The World Bank
Washington, D.C. 20433
U.S.A.

[Date]

Dear [ ]:

Re: [Country] – [project name]

Financial terms and conditions of the IBRD Flexible Loan (IFL)

The International Bank for Reconstruction and Development (IBRD) offers borrowers the opportunity to tailor the IFL's financial terms to meet sovereign debt management and/or project financing needs. Borrowers can select the following financial terms: spread over a reference rate (usually LIBOR or EURIBOR), currency, interest rate and repayment terms. To best meet your portfolio and/or project needs, IBRD encourages you to consider loan term choices as early as possible during project preparation. This letter provides a summarized description of the loan term choices currently available for the above referenced project.

Fixed and variable spread alternatives

The lending rate of IFLs consists of a six-month reference rate (a market-determined floating rate which resets every six months) plus a spread. Borrowers can choose between two spread alternatives: a variable spread or a fixed spread.

The variable spread is a cost pass-through product that passes IBRD's actual funding cost to borrowers on a weighted average basis. Borrowers bear the risk of an increase (or derive the benefit from a decrease) in IBRD's funding cost relative to the six-month reference rate. This option provides borrowers a lending rate of the six-month reference rate plus a variable spread that resets semi-annually.

A fixed spread provides borrowers a lending rate of the six-month reference rate plus a fixed spread for the life of the loan (up to 35 years), regardless of how IBRD's own funding costs change during that period. In other words, IBRD bears the full risk of changes in its funding costs over the full maturity of the loan.

Timing of fixed spread determination

It is important to note that the fixed spread applicable to a particular loan is that which is prevailing at the time of loan *signing* and that this spread may be higher or lower than the spread prevailing during loan negotiations.[1]

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[1] For the Deferred Drawdown Option (DDO), the spread applicable to each withdrawal is IBRD's spread for the loan currency of the withdrawal in effect at 12:01 am Washington DC time, on the *withdrawal date*.

Repayment terms

At loan inception, borrowers may choose a grace period and an amortization profile (i.e. level, bullet, annuity or customized repayment) that best suits the needs of the project and/or portfolio, and meets IBRD's average maturity limit of 20 years and final maturity limit of 35 years. Two types of repayment schedules are available:

- *Repayment schedules linked to commitment* - The loan repayment schedule is linked to the timing of loan commitment. Principal repayments are calculated as a share of the total loan amount disbursed and outstanding.
- *Repayment schedules linked to disbursement* - The loan repayment schedule is linked to actual disbursements. Each semester's group of disbursements is treated as a separate tranche with its own repayment terms (i.e. grace period, final maturity, and amortization profile), and must be the same for all tranches within the loan.

Embedded risk management tools

IFLs have built-in flexibility to allow borrowers to manage interest rate and currency risks throughout the life of the loan. Borrowers of loans with a variable spread and fixed spread may choose the embedded conversion options, namely currency conversions, interest rate conversions, and caps and collars. Borrowers of loans with a fixed spread may also choose Automatic Rate Fixing which operates as a standing order, as amounts are disbursed, to convert the interest rate of the loan from variable to fixed.

Enclosed please find the Loan Choice Worksheet which we ask you to complete and return to us so that we can reflect your choice of loan terms in preparing the draft legal documentation for this project. Borrowers may also download this form on-line. In addition to the loan worksheet, borrowers can access more detailed information on financial terms of IFLs, current variable and fixed spreads, useful tools for weighing loan term choices, risk management options and transaction fees on the World Bank Treasury website at: http://treasury.worldbank.org/.

The World Bank Treasury is available to assist you in the selection of financial terms for this project. Please do not hesitate to contact Miguel Navarro-Martin, Head of Banking Products, +1 202 458-4722, mnavarromartin@worldbank.org.

Sincerely,

Attachments: Loan Choice Worksheet