

LOAN MODIFICATION POLICY STATE REVOLVING FUND (SRF) LOANS

The intent of the policy is to be responsive to local governments in financially difficult situations while maintaining the financial integrity of the SRF loan program. No principal will be forgiven except as originally contemplated under federal directives.

POLICY

The TLDA staff makes the following policy recommendation:

The TLDA will consider modification of SRF loan repayment schedules only if:

- (1) The Comptroller has filed a copy of the borrowing entity's audited financial statements with the Utility Management Review Board pursuant to T.C.A. §7-82-703(a) or the borrowing entity's audit report with the Water and Wastewater Financing Board pursuant to T.C.A. §68-221-1010(a); or
- (2) A significant event beyond the control of the local government occurs and impacts the system's ability to repay the SRF loan, such as:
 - i. a natural disaster; or
 - ii. loss (or reduction in capacity) of a large customer (commercial, industrial, governmental); or
 - iii. similar unforeseen event despite prudent action having been taken; or
- (3) The TLDA deems such action to be for the benefit of the people of the State in the performance of essential public functions and that such action serves a public purpose in improving and otherwise promoting the health, welfare and prosperity of the people of the State.

THE TLDA WILL TAKE INTO CONSIDERATION WHETHER OR NOT THE BORROWING ENTITY HAS:

- implemented or is about to implement a plan to adopt a multi-year rate schedule to address its financial difficulties
- rates sufficient to cover debt service on a new debt issuance for capital improvements necessary to bring the system in compliance with Commissioner's Order(s), if any
- a history of timely debt service payments on the loan to the SRF program in accordance with the current payment schedule
- a plan to attract new customers or to expand the existing customer base
- a plan to reduce expenses or make efficiency improvements to the system
- a debt management policy compliant with the State Funding Board's directive under T.C.A. §9-21-151 that addresses actions to be taken to avoid default or to provide adequate rates to service debt (rates will be set to provide at least a 1.20x debt service coverage)

THE TLDA MAY OFFER AS RELIEF reduction or waiver of the interest due on the loan for a specified period of time. In the event of a disaster or catastrophic loss, additional measures will be considered on a case by case basis by the Authority.

A borrower in financial distress with outstanding capital market securities may be required to disclose the financial distress pursuant to SEC Rule 15c2-12 "Event Notices." It is recommended that the borrower contact its bond counsel.