LGFA Products

Loan Products

The LGFA has a number of standard borrowing products that are used by South Australian councils and prescribed local government bodies. All borrowings to councils by LGFA are secured by a debenture charge over the council's general revenue and in the case of regional subsidiaries the loan is secured by a lending agreement between the parties. So, unlike a residential mortgage where security is taken over the asset, being the house, LGFA takes security by placing a charge on a council's general revenue. This charge protects the LGFA against the possible default by a council and ensures we can provide low-cost finance to the sector.

Borrowing by SA councils usually occurs in the following forms:

<table>
<tr><th>Fixed Rate Credit Foncier Borrowings</th></tr>
<tr><td>Fixed Credit Foncier borrowings are a loan with equal repayments (usually semi-annual) comprising principal and interest, over the life of the loan and where all the principal is repaid over the life of the loan. The repayment schedule is agreed on inception of the loan and fixed for the duration of the loan. The loan amount is drawn in one payment.</td></tr>
<tr><td>Pro's:
• The interest rate is fixed for the life of the loan, therefore protecting against interest rate rises in the market
• Repayments can be factored into a council's long term financial plan
• Generally longer-term loans that may meet the need to fund longer lived assets</td></tr>
<tr><td>Con's
• The interest rate is fixed for the life of the loan, therefore if market interest rates fall during the term of the loan, interest charges do not reduce.
• Prepayment can result in a market adjustment (break charge)
• Not suitable for progressive payments during the construction phase of a project</td></tr>
</table>

<table>
<tr><th>Fixed Rate Interest Only Borrowings</th></tr>
<tr><td>Fixed Rate Interest Only Borrowings are loans where only interest is paid over the life of the loan. The repayment schedule is agreed on inception of the loan and fixed for the duration of the loan. At the end of the loan the principal is repaid in a lump sum, although it may be re-financed.</td></tr>
<tr><td>Pro's:
• The interest rate is fixed for the life of the loan, therefore protecting against interest rate rises in the market
• Repayments can be factored into a council's long-term financial plan
• Interest only nature reduces cashflow requirements
• Generally longer-term loans that may meet the need to fund longer lived assets</td></tr>
<tr><td>Con's
• The interest rate is fixed for the life of the loan, therefore if market interest rates fall during the term of the loan, interest charges do not reduce.
• Prepayment often results in a market adjustment (break charge)
• Cannot be used progressively during the construction phase of a project
• The principal needs to be refinanced or repaid at maturity</td></tr>
</table>

Like a Bank, LGFA offers other variations of Fixed Rate lending such as Split Term and Low Start options.

- **Split Term Fixed Rate Credit Foncier Borrowings:**
  Is a loan where a residual or balloon repayment is required to be repaid or refinanced at maturity, as the periodic repayments do not fully repay the principal amount during the term of the loan

- **Low Start Fixed Rate Credit Foncier Borrowings:**
  Is a loan where the initial payments (which may be zero) do not fully cover the principal and interest. The repayment schedule is structured to have increasing repayments so that loan is repaid in full by the end of the loan term

Pro's and Con's are the same as other fixed rate borrowings as previously described.

In addition with low start fixed rate credit foncier borrowings, the repayments will be more easily accommodated by Councils as inflation over time will reduce the impact of the higher repayments later in the loan.

Convertible Cash Advance Debenture Facilities (CCAD)
These are very flexible facilities that can be used as a floating rate facility or fixed for varied periods on an interest only basis. South Australian councils predominately use these facilities on a floating rate, come and go basis meaning the principal can be drawn down or repaid with 24 hours' notice.
Pro's: • Is floating rate in nature therefore interest rates and costs can fall due to changes in market pricing. • Council rate and other income can be used to paydown the principal and reduce the total interest obligation of the council on either a short term or long-term basis. • The facility only needs one set of documentation and can still be converted to fixed rate (on an interest only basis) if required. • Offers flexibility for council management and staff without the need for new documentation.
Con's: • Is floating rate in nature therefore interest rates and costs can rise due to changes in market pricing. • Because it doesn't have a fixed repayment schedule, repayments may need to be carefully factored into budgets and long-term financial plans.