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Where speed is of the essence

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In the race to provide your clients with that little bit more, several banks have ventured into the realms of the project fund. Several months ago Adebayo Ogunlesi, global head of project finance at Credit Suisse First Boston's project finance department in New York ? believing that a fund could provide a useful vehicle for financing projects quickly and without the execution risk of a bond ? launched the $2.7 billion Project Finance Program. The programme, which has already issued bonds for two projects ? one in New Zealand and one in Australia ? offers various advantages.

Speaking at the IBC Project Finance Summit in London in July, Ronnie Hawkins of Credit Suisse First Boston's project finance department said that in Europe, the relatively small appetite for project bonds from institutional investors meant that the commercial bank market continued to dominate project finance transactions. Sponsors, while willing to tap the bond market were deterred by the fact that they might have to wait for the optimum time to launch the bond. But at the same time, says Hawkins: ?Banks do not want to hold large loans on their books so they are quicker to sell down. Banks are acting less like banks.?

With this in mind Credit Suisse First Boston has devised the project finance fund. According to Hawkins: ?The fund combines the reliability of the bank market with the capital market.?

Under the terms of the fund the key criteria is that the projects in the fund must be rated BB or higher by one of four rating agencies.

Credit Suisse First Boston then identifies the investment opportunity. At this stage the draft offering memorandum, including a detailed term sheet, may already be in place.

The bank then approaches its eight fund participants ? the names of which have not been released ? with an investment submission notice. Fund members then have the right to participate in the deal, withdraw or participate with a reduced amount ? some institutions may have restrictions on their country limitations. Following a preliminary meeting and vote, Credit Suisse First Boston, the programme manager, is notified and a final decision made. At this point the transaction is priced.

In theory the fund can be used to finance any BB or higher rated projects, although Credit Suisse First Boston has excluded toll-roads and arena deals. Says Hawkins: ?We excluded toll-roads based on a less than satisfactory experience.?

The fund offers several advantages over either bond or commercial bank financing. For example, while the bank market offers more certainty of financing date than the bond market, the fact that banks have to syndicate their deals can delay sell-down of the debt.

Hawkins says that the fund's advantages include the fact that no syndication is required, no roadshows are needed and that there is a greater level of confidentiality ? there are only eight investors and there is no need for public disclosure. The fund can also achieve longer tenors than bank debt and has a fixed-term sheet and standardized documents which accelerates the process and reduces the cost. But perhaps the most appealing aspect for sponsors hoping to close their deal quickly is that the commitment for the deal can be achieved in three to four weeks.

How the Credit Suisse First Boston fund is managed
Size: $2. 7 billion

Description: The Credit Suisse First Boston Program, is a programme which will make direct senior debt investments in domestic and international project ? or structured ? finance transactions that meet certain predefined criteria. For example, projects must have a BB or higher rating, although the primary focus is on investment grade issuance of senior notes.

Debt will be issued to individual transactions between $100 million and $400 million. The fund will invest in energy, forest products, infrastructure, metals and mining, power, telecoms, transport and secured export notes. Toll-road projects and arenas are excluded.

According to Credit Suisse First Boston the programme offers a number of advantages: it will provide clients with a competitive advantage in financing projects which are not offered in Rule 144A transactions, traditional private placements, commercial bank financings and export credit and multilateral financing.

Programme manager: Credit Suisse First Boston will identify, originate, evaluate and structure transactions for the programme participants

Participants: Eight institutions (including CSFB) are participating in the programme and they are responsible for investing in approved transactions on a pro rata basis. Transactions are approved by an investment committee ? each representative has one vote.

Pasminco
Issue: $200 million

Maturity: five years

Average life: three years

Rating: BBB- from Standard & Poor's

Reasons for tapping the fund: Confidentiality and ability to market with projections, certainty of execution, ability of the programme participants to quickly evaluate and approve the structural complexity of the transaction.

National Gas Corporation
Issue: $123 million class A notes and $48 million class B notes

Maturity: seven years class A and 10 years class B

Average life: four years class A and nine year class B

Rating: A3 class A and Baa2 class B