

LOBO Loan Information Note

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| Terms: | Value | £4,000,000 |
| | Date Received | 02 July 2004 |
| | Maturity Date | 02 July 2054 |
| | Term | 50 Years |
| | Current Interest | 4.5% |
| | Original Lender | Dresdner Bank AG |
| | Current Lender | Commerzbank AG |

Background

LOBO (Lenders Option Borrowers Option) Loans are a form of loan taken from a financial institution that at set points during the duration of the loan (the LOBO date), the lender can exercise its right to change the fixed rate of the borrowing having given no less than 3 London Business days prior notice.

If the borrower (Blaenau Gwent) does not accept this new rate, then the borrower may repay the loan without penalty on the LOBO date after giving prior notice. Any other early repayment, if agreed by the Lender, would attract a financial penalty.

The above loan had an initial fixed interest rate of 3.84% per annum for the 2-year period July 2004 to July 2006, and stepped up to 4.5% per annum thereafter, as per the loan agreement. Interest is payable every six months to the lender.

The lender has changed several times throughout the duration of the loan due to institutions transferring the investment or selling part of their portfolio. The current registered lender is Commerzbank AG.

To date, the Authority has not received any requests to change the fixed interest rate, and so no Options have been exercised to change the rate or repay without penalty.

Economic Case

The LOBO Loan was taken out prior to the financial issues arising in 2008, at that time interest rates were much higher than we have seen in subsequent periods for example, PWLB rates were at just above 5%.

LOBO loans were a new choice for long-term debt, and with the assistance of our Treasury Management advisors, a debt restructuring exercise was undertaken which included this LOBO loan.

The debt restructuring exercise was undertaken in order to find savings within the Council's interest budget at a time when interest rates were high, resulting in the Council gaining certainty around cost and removal of an element of interest rate risk,

The loan was not taken out for a specific project but formed part of the Council's overall debt portfolio.