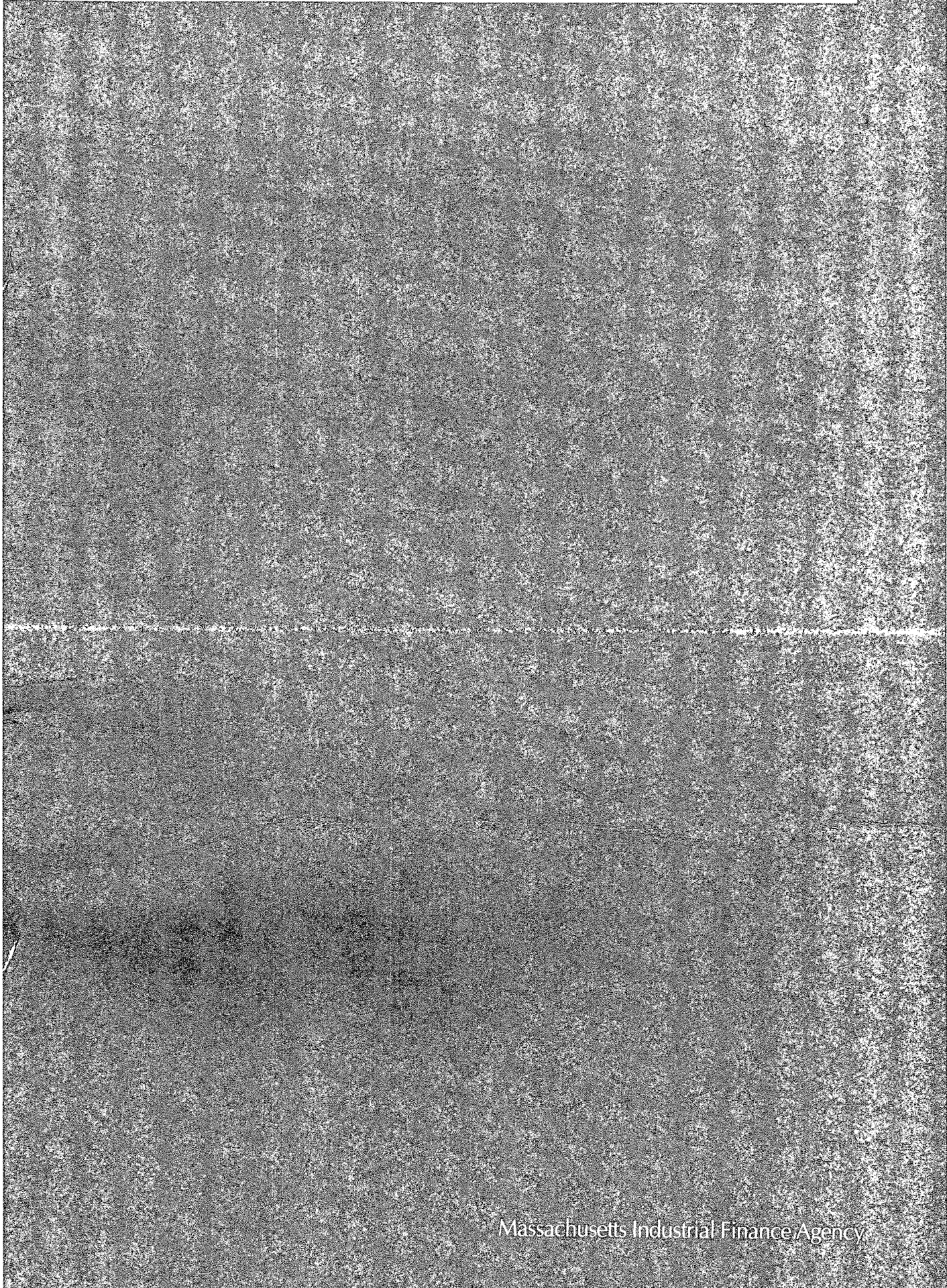


M

I

F

A



**M I F A**

Massachusetts Industrial Finance Agency

400 Atlantic Avenue  
Boston, MA 02210

**M I F A**

Massachusetts Industrial Finance Agency

## *Mortgage Insurance Program*

## *Increasing Credit Potential For Growing Companies*

*Helping small businesses grow and prosper is important to the overall health of the state's economy. Today, many growth-oriented Massachusetts businesses need expansion capital. For some, the need exceeds their credit limit.*

*The Mortgage Insurance Program (MIP) was developed by the Massachusetts Industrial Finance Agency to help such companies. MIP is a unique loan guarantee that enables lenders to increase loan amounts to small business customers. With MIFA insuring a*

*portion of the loan, businesses can borrow more of a project's cost, preserving cash for working capital. At the same time, lenders can increase loan amounts without increasing their risk.*

*With MIFA's Mortgage Insurance, qualified businesses can obtain financing for a wide range of projects utilizing either tax-exempt or conventional mortgage loans. Proceeds of the insured loan can be used to acquire land, to construct or renovate facilities, or to purchase equipment.*

## How the MIP Works

The MIP provides an innovative tool for lenders to increase loan amounts to growth-oriented, higher-risk commercial and industrial customers without increasing the lenders' net exposure.

Under the Mortgage Insurance Program, MIFA insures repayment of a portion of a permanent loan for real estate and/or equipment. This insurance can support either conventional loans or tax-exempt industrial development bonds (IDBs). Although the terms of the insurance commitment are established before construction, the insurance does not go into effect until construction is completed.

The Mortgage Insurance reduces as the loan is paid down. In the event of default and foreclosure, MIFA will reimburse the lender for lost principal up to the amount of insurance outstanding at the time of default.

## Eligibility Requirements

Certain criteria must be met to qualify for the Mortgage Insurance Program:

1. All projects must create or retain employment in Massachusetts.
2. The proceeds of the loan must be used to acquire land, construct or renovate buildings, or purchase equipment.
3. All projects, whether utilizing a conventional loan or tax-exempt financing, must also meet eligibility requirements of applicable federal and state statutes. If tax-exempt financing is being used, no commitment or transaction should be undertaken before MIFA or a local industrial development financing authority (IDFA) gives initial approval to the project.

## Insurance Requirements

1. The insured loan must be secured by a first mortgage lien, held by the lender, on the new or improved plant or a first security interest in equipment to be financed. In addition, personal guarantees are normally required for closely held companies.
2. Independent MAI appraisals of the property or equipment are required and will be initiated by MIFA.
3. The insured amount generally ranges from 10 per cent to 40 per cent of the loan, with a ceiling of \$500,000 for real estate and \$250,000 for equipment.
4. Loan terms, including interest rate and maturity, are set by the lender — subject to a ceiling of 30 years for real estate and 15 years for equipment.

## Fee Schedule

1. Non-refundable \$500 application fee.
2. A non-refundable commitment fee equal to one per cent of the initial outstanding insurance amount.
3. Annual premiums based on the outstanding insurance amount will generally range from 1½ to 4 per cent depending on the risk associated with the insured loan.


## Steps to Follow

1. Contact MIFA for a preliminary discussion of your project's eligibility.
2. Upon preliminary indication of eligibility, submit a formal Credit Application, including the proposed terms and conditions of the loan as well as the lending institution. This application must be accompanied by a non-refundable \$500 application fee and lender proposal letter.
3. MIFA will arrange for an independent MAI appraisal of the project (at borrower's expense).
4. Upon approval by MIFA's Board of Directors, a Commitment Letter will be issued setting forth the amount, terms and conditions upon which the mortgage will be insured. The insurance commitment fee of one per cent of the insurance amount is due upon written acceptance by the lender and acknowledgement by the borrower of the terms and conditions of the Commitment Letter.
5. The Guaranty Agreement, which places the insurance in effect, is generally issued upon completion of construction and/or installation of equipment and fulfillment of the conditions outlined in the Commitment Letter. This usually coincides with the closing of the permanent financing for the project. Payment of first year's insurance premium is required at this time and on an annual basis thereafter until insurance is completely amortized.

The Massachusetts Industrial Finance Agency is an independent public agency established to stimulate private investment and employment in the Commonwealth through a variety of financing incentives to assist small business expansions. MIFA's programs include: tax-exempt Industrial Development Bonds (IDBs); Taxable IDBs; Commercial Area Revitalization District (CARD) program; The Guaranteed Loan Program; The Mortgage Insurance Program; Seafood Loan Fund; Child Care Facilities Fund; and The Thrift Fund.

For more information on the Mortgage Insurance Program, contact:

Director of Loan Guaranties  
Massachusetts Industrial Finance Agency  
400 Atlantic Avenue  
Boston, MA 02210  
(617) 451-2477



**M I F A**

Massachusetts Industrial Finance Agency

400 Atlantic Avenue  
Boston, Massachusetts 02210

**M I F A**

# Taxable Industrial Development Bonds

**Financing Growing Businesses**

*"MIFA's taxable IDB gave my small company the ability to borrow capital at the same rates and terms as the major corporations—that's real borrowing power."*

Frank D'Orio,  
Hansen Engineering & Machinery

*"MIFA's low-cost financing made the purchase and renovation of our new industrial space possible."*

Charles Speleotis,  
PAL Realty Trust

*"Financing with the MIFA's taxable IDB allowed us to consolidate our building debt and reduce our costs—so we can continue to grow."*

Richard Smith,  
M.O.M., Inc.

These are the comments of company executives who participated in the first pooled taxable Industrial Development Bond in the country. This pool was issued by the Massachusetts Industrial Finance Agency.

## Introducing Taxable Industrial Development Bonds

Until now, Massachusetts businesses had few low-cost options to finance their expansion projects. And the new federal tax laws severely restrict one financing route many companies previously used—tax-exempt Industrial Development Bonds.

The Massachusetts Industrial Finance Agency has replaced the tax-exempt IDB with an innovative financing alternative—the taxable IDB—to give growing companies access to similar rates without the same complexities.

Through taxable IDBs, MIFA is continuing to make low-cost capital available for industrial and commercial expansions. With MIFA's taxable IDBs, companies can raise money at rates they could not otherwise obtain on their own.

The Taxable Industrial Development Bond Program is the cornerstone of MIFA's effort to promote private investment and stimulate job creation throughout the Commonwealth.

## Finding a New Source of Capital

Tax reform eliminates the incentives for commercial banks to purchase IDBs. But MIFA has identified an alternate source of capital—the public credit market—and developed a way to connect companies in search of expansion capital to this source.

The public credit market is the traditional source of capital where large corporations borrow money. MIFA's taxable IDBs are the financial vehicle that allows smaller borrowers access to this deep source of capital.

## Creating a Structure That Works

MIFA has developed the financial structure to allow smaller companies to raise money in the public credit market, just like Fortune 500 companies.

Raising capital in the public credit market is accomplished by creating the size necessary to sell bonds in this market. MIFA pools several bonds into a single bond issue making the total issue large enough to attract investors.

MIFA then arranges letters of credit to guarantee the pooled bonds. A letter of credit—provided by local or international banks—gives smaller unrated companies recognition in the bond market.

The taxable IDB structure is flexible, allowing companies to borrow at fixed or variable rates to take advantage of the best market conditions.

## Providing Cost Savings

Selling bonds in the public credit market can be expensive and time consuming; legal and underwriting fees can make it impossible for small companies to sell bonds on their own. However, by pooling bonds, MIFA reduces the issuance cost for each borrower, and makes it feasible for these smaller companies to gain access to the public credit market.

Moreover, MIFA's taxable IDBs are simple to issue. They are not subject to complex IRS regulations and do not require state allocation. The streamlining of these requirements allows additional cost savings.

Although taxable IDBs are not exempt from federal taxes, the bonds are still exempt from state taxes for Massachusetts investors.

## Gaining Financial Expertise

MIFA makes the issue of smaller companies' bonds possible by bringing together the financial expertise of commercial banks, investment banks and underwriters.

MIFA has established strong relationships with The First Boston Corporation, the leading investment bank in the world, and Bear, Stearns & Co., one of the major underwriters in the country.

The key to selling bonds at competitive rates, however, is the participation of commercial banks and thrift institutions that issue letters of credit to guarantee the repayment of the bonds.

In its first taxable IDB issue, for example, MIFA pooled the bonds of three small companies, arranged a letter of credit from Essexbank of Peabody, and sold the bond in the public market at a rate below the conventional alternatives.

## Financing Business Expansion

Taxable IDBs can be used to finance a wide range of industrial expansion and commercial rehabilitation projects. Since taxable IDBs have no bond limit they can be used to finance any size project.

Industrial uses include manufacturing, warehouse and distribution, and research and development. Bond proceeds can be used for the acquisition, construction or renovation of buildings and land or for the purchase of equipment.

Under the new tax law, commercial projects are no longer eligible for tax-exempt financing. However, taxable IDBs can be used for the acquisition, renovation, or construction of buildings in Commercial Area Revitalization Districts (CARDs).

Taxable IDBs can also be used to refinance existing asset-based debt, including the refinancing of tax-exempt IDBs affected by escalation clause provisions.

All projects financed through MIFA must create or retain employment in Massachusetts.

## Working with MIFA is Simple

1. Contact MIFA to determine your project's eligibility. MIFA will provide you with a Project Information Statement. Eligibility is determined from the information presented in this statement. A \$1000 application fee is required.
2. After review by MIFA staff, the project will be presented to the MIFA Board of Directors for preliminary approval. MIFA guarantees Board action within two weeks.
3. Once preliminary approval is granted, MIFA will work with the borrower to arrange a letter of credit to back the bond. After receiving final approval from the Board, MIFA will issue the bond.

## A Unique Partner to Massachusetts Business

The Massachusetts Industrial Finance Agency is an independent public agency established to stimulate private investment and job creation through a variety of financing incentives that assist business expansions. MIFA provides a vital link between the public and private sectors, acting as the state's investment banker for Massachusetts' growing businesses.

MIFA's financing incentives include: taxable and tax-exempt IDBs, Mortgage Insurance, Loan Guarantees and the Direct Loans Programs—Seafood Loan Fund, Child Care Facilities Loan Fund and the Thrift Fund.

Since 1978 MIFA has arranged \$4 billion in industrial development bonds for over 2100 expansion, modernization or rehabilitation projects, creating more than 76,000 jobs in Massachusetts.

To apply for the Taxable IDB program, contact:

Brian T. Carty  
Executive Director  
Massachusetts Industrial Finance Agency  
400 Atlantic Avenue  
Boston, MA 02210

1-800-MIFACTS  
(617) 451-2477

**M I F A**

Massachusetts Industrial Finance Agency  
400 Atlantic Avenue  
Boston, MA 02210

**T**ime is

Running out  
on Tax-exempt  
Financing.

# Now is the time to act.

For manufacturing expansion projects, tax-exempt bonds still offer the most attractive rates and terms available anywhere.

If you have a project eligible for tax-exempt bond financing, the time to act is now.

## Why?

Because the Tax Reform Act of 1986 severely cut the volume of tax-exempt IDBs MIFA can issue. We have some capacity remaining this year, but it runs out in November; next year, our volume will be cut by at least 50%, or may be eliminated.

Also, the tax bill made significant changes in the way we issue bonds. The incentives for commercial banks to purchase IDBs were eliminated. To issue bonds now, MIFA combines several IDBs together to create one larger bond pool, arranges for backing by a highly rated financial institution, and sells the pool in the public credit market.

Under a program MIFA developed with AAA-rated Rabobank Nederland—a \$60 billion bank headquartered in The Netherlands—we have issued two pools of tax-exempt IDBs totaling \$33 million in the last six months. The 19 companies participating in these pools all received 10 year, fixed rate financing at extremely attractive rates.

We are currently assembling a third—and probably final—pool of projects which will be issued in October.

So don't hesitate. If you have a project you think might be eligible for this pool, now is the time to call.

Sincerely,



Brian T. Carty  
Executive Director

## What projects are eligible for tax-exempt IDBs?

Tax-exempt IDBs can be used by manufacturers planning to construct new facilities, expand or renovate an existing facility, or purchase new equipment. The IRS Code definition of "manufacturing" has been tightened and so the bond proceeds must be used for an expansion project where "tangible" products are being produced. Commercial projects and warehouse and distribution facilities are no longer eligible. Projects range from \$500,000 to \$5 million. All projects must create employment in the Commonwealth.

## How are the MIFA/Rabobank bond pools structured?

Rabobank provides a master Letter of Credit for the entire pool of IDBs; thus, the issue sells as a AAA security on the public credit market. Having a high rating like this insures investor interest and reduces the borrowers' interest rate.

Each bond in the pool is also supported by a stand-by letter of credit (for 15% of the bond) from a "participating bank." MIFA can help arrange these stand-by LCs from local commercial banks.

Costs of issuance are shared by the borrowers in the pool.

## What rates and terms are available through this program?

The Rabobank-backed bond pools offer 10 year fixed rate financing. Amortization can be up to 20 years for real estate, and 10 years for equipment. Loan-to-value ratios are 90% for real estate, 80% for equipment.

Interest rates depend on the size of the pool and the timing of the public sale. But as an example, the last pool, issued in May, financed 7 companies' expansions totaling \$11.5 million, at an average interest rate of 7.5%, fixed for 10 years.

## How do I apply for the next tax-exempt IDB pool?

Call for a quick assessment of eligibility and a meeting with a Project Finance Officer.

Please contact: Rodney D. Jones, Managing Director of Project Finance, at (617) 451-2477.

**BUSINESS**

**SMALL BUSINESS**

# MIFA's expansion opens European door

By MARGARET PANTRIDGE

**N**EARLY every development in Bay State government or politics this year seems to have its presidential angle.

Expansion of the powers of the Massachusetts Industrial Finance Authority last week was no exception. Gov. Michael S. Dukakis didn't directly mention his presidential bid or his "Massachusetts miracle" campaign slogan Thursday at a State House press conference staged so he could sign new MIFA legislation in front of the press.

He didn't have to mention his campaign theme. It just sprang to mind.

"MIFA," said Jeff Apfel, senior vice president of public finance at L.F. Rothschild & Co. in Boston, "has been one of the cornerstones of what he's trying to accomplish with the Massachusetts miracle."

MIFA's publicists billed the expansion as creation of "the nation's first state investment bank" and a boon to MIFA's ability to help small businesses raise funds.

The law essentially gives MIFA more bang for its buck by allowing it to raise funds for Bay State businesses in the \$180 billion European bond market.

Here's how the concept works:

MIFA for the first time may float taxable bonds for state authorities and agencies, such as the Turnpike Authority, Water Resources Authority and the Massachusetts Housing Finance Agency. That means MIFA will be able to bundle its traditional bonds for small- and medium-size businesses together with jumbo state issues.

**'It's a question of educating the market.'**

**—Jeff Apfel**

The idea is to reach the magic number of \$100 million in a single issue — the size that is needed to attract attention in Europe.

The larger issues are expected to command the attractive interest rates that ordinarily are available only to Fortune 500 corporations.

The Eurobond market is important, according to MIFA Executive Director Brian T. Carty, because "that's where the money is."

Apfel said there is virtually no risk in MIFA's new approach. The potential difficulty, he said, lies in the logistics of working with many disparate organizations whose participation is voluntary.

"The biggest test for the program will be agency coordination, but I think that's surmountable," he said.

MIFA has long been one of the nation's more creative and aggressive issuers of industrial development bonds, which allowed lenders to swap low interest loans to small businesses in exchange for federal tax breaks. Abuses in the program in other states — there is a famous IDB-assisted McDonald's somewhere in the Midwest — inspired Congress to trim back the program in phases.

Last year's tax reform sharply limited the amount of non-taxable bonds MIFA and its clones could issue. Earlier this year, MIFA bounced back by becoming first in the country to shift to taxable bonds. The new law develops that concept further. Once again, MIFA was first, and it pulled off its legislative coup without a peep of opposition.

"I'm confident that in three years, every authority in the country will be doing this," Carty said. He based his prediction on discussions he recently had at a meeting with his counterparts from other states.

A delegation to European financial centers in February, led by Senate President William Bulger, apparently gave Massachusetts the distinction of being the first state to make its pitch to the gnomes of Zurich, Frankfurt and London. But others were not far behind.

Apfel said, "New York has visited Europe, as have other firms and states, to understand who the buyers are. But New York has not come up with a financing concept similar to this yet."

# Banker & Tradesman

MASSACHUSETTS' REAL ESTATE, BANKING AND COMMERCIAL WEEKLY

ESTABLISHED 1872



## MIFA Launches New Financing Vehicle

The Massachusetts Industrial Finance Agency (MIFA) recently launched a new financing vehicle for developing commercial projects in the state's older downtown areas.

The vehicle—introducing the country's first taxable Industrial Development Bond (IDB) to be sold publicly for a commercial project since tax reform—is MIFA's program for so-called Commercial Area Revitalization Districts (CARDs).

As MIFA issues the \$7.5 million bond, Pittsfield-based Tierney Properties, Inc. is developing The Bank of New England Plaza, an office complex in downtown Pittsfield.

The 1986 federal tax law eliminated commercial projects from eligibility for tax-exempt financing. In Massachusetts, that meant commercial projects in CARDs were no longer eligible for tax-exempt financing.

"Only six months after an incentive for developers to get into downtown financing was taken away," said Brian Carty, MIFA's executive director, "MIFA's taxable IDB program brings it back.

"Now commercial developers—like Tierney Properties—can go through a simpler financing process. When affordable financing makes a difference, they can get it from MIFA."

MIFA's bond was sold publicly as a fixed-rate security at 9.4 percent for 10 years, amortized over 25 years. Backed by a letter of credit from Bank of New England, N.A. (North America), the bond was underwritten by The First Boston Corporation.

"MIFA gave us the long-term, fixed-rate financing the company really needed," said David Tierney, president of Tierney Properties, Inc. "On top of that, we were able to consolidate construction financing and permanent financing," he said.

Tierney Properties, Inc. is using the proceeds to construct a five-story, 109,000-sq.-ft. office building in downtown Pittsfield. Construction is under way, and the building is expected to be completed in July 1988, bringing 150 employees from other sites to Pittsfield.

MIFA's Taxable IDB Program was developed to give growing business access to untapped sources of capital at more favorable

interest rates—the advantages of corporations at least 10 times their size. The program's financial structure involves letters of credit from domestic or foreign commercial banks, which guarantee payment on the bonds issued.

The new taxable bonds have no size limit and are sold in the public credit market. They also offer interest rate savings to borrowers because MIFA has the ability to issue bonds exempt from state taxes.

In Massachusetts, CARDs are generally the downtown sections of older towns that have been subject to disinvestment or lack of revitalization. They are selected and defined by the local government, and approved or certified by the Executive Office of Communities and Development. □

**BANKER & TRADESMAN**  
**BOSTON, MA**  
W. 5, 100

JUL 1 1987

NEW ENGLAND NEWSCLIP AGENCY, INC.

## **MIFA Helps Small Company Expand**

Boston Scientific Corporation, a leading Massachusetts technology company, will benefit from a \$17.2 million taxable industrial development bond (IDB), according to the Massachusetts Industrial Finance Agency (MIFA).

MIFA's announcement marks the sale of the largest publicly sold taxable IDB of its kind ever issued in the nation, according to a survey conducted by the national Council of Industrial Development Bond Issuers (CIDBI).

The bond, backed by a letter of credit from AAA-rated Barclays Bank of England, will help create jobs at the high-tech company in Watertown.

"This financing structure is putting a relatively small company on the same borrowing footing as the federal government," said Brian Carty, MIFA's executive director. "In fact, Boston Scientific's interest rate was within one point of the federal government's rate the same day." MIFA's bond was sold as a fixed-rate security at 9.15 percent.

"The Boston Scientific deal is the biggest we've ever done for a private company—either taxable or tax-exempt," said Mr.

Carty. "It's nearly twice the size of any IDB we've issued to date."

Boston Scientific will use the proceeds to restructure debt, and to acquire and improve real estate for three manufacturing facilities in Watertown and Milford.

"MIFA has helped us finance plant expansions in the past," said Peter Nicholas, president of Boston Scientific. "I deliberately chose MIFA's foresighted bond programs. By refinancing and acquiring property for our future growth, we've settled our real estate headaches for the next six years."

MIFA's Taxable IDB Program was developed to give growing businesses access to large amounts of capital and reasonable interest rates—the advantages of corporations 10 times their size. The new taxable bonds have no size limit and are sold in the public credit market.

The program's financial structure involves letters of credit from domestic or foreign commercial banks, which guarantee payment on the bonds issued.

The bonds also offer interest rate savings to borrowers because MIFA has the ability to issue bonds exempt from state taxes. □

# Boston Business Journal

## MIFA invents source of capital for business

February 16, 1987

by David C. Isgur

To counteract financing problems of small businesses created by the Tax Reform Act, the Massachusetts Industrial Finance Agency (MIFA) last week announced the sale of a pooled taxable bond issue, the first of its kind issued by any industrial finance agency in the country.

The specific problems arising from the revised tax laws are these: states have been given limits on how much in tax-exempt bonds they can issue or back. Thus, industrial finance agencies that have customarily issued state-backed, tax-exempt bonds to help small businesses are restricted in how many bonds they can issue. Also, the traditional purchasers of those tax-exempt bonds, the banks, must now treat earnings from tax-exempt bonds as taxable income. So, the tax-exempt bond market has been hit hard both at the source and at the market.

From these circumstances arose the pooled taxable bond (although it is exempt from state taxes). It is backed by, in this case, a line of credit from Essexbank of Peabody.

"We've broken the code [of tax reform]," said Brian T. Carty, MIFA's executive director. "Five weeks ago, capital

sources for small businesses were pulverized by tax reform."

The \$7.8 million publicly sold taxable bond will finance the expansions of three North Shore companies, Carty said. They are Hansen Engineering and Machinery in Danvers (\$2.1 million), M.O.M. Inc. in North Reading (\$1.7 million) and \$4 million for PAL Realty Trust in Lynn.

By pooling the financing needs of the three companies in one bond issue, MIFA was able to generate a bond issue large enough to attract investors in the investment community, Carty added. Without the pool, he added, the money could not have easily been raised. The bond issue, underwritten by Bear, Stearns & Co., was sold within a week. Bear, Stearns, Carty added, bought some of the bonds itself.

"The implications of this transaction are immense," said Thomas Green of the First Boston Corp., which serves as MIFA's financial adviser. "MIFA has tapped into a source of capital that is [seven times] deeper than the tax-exempt market was for small business." He added that the rate for the bond is similar to that of commercial paper issued in the market by Fortune 500 companies.

The bond issue was sold as an adjustable rate security (adjusted weekly) at an

initial base rate of 6.5 percent. Carty noted that this is only 75 to 100 basis points above the rate for tax-exempt bond issues.

"This innovative financing captures for the first time two highly successful tax-exempt debt techniques—pooled financing and seven-day variable-rate paper—and applies them to the taxable market," said Kym S. Arnon of Bear, Stearns.

Carty noted that the financing enhances MIFA's image which, in turn, will create a lot of interest among investors and could result in even lower rates on bonds in the future.

Further, he said, it shows that small businesses do have a source of low-cost capital for commercial or industrial expansion projects.

The taxable pooled bond program has been in the planning stages for nearly two years, Carty said, ever since MIFA officials began to recognize the implications of the tax reform proposals on the tax-exempt industrial revenue bond program.

Carty said he expects other industrial finance agencies around the country to be mirroring the Massachusetts bond offering. "We appear to have hit a home run," he said.

*David C. Isgur is a Boston-based financial writer.*

# The Evening Gazette

THURSDAY, FEB. 19, 1987 ■ WORCESTER, MASSACHUSETTS

## Massachusetts agency flies a new bond on Wall Street



### MINDING YOUR BUSINESS

David T. Mayberry

**A** week ago yesterday, the Massachusetts Industrial Finance Agency went to Wall Street with a new kind of bond to raise \$7.8 million for the expansion of three North Shore companies.

Within hours, investors bought out the issue.

Their willingness to put money on the line for this novel offering convinced MIFA that it has found a new source of low-cost financing for small- and medium-sized businesses in the state.

MIFA needed a new source. Last year's federal tax reform severely limited the amount MIFA and industrial finance agencies in other states could raise in the traditional way: by selling tax-exempt industrial development bonds to commercial banks.

Lawmakers in Washington set a maximum on tax-exempts for each state and wiped out the tax deduction banks received on income earned on these bonds. Those actions, for all intents, killed the tax-exempt industrial development bonds because they removed the incentive for banks to buy them.

Such bonds have been important in the revival of the Massachusetts economy. Since 1978, MIFA has issued nearly \$4 billion worth of these bonds for 2,100 expanding companies, creating, in the process, more than 70,000 jobs in the state. Last year alone, nine companies in Worcester County raised \$13.8 million for expansion or commercial revitalization with MIFA bonds.

With the tax exempt industrial development bonds, companies could borrow money at interest rates a few points below what they would otherwise have to pay. In many cases, the savings made the difference between doing a project and forgetting it.

#### LOOKED FOR ALTERNATIVES

When tax reform became law, MIFA started looking for alternatives. The new bond sold last week represents a breakthrough.

MIFA said the bond — officially called the taxable industrial development bond — "will be the major new financing vehicle for small business expansions."

The bond's name makes clear its major difference

from the tax-exempt bonds of the past: Interest earned on the new bonds is subject to federal taxes. Interest income is still exempt from Massachusetts taxes, which provides an incentive for investors based in the Bay State.

What is less clear is how the new taxable bonds can raise money cheaper than companies could borrow it themselves. The answer has to do with know-how, size, contacts and access to markets.

Large companies like General Motors, Norton Co. and Digital Equipment Corp. have sold corporate bonds on Wall Street for years. It is a common way of raising money. There are long-term, 30-year bonds and shorter-term commercial paper.

Smaller companies can't easily sell their bonds or paper because they are not well-known and because the costs — legal fees and underwriting expenses — are high.

That's where MIFA comes in. The independent public agency has established relationships with First Boston Corp., a New York-based investment banker, and Bear, Stearns & Co., an underwriter, to handle the new bonds. By pooling the money needed by several companies, the total issue can be made large enough to attract major investors.

The key, however, remains the cooperation of a commercial bank. For although the bonds are sold under MIFA's name, the companies are responsible for paying the bonds off. Investors want some assurance that they will get their money back with interest.

That assurance comes in the form of a letter of credit issued by a commercial bank familiar with the companies raising the money. The letter, in effect, says that if the companies default, the bank will stand behind the bonds.

EssexBank of Peabody issued the letter of credit for last week's \$7.8 million bond. It does business with the three companies that got money from the bond.

The bond sold as an adjustable rate security at an initial base rate of 6.5 percent, just a bit over what tax-exempts are selling for and considerably less than what the companies would have had to pay if they had taken bank loans. Prevailing rates on bank loans range from 8.5 percent to 10 percent.

If MIFA can deliver more deals like that, the state's economy, as well as companies doing business here, stand to benefit.

# Credit Markets

THE FIXED-INCOME SECURITIES WEEKLY

New York, N. Y.

Monday, March 30, 1987

FORUM

Interview

## Massachusetts Seizes New Opportunities

The Massachusetts Industrial Finance Agency is bullish on taxable issues and foreign credit enhancement.

*The Massachusetts Industrial Finance Agency has been credited by Gov. Michael S. Dukakis with being a "driving force" in the state's strong economic resurgence.*

*Mr. Dukakis, who recently presided at a ceremony marking the agency's sale of \$4 billion of bonds in the last nine years, hopes to use that resurgence to his advantage as he begins his campaign for the Democratic presidential nomination in 1988.*

*Brian T. Carty, the agency's executive director, said the agency's role in boosting the state's economy will not diminish despite restrictions on the use of tax-exempt finance in the Tax Reform Act of 1986.*

*Tax-exempt industrial development bonds, which will be capped and eventually eliminated, accounted for about 85% of the agency's \$4 billion of bonds. Most of the IDBs were privately placed with local banks. But under the new tax law, banks have lost their incentive to buy these bonds, and the agency has been forced to turn to the public credit markets.*

*Mr. Carty recently discussed with Credit Markets how the agency plans to function in this new world of finance and the opportunities it may provide.*

**Q. How is your agency going to cope with the new restrictions?**

**A.** Well, from our standpoint, we've been in the great age of tax reform for the last 18 months. It was clear with [the last two tax laws] what the federal government had in mind and how it felt about small [IDB] issues, so we

started planning for it, and we're ready.

The great age of tax reform to us simply means two things: one, that the taxable market is where these businesses are going to have to raise their money, and two, that we have to be very nimble, very quick on our feet, to find other sources of capital, other markets, whether it's the Eurobond market, the commercial paper market, what have you. Our mission is to find those sources of capital because the tax-exempt source is drying up.

We're just very bullish on the taxable market, on overseas sources of credit enhancement, and working with banks in the new world of financing. The feedback we're getting from banks has been very, very positive because they're in trouble as well as us.

They were the purchasers of 85% of these bonds, and now they don't have the incentive to purchase them, yet they have these customers they want to help. We're providing an opportunity for them as well.

**Q. What new programs do you have to tap these new markets?**

**A.** Three weeks ago, we issued our first taxable [IDB] pool, one of the first ones in the country. It's basically a commercial paper transaction: floating-rate, weekly adjustable. We took three small companies, classic IDB-type companies in terms of their borrowing needs — one needed

\$4 million, one needed \$1.5 million, one needed \$2.5 million — and pooled them. We got a credit enhancement from the bank with which they did business anyway, Essexbank [part of the Conifer Group, which is now part of the Bank of New England], and then sold it.

We're talking to a number of other companies to get involved with this program. We see that as being easily \$300 million to \$400 million in taxable deals this year. Easily. I think pooled taxable bonds are going to be the engine under the hood that, in our state anyway, will replace tax-exempt bonds.

**Q. How much of your business is going to remain tax-exempt, and how much will be taxable?**

**A.** In 1986, it was \$436 million tax-exempt, zero taxable. Just talking about small-issue IDBs, we'll do \$150 million, \$200 million tax-exempt this year if we get our allocation under the cap, which I think we have a good chance of getting. And we'll probably do \$400 million of taxables. That ratio will become more highly leveraged toward the taxable side as the amount under the cap diminishes.

Two-thirds of our stuff this year will be taxable, and then the following year I think it will move to 80%, 85%. We're looking at almost a totally taxable environment. So it's changing the battleship's course. The tax-ex-

empt bond is going to be more the exception than the rule.

**Q. What can you provide these small companies that they cannot get from their banks or from other competing lenders?**

**A.** First of all, most of the companies we work with have less than \$10 million in sales and fewer than 100 employees, so a lot of them cannot issue debt on their own. We provide them access to the capital markets. To companies that can get there on their own, we can provide an exemption from the state income tax. We don't know what that's worth in the market yet, but it might be worth 20 or 30 basis points.

And we put our name on the bonds. We have issued \$4 billion of bonds. People know us. We're bringing to bear resources on these transactions that these companies couldn't get on their own.

We don't see ourselves as competing with banks. I'd say it's a complementary role. The Essexbank transaction shows that better than any other I can think of.

The companies were all Essexbank customers. But Essexbank realized they could do this transaction off their balance sheets as a letter of credit and not tie up a lot of their own capital.

But they still get the fee income, which is important, and they still get the customer relationship, which is important. And they look like heroes to the companies by participating in a very innovative financing. That is the model that we want to pursue.

**Q. What kind of interest-rate advantage can you give these companies, compared with a bank?**

**A.** If they were to borrow from a bank on the day we did our [Essexbank] deal, their borrowing rate would have been between 8.5% and 10% — these companies are over-prime-rate borrowers. In our program, the actual cost to the borrower was probably 7.7%, which is still a great rate. If the pool were bigger — \$20 million, \$30 million, \$40 million — I think the rate would have been more attractive.

**Q. What about borrowing outside the United States? Have you tried to contact potential lenders overseas?**

**A.** I just got back from Europe two weeks ago. We went to London, Frankfurt, and Zurich. We went there to see two things.

One, does a market exist there for our paper and other types of Commonwealth [of Massachusetts] obligations? And two, are there sources of credit enhancement that might be available to us to put on our pooled financings in the United States? We

also looked at the swap market with different European currencies.

What did we get out of it? We got relationships with major European banks, one of which is Barclay's, with which we will do a transaction in the next month. They will provide a letter of credit for a deal that we'll issue in three to four weeks. There was definite interest on the part of some Swiss banks on providing credit enhancement for our deals.

We represent a vast reservoir of product for them. They haven't done a lot of business with small U.S. companies, and vice versa. It's a great feeling to walk into a room of 50 European bankers and say, "We represent small businesses in Massachusetts that have added 80,000 jobs over the past nine years."

And their reaction was, "Let me at it." We are having very serious and intensive discussions with ABN [Algemene Bank Nederland], a major Dutch bank, to provide similar types of credit enhancement.

**Q. So it is more likely that your foreign involvement in taxable issues initially would be in the form of credit enhancement, just as it is on the tax-exempt side?**

**A.** From our perspective, that's absolutely correct. We see that European banks want to provide almost blanket letters of credit to the agency so we in turn can assemble the pools and then sell them.

**Q. What are the prospects for foreign banks and investment firms actually buying the agency's debt or any other taxable municipal issue?**

**A.** I got the feedback that initially they would be interested in buying the debt as long as it had some name recognition. We have to establish our track record. People in the United States and bankers in Massachusetts know that our IDB default rate is under 4%, they know we haven't had a lot of mistakes, and as a result our name is worth something.

Do they know that in London? No. That's why we went there, so they can start to see who we are.

They may not be big purchasers of our deals. And there's a simple reason: We represent small businesses. Many of them haven't heard of the Arlington Wire Wrapping Co. and Peerless Press Metal. They don't know who they are.

Name recognition is very important in the European market. However, they have heard of Reebok and some other companies that we've dealt with, so if we had a big issue that we wanted to sell, this opens another market to sell it into.

**Q. Why do you have to go to Europe to get credit enhancement? Why not try to get it from a domestic bank — because there just are no triple-A-rated American banks?**

**A.** We will use both. As the Essexbank transaction showed, local banks are important, and we want to keep them.

But you're right. There are more triple-A-rated banks in Europe and Japan than there are in the United States.

All we're concerned about is getting the lowest interest rate for the borrower. If we can save 20 basis points by having an ABN letter of credit or Rabobank or Barclay's or Fuji or Mitsubishi or whatever, then we're going to do it. Because our bottom line is the borrower.

**Q. How far away are you from actually selling debt overseas?**

**A.** I'd say we're a year away. It's going to take that long to get the market comfortable and to get the right kind of product to sell there.

**Q. What about the idea that taxable bond sales would have to be huge, \$100 million deals before anyone would buy them?**

**A.** It's not true, at least in our experience. The Essexbank deal was under \$8 million, and it sold out in 2½ hours.

People have told us that you can't do a taxable deal for less than \$50 million. We've disproven that. And I think that as the market gets [more developed] you'll see purchasers buying much smaller deals. That's just my gut feeling.

**Q. Have you looked at doing any deals backed by guaranteed investment contracts?**

**A.** We have looked at them. As far as I'm concerned, nobody has broken the code yet. Nobody has perfected it. I haven't seen a deal yet that's been set up to get a lot or a fair amount of money to the end borrowers.

Having said that, I think as a concept it can be perfected. I think the fundamentals are there. It's just that someone has to put them in the right sequence and arrange it and break the code. And then I think it's going to be [a huge part of the market].

Were we to do a GIC, we would want to do it with a highly rated local insurance company, a John Hancock or what have you, and one that would be committed to what we're doing, which is facilitating the flow of capital to small businesses. Were we to get a partner like that and be able to construct it in such a way that the money could get to the borrower in a very cost-effective way, then we'd look at it. But for now, we're kind of backing off because I think it's going to cause problems. ■

**Taxable Bondholder's Extendable Adjustable Return Securities****THREE NEW ISSUES**

**INTEREST ON THE BONDS OF EACH SERIES IS NOT EXCLUDABLE FROM GROSS INCOME FOR FEDERAL TAX PURPOSES UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED.**

Under existing statutes, the Bonds of each Series and income derived therefrom are exempt from taxation under the laws of The Commonwealth of Massachusetts but may be included in the measure of Massachusetts estate and inheritance taxes and of certain Massachusetts corporation excise and franchise taxes. See "MASSACHUSETTS TAX-EXEMPTION" herein.

**\$7,800,000\*****MASSACHUSETTS INDUSTRIAL FINANCE AGENCY****TAXABLE INDUSTRIAL REVENUE BONDS****Taxable Bondholder's Extendable Adjustable Return Securities****(T-BEARS™)****Dated: Date of Delivery****Due: February 1, as shown below**

The Bonds of each Series are issuable as fully registered bonds initially in denominations of \$100,000 and integral multiples of that sum. The Bonds of each Series will be dated the date of delivery and will bear interest to and including February 17, 1987 at the rate of 6.50% per annum. Thereafter, prior to conversion to a Fixed Mode on the Conversion Date, the Bonds of each Series will bear interest at a rate determined by the Remarketing Agent on the second Business Day of each week for the seven-day period commencing on Wednesday of each such week computed on the basis of actual days elapsed and a 365 or 366 day year, as appropriate. After the conversion Date, the Bonds of each Series will be issuable in denominations of \$5,000 and integral multiples of that sum with interest computed on the basis of a 360 day year consisting of twelve 30 day months. Interest on the Bonds will be payable by check mailed to the persons in whose names such Bonds are registered or, at the option of owners of \$1,000,000 or more of Bonds, by wire transfer. The Record Date shall be the Business Day preceding any Interest Payment Date and, subsequent to conversion to a Fixed Mode, the 15th day of the calendar month next preceding the Interest Payment Date. Interest will be payable on March 2, 1987 and on the first Business Day of each month thereafter during the Weekly Mode, or as otherwise described in this Official Statement during the Fixed Mode. Principal of all Bonds of each Series will be payable at the principal corporate trust office of Chemical Bank, New York, New York, as Tender and Paying Agent.

The Bonds of each Series are issued under a separate Indenture for each Series of Bonds and are payable from funds drawn under separate irrevocable direct-pay Letters of Credit issued by

**ESSEXBANK**

Each Letter of Credit will permit the Trustee to draw with respect to an applicable Series of Bonds an amount sufficient to pay (i) the principal of such Series of Bonds when due, whether upon redemption, acceleration or maturity; (ii) the purchase price of the Bonds of such Series tendered by the owners thereof and not remarketed; and (iii) up to 65 days' interest accrued on such Series of Bonds, all as more completely described in this Official Statement. Each Letter of Credit will expire on February 4, 1997 unless renewed or earlier replaced by an Alternate Security. The Bonds of each Series are subject to mandatory redemption at par on February 1, 1997 if the Letter of Credit corresponding to such Series of Bonds is not renewed or if an Alternate Security will not be in effect on and after such date as permitted under the Indenture.

After February 17, 1987 and prior to the Conversion Date, each Bond is required to be purchased on the demand of its holder on any Business Day upon not less than seven days' prior written notice. Once such notice is given by the Bondholder, the Bondholder will be required to tender his Bond on the date established for purchase, and any Bond not so tendered will be deemed to have been purchased on such date and the holder will cease being entitled to interest which accrues on the Bond after the purchase date.

The Bonds of each Series are subject to conversion to a Fixed Mode as more fully described herein. All Bonds of all Series must be converted to a Fixed Mode at the same time. Such conversion may not take place during the two-year period prior to the maturity of any Series of Bonds. In the event of a conversion, the Bonds of each Series are subject to mandatory repurchase at par. After such conversion, the Bonds of each Series will cease to be subject to purchase at the option of the owners and will cease to be secured by the Letters of Credit as described in this Official Statement.

**THE BONDS OF EACH SERIES ARE SEPARATE ISSUES AND DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE AGENCY OR A PLEDGE OF THE FAITH AND CREDIT OF THE AGENCY OR A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF. THE AGENCY HAS NO TAXING POWER.**

The Bonds will be offered without regard to Series, and purchasers will not have an election among Series.

---

**\$4,000,000 1987 Series A Term Bonds due February 1, 2007**

**\$2,100,000 1987 Series B Term Bonds due February 1, 1997**

**\$1,700,000 1987 Series C Term Bonds due February 1, 2007**

**Price of all Bonds: 100%**

---

**THE BONDS ARE SUBJECT TO REDEMPTION PRIOR TO MATURITY AT VARIOUS PREMIUMS, OR AT PAR UNDER CERTAIN CIRCUMSTANCES, AS MORE FULLY DESCRIBED IN THIS OFFICIAL STATEMENT.**

---

The Bonds of each Series are offered, when, as and if issued and accepted by the Underwriters, subject to prior sale and to the opinion of Gaston Snow & Ely Bartlett, Boston, Massachusetts, as Bond Counsel, as to the validity thereof, which opinion will be printed on the Bonds, and certain other conditions. Certain legal matters will be passed upon for the Borrowers by their respective counsels, for Essexbank by Goldstein & Manello, Boston, Massachusetts and for the Underwriters by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. The First Boston Corporation has acted as Financial Advisor to the Agency with respect to the Bonds. It is expected that delivery of the Bonds in definitive form will take place on or about February 12, 1987 in Boston, Massachusetts.

---

**BEAR, STEARNS & CO. INC.**

**February 6, 1987**

\* Combined for all Series; for sinking fund redemption schedules for each Series, see "Appendix A."

™Trade Mark of Bear, Stearns & Co. Inc.

# M I F A

# C T S

Massachusetts Industrial Finance Agency

## MIFA Reaches Major Milestone

The Massachusetts Industrial Finance Agency has recently reached its \$4 billion dollar mark in total financings. That \$4 billion has been invested in over 2100 smaller growing companies—the key job producing sector of the Massachusetts economy.

MIFA celebrated the occasion at a ceremony at the Mystic Commerce Center in Chelsea where Governor Michael S. Dukakis joined members of the business and economic development community, legislators, and Agency officials to recognize MIFA's role in Massachusetts economic story.

"MIFA's success at providing innovative financing to meet the changing needs of small-to-medium size Massachusetts companies is a large part of the reason this state is leading the country in creating economic and job opportunities for all its citizens," Dukakis said.

---

*Our partnership with MIFA in several other industrial and commercial revitalization projects has, without question, made a difference.*

The Mystic Commerce Center—developed by Combined Properties, Inc. of Malden—is one of 2129 projects to receive low cost financing through MIFA since 1978. These financings, which have created an estimated 76,000 new jobs, have been directed to industrial and commercial expansion projects in virtually every community in the state.

Tax-exempt Industrial Development Bonds (IDBs) issued by MIFA have provided smaller businesses with expansion capital at lower than conventional interest rates.

According to Robert L. Beal, Chairman of the MIFA Board and a board member since MIFA's inception in 1978, MIFA's role as catalyst for private investment has evolved over the years. "As the state's economy changed we've developed new programs. As tax reform dismantled the traditional sources of capital, we have built access to new ones."

The \$4 billion milestone ceremony was held at Combined Properties' Mystic Commerce Center in Chelsea, the former Sweetheart Paper Products Company building that was rehabilitated with an \$8 million tax-exempt IDB in 1986. The restoration of the 250,000 square foot multi-tenant building

*(\$4 Billion—continued on page 4)*

## First in the Country

### Agency Launches New Financing Program

MIFA recently launched a new financing program with the sale of the first pooled Taxable Industrial Development Bond (IDB) in the country. The bond financed expansion projects for three Massachusetts companies, creating an estimated 65 new jobs.

"The introduction of MIFA's new Taxable IDB Program is very good news for small businesses in Massachusetts," said Robert L. Beal, Chairman of the MIFA Board of Directors. Even in the wake of tax reform, it allows MIFA to continue financing small businesses at competitive rates. The three companies financed in this first pool are typical of small businesses across the state that have always turned to MIFA for expansion capital."

MIFA pooled the bonds of three small north shore companies into a \$7.8 million taxable IDB, arranged a letter of credit from Essexbank—a commercial bank based in Peabody—and then sold it in the public credit market.

The bond issue was sold as a adjustable rate security, with the interest rate adjusted weekly. The initial base rate was 6.5%—a rate close to that of the triple-A rated com-

---

*The sale of this bond was the acid test to see if MIFA could connect small businesses to the commercial paper market.*

mercial paper of large corporations.

According to Brian T. Carty, MIFA's Executive Director, "The sale of this bond was the acid test to see if MIFA could connect small businesses to the commercial paper market." A pooled taxable IDB issue had never before been sold in the public credit market. And according to MIFA's underwriter Bear, Stearns and Co., it was not certain that there would be a market for such a security. The bond, however, sold within hours of its introduction to the market, and thus MIFA was on its way to a new era in small business finance.

MIFA expects to complete approximately  
*(New program—continued on page 2)*



*Celebrating \$4 Billion (l-r) Brian T. Carty, MIFA's Executive Director; Robert L. Beal, Chairman of MIFA's Board; Stanton L. Black, President of Combined Properties, Inc.; Governor Michael S. Dukakis*

## Rabobank Update

### Bond Pool Sale Sets Financing Precedent

Last fall, MIFA announced an agreement with triple-A rated Rabobank Nederland for a \$50 million letter of credit to back bonds issued by MIFA.

This agreement received considerable local and national attention, for it was the first time that a foreign bank made such a major commitment to a public agency that exclusively serves smaller businesses.

The MIFA/Rabobank agreement made news again in January when we announced the successful sale of a \$21.4 million pooled tax-exempt bond issue under this letter of credit. The issue was the largest pooled bond issue of its kind ever in the country, financing 12 business expansions in communities across Massachusetts.

"This unprecedented pooled bond sale was the prototype for the next generation of bond financings for the Massachusetts business community," said Brian T. Carty, MIFA's Executive Director. "The financial structure of this bond offering—incorporating the needs of smaller businesses, the public credit market, and commercial banks—set the standard by which MIFA will issue both tax-exempt and taxable bonds in the post tax reform era."

#### 10 years Fixed Rate

The bonds were sold in the public credit market—traditionally the source of capital for only much larger companies. The offering raised capital for real estate expansions and equipment purchases for the 12 companies. The composite interest rate of the bond issue was 6.5% (exclusive of issuance costs) and each company received 10-year, fixed-rate financing.

*This participation by local commercial banks means that even under the new tax law local banks have an innovative way to continue to help their growth-orientated customers.*

On their own, these companies could not have attained such attractive terms. According to Carty, "These rates are comparable to those received by Fortune 500 companies."

The concept of pooling small bonds into one large bond is a relatively new vehicle. The idea is common in other financial instruments, such as pooling a variety of stocks into one mutual fund. The size of the fund, of course, gives it a larger presence in the mar-

ketplace and spreads out the risk. The same advantages make pooled bonds attractive.

#### Partnerships with Commercial Banks

An important component of this program was the participation of 9 local banks (see chart), who are monitoring the underlying loans and assuming part of the risk. This participation by local commercial banks means that even under the new tax law—which eliminated all the incentives for banks to purchase small issue IDBs—local banks have an innovative way to continue to help their growth-orientated customers.

MIFA is currently assembling a second pool of tax-exempt IDBs to be backed by the Rabobank letter of credit. Moreover, under the agreement with Rabobank, bonds can be either tax-exempt or taxable; MIFA is also currently putting together a taxable pool to be backed by Rabobank.

### COMMERCIAL BANKS INVOLVED IN MIFA'S \$21.4 MILLION BOND POOL, DECEMBER 1986

Project	Participating Bank	Bank Location
Quality Printing	First Agricultural Bank	Pittsfield
Hero Coatings, Inc.	Shawmut County Bank	Everett
Eastern Container Corp.	Bank of New England-West	Springfield
Cambridge Aero Instruments	Union National	Lowell
WC Bonner Co., Inc.	State Street Bank & Trust Co.	Boston
Wilmington Fabricators	Union National	Lowell
Brady Enterprises	Shawmut Bank of Boston	Boston
GF Sprague	Rockland Trust Company	Rockland
Mar-Ell Distributors	Bank of Boston	Boston
Capri Custom Cabinetry	Rockland Trust Company	Rockland
Astrofoam	Guaranty Bank & Trust Company	Worcester
Morse Manufacturing	Bank of Boston	Boston

(New program—continued from page 1)

\$300 million in taxable IDB issues this year.

#### New Techniques

The First Boston Corporation served as MIFA's financial advisor in this financing. According to Tom Green, Associate at First Boston, "The implications of this transaction are immense. MIFA has tapped into a source of capital that is much deeper than the tax-exempt market was for small businesses."

"This innovative financing captured for the first time two highly successful tax-exempt debt techniques—seven day variable rate paper and pooled financing—and applied them to the taxable market," said Kym Arnone, Associate with Bear, Stearns & Co.,

underwriters for this issue.

The three companies participating in MIFA's first taxable bond were:

- Hansen Engineering & Machinery of Danvers, \$2.1 million bond—manufactures jet engine parts and used the bond proceeds to purchase equipment;
- M.O.M., Inc. of North Reading, \$1.7 mil-

*The implications of this transaction are immense. MIFA has tapped into a source of capital that is much deeper than the tax-exempt market was for small businesses.*

lion bond—designs women's sportswear and used the bond to refinance a warehouse and distribution facility;

- PAL Realty Trust of Lynn, \$4 million bond—purchased and is renovating a light manufacturing and warehouse distribution facility for multiple users.

#### New Source of Capital

Since 1978, over 2000 small businesses in Massachusetts have expanded with tax-exempt Industrial Development Bonds. The federal tax bill of 1986 however, greatly changes the way small companies finance their growth.

The tax laws severely restrict the availability of tax-exempt IDBs for business expansion.

## As A Matter of Fact: Q&A by Richard A. Skerry, Jr., MIFA General Counsel

### Can You Use a Taxable IDB to Finance Your Next Expansion?

**Q: What kinds of projects can be financed with taxable IDBs?**

**A:** Taxable IDBs can be used for the industrial expansion projects, including manufacturing, warehouse and distribution, and research and development.

Taxable IDBs can also be used for commercial rehabilitation projects located in CARD districts. Because of the 1986 tax bill, commercial projects are no longer eligible for tax-exempt financing.

**Q: What can the proceeds be used for?**

**A:** Bond proceeds can be used for the purchase and construction or rehabilitation of land and buildings or for the purchase of equipment.

**Q: What is the most that can be borrowed?**

**A:** Taxable IDBs have no bond limit and can therefore finance any size project.

The first taxable IDB pool consisted of three small bonds, the largest of which was \$4 million. But MIFA is also about to issue a large (\$20 million) taxable IDB for an individual borrower.

**Q: Can existing debt be refinanced with a taxable IDB?**

**A:** Yes; taxable IDBs can be used to refinance asset-based debt, including the refinancing of tax-exempt IDBs affected by "gross-up" provisions.



Richard A. Skerry, Jr., MIFA General Counsel

**Q: Why do these bonds need a letter of credit?**

**A:** Letters of credit, issued by local or international banks, give smaller unrated companies the recognition they need to sell bonds in the public credit market.

The guaranteeing letter of credit allows smaller unrated companies to achieve rates close to the commercial paper rates that the largest corporations borrow at.

**Q: What rates will these bonds have?**

**A:** The rates are determined by the market on the day that they are sold.

In the last pool MIFA issued, the taxable bond was sold as an adjustable rate security with an initial rate of 6.5%, adjusted weekly. The borrowers do however, have the option to lock into a fixed rate later on.

**Q: Are these rates fixed or variable?**

**A:** Rates can be either fixed or variable. In the first taxable IDB pool (p.1 story), the bond was issued as a floating rate security with the option to convert to a fixed rate to take advantage of favorable market conditions.

**Q: Are taxable IDBs expensive to issue?**

**A:** Selling bonds in the public credit market can be expensive—legal and underwriters fees can wipe out the advantage for small companies to sell bonds. By pooling several smaller bonds however, MIFA reduces the issuance costs to each borrower.

Moreover, taxable IDBs are not subject to complex IRS regulations and do not require state allocation. The streamlining of these requirements allow additional cost-savings.

**Q: How much does issuance costs add to the rate the borrowers pay?**

**A:** Issuance costs vary depending on the bond amount and the size of the bond pool. Issuance fees can be financed out of bond proceeds.

**Q: Are the bonds exempt from taxes?**

**A:** Although Taxable IDBs are not exempt from federal taxes, they are still exempt from state taxes for Massachusetts investors.

**"This is a classic case of giving the little guy the same chance as the big guy."**

First Boston's Mark Ferber on significance of MIFA's first taxable IDB, Corporate Finance Magazine, April 1987.

sions. MIFA responded to the drastic reductions in tax-exempt IDB volume by developing a replacement program—the taxable IDB.

Tax reform also eliminates the incentives for commercial banks to purchase IDBs by eliminating interest deductibility. But MIFA has identified a source of capital heretofore untapped by small businesses—the public credit market—and developed a way to connect small businesses to that market. Large corporations routinely raise money by selling bonds in the public credit market, but smaller unrated companies cannot easily sell bonds publicly on their own.

The Taxable IDB Program allows smaller

Massachusetts companies to sell bonds in the public credit at rates similar to those received by Fortune 500 companies.

To give smaller companies access to the public credit market MIFA pools several companies' bonds into a larger bond issue, creating a size large enough to attract investors. MIFA then arranges letters of credit from commercial banks to back, or guarantee, the bonds.

For the commercial banks, providing these letters of credit is a way to continue helping their growth oriented clients.

The Taxable Industrial Development Bond Program provides a low-cost financing alter-

native to small businesses and is now the cornerstone of MIFA's efforts to promote private investment and stimulate job creation throughout the Commonwealth.

(\$4 Billion—continued from page 1)

will bring nine companies and estimated 300 jobs back to Chelsea.

Stanton L. Black, President of Combined Properties, cited MIFA's role as a catalyst for investment in the area. "Our partnership with MIFA in several other industrial and commercial revitalization projects has, without question, made a difference. We are just one of thousands of companies MIFA has helped. With such competitive financing, we can bring new businesses and hundreds of jobs to areas like Chelsea which are still in need of investment."

### Changing Programs to Meet Changing Needs

When MIFA was established in 1978, the purpose was to creatively use tax-exempt Industrial Development Bonds to stimulate private investment and create jobs in the hard hit manufacturing and industrial sectors of the economy. At that time, the Massachusetts Task Force on Capital Formation was looking for ways to bridge gaps in the private sector capital markets. In 1978 however, no one knew that the program being created would have such a profound effect on the Commonwealth.

In the early 1980s—a time of historically high interest rates and recession—MIFA played a key role in providing incentives for industry to continue to build.

With the statutory authority to issue tax-exempt bonds, insure loans, and make direct loans, MIFA today has evolved into the state's investment bank for smaller businesses.



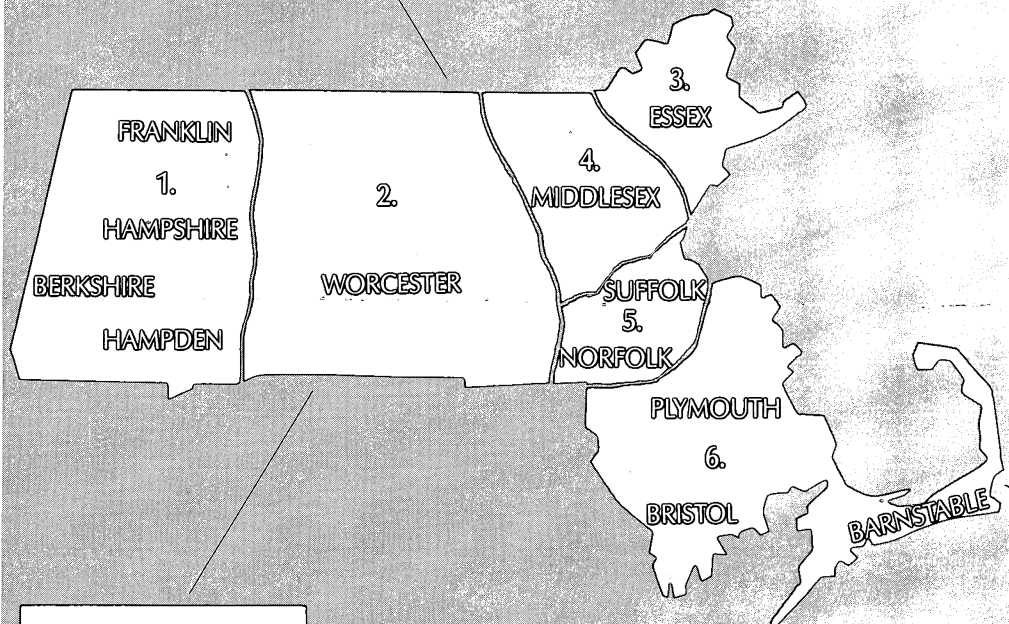
Representative Richard A. Voke (D-Chelsea) at MIFA's \$4 billion milestone ceremony: "With MIFA's help, we're bringing manufacturing jobs back to Chelsea."

Faced with radical changes in tax laws, the economy and the structure of capital markets, MIFA is again strategically positioned to offer a broader spectrum of financial programs and access to expansion capital for a wide range of smaller growing businesses.

## MILESTONES: 1978-1987

Through MIFA's unique partnership with the private sector, \$4 billion of capital have been channeled into the key job producing sector of the state's economy. MIFA's financings have been directed to industrial and commercial expansion projects in virtually every community in the state.

**\$4 BILLION INVESTMENT**  
\$1.2 million a day



### 2129 EXPANSION PROJECTS

1791 Industrial/Manufacturing  
338 Commercial Revitalization

1 project every one and a half days

*"Economic development is a function of both the will to do something and the mechanisms to do it. If you don't have the mechanisms, all the will in the world won't get you very far. What MIFA has done is provide the mechanisms—take those away and there are a lot of expansion and revitalization projects that just wouldn't go.*

Paul Tsongas, Former U.S. Senator

*"MIFA is a premier example of an agency that has combined initiative with necessity to diversify its types of financing."*

Kevin McCarty, Council of Industrial Development Bond Issuers in Washington, on national response to tax reform, *New England Business Magazine*, April 6, 1987.

## PORTFOLIO BY INDUSTRY

■ <b>Manufacturing</b>	
<b>Traditional Manufacturing</b>	30%
includes: textiles, printing, rubber & plastics, metal and machinery	
<b>Service Related Industry</b>	18%
includes: transportation & communication, wholesale, retail	
<b>High Technology Manufacturing</b>	11%
includes: electronics, instruments, software processing, computers & data processing	
<b>Agricultural Related Industry</b>	7%
includes: food products, lumber & wood, paper	
■ <b>Environmental Projects</b>	18%
■ <b>Commercial Revitalization Projects</b>	16%

### 76,000 JOBS CREATED

23 jobs a day

### JOB CREATION BY REGION

1. 7,100 jobs
2. 6,400 jobs
3. 11,800 jobs
4. 23,700 jobs
5. 14,500 jobs
6. 13,200 jobs

*"When the tax bill was finally signed into law, it was like going to bed speaking French and waking up speaking Spanish."*

Brian Carty on paralyzing uncertainty caused by tax law debates, *The Wall Street Journal*, January 2, 1987.

## Director's Letter

### A History of Commitment to Innovation

Four billion dollars is a lot of money, a true milestone in MIFA's history. Four billion is equivalent to \$1.2 million invested every day since 1978 in Massachusetts' small businesses. Four billion dollars of private investment has allowed one company every 36 hours to finance a new expansion in Massachusetts. And the bottom line—one new job has been created as a result of MIFA financing virtually every hour of every day since 1978.

This impressive record is a testimony to the Agency's ability to change and adapt to change. Most importantly, through the commitment and vision of public and private sector officials, MIFA has been able to see opportunities in the changing environments.

The economic conditions in Massachusetts were changing for the worse in 1978 when the Agency was founded. Faced with double-digit inflation and high unemployment rates, Governor Dukakis and the Legislature created the MIFA in the hopes it could provide some incentive for businesses to remain in the Commonwealth and to cushion the impacts of prohibitive interest rates. The initial results exceeded all expectations. Under the direction of Robert Patterson and Marijo McCarthy, the Agency developed one of the most successful Industrial Development Bond programs in the nation and Massachusetts businesses began getting on their feet again.

As MIFA became more recognized by small businesses, and as the national prototype CARD Program was unveiled, MIFA helped pave the way for the economic resurgence of Massachusetts. Presided over by the Agency's original Chairman, John "McP" Collins and subsequently by Chairman Robert Chadbourne, MIFA approached and surpassed the \$2 billion then \$3 billion mark in total financings.

However, the specter of tax reform became more ominous and it was clear that Congress and the Executive Branch wanted to continue the momentum of DEFRA and TEFRA and eliminate Small Issue IDBs. At this crossroad in MIFA's history, under the leadership of Board Chairman Robert Beal and then Executive Director Charlie Kireker, the Agency began an aggressive product diversification process on one front and helped form a national organization to fight the elimination of IDBs on the other.

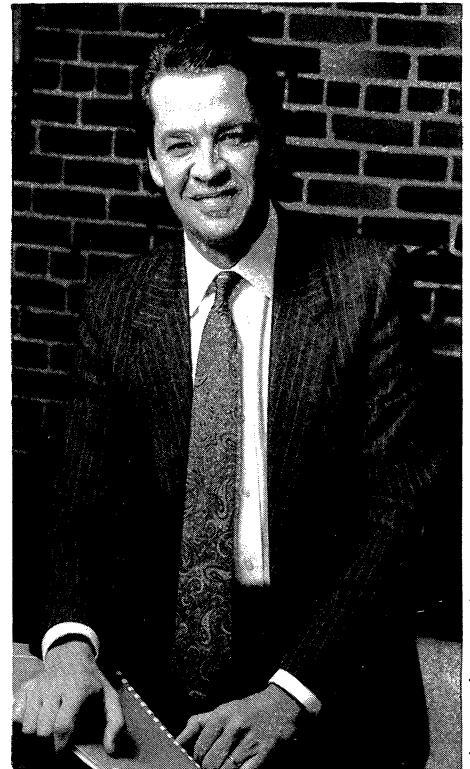
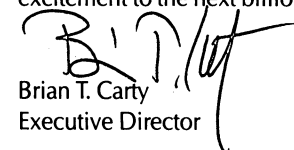


Photo: Julie Houck

The diversification effort has resulted in making MIFA a national model for other states in economic development finance. In just the last 6 months, we issued the first-in-the-country Taxable Industrial Development Bond Pool, the largest tax-exempt composite bond pool, and attracted the nation's first blanket commitment by a foreign bank to small businesses. In the process, we repositioned the Agency from conduit financier to an aggressive, financial investment banking partner to the small businesses in Massachusetts. As significantly, MIFA unlocked the door to heretofore untapped capital markets, thus insuring an abundant supply of fresh capital for growing smaller businesses in the Commonwealth.

Although \$4 billion is a significant milestone, it is only a reference point in a changing environment. It merely reflects the dynamism, the ability to see opportunity and change, and the commitment to smaller businesses that have always been the hallmark of MIFA. We look forward with excitement to the next billion!

  
Brian T. Carty  
Executive Director

**Guest Columnist: Senator John F. Kerry**

**Competitiveness: The Challenge of Advanced Manufacturing Technology**

The past ten years have seen the rapid industrialization of previously less developed countries like Taiwan, Korea, Mexico and Brazil. This development has been the result of the spread of technology and capital resources, the development of improved transportation, communications and marketing capacities, and the maintenance of a US market open to low cost imports from abroad. Today US manufacturers and workers are feeling the impact of these changes as never before.

Global competition has been particularly acute for firms which produce relatively standard products in large quantities without differentiation, as well as for those that require substantial amounts of unskilled labor. These firms and industries face tremendous challenges from competitors located in countries with lower wage rates and standards of living.

The most obvious result of this competition has been the swelling of the US merchandise trade deficit, which has now surpassed the \$180 billion mark. While the intense price competition in supply of manufactured goods has meant lower prices for American consumers, it has also meant the decline of the competitiveness of important segments of the American manufacturing base. In the past five years, more than one million manufacturing jobs have been lost.

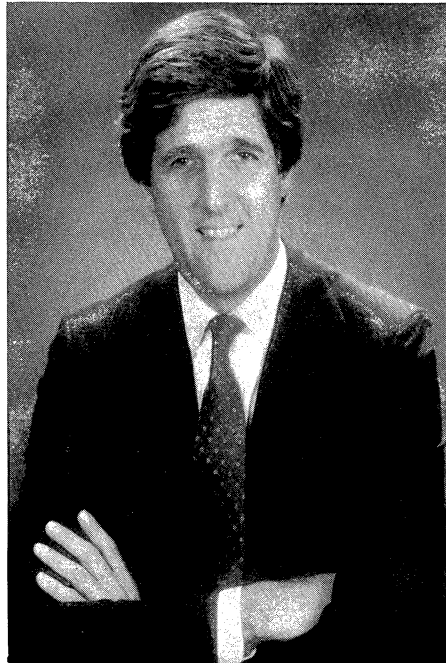
Recent changes in manufacturing technologies and processes however—such as flexible and computer integrated design and manufacturing—are creating new opportunities for high wage nations to develop comparative advantage based on quality and value-added, leading to increased productivity, profits and wages.

If we wish to preserve our prosperous economy and assure continued growth in American employment and living standards, it is essential that US manufacturers take advantage of these changes by

*MIFA's track record in the innovative use of targeted industrial development financing has been essential to an effective competitive strategy for Massachusetts industry.*

commercializing the latest technology advancements and by modernizing traditional management practices, organizational structures, and decision making criteria.

Unfortunately, there is growing evidence that US firms—particularly smaller businesses without free-standing R&D resources—are falling behind their



Senator John F. Kerry

competitors in other industrial nations in responding to these new manufacturing technologies. For example Japan, which has a population of 116 million people and has 64,000 industrial robots in use, is far ahead of the United States, which has a population of 230 million and has only 11,000 robots in use. The shortcomings of the US manufacturers in this regard were further highlighted by a recent Harvard Business Review study which found that:

- In the past five years, Japan has outspent the US by 2 to 1 in automation.
- Systems development in Japan is accomplished in 1.25 to 1.75 years, but more than twice as long, 2.5 to 3 years, in the US.
- 55% of the machine tools introduced in Japan in the last five years were computer numerically controlled, compared to only 18% of those installed in the US.

The Harvard study went on to note that even when we compare only those US companies which have adopted automation and flexible manufacturing to their counterparts in Japan, we find US capabilities wanting, and that in Japan, 40% of the workers employed by these companies are engineers (in the US the figure is 8%) using equipment that was both more sophisticated and was used more efficiently.

**Public/Private Initiates**

Public policy as well as business decision-making must respond to this challenge or our economy will become increasingly less competitive as our companies are squeezed out at the high end by Japanese and European competitors and at the low end by developing countries.

Public agencies such as MIFA have a vital role to play in speeding the implementation of advanced manufacturing technology through the continued availability of low cost financing for manufacturers. MIFA's track record in the innovative use of targeted industrial development financing has been essential to an effective competitive strategy for Massachusetts industry.

Another approach is for the government to support joint university-industry technology transfer centers. The US Senate Commerce Committee this year will consider increased funding of this kind, including my proposal which expands upon the National Bureau of Standards highly successful Automated Manufacturing Research Facility (AMRF). Under my proposal, a number of institutions will be designated as regional centers of collaborative research in the implementation and development of flexible and automated manufacturing. These regional centers will address standards and measurement problem that arise as automated manufacturing becomes more widely adopted.

These centers would tackle broader issues as well. With the help of local businesses, workers and educators, they would study management and accounting issues, design training programs for new and existing employees. They would also serve as an important resource center for small businesses seeking the technical support needed to compete effectively and to meet the challenges of a new global manufacturing environment.

## Massachusetts Industrial Finance Agency

### Program Listing

The Massachusetts Industrial Finance Agency (MIFA) is an independent public agency established to encourage economic development through a variety of financing incentives to assist expanding Massachusetts businesses. The goal of MIFA's programs is to create more jobs by stimulating greater levels of investment by private employers.

#### TAX-EXEMPT INDUSTRIAL DEVELOPMENT BOND PROGRAM (IDB);

enables businesses to obtain a lower interest rate on loans for industrial and manufacturing expansion. (Federal tax reform has reduced availability)

#### TAXABLE INDUSTRIAL DEVELOPMENT BOND PROGRAM;

complements tax-exempt IDBs by providing low rate expansion capital for a wider range of eligible projects, by offering exemption from state taxes and access to the public credit market.

#### GUARANTEED LOAN PROGRAM (GLP);

pools individual tax-exempt or taxable IDB projects into one bond issue to provide smaller, growing businesses with access to long-term, fixed rate capital found in the public credit market and usually available only to larger companies.

#### MORTGAGE INSURANCE PROGRAM (MIP);

provides lenders with the additional security they need to reduce their net exposure and increase loan amounts to customers on either conventional or tax-exempt financings.

#### COMMERCIAL AREA REVITALIZATION DISTRICT (CARD) PROGRAM;

expands the uses of several of the MIFA programs—particularly taxable IDBs—to commercial projects located in locally defined CARD districts.

#### SEAFOOD LOAN FUND;

provides members of the state's seafood processing industry with affordable capital to finance innovation and modernization in plant and equipment.

#### CHILD CARE FACILITIES LOAN FUND;

provides affordable direct loans to Massachusetts businesses to develop on-site corporate child care facilities for their employees. The Fund is the largest such loan fund in the country.

#### THE THRIFT FUND;

offers access to a \$100 million pool of capital to companies unable to obtain conventional financing. MIFA is one of four quasi-public agencies designated to originate loans to the fund, and handles all loans over \$250,000 for industrial facilities and equipment.

### Project Listing: November 1, 1986-April 30, 1987

#### Tax-Exempt IDBs Approved and Issued

Company	Location	Bond Amount
Richard A. Klein	Wrentham	\$ 3,400,000
Mentor O & O, Inc.	Norwell	2,500,000
Milliken Associates	Fall River	4,250,000
Lynn Fryer Manufacturing Co.	Ipswich	1,000,000
Worcester Manufacturing Co., Inc.	Worcester	1,550,000
Tech Pak Inc.	Peabody	4,275,000
Union Chemical Co.	Newburyport	750,000
Union Machine Co. of Lynn Inc.	Peabody	2,100,000
Danvers Atrium Trust	Danvers	800,000
Stetson Place Development Trust	Weymouth	600,000
Interpretative Data Systems, Inc.	Brookline	4,500,000
Quality Printing Company*	Pittsfield	550,000
Hero Coatings, Inc.*	Newburyport	760,000
Eastern Container Corp.*	Springfield	1,325,000
Cambridge Aero Instruments, Inc.*	Shirley	545,000
WC Bonner Company, Inc.*	Hudson	2,900,000
Wilmington Fabricators, Inc.*	Wilmington	5,165,000
Brady Enterprises, Inc.*	East Weymouth	2,080,000
GF Sprague & Co., Inc.*	Holbrook	680,000
Mar-Ell Distributors, Inc.*	Walpole	1,755,000
Capri Custom Cabinetry*	Plymouth	1,150,000
Astrofoam, Inc.*	Holden	3,510,000
Morse Manufacturing*	Sterling	980,000
Ogden Haverhill Associates	Haverhill	66,000,000
TOTAL:		\$113,125,000

\*in Rabobank pool

#### Taxable IDBs Approved and Issued

Ogden Haverhill Associates	Haverhill	121,420,000
Hansen Engineering*	Danvers	2,100,000
P.A.L. Realty Trust*	Lynn	4,000,000
M.O.M.*	North Reading	1,700,000
TOTAL:		\$129,220,000

\*in Essexbank pool

#### Seafood Loans Approved

Eastern Clam	Lakeville	100,000
Fourth Cliff Lobster	Gloucester	200,000
Hines & Smart	Boston	200,000
Fall River Fishing Co.	Fall River	100,000
TOTAL:		\$600,000

#### Mortgage Insurance Projects Approved:

Trodella El Corp.	Winchester	500,000
MDC Properties, Inc.	Brockton	250,000
TOTAL:		\$750,000

#### Thrift Fund Projects Approved:

Decorative Coverings	Hatfield	2,000,000
TOTAL:		\$2,000,000

## NEWSBRIEFS

■ MIFA is happy to announce the recent arrival of Rodney D. Jones to the Agency's staff. Mr. Jones joins MIFA as Managing Director of Economic Development and Project Finance.



Mr. Jones comes to the Agency from the Bank of Boston where he was Director of Marketing for mutual funds. His previous experience includes working with IBM and Gillette. He was also a branch

manager of the Mellon Banks in Philadelphia. Mr. Jones is a graduate of the Wharton Business School.

"Rodney joins the Agency at a very exciting time," said Brian T. Carty, MIFA's Executive Director. "As MIFA enters a new era of small business finance, Rodney's deep experience with financial markets will help us immeasurably."

Also recently joining the MIFA staff are:

Catherine C. Josman as Senior Analyst to the Product Development Group. Ms. Josman comes to the Agency from the investment banking firm of Kidder, Peabody;

Bonnie Haviland, from the Bank of New England, as a Project Finance Officer;

Barbara Roman, recently with Packard Press/Financial Printers, as Administrative Assistant for Project Finance;

Debra Pemick, from D. Baugh & Associates, as Administrative Assistant for Product Development.

■ MIFA was one of the major sponsors of the 1987 New England Business Conference as a member of the Industry Leadership Council. The Conference was held on May 5-7 at the World Trade Center in Boston.

This year's featured keynote speaker was Mitchel D. Kapur, founder of Lotus Development Corporation. MIFA was pleased to host the Conference Luncheon at which Mr. Kapur spoke.

The New England Business Conference, sponsored by the Smaller Business Association of New England (SBANE), is designed to bring small businesses throughout the region together to discuss important business topics of the day.

■ MIFA recently made two loans to companies in the seafood industry. The loans were made out of MIFA's innovative Seafood Loan Fund which was designed to encourage investment and modernization in the seafood processing industry by providing direct loans at below-market rates and fixed financing. Since 1986, eight companies have received

loans totalling over \$1 million.

Fall River Fishing Co. (FRF) received a \$100,000 loan to install processing equipment onboard the "Taurus," a 177 foot fishing vessel. The loan will enable FRF to hire 25 employees and to operate the only vessel on the East Coast with the capability to harvest and process red crab onboard.

A \$200,000 loan to the Boston Harbor Lobsterman's Association will allow the cooperative to purchase Hines & Smart Corporation, a lobster wholesale company located in East Boston. In the competitive lobster industry, the venture will give the lobstermen greater control over market share and price for the product they harvest. This unique project attracted the support of many factions of the community including the Archdiocese of Boston, the Legislature, and several state agencies.

MIFACTS is published quarterly by the Massachusetts Industrial Finance Agency, 400 Atlantic Avenue, Boston, MA 02210

To be placed on the mailing list, or for additional information, please contact Judy Glasser, Director of Marketing.

BULK RATE  
U.S. POSTAGE  
PAID  
Boston, MA  
Permit No. 97

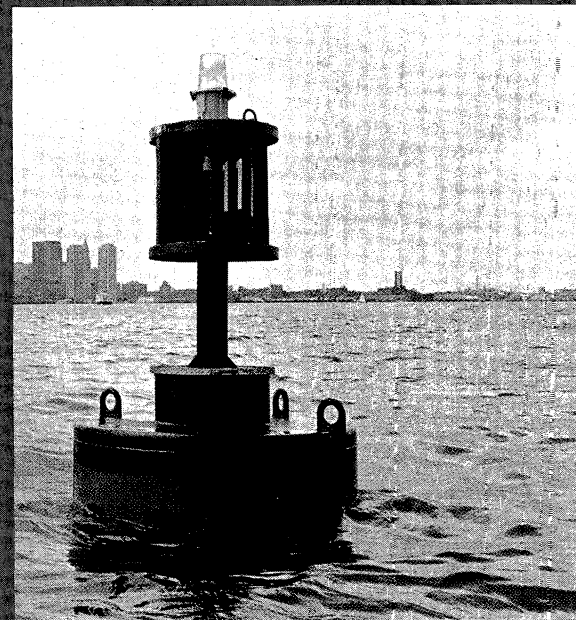
M I F A

Massachusetts Industrial Finance Agency

400 Atlantic Avenue  
Boston, Massachusetts 02210

M I F A

MILESTONES AND  
NEW DIRECTIONS



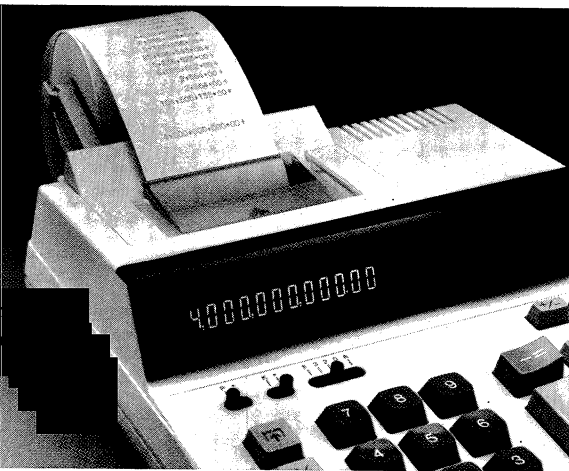
MASSACHUSETTS  
INDUSTRIAL  
FINANCE AGENCY

## MILESTONES

Since its inception, the primary incentive offered by the Agency has been the Tax-exempt Industrial Development Bond (IDB) Program. This program has been one of the nation's most successful; \$4 billion in tax-exempt IDBs have been issued to over 2,100 industrial expansion or commercial revitalization projects. Through the use of tax-exempt IDBs, MIFA-assisted companies have added an estimated 76,000 new, industrial sector jobs to the state's economy.

There has been great diversity in MIFA's tax-exempt portfolio - from traditional industries like textiles, printing and agriculture, to the newest job producers, high-technology and computer related companies. Geographically, MIFA has helped businesses all across the Commonwealth, while giving special emphasis to areas of higher unemployment. And statistically, MIFA-assisted companies have grown faster than the average, reflecting MIFA's role as a catalyst for economic development and job creation.

The sweeping tax reform act, however, changed the way Massachusetts' businesses finance their expansions; the previously abundant supply of tax-exempt financing for businesses has been all but eliminated. But the need for affordable expansion capital did not disappear. So although MIFA's programs and techniques have been altered considerably, the fundamental goal of the Agency - to stimulate private investment and create jobs - has not changed.



Since 1978, the Massachusetts Industrial Finance Agency has been an important partner to the Massachusetts business community. Across the Commonwealth, companies have expanded, renovated, modernized, and most importantly, created employment by utilizing a variety of financing vehicles offered by MIFA.

MIFA has reached a significant milestone in that nine-year partnership - \$4 billion in total financings. We have reached this mark by consistently offering expanding businesses the most innovative, affordable financing opportunities available. Those opportunities have changed over the years, reflecting dramatic changes in the economy, tax laws, and capital markets. MIFA has successfully gauged such movements in the marketplace, enabling us to launch new programs, in new directions, to continue financing small business expansions throughout the state.

As an independent agency, MIFA has always served as a bridge between the state's public and private sectors, allowing the Agency to offer a unique range of financial resources and services. With a reservoir of in-depth knowledge about the state's smaller business community, we can respond quickly to their changing capital formation needs. With the statutory authority to issue tax-exempt bonds, insure loans and make direct loans, we can employ the most sophisticated techniques to spur private investment. Increasingly, MIFA's role has become that of the state's investment bank for expanding businesses - structuring new financial programs and providing access to new sources of capital.

## NEW DIRECTIONS

Creative and innovative techniques for gaining access to capital have always been a hallmark of MIFA. Once again, we have pioneered new approaches to financing small business real estate and equipment expansions. The new direction of MIFA's programs was set by the changing needs of the state's growing businesses as well as by the necessity of opening new avenues of access to broader capital markets.

Important recent developments in MIFA's evolution into a comprehensive financial agency include:

- The recent introduction of one of the country's first taxable IDB programs, a major new financing vehicle for industrial and commercial real estate expansions. MIFA is the only agency that can issue bonds that are exempt from state taxes, on behalf of smaller businesses.

- The identification of a significant new source of expansion capital for Massachusetts' smaller businesses - the public credit market.

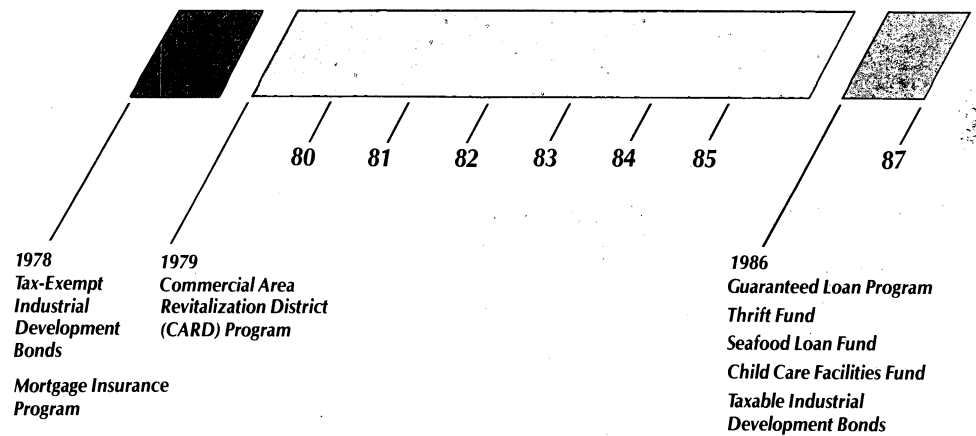
- The issuance of the country's largest tax-exempt pooled bond issue to finance 12 companies. In the process, MIFA developed a national prototype for future small business tax-exempt and taxable bond financings.

- The forging of new relationships with a broader financial community, allowing MIFA to become a conduit for major infusions of foreign capital into the Commonwealth.

- The development of the Agency's first direct loan programs, each highly targeted to specific industries or areas of need.

- The formation of strong partnerships with a leading investment bank, The First Boston Corporation, and a major underwriting firm, Bear, Stearns & Co., to gain strategic, financial advice and market access as the Agency seeks the best financing opportunities available to the state's smaller businesses.

MIFA's \$4 billion in bond financings have played a significant role in the often-told story of the Commonwealth's economic resurgence, and have earned MIFA national recognition as a leader in financing innovation for growing businesses. Now, with the Agency's new programs and initiatives (described in detail in the following pages), MIFA continues to serve as a catalyst for private business investment and economic development.



## TAX EXEMPT INDUSTRIAL DEVELOPMENT BONDS

### Targeting a scarce resource

MIFA's Tax-exempt Industrial Development Bond (IDB) Program has been a major source of capital for the state's small business community. IDBs are very much like conventional financings, except they are specifically intended to spur additional investment in job-creating industrial real estate expansions. MIFA has the statutory authority to make the interest on the bond tax-exempt, and these savings are passed on to the borrower in the form of lower interest rates.

In virtually every community in the state, expansion projects have been made possible or accelerated through the use of tax-exempt bonds.

The new federal tax code, however, had a dramatic impact on the tax-exempt IDB program for two reasons:

First, the law drastically reduced the volume of tax-exempt bonds issued in the state. In anticipation of this change, MIFA instituted a strict set of eligibility criteria to insure that this very scarce resource is targeted to projects that create the most jobs and are located in areas of highest need.

Second, the tax law changed the market for these bonds. Historically, commercial banks have purchased 85% of MIFA's bonds, but the new tax law virtually eliminates the incentive for banks to purchase tax-exempt IDBs. As a result, companies seeking financing with MIFA bonds need different purchasers and the primary purchaser of these bonds will be the public credit market.

Larger companies have long raised capital in the public market, where longer terms and fixed rates are attainable. But smaller, unrated companies - including most of MIFA's clients - are not able to participate in the public credit market on their own. So MIFA has created the financial structure - involving investment banks, underwriters, and often a commercial bank to provide a letter of credit - to provide smaller, growing companies access to the advantageous financing opportunities available in the public credit market.

In short, then, tax-exempt IDBs for smaller businesses are available, but only on a very limited and targeted basis, and MIFA has structured different mechanisms to market the bonds. Moreover, we have developed a broader array of financing alternatives to help expanding companies that may have outgrown the traditional IDB program or that have very specific financing needs.

## TAXABLE INDUSTRIAL DEVELOPMENT BONDS

### The next generation of affordable financing programs

The reduction in the Tax-exempt IDB Program has not reduced the demand for affordable financing solutions for growing businesses. To continue to meet that demand, MIFA has introduced the next generation of IDBs - the Taxable IDB.

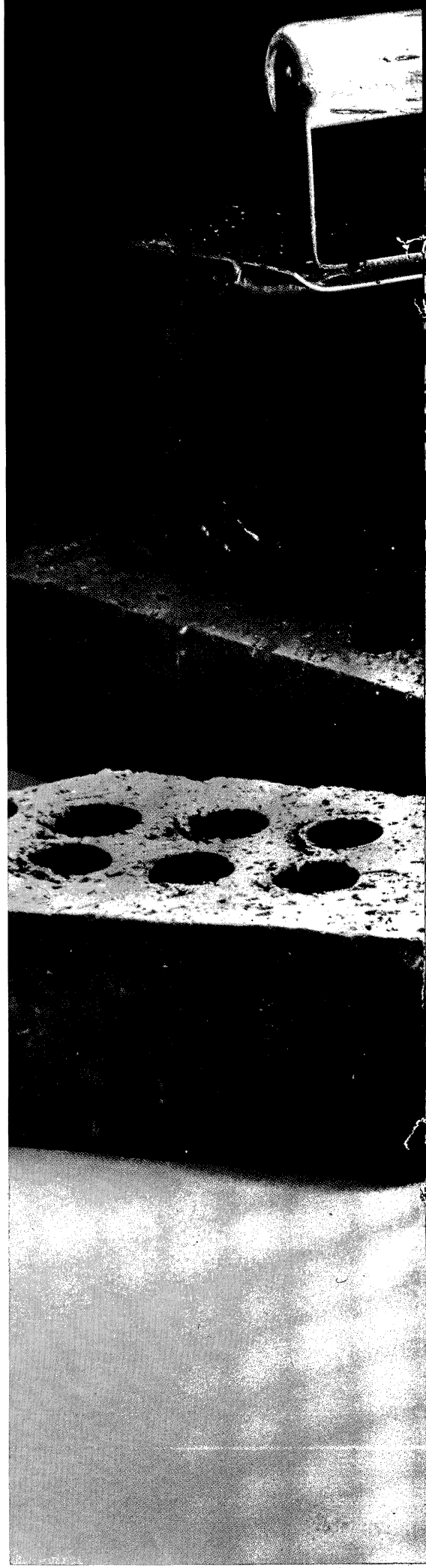
Taxable IDBs are used to finance industrial or commercial expansion projects, but do not rely on a federal tax-exemption to provide interest cost savings to borrowers. Instead, taking advantage of the Agency's unique ability to issue bonds exempt from state taxes, and using credit enhancement techniques, taxable bonds create cost savings for a wider array of expansion projects.

There is no limit to the bond amount, so taxable IDBs are ideal for major industrial and commercial real estate projects, particularly for companies that have grown beyond the threshold allowed by tax-exempt IDBs. Through the program, several smaller projects can be pooled into one larger bond, creating lower issuance costs and legal fees for borrowers. And taxable IDBs are much simpler and faster to issue, as they are not subject to complex IRS regulations as are tax-exempt IDBs.

MIFA's first two taxable IDBs illustrate the great flexibility and diverse applications of the new program. MIFA's first taxable IDB - also the first of its kind in the country - was a pooled issue, totalling just under \$8 million, involving three projects - one industrial renovation and two manufacturing expansions. MIFA made the financing work by arranging a letter of credit from locally-based Essexbank, facilitating the sale of the taxable IDB in the public market. The financial structure created by MIFA, coupled with the exemption from the state taxes, enabled these companies to obtain expansion capital at rates lower than they could have found conventionally.

The second taxable IDB was a single bond issue of almost \$25 million to an advanced medical instrument company that needed capital to buy equipment, re-structure debt, and acquire real estate for future expansion. With a letter of credit from London-based, triple-A rated Barclays Bank, the bond was also sold publicly at advantageous terms. The sheer size of this transaction would have made it ineligible for a tax-exempt IDB, but through the Taxable IDB Program, MIFA is able to finance such large projects.

Flexible and simple, the Taxable IDB Program is destined to be the most significant economic development financing program of the decade.







**MASSACHUSETTS INDUSTRIAL  
FINANCE AGENCY**

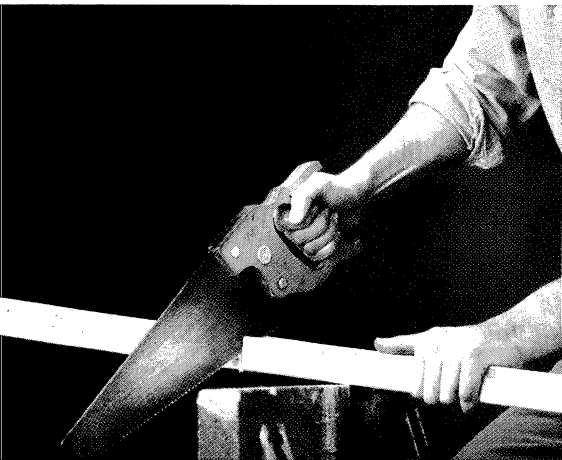
**A unique partner to Massachusetts business**

When MIFA was established in 1978, the basic purpose was to creatively use tax-exempt Industrial Development Bonds to stimulate private investment and create jobs in the hard-hit manufacturing and industrial sectors of the economy.

In the early 1980's, a time of historically high interest rates and recession, MIFA played a key role in providing incentives for industry to continue to build.

And today, faced with radical changes in the tax laws, the economy, and the structure of capital markets, MIFA is again strategically positioned to offer a broader spectrum of financial programs and access to the most attractive sources of expansion capital.

Throughout these evolutions, MIFA has greatly benefited from strong support of the Governor, the Massachusetts State Legislature, the Congressional Delegation, and a broad coalition of business and community leaders. These unique partnerships, coupled with MIFA's innovations in product development, have allowed us to firmly establish the course for financing vehicles that will encourage growth, increase employment, and enhance productivity.



**BOARD OF DIRECTORS**

**CHAIRMAN**

**Robert L. Beal**  
**Executive Vice President**  
**The Beal Companies, Inc.**

**VICE-CHAIRMAN**

David Squire  
Trustee and Former Vice President  
Brandeis University

**TREASURER**

Ronald A. Homer  
President and Chief Executive Officer  
Boston Bank of Commerce

Edward P. McCann  
Former Area Director  
Communications Workers of America

Janet M. Pavliska  
President & Chief Executive Officer  
Bank Five for Savings

Joseph D. LoBello  
Executive Vice President  
Bank of New England-West

Frank T. Keefe  
Secretary  
Executive Office of Administration  
and Finance

Joseph D. Alviani  
Secretary  
Executive Office of Economic Affairs

Paul Tortolani  
Commissioner  
Department of Commerce & Development

**EXECUTIVE DIRECTOR**

Brian T. Carty

**FINANCIAL ADVISOR**

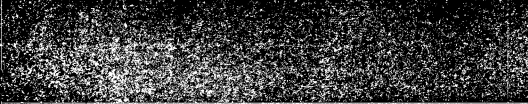
The First Boston Corporation

**UNDERWRITER**

Bear, Stearns & Co. Inc.

**Massachusetts Industrial Finance Agency**

400 Atlantic Avenue  
Boston, MA 02210  
(617) 451-2477 or 1-800-MIFACTS  
FAX: (617) 451-3429



## DIRECT LOAN PROGRAMS

### Targeting specific needs

In the process of evaluating the changing capital requirements of the Commonwealth's businesses, MIFA identified several specific areas of need. As a result, the Agency is now offering its first highly targeted direct loan programs, in some cases capitalized out of MIFA's own reserves. These initiatives have allowed MIFA to expand the alternatives for affordable financial solutions.

### CHILD CARE FACILITIES LOAN FUND

The need to support the workforce by increasing the availability and affordability of child care has become vital to the state's economy. Getting people into the workforce and keeping them there is as important as providing the bricks and mortar to put up new buildings.

That is why MIFA developed the Child Care Facilities Loan Fund. Capitalized by MIFA's reserves at \$750,000 - making it the largest such Child Care Fund in the country - the program is designed to encourage developers and corporations to construct on-site child care facilities for their employees. The Fund acts as a stimulus for the construction of child care centers, and is targeted to companies, groups of companies (such as industrial parks), and non-profit organizations.

The Fund made its debut with a \$30,000 loan to a manufacturer of men's clothing in Lawrence, to help construct a facility for forty children. The project received widespread financial support from the staff, unions, and local officials, as well as from the company. In another instance, a non-profit job training center in Worcester used a \$25,000 low interest loan from MIFA to expand the playground area of their on-site child care operation. In these cases, MIFA's direct loans acted as a catalyst for further investment, making this program a model of public and private sector cooperation.

### THRIFT FUND

MIFA is also designated to originate and service direct loans through the Thrift Fund for Economic Development, a \$100 million pool of capital funded by the state's 276 thrift institutions. This non-revolving fund directs loans toward areas of the state still experiencing higher than average unemployment rates. MIFA handles all Thrift Fund loan requests over \$250,000 for plant expansions and equipment purchases.

One of the advantages of the Thrift Fund program is its flexibility. The program can be used to finance a variety of projects such as new construction, expansion, renovation, or equipment purchase.

The direct loans MIFA has originated out of the Thrift Fund have helped companies that could not have gotten conventional financing for their projects. More importantly, the loans leveraged further private investment in the companies. A farmer in Berkley, for example, was able to finance the construction of four new greenhouses to grow hydroponic tomatoes - a technology new to this region. A solid waste disposal company in Roxbury expanded its operation and added employees after receiving a Thrift Fund loan. And one MIFA Thrift Fund loan enabled a group of employees to acquire the assets of a fabric company that was going to be eliminated, thus saving 250 jobs in Hatfield, Lawrence, and other communities north of Boston.

### SEAFOOD LOAN FUND

The Massachusetts seafood industry - a substantial industry generating \$1 billion annually in economic activity and providing employment for some 12,000 people - has been battered in recent years by economic forces beyond its control. Seafood processors in particular, have found it difficult to obtain sufficient financing at reasonable rates to modernize their plants and equipment or invest in new technology.

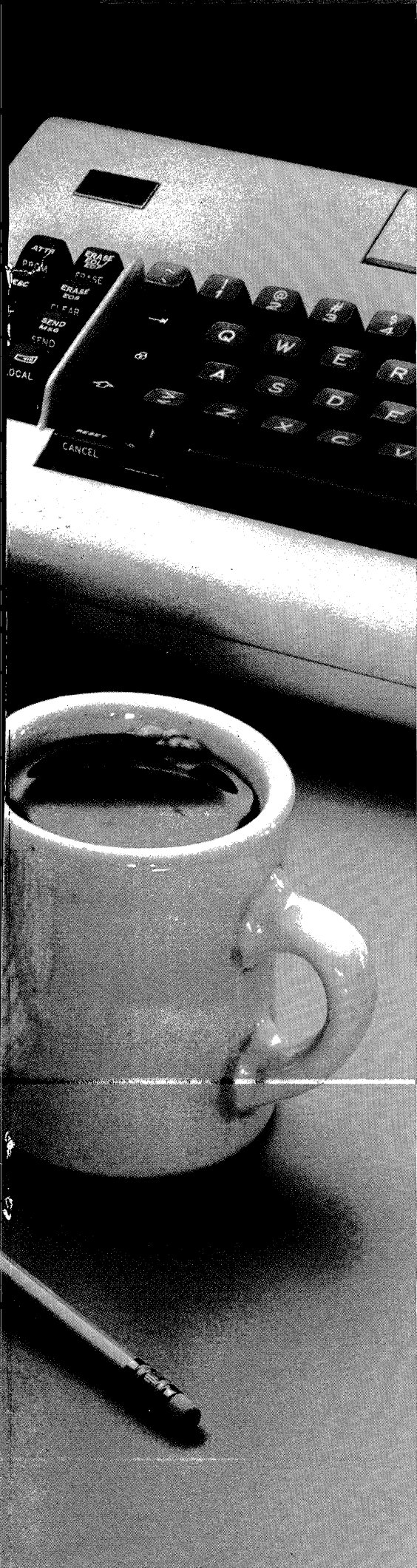
Responding to this troubling situation, the Massachusetts State Legislature requested that MIFA study the financial needs of the industry and look for a solution. MIFA convened a Seafood Advisory Council, consisting of 7 members appointed for their special expertise in processing, banking, insurance and finance.

Following a year of study, the Council recommended the creation of a revolving, low cost, direct loan fund structured to stimulate investment in modern equipment and new technology for the seafood processing industry. MIFA's Board of Directors not only immediately adopted the recommendations, but, in the absence of a state appropriation, provided \$1.5 million in seed capital out of MIFA's own reserves.

The Seafood Loan Fund grants direct loans, up to \$200,000, to companies involved in shipping, freezing, storing, packaging, distributing and marketing of seafood products.

In the first year of the Fund's existence, MIFA has made direct loans totaling nearly \$1 million to companies in almost every major port in the Commonwealth. Companies in Gloucester, for example, used MIFA's financing to purchase a new freezer and a new ice machine. A Marshfield lobster wholesaler was able to increase productivity with modernized holding tanks; a Boston company used a Seafood Fund loan to purchase new computer equipment to make their fresh fish distribution system more efficient. And in an unusual, but critical, application, the Fund has helped a consortium of 30 processors participate in a cost-efficient operation in New Bedford to dispose of fish by-products.

By addressing a particular need of the troubled seafood processing sector, MIFA is playing a crucial role in creating long term improvements in the quality, efficiency, and competitiveness of an industry that is an integral part of the state's history and culture.



## GUARANTEED LOAN PROGRAM

### The window to capital markets

The key to offering smaller, growing businesses affordable IDB financing is access to the public credit market. Just how has MIFA made that access possible? By creating a financial structure that enhances the credit of unrated companies, thus facilitating the sale of the bonds in the public market. This structure, called the Guaranteed Loan Program (GLP), allows smaller Massachusetts business to get the same advantageous financing terms usually available only to the top echelon of Fortune 500 companies.

With federal tax reform eliminating the incentives for commercial banks to purchase bonds, the GLP is the vehicle MIFA will use to market tax-exempt IDBs, as well as the new taxable bonds. The GLP pools several IDBs into one larger issue for sale in the public credit market.

The concept of "pooling" is common in other financial instruments, such as pooling a variety of stocks into one mutual fund. The size of the fund, of course, gives it a larger presence in the market, and allows investors to spread out their risk. The idea of pooling smaller individual bonds into one larger bond issue, a relatively new concept, reduces issuance costs for each individual borrower in the pool, and also makes the bond more attractive to investors.

Through the GLP, MIFA also arranges for credit enhancement on the bonds to leverage the financial strength of a major financial institution on behalf of smaller, unrated companies.

That is why MIFA has undertaken an aggressive campaign to arrange for letters of credit from local, national and foreign banks. With the backing of a highly rated financial institution, MIFA can provide the key link between borrowers and affordable expansion capital.

In the fall of 1986, MIFA announced one such arrangement with Rabobank Nederland.

Rabobank, a \$60 billion, triple-A rated (Standard & Poor's and Moody's) international bank, agreed to provide MIFA a \$50 million letter of credit to back tax-exempt or taxable bonds issued by the Agency. Rabobank's financial strength put a triple-A rating on the bonds, thus allowing those bonds to be sold as a triple-A security in the public market. This agreement marked the first time in the United States that a foreign bank made such a major commitment to a public agency that exclusively serves smaller businesses.

In December 1986, MIFA issued its first pooled tax-exempt bond issue under the Rabobank letter of credit. The \$21.4 million pool, comprised of 12 individual bonds, was the largest pooled issue of its kind in the country. Because of the structure of the transaction, each of these 12 companies received financing at an average interest rate of 6.5%, fixed for 10 years - terms that would have been impossible for smaller companies to find from conventional sources.

With each separate letter of credit from a local or foreign bank, the specific terms will differ. But the Rabobank agreement and the largest pooled bond issue represented a national prototype for future tax-exempt and taxable bond financings for smaller businesses. Moreover, this one agreement has sparked interest from a number of other highly rated foreign banks, who see MIFA as an innovative and aggressive partner to the Commonwealth's business community.

## MORTGAGE INSURANCE PROGRAM

### Increasing borrowing limits

MIFA's ability to act as an insurance company is another important factor in serving as a catalyst for private investment.

MIFA developed the Mortgage Insurance Program (MIP) for companies whose need for expansion capital exceeds their credit limit. MIP is a unique loan guarantee that enables lenders to increase loan amounts for business expansions; with MIFA insuring a portion of the loan, businesses can borrow more of the project's cost. At the same time, lenders can increase loan amounts without increasing their risk. Proceeds of the insured loan can be used to acquire land, to construct or renovate facilities, or to purchase equipment. As with all of MIFA's programs, the project must create or retain employment.

Mortgage Insurance has been used extensively in conjunction with individual tax-exempt IDBs as well as with pooled bond offerings. Since it can also be used with taxable IDBs and conventional mortgage loans, many more commercial banks are beginning to utilize the program to assist their growth-oriented customers.

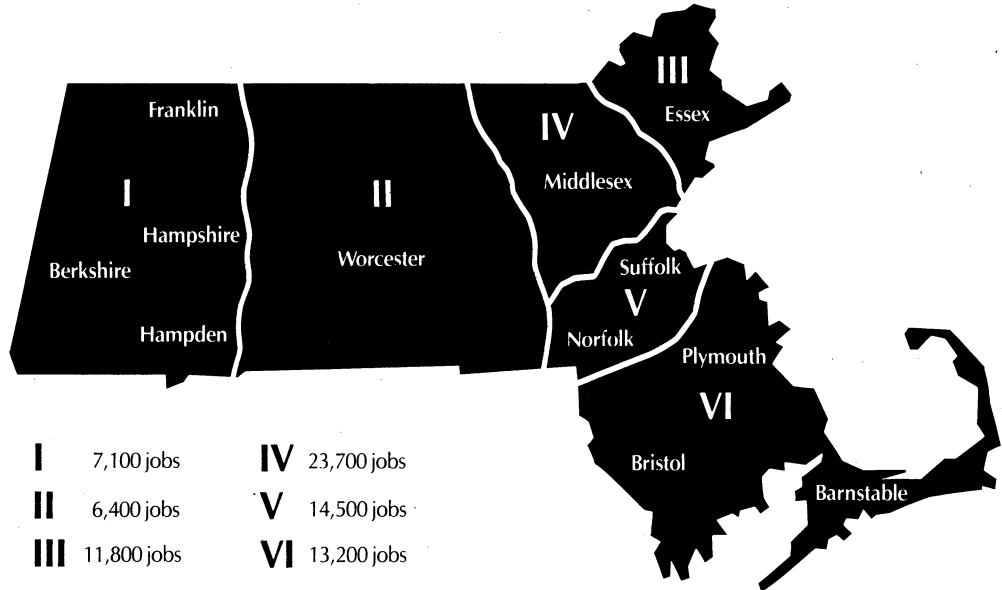
**MASSACHUSETTS INDUSTRIAL FINANCE AGENCY**

**Highlights by Program, Industry & Geography**

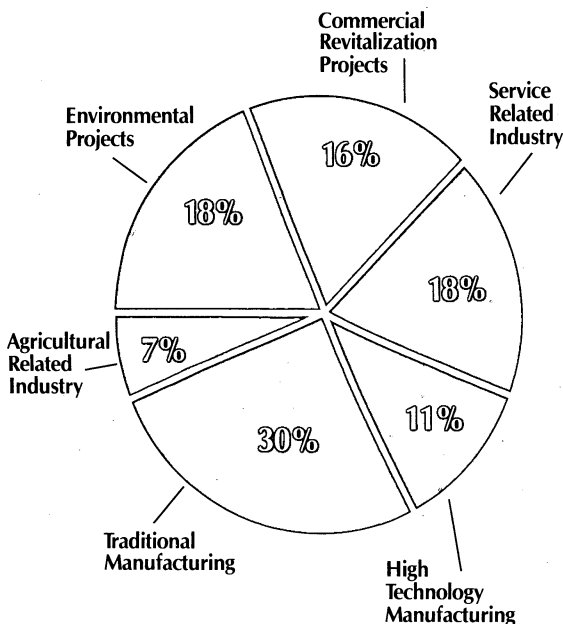
As an independent agency, MIFA is a bridge between the public and private sectors. With the statutory authority to issue tax-exempt bonds, insure loans and make direct loans, the Agency offers a variety of financial incentives that act as a catalyst for further private investment.

In nine years, MIFA has issued \$4 billion in bonds for some 2,100 industrial expansions and commercial revitalization projects, creating an estimated 76,000 new jobs across the Commonwealth. Through our newer programs, MIFA can now assist an even wider array of projects for growing businesses.

**GEOGRAPHIC DISTRIBUTION: CREATING EMPLOYMENT ACROSS THE STATE**



**A DIVERSE PORTFOLIO: EXPANSION CAPITAL FOR TRADITIONAL & NEWER INDUSTRIES**



**MIFA SINCE 1978: STATISTICAL HIGHLIGHTS**

PROGRAMS	# PROJECTS	\$ AMOUNT
<b>Tax-Exempt IDBs</b>		
Industrial/manufacturing projects	1791	\$3.4 billion
Commercial revitalization projects*	338	\$600 million
<b>Taxable IDBs</b>		
Industrial/manufacturing projects		\$200 million projected
Commercial revitalization projects		\$100 million projected
Guaranteed Loan Program	3 pools	\$38 million
Mortgage Insurance Program	50	\$13 million insured
Seafood Loan Fund	7	\$1 million
Child Care Facilities Loan Fund	3	\$100,000
Thrift Fund	6	\$11 million

\* Under the new federal tax code, commercial projects are no longer eligible for tax-exempt IDB financing.

**Massachusetts Industrial Finance Agency**  
 400 Atlantic Avenue  
 Boston, MA 02210  
 (617) 451-2477 or 1-800-MIFACTS  
 FAX: (617) 451-3429

S-564

Comm. from MIFA transmitting a copy of a report  
entitled "MIFA -Milestones And New Directions"  
& backup information.

In City Council,

September 28, 1987