A NEW STUDENT UNION BUILDING

AMS Loan from UBC
$68.3 Million
Amortization 35 years
Interest @ 5.75% per annum

Agreements approved by Student Council on April 30, 2010
Expected occupancy May 2015

AMS Capital Contribution
$15.75 Million collected from students

UBC Contribution
$25 Million
Current State

• 35 year loan from University of British Columbia Endowment Fund
• Fixed rate of 5.75%
• Principal of $68,000,000
• Prepayments up to 100% allowed without penalty
Current State

• **Major Benefits**
  - Zero interest rate risk
  - Prepayments without penalty
  - In case of default UBC assumes the debt, may repossess the building

• **Major Negatives**
  – Expensive, approx. $60 million more costly to the Society than commercial banks, over the 35 year term
Royal Bank of Canada

• Offered loan, $70,150,000 to replace the loan from UBC, and to complete the old SUB basement renovation
• Effective interest rate of 3.05% achieved by use of an interest rate swap agreement

Benefits:
• Projected savings of $62,600,000
• The Bank can assist us with our other banking needs
• Annual prepayments without penalty
• Loan will be fully repaid in 19 years
• Minuses:
• Negotiation Fee : $105,225
• Legal Fees : $50,000
• 3 year term, Bank COULD walk away
UBC vs RBC
Interest on Loan

Loan Interest

- $20,000,000
- $40,000,000
- $60,000,000
- $80,000,000
- $100,000,000

$92,682,934

UBC (35 years)
RBC (25 years)
Interest rate Swaps

• An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount. (Investopedia)

• Floating rate loan hedged by entering into an interest rate swap agreement

• Effectively we would have a fixed rate loan with prepayment flexibility

• Only variable element is the Credit spread charged by the Bank, this can change if the credit risk of the Society changes
What if…?

- UBC rate is 5.75%
- Fixed rate is 2.55% (currently)
- Variable rate is 0.50%
- These rates would need to increase manifold for us to reach the same level as UBC
Clarification

• The savings mentioned in this presentation are all future savings such that future students will only pay the student levy for the next 25 years, not 35 years.
Questions?
Motion

• Be it resolved that AMS Council approve the following agreements regarding the Nest refinancing:
  • 1. Credit agreement between RBC and AMS
  • 2. Tripartite agreement between RBC, UBC, and the AMS