

# Borrowing Options

**Closing Date: August 20, 2015**

Subject to the MFA's program guidelines and approval, a borrower has two options to participate in the 2015 State Aid Note Loan Program. The cost of borrowing is impacted by the borrower's selection of the repayment option. **Option 1**, which has historically provided the lowest cost of borrowing, requires monthly set-aside payments. **Option 2**, which results in a significantly higher cost of borrowing, has one payment at maturity of the note. In order to take advantage of the cost-effective set-aside pool, separate notes may be issued allowing borrowers to participate in both options.

## Option 1: Set-Aside

1. Borrower repays the principal and interest on its note by making 3, 5, or 7 equal, monthly set-aside payments.
  - 3 set-aside payments:** May 2016 through July 2016
  - 5 set-aside payments:** March 2016 through July 2016
  - 7 set-aside payments:** January 2016 through July 2016
2. Monthly set-aside payments cannot exceed 50% of the amount of state aid to be received that month.
3. Set-aside payments are pooled and invested on behalf of borrowers, or, used to amortize the notes, lowering the overall cost of borrowing.
4. The program is structured in order for the MFA's notes to receive the highest short-term rating of SP-1+, ensuring a competitive interest rate for the borrowing.

## Option 2: No Set-Aside

1. Borrower repays principal and interest on its note at maturity, August 22, 2016. **While there are no scheduled payments before the maturity date, the State Treasurer automatically transfers all of the August 2016 state aid to the MFA's Trustee to repay all or a portion of the borrower's note.**
2. Monthly set-aside payments are not required under this option; therefore, no investment earnings, or amortization benefits are realized.
3. With the no set-aside option, the notes will be purchased by one or more banks or secured by a Letter of Credit (LOC).

## Security Requirements

- A limited tax full faith and credit pledge
- State Aid Pledge to run from October 2015 to August 2016
- Agreement to authorize the intercept of state aid

## Michigan Finance Authority

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\* *Please note that costs of issuance are shared on the same pro rata basis among set-aside and no set-aside borrowers. However, borrowers with no set-aside payments incur the additional costs associated with the bank purchase or Letter of Credit and do not realize investment earnings on set-aside payments.*