November 23, 2024

Loans

Dear Reader:

The following document was created from the CTAS website (ctas.tennessee.edu). This website is maintained by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other CTAS website material.

Sincerely,

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Loans

Reference Number: CTAS-1791

Issuing debt by loans has been an option taken by many governments over the years as a way to reach a more economic scale in the issuance cost. A loan program involves a firm developing a program where bonds are issued in a large denomination (several $100 million) through a public building authority. This money is then loaned to the local government. Loans can be on variable or fixed rates. In cases where governments borrow under a loan program, generally there should be a reduced issuance cost due to the issuance cost for the one large denomination bond being spread over many loans, as opposed to issuance cost on individual bonds. Further, the need for a financial advisor is minimized due to the individual bonds not having to be underwritten. If a county is considering loans, these loans also should be on a request for proposals. Further arbitrage issues do not arise on these loans since the government receives the funds on a drawdown as needed basis.

Recommended Practice: If your county has selected to issue loans for their debt, then the county should solicit loan rates and related cost

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