IBB | INDIANA BOND BANK

800.535.6974 | bondbank@inbondbank.com

Interim Loan Program (ILP) Guide

The Indiana Bond Bank (IBB) administers the Interim Loan Program (ILP) to provide qualified entities with temporary financing in the form of a Bond Anticipation Note (BAN), during the design and construction phases of capital projects, before permanent financing becomes available. Most ILP loans are taken out by permanent financing from USDA-Rural Development (USDA-RD), and this guide focuses on that path.

USDA-RD provides permanent financing through its Water and Environmental Program (WEP) and its Community Facilities Program (CFP). The ILP bridges the period before that permanent financing is drawn.

Note: The ILP can also be used when the permanent financing comes from a source other than USDA-RD, such as the State Revolving Fund (SRF), open market financing, or another source authorized by the Bond Bank board. Some requirements in this guide are specific to USDA-RD, so if your permanent financing is through another source, contact the IBB before applying to discuss how the program applies to your situation.

Eligibility

Eligibility Requirements

Entities must be classified as a "Qualified Entity" according to I.C. 5-1.5-1-8. Typically, Indiana cities, towns, school corporations, townships, libraries, counties, and other local governmental units meet the definition of a Qualified Entity. Entities must also meet USDA-RD guidelines (details available at www.rd.usda.gov).

Entities are eligible for an interim loan upon demonstrating participation in, or commitment to, a USDA-RD program and having all necessary local approvals. A letter of conditions from USDA-RD is required before closing.

Types of ILP Loans

Pre-Construction ILP Loan

- **Purpose:** Provides financing support earlier in the project lifecycle, covering costs for preconstruction activities such as design and engineering.
- **Permanent Financing Commitment:** There is no guaranteed permanent financing take-out expectation at this stage. The entity and their professionals must keep thorough records of payments to ensure all costs are eligible and that procurement process requirements are followed and documented. Project expenditures will need to be reviewed and approved by USDA-RD before they are rolled into a Construction ILP loan or permanent financing.

- **Loan Approval Requirements:** Sufficient revenues to cover the permanent financing, such as utility rates and charges or another repayment source, must be adopted by the governing body, though they need not yet be in effect. The entity must have received a letter of conditions from USDA-RD, though a take-out letter is likely not available at this stage.

Construction ILP Loan

- **Purpose:** Provides financing when an entity is ready to begin the construction phase of a project.
- **Permanent Financing Commitment:** USDA-RD commits to taking out the Bond Anticipation Note (BAN) with permanent financing upon substantial project completion. Draw requests are submitted to and approved by USDA-RD throughout the construction drawdown process.
- **Approval Requirements:** The entity must have received a letter of conditions and a take-out letter from USDA-RD before closing on the loan.

Note: Often, Pre-Construction ILP loans are rolled into Construction ILP loans, but only after USDA-RD has reviewed all invoices and expenses for program eligibility.

Financing Details

Maximum Financing Term

ILP loans are issued in anticipation of long-term permanent financing and are typically for a term of two (2) years or less. However, extensions can be granted as needed.

Borrowing Limits

Borrowing limits are determined by the loan amount approved by USDA-RD.

Interest Rate

The interest rate is determined by current market conditions and may differ from the permanent financing rate. Contact the Bond Bank for a current indicative interest rate.

Interest Payments

BAN interest is typically due at maturity, but semi-annual interest payments can be arranged if requested during the application process. Large loans may require semi-annual interest payments.

Participation Fees

- **For Construction BANs of $1,500,000 or less:** $20,000
- **For Construction BANs greater than $1,500,000:** $25,000
- **For all Pre-Construction BANs:** $25,000
- **Note:** The fee is automatically withheld from proceeds at closing. A Pre-Construction loan and a Construction loan are charged separately; when a Pre-Construction loan rolls into a Construction loan, the Pre-Construction fee is not credited toward the Construction loan fee.

Funds Management

Program Trustee

Loan proceeds are deposited into a construction account managed by a third-party trustee, currently BOKF, N.A.

Draw Process

To draw on BAN proceeds, the Bond Bank provides an Exhibit B - Form of Requisition. This form must be authorized by a local government official and signed by a USDA-RD representative. Documentation, including invoices, will need to be presented to complete any draw.

Professional Assistance

The Bond Bank provides local Bond Counsel for this program. The IBB strongly recommends working with a registered municipal advisor to complete the application. The Bond Bank is not a municipal advisor and is unable to provide financial advice.

Additional Considerations

Paying Off Existing BANs

Existing BANs can be paid off with ILP BANs, but USDA-RD approval may be required.

Account Information

The program trustee will need your account information to send funds via wire or ACH. ACH is the preferred method and carries no fees. Wire transfers may incur a fee.

Financial Reporting

Entities must submit annual financial reports and audited financials to the Bond Bank. The Bond Bank reserves the right to request additional financial information.

Participation Process

Approval Process

The Indiana Bond Bank team will review applications. Although Bond Bank board approval is not required, documentation demonstrating partnership with USDA-RD is necessary before closing on ILP loans. A letter of conditions is required for all ILP loans, and a take-out letter is required for Construction ILP loans.

Application Timing

The schedule of application deadlines and anticipated closing dates can be found at https://www.inbondbank.com/services/construction-cost-financing-and-design-study/.

Additional Questions

If you have additional questions about the program, please contact the Bond Bank at bondbank@inbondbank.com, or submit a question through the website at https://inbondbank.com/contact.