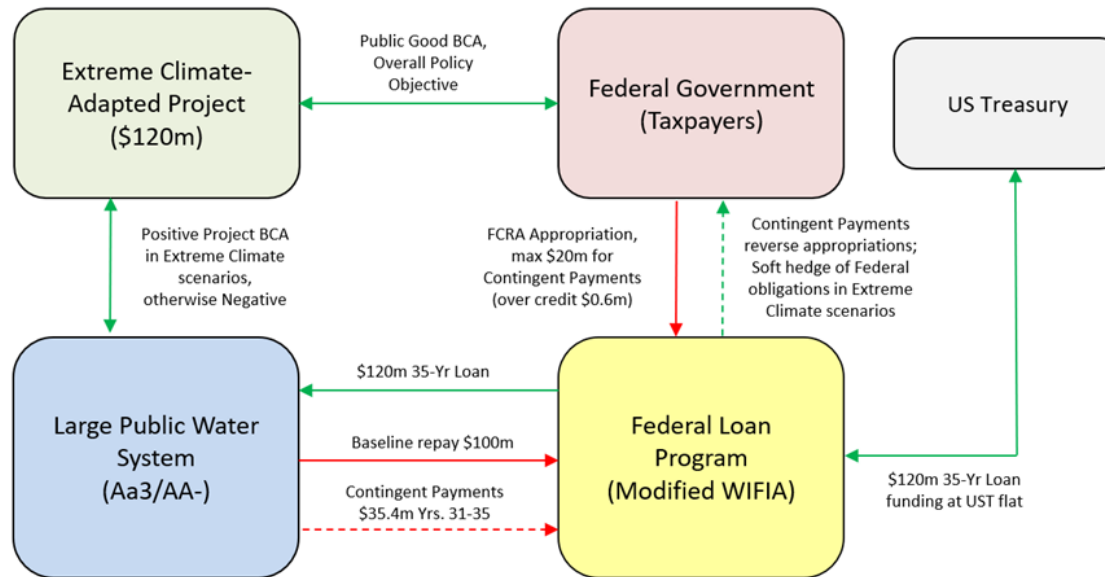
Climate Adaptation: The availability of long-term finance designed to address the uncertainty of future climate conditions for water infrastructure that must be built today will help encourage an optimal level of adaptation investment. This is a difficult challenge, but federal infrastructure loan programs, and especially WIFIA, are well-positioned to accomplish it.

Water Affordability & Equity: Water infrastructure finance can influence not only the way that physical projects are built, but how they interact with their service communities.

SRF Leveraging: The WIFIA Program has a demonstrated capacity to be a 'wholesale lender' to SRFs that are building and managing smaller, retail loan portfolios. WIFIA loan features can be deployed in innovative ways to encourage optimal SRF leverage, especially among currently unleveraged SRFs.

Others?: Federal loan programs can channel unique federal lending strengths to achieve national policy objectives. This principle is broadly applicable to many aspects of water infrastructure. As an institutional lender, WIFIA is now positioned to explore and develop these.

5 Contingent Loan for Climate Adaptation Investment



Basic Concept: A WIFIA loan that is partially forgivable if extreme climate conditions do *not* arise (but is fully repaid if they do) will facilitate additional climate adaptation investment. It also acts as a hedge for future federal climate-related obligations.

Development Path: Significant budget resources required for loan design R&D (especially climate metrics) and loan underwriting. Legislative changes may not be required for a pilot initiative.

6 Accessible Assessment of WIFIA Loan Benefit Location and Amounts

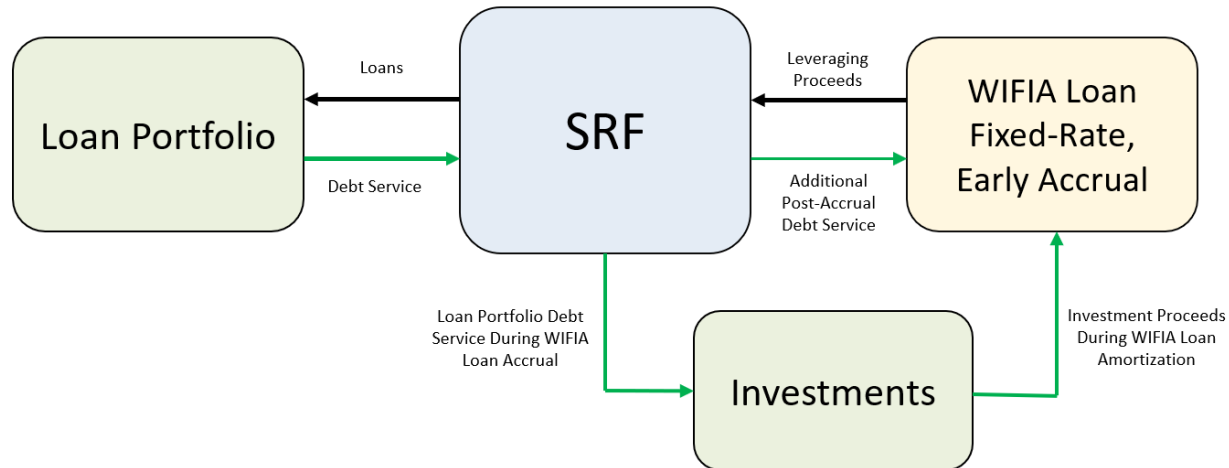


- Layer 4: Estimated WIFIA Loan Benefits
- Layer 3: Stakeholder Organizations
- Layer 2: Environmental and Climate Data
- Layer 1: Economic and Demographics Data
- Base Layer: Project Type and Affected Location

Basic Concept: Water affordability and equity are big, complex issues. Solutions start with data. WIFIA loan benefits can be assessed in context of relevant data.

Development Path: Minimal budget resources. No legislative changes required at this stage.

7 Flexible Sinking Fund Structure for SRF Portfolio Management



Basic Concept: Encourage SRFs to consider innovative ways to use WIFIA interest rate features in context of portfolio building and amortization. A sinking fund that de-links WIFIA and SRF portfolio amortization is one approach that provides flexibility and investment income potential.

Development Path: Minimal budget resources, as SRFs themselves can develop innovative proposals. No legislative changes required at this stage.

8 Links to Related InRecap Material

[The WIFIA Bank](#) (WFM March 2021)

[An Institutional Lender to the State & Local Public Sector](#) (InRecap post April 2021)

[Resetting the Mission at WIFIA](#) (WFM Oct 2020)

[An Update on the WIFIA Loan Program](#) (WFM Aug 2020)

[Is the WIFIA Program Successful?](#) (SSRN July 2020)

[Economic Cost of WIFIA Portfolio: Part 1](#) (Non-public technical analysis April 2021)

[Innovative Infrastructure-Related Initiatives](#) (InRecap post Feb 2021)

[WIFIA: Examining Synergies with the Muni Bond Market](#) (WFM Sep 2020)

[Extended 55-Year Term for WIFIA Loans](#) (InRecap post Feb 2021)

[Contingent Loans for Climate Adaptation](#) (InRecap post Feb 2021)

[Federal Climate Contingent Loan Portfolio Sell-Down](#) (InRecap post Feb 2021)

[Data Visualization for WIFIA Loan Benefits](#) (Upcoming WFM April 2021)

[Can Innovative WIFIA Features Expand SRF Loan Capacity?](#) (Upcoming WFM April 2021)

[WIFIA Sinking Fund Option](#) (Non-public technical analysis Feb 2021)