

Overseas Private Investment Corporation Part two in a series of six

In the second part of our series, we discuss the Overseas Private Investment Corporation ("OPIC"), an independent U.S. Government agency established in 1971.

OPIC mobilizes and facilitates the participation of U.S. private capital and skills in the economic and social development of less developed countries, and countries transitioning from nonmarket to market economies. OPIC helps U.S. businesses invest in these emerging markets by providing financing, investment funds and political risk insurance, thereby assisting the private sector in managing risks associated with foreign direct investment. When assessing a proposed financing, OPIC generally takes into consideration a project's contribution to the host country's development, the project's financial requirements, and the extent to which the financial risks and benefits are shared among investors and lenders.

I. Financing Products: OPIC provides medium and long-term funding through direct loans and loan guarantees to eligible investment projects involving significant equity or management participation by U.S. businesses. For businesses with annual revenues less than \$250 million, medium-term funding is generally available through direct loans from OPIC. For businesses with annual revenues of more than \$250 million, medium- and long-term funding is available through direct loans from OPIC as well as loan guarantees from OPIC to qualified lenders. Such long-term funding supports projects requiring large amounts of capital in such diverse areas as telecommunications, power, water, housing, airports, hotels, high-tech, financial services and mining. OPIC accommodates a variety of loan structures, including project finance loans, corporate finance loans, housing and mortgage financing, franchise loans, and commercial bank on-lending arrangements.

Borrower Qualification: In order to qualify for OPIC financing, a project must (i) be commercially and financially sound; (ii) be within the demonstrated competence of the proposed management, which must have a proven record of success in the same or a closely related business, as well as a significant continuing financial risk in the enterprise; (iii) have investors who are willing to establish sound debt-to-equity relationships that will not jeopardize the success of the project through excessive leverage (the normal debt-to-equity ratio is in the range of 60/40); and (iv) at least 25 percent of the project must be owned by U.S. companies. Exceptions to ownership requirements may be made where U.S. brand name franchisers, operators or contractors are significantly involved in the project on a long-term basis.

Government-owned Borrowers: OPIC generally provides financing to the private sector; however, financing may be offered to an entity in which government owns a majority of the

voting shares, if it is contractually agreed that management will remain in private hands and there is a strong showing of direct U.S. involvement in other respects.

Loan Amounts and Rates: OPIC provides financing at fixed and, in certain instances, at floating rates with commercially-feasible collateral arrangements. Loans offered may be as small as \$100,000 and as large as the project may require. In the past, OPIC has guaranteed up to \$350 million for a project, although the standard cap for OPIC financing is \$250 million. Interest rates for direct loans are generally based on OPIC's underlying cost of capital (U.S. Treasury securities of comparable maturity) plus a premium of between two and six percent, based on OPIC's assessment of the specific risks associated with the project. OPIC guaranteed loans typically bear interest at the rate of U.S. Treasury securities of comparable maturity plus an "agency" spread.

Term: The loan terms typically provide for a final maturity of three to 15 years, including suitable disbursement periods during which only interest is payable.

Repayment: The repayment schedules of direct or guaranteed loans take into consideration the purpose of the loan and the projected level of cash flows to be generated in the transaction. The cash flows must be sufficient to meet interest and principal payments, and also provide for an adequate return to equity investors.

Fees and Costs: OPIC's lending practices are consistent with those of commercial lenders. As such, OPIC charges retainer fees (typically covering the cost of reviewing and processing the loan application, as well as the related due diligence), facility fees (one time fee generally ranging from one to two percent), commitment fees (approximately 0.5 percent of the undisbursed principal), maintenance fees and cancellation fees. Reimbursement is generally required for related out-of-pocket expenses, including fees for outside counsel and the services of experts or consultants. In the case of guaranteed loans, OPIC also charges a loan guarantee fee of two to six percent, depending on OPIC's assessment of the commercial and political risks involved.

Lender Qualification: A lender may be a recipient of an OPIC guarantee if it is a legal entity created under the laws of the U.S., the District of Columbia, or any state or territory that is more than 50 percent beneficially owned by U.S. citizens. Foreign corporations that are more than 95 percent U.S. owned are also eligible.

Collateral: OPIC generally participates on a senior lender basis, *pari passu* with the holders of other senior debt, sharing first lien status on fixed assets and any other appropriate collateral. OPIC does not normally require a host government guarantee, although a sovereign guarantee may be considered on a case-by-case basis.

II. Investment Funds: OPIC also provides support for the creation of privately-owned and managed investment funds ("Investment Funds") that assist emerging market economies in obtaining long-term growth capital, accessing management skills and securing financial expertise. The Investment Funds are typically organized and structured like other private equity investment vehicles.

OPIC provides guarantees of long-term debt (typically with a 10- to 12-year maturity) to these Investment Funds. The debt is generally structured such that most of the interest expense is capitalized until the fund liquidates its investments, with the tenor often parallel to the fund's life and repayment occurring in the later stages of a fund's life.

Eligible investors generally include: U.S. citizens; U.S. corporations, partnerships and other organizations that are more than 50 percent beneficially owned by U.S. citizens; and foreign entities wholly owned by U.S. citizens. Investment Fund managers or general partners must be eligible investors. A significant percentage of the limited partner capital of the Investment Fund (typically an amount equal to at least 25 percent of the OPIC financing) must be provided by eligible investors.

OPIC-supported Investment Funds cover a variety of markets, including sub-Saharan Africa, Russia, Central and Eastern Europe, Latin America, the Middle East and Asia. Sector-specific Investment Funds are used worldwide and include investments in environmentally-friendly companies, water-related enterprises, maritime projects and independent power projects.

III. Political Risk Insurance: OPIC also offers political risk insurance to U.S. investors, contractors, exporters and financial institutions involved in international transactions. OPIC insurance generally covers currency inconvertibility, expropriation and political violence, and is available for investments in new ventures, expansions of existing enterprises, privatizations and acquisitions with positive developmental benefits.

OPIC typically insures up to 90 percent of eligible investments. However, loans and capital leases from financial institutions to unrelated third parties may be insured for 100 percent of principal and interest. OPIC also offers co-insurance and re-insurance with private market carriers, in order to increase capacity for large projects.

OPIC's "Quick Cover" program provides expedited coverage for projects that are worth less than \$50 million in eligible countries. Certain projects in the financial services, wireless telecommunications services, electricity distribution and hotel sectors, as well as bid bonds, may receive political risk insurance coverage within two weeks of receipt by OPIC of a completed qualifying application.

OPIC insurance rates are generally based on the risk profile of the project and are fixed for the life of the contract. Premiums are usually paid annually and in advance.

OPIC insurance is available to citizens of the United States; corporations, partnerships or other associations created under the laws of the United States, its states or territories that are beneficially owned by U.S. citizens; foreign corporations at least 95 percent owned by investors eligible under the foregoing criteria; and other foreign entities that are 100 percent U.S. owned.

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