

Collateralized Variable Rate Demand Notes (CVRDN) What is a CVRDN?

A Collateralized Variable Rate Demand Note (“CVRDN”) is an interest-only, debt-based financial instrument derived from the application of a proprietary financial technology. It may be readily applied by any commercial borrower that requires higher volumes of asset-based debt finance in support of their business operations or a select series of projects. A CVRDN behaves comparably to a conventional Variable Rate Demand Note (“VRDN”) as currently available in the capital markets, giving it a definitive appeal with an established segment of the investment community. However, the CVRDN constitutes a significant improvement upon VRDNs by fostering greater efficiencies for both Issuer and Subscriber through the introduction of new and more flexible underlying collateral structures and capital management philosophies.

By taking advantage of a proven approach to coordinating a remarketing mechanism and 7-day “put” option, the CVRDN is able to qualify for short-term, adjustable interest rates on the Notes, while still enjoying a financing life of as long as 25 years. Both the VRDN and CVRDN are engineered to secure interest and principal with investment grade undertakings, generally, giving the Notes an investment grade rating. That high quality rating qualifies the Notes for purchase by institutional and money market investors and better assures the best possible interest rate pricing on the obligation.

CVRDN’s utilize a two-phase convertible collateral structure. While convertible, principal is covered by an innovative form of credit enhancement vehicle – the Reserved Tender Advance Facility or RTAF. The RTAF provides both liquidity and credit enhancement to the operation of a CVRDN. Because of how the RTAF is engineered, Note proceeds that have not yet been deployed [upon a Note conversion] to the Issuer’s intended commercial investment, may be applied to any one of a number of sanctioned investment management strategies on an interim basis. These interim strategies, when properly formulated, can serve to generate income sufficient to cover interest payments due on the yet-undeployed CVRDN proceeds.

When a CVRDN is converted, proceeds are then allocated to the Issuer’s qualified and approved project. Upon conversion, a collateral substitution occurs and the principal is directly collateralized by one or more standby letters of credit that are supported by the commercial project undertaken by the CVRDN Issuer. It is when the Note conversion feature is exercised by the issuance and delivery of one or more standby letter(s) of credit that a CVRDN undergoes a transfiguration into a financial instrument that more closely resembles a traditional VRDN.

The issuance of a CVRDN Series provides an Issuer with maximum investment structuring flexibility. The CVRDN makes cash proceeds readily available for deployment by larger-scale project-based businesses such that low-cost, debt-based financing can be more easily and consistently raised in the institutional investment market. The CVRDN constitutes a functional means by which financing can move compliantly from the volume-based, institutionally-minded investor into the hands of the credit-worthy, commercially-minded professional for active deployment into qualified projects, investments and acquisitions within the business community.

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