

IBRD Flexible Loan with Variable Spread: Major Terms and Conditions

Highlights

The IBRD Flexible Loan offers:

- *Long maturities*
- *Market-based interest rates reflecting IBRD's AAA credit rating*
- *Flexibility to tailor repayment terms*
- *Embedded tools to manage currency or interest rate risk over the life of the loan*
- *Embedded tools for disaster protection for small states*

Loans from the International Bank for Reconstruction and Development (IBRD) are competitive and more flexible than other financing options available to many public sector borrowers.

Repayment Terms

The IBRD Flexible Loan (IFL) allows borrowers to customize repayment terms (i.e. grace period, repayment period, and amortization profile) to meet debt management or project needs. For example, if the objective is to reduce the overall refinancing risk of the debt portfolio, a borrower may choose repayment terms that smooth out the debt service profile. This flexibility can also be used in investment operations to match repayment terms to a project's expected cash flows.

IFL's maximum final maturity is 35 years including grace period¹. The maximum weighted average maturity or average repayment maturity (ARM) is 20 years.²

Pricing

The price of the IFL reflects IBRD's AAA credit rating and is stable and transparent. Components of the pricing include the interest rate, front-end fee and commitment fee. The interest rate consists of a market-based variable reference rate and a

¹For some projects addressing Global Challenges with Cross Border Externalities, the maximum loan maturity is extended to up to 50 years and the ARM up to 25 years.

² The repayment schedules of Development Policy Loans with a Deferred Drawdown Option (DPL DDOs) including Catastrophe Risk DDOs (CAT DDOs) may be determined at the time of drawdown within prevailing maturity limits.

variable spread. Interest is paid on the disbursed and outstanding amount of the loan. The reference rate varies by currency (SOFR for USD, TONA for JPY, SONIA for GBP and EURIBOR for EUR). A one-time front-end fee is charged on the committed loan amount.³ This fee may be paid by the borrower up front from its own resources or financed out of the loan proceeds. A commitment fee, payable semi-annually, is charged on the undisbursed amount of the loan and starts accruing 60 days after the Loan Agreement is signed.

The variable spread includes a contractual spread, a maturity premium (where applicable), and a charge to cover the Bank's average funding spread. IBRD conducts an annual review of loan charges — the contractual lending spread, the maturity premium, the front-end fee and the commitment fee — to ensure that pricing is aligned with the prevailing needs of the institution and its shareholders. The Bank recalculates the funding cost element of the variable spread on a quarterly basis.

Risk Management Tools

The IFL includes options to manage currency and/or interest rate risks over the life of the loan. These options are embedded in the loan agreement and can be executed at a borrower's request at any time.

To mitigate currency risk, the IFL offers a currency conversion option to change the currency of undisbursed and/or disbursed balances between the major currencies offered (see page two of this document). Subject to the existence of a liquid swap market, borrowers may also choose to repay an IBRD loan in a growing number of local currencies.

To manage interest rate risk, borrowers have the option of changing from a floating market reference rate to the fixed rate equivalent of that reference rate or vice versa, while maintaining the variable spread. The IFL also offers the flexibility of using interest rate caps or collars to manage interest rate volatility.

IFL also covers small states, whose economies are disproportionately vulnerable, against natural disasters. By selecting to include the Climate Resilient Debt Clause (CRDC) in their loan agreement, eligible borrowers⁴ can defer their principal and interest payments and other loan charges for up to two years in case of predefined disasters.

³ DPL DDOs including CAT DDOs carry similar lending rates as regular IBRD loans. However, loan charges vary according to the type of DDO. Different lending rates also apply to Special Development Policy Loans (SDPLs).

⁴ IBRD and IDA-eligible Small State Economies, members of Small States Forum and Small Island Developing States as defined by UN

Lending Rate	<p>Lending rate consists of a variable reference rate plus a variable spread. The lending rate is reset on each interest payment date and applies to interest periods beginning on those dates. The reference rate is the value of the applicable market rate for a six month interest rate period (SOFR for USD, TONA for JPY, SONIA for GBP, and EURIBOR for EUR). The loan interest rate charge can be capitalized.</p> <p><u>The Variable spread, resets quarterly:</u> Consists of IBRD's average cost margin on related funding relative to the applicable reference rate plus IBRD's contractual spread of 0.50% and a maturity premium for loans with average maturities greater than eight years. The variable spread is recalculated on a quarterly basis and applies to the interest period commencing on the interest payment date falling on, or immediately following the recalculation date, but falling prior to the next recalculation date.</p>
Fees	<p>Front-end fee of 0.25% of loan amount is due within 60 days of effectiveness date of the project, but before the first withdrawal from the loan, and may be financed out of loan proceeds. Commitment fee of 0.25% is charged on undisbursed balances and starts to accrue 60 days after signing date. The CRDC is offered to eligible borrowers at no cost to them.</p>
Maturity Limits and Repayment Schedules	<p><u>Policy Limits:</u> Maximum final maturity is 35 years including grace period (during which only interest is paid), while maximum weighted average maturity is 20 years. . For some projects addressing Global Challenges with Cross Border Externalities, the maximum loan maturity is extended to up to 50 years and the ARM up to 25 years. For loans with CRDC, after the 2-year deferral, the loan is repaid according to the original average weighted maturity without extending the final due date.</p> <p>Borrowers have the flexibility to tailor the repayment schedule during loan preparation and, once the loan is approved by IBRD, the repayment schedule cannot be changed, except to accommodate for approved conversion to local currency. Borrowers have a choice of two types of repayment schedules:</p> <ul style="list-style-type: none"> • <u>Commitment-linked Repayment Schedule:</u> The loan repayment schedule begins at loan commitment. Principal repayments are calculated as a share of the total loan amount disbursed and outstanding. • <u>Disbursement-linked Repayment Schedule:</u> The loan repayment schedule is linked to actual disbursements. Each semester's group of disbursements is similar to a tranche with its own repayment terms (i.e., grace period, final maturity, and repayment pattern). Each semester's group of disbursements would have the same repayment terms.
Loan Currencies	<ul style="list-style-type: none"> • <u>Currency of Commitment:</u> Loans are offered in most major currencies like EUR, GBP, JPY, and USD. Other currencies may be available if the IBRD can fund itself efficiently in the market. Borrowers may contract loans in more than one currency. • <u>Currency of Disbursement:</u> Disbursements may take place in any currency, as requested by the client. Currencies are acquired by IBRD and passed on to the client at market terms. The loan obligation, however, remains in the currency of commitment. • <u>Currency of Repayment:</u> The loan principal, interest, and any other fees must be repaid in the currency of commitment. However, currency conversion options may be available as specified below.
Currency Conversion	<ul style="list-style-type: none"> • <u>Undisbursed Amounts:</u> All or part of the undisbursed balance may be converted from one major currency into another major currency which IBRD can efficiently intermediate (see "Currency of Commitment" above). • <u>Disbursed Amounts:</u> All or part of the disbursed and outstanding balance may be converted into another currency, including the borrower's local currency, subject to the availability of a liquid swap market for that currency. Amounts converted to certain local currencies may be repaid in a major currency, although the borrower's obligation will be denominated in the local currency.
Interest Rate Conversion	<p>The reference rate applicable to the disbursed balance may be converted to a fixed rate and may be subsequently converted to a variable reference rate. The variable spread component of the lending rate, however, will not be converted. Alternatively, a cap or collar on the reference rate may be established for up to the entire disbursed and outstanding amount.</p>
Conversion Fees	<p>Transaction fee(s) for currency and/or interest rate conversions may apply (http://treasury.worldbank.org).</p>
Payment Dates	<p>Debt service payment dates will be on the 1st or 15th day of a month and semi-annually thereafter, as decided by the borrower during loan negotiation.</p>
Prepayment	<p>Borrowers may prepay all or part of the outstanding loan balance at any time. Prepayment charges apply based on (i) IBRD's redeployment cost of the prepaid loan amount and (ii) the cost of unwinding any outstanding interest or currency conversions plus any transaction fees applicable to amounts that were previously converted.</p>

The above is not necessarily a complete treatment of the terms and conditions of these loans. Borrowers should refer to their loan agreements and General Conditions with respect to their individual loans.

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