DEAN & FULKERSON

Taxable Bond Financing

The variable rate taxable bond is becoming a popular financing method for capital projects, debt refinancing and acquisition financing. Variable rate taxable bonds are available for non-manufacturing as well as manufacturing clients. The interest rates on variable rate taxable bonds are generally 1 to less than conventional interest rates.

The bonds bear a floating rate of interest that resets every seven days. The weekly rate is based upon a spread over 30-day high-grade commercial paper. Bonds may be prepaid in full or in part without penalty and the variable rate bond can be converted to fixed rate bonds.

In a letter of credit transaction, the bonds are distributed through an underwritten public sale. The placement agent underwrites and sells the bonds through its network of retail and institutional sales representatives. Most major banks have this underwriting/remarketing capability.

The variable rate taxable bond transaction can usually be structured, documented, marketed and closed within 60 days of the date that the lender issues a commitment letter to purchase the bonds or to issue its Letter of Credit. The bonds frequently can be exempt from state income taxes and can be purchased directly by a lender or can be issued based on credit and liquidity support from an irrevocable letter of credit from a qualified lender.

PRACTICE AREAS

- Real Estate Development