

Loan Dollarization Offer Fund for Special Operations

About the Offer

The Dollarization Offer (“the Dollarization” or the “Offer”) refers to the conversion of outstanding balances and accrued interest of loans from the Fund for Special Operations (FSO) denominated in freely convertible currencies into United States dollars (“Dollars”).

The Dollarization Offer is in line with previous initiatives implemented by the Bank to provide borrowers with tools that facilitate risk and operational management in loans with the Bank. Such initiatives include: i) Conversion Offer in 2009 and 2010; ii) Dollarization of loans under the Currency Pool System in 2012; and iii) Implementation of the Flexible Financing Facility (FFF) in 2012 under which borrowers can choose from a menu of embedded debt management options to tailor financial terms in IDB loans.

Eligible Loans

Loans eligible for dollarization are all FSO loans signed during the 70’s, 80’s, 90’s until the mid-2000s. Such loans were approved, and their loan agreements were signed, in Dollars. Loan agreements allowed disbursements in Dollars or in any other currency available in FSO resources, and set forth that the repayment currency is the disbursed currency.

Currently, outstanding loan balances under IDB’s loan portfolio eligible for Dollarization are denominated in eight currencies: Canadian dollars, Swiss francs, Danish kroner, Euros, Pound Sterling, Yen, Norwegian kroner, and Swedish kronor, in addition to Dollars. Some outstanding loan balances are also denominated in local currencies, which are excluded from this Dollarization Offer.

Operational Inefficiencies

The contractual obligation to repay in disbursed currencies creates operational inefficiencies in managing the loan portfolio eligible for the Dollarization Offer. Due to the high number of required semiannual transactions per loan, high transactional costs are incurred to service the debt in these loans.

Transactions required to manage this loan portfolio are as follows:

- Making semiannual currency purchases with associated operational and transactional costs.
- Making semiannual payments in each of the currencies with associated operational and transactional costs.
- Tracking multiple payments with associated operational costs.
- Keeping multiple balances by loan in several currencies with associated operational costs.

At a Glance

The Dollarization Offer:

- Simplifies the FSO loan portfolio management.
- Reduces operational and transactional costs.
- Includes the dollarization of outstanding loan balances denominated in CAD, CHF, DKK, EUR, GBP, JPY, NOK and SEK.
- Is available until September 15, 2017.
- Requires signature of an Amendatory Letter.
- Dollarization date: October 2nd, 2017.
- Has no cost.

Dollarization Benefits

The Dollarization would provide borrowers with operational efficiencies as fewer transactions would be required. Operational costs would be reduced given that borrowers would need to make fewer payments and would not need to buy other currencies to service eligible FSO loans.

In summary, once the loan portfolio is dollarized, borrowers would:

- Make one single semiannual payment in Dollars per loan.
- Have one outstanding balance per loan in one single currency: Dollars.

Additional operational benefits from the Dollarization Offer are:

- Reduction in transactional costs associated with required currency purchases and payment orders.
- Payment instructions don’t change. Given that eligible loans already have balances denominated in Dollars, and Dollar payments are already being made, debt service instructions will not require any modifications.
- Loan maturity dates of eligible loans for the Dollarization Offer varies by borrower and extends until July 2045. Acceptance of this Offer would represent an operational improvement from which borrowers would benefit over the next 28 years.
- Dollarization Offer has no cost.

Execution

The Dollarization Offer requires amendments to loan agreements to document the dollarization of outstanding loan balances and accrued interests, as well as to define the Dollar as the repayment currency for eligible FSO loans. Therefore, the execution of an Amendatory Letter is required. The amendatory letter will include all FSO eligible loans per borrower.



FSO Loan Dollarization Offer | Terms and Conditions

Eligible loans	- FSO loans approved during the 70's, 80's, 90's until the mid-2000's with outstanding loan balances denominated in the following currencies: Canadian dollars, Swiss francs, Danish kroner, Euro, Pound Sterling, Yen, Norwegian kroner, and Swedish kronor. Excludes outstanding loan balances denominated in local currencies.
Dollarization Offer deadline	- September 15 th , 2017.
Dollarization Date	- October 2 nd , 2017.
Loan agreement modification	- Requires signature and execution of Amendatory Letter. - Requires signature of the borrower and the guarantor, if any. - Amendatory Letter comprises a single and general contract modification applicable to all eligible loans.
Dollarization	- Conversion of outstanding loan balances and accrued interest into Dollars. - As of the Dollarization Date, interest accruals and debt service payments will be done in Dollars only.
Dollarization exchange rates	- Prevailing market exchange rates on the Dollarization Date.
Interest rate after the Dollarization	- No changes.
Repayment schedule after the Dollarization	- No changes.
Cost	- Dollarization Offer has no cost.

For more information please contact the IDB Representative Office in your country and/or Arturo Pita (arturop@iadb.org) or Claudia Franco (cfranco@iadb.org), Finance Department, Washington, DC.