NEW YORK UNIVERSITY
Stern Graduate School of Business

B40.3160.20 Monday 9:00 – 10:20 am
Project and Structured Financing Spring 2003

Professor Barry Gold

Office: Salomon Smith Barney
390 Greenwich Street
New York, NY 10013

Class Location: 2-90 Kaufman Management Center

Office Hours: By appointment

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Required Text:

Additional Reading Materials:
(all on Prometheus)

• Infrastructure Finance: Criteria and Commentary (June 6, 2001)
click on: Fixed Income⇒ Credit Ratings Criteria⇒ Ratings Criteria⇒ More…⇒<10>

• U.S. Legal Criteria in Structured Finance Transactions (April 1, 2002)
click on: Fixed Income⇒ Credit Ratings Criteria⇒ Ratings Criteria⇒ More…⇒<7>

• Bond Insurance Overview and Analytical Focus (June 22, 2001)
click on: Fixed Income⇒ Credit Ratings Criteria⇒ Ratings Criteria⇒ More…⇒<9>

• Securitizing Stranded Costs (January 18, 2001)
click on: Fixed Income⇒ Credit Ratings Criteria⇒ Ratings Criteria⇒ More…⇒<12>

• Overview of S&P’s Tobacco Securitization Rating Methodology (October 25, 2000)
click on: Fixed Income⇒ Credit Ratings Criteria⇒ Ratings Criteria⇒ More…⇒<13>

Other reading materials to be provided

Prerequisite:
A passing grade in Foundations of Finance and Corporate Finance

Grading: Project/paper, 30%; class participation/attendance, 20%; final examination, 50%. 
Course Objective:
The primary objective of this course is to provide the student with a basic understanding of (i) the segmentation of the various debt markets (public/"quasi-public", “traditional” private placement, bank loan, bi/multi-lateral and export credit agency) into three broad categories, sovereign finance, corporate finance and structured finance, with an emphasis on the latter (including “non-traditional” asset backed, structured corporate finance/leasing, securitization and primarily non-recourse/project finance), (ii) the financial tools and structures available for corporate sponsors, government and private sector entities to finance the development, construction and operation of discrete projects, particularly in the infrastructure sector (power, energy, transportation, telecommunications and environmental) and its result on overall sovereign and corporate financing capacity, (iii) the role that structured finance can play for issuers/sponsors to meet various balance-sheet, tax, accounting, rating or other risk management benefits, and (iv) the fragmentation of debt investors into “buy and hold” (generally active, “hands-on” investors) and “total rate of return” buyers (general “trader” types, looking for both current coupon/yield and realization of capital appreciation.)

Mid-term Examination: There will be a multiple choice open-book mid-term examination due on Monday, March 17, 2003. This examination is primarily for the purpose of permitting both you and me to assess your understanding of some key concepts. The examination grade will only be used if it improves your grade, not if it would reduce it.

Project: You may work individually, or in a group totaling up to 5 people; the project will be graded with a degree of scrutiny directly related to the size of the team.

- Please select a situation where project financing would be appropriate (based on something about which you have read or heard, or a hypothetical project); you may not use a project which has already been financed or where an analysis is publicly or non-publicly available
- E-mail to me by Friday, February 7, 2003, your project and group
- I will discuss the assignment in more detail on Monday, February 10, but it will include a full technical and business description of the project, a thorough credit and risk analysis, and a comprehensive financing plan; outline/format to be provided
- Please e-mail questions to me or ask on Monday, February 10

Useful Weblink:
S&P Issuer Credit Rating Definitions
http://www2.standardandpoors.com/NASApp/cs/ContentServer?pagename=sp/Page/HomePg
click on: Fixed Income⇒ Credit Ratings Criteria⇒ Ratings Definitions⇒ Long-term Issue Credit Ratings
### Course Outline

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<th>Session</th>
<th>Topic(s)</th>
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<td>1</td>
<td><strong>Introduction and Overview of Course:</strong> what is project and structured financing (as compared with sovereign finance and corporate finance); issuer/borrower objectives; introduction to the fixed income markets; how project and structured financing fit into the fixed income markets.</td>
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| 2       | **Understanding and Allocating Project Risks:** perspective of project financing; why use project financing; analyzing the various project financing risks.  
| 3       | **Security, Legal and Contractual Issues:** the particular emphasis on security and legal enforceability for project financing; introduction to contractual offtake for power plant and pipeline financing.  
| 4       | **The Role of Credit Ratings:** role of ratings in project and structured financing; project financing credit criteria; political risks and the importance of sovereign ratings.  
| 5       | **Financial Analysis and Viability**  
Reading: Finnerty, *Project Financing*, chapters 6 – 8; |
| 6       | **Financing Sources:** senior debt, subordinated debt, equity/mezzanine debt; investment grade and high-yield debt; sources of capital: capital markets (public and private), commercial banks, export-credit/multi-lateral agencies.  
| 7       | **Sovereign and Political Issues:** host jurisdiction risks; public private partnerships; role of local and central governments.  
Reading: Finnerty, *Project Financing*, chapter 10; Enron’s Dabhol Power Project in India: A Case Study; additional materials to be distributed. |
Session | Topic(s)
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8 | Deregulation: “merchant” power plants; water projects.

Reading: S&P, Infrastructure Finance: Criteria and Commentary, pp. 53 – 60, 72 – 81; Salomon Smith Barney: “Nonrecourse” Merchant Generation Debt (to be provided); Moody’s: Moody’s View on Energy Merchants (to be provided.)

9 | Commodity/End-User Projects: telecommunications, transportation, oil/gas and mining projects.


10 | Non-Traditional Asset-Backed Finance and Securitization: as distinguished (in analysis and marketing) from “traditional” asset-backed securities; credit analyses vs. statistical analyses of relevant default rates.


11 | Other Structured Finance

Reading: to be assigned and distributed.

12 | Commercial Bank Loans and Project Financing

Reading: S&P: Infrastructure Finance: Criteria and Commentary, pp. 113 – 118; additional materials to be distributed.

13 | Future of Project and Structured Financing

Reading: Salomon Smith Barney: Introducing the “Disaggregators” (to be provided); additional materials to be distributed.

14 | Final Examination