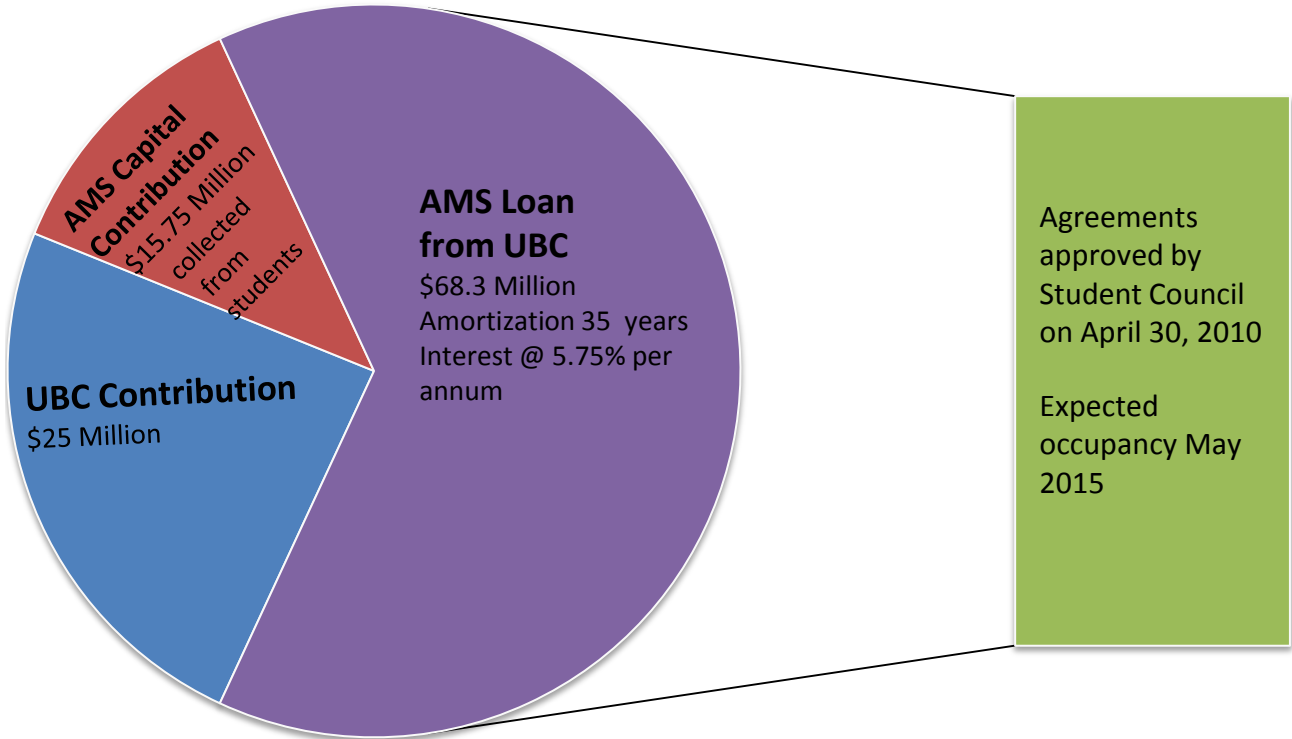


Nest Refinancing  
The Way Forward

# A NEW STUDENT UNION BUILDING



# 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

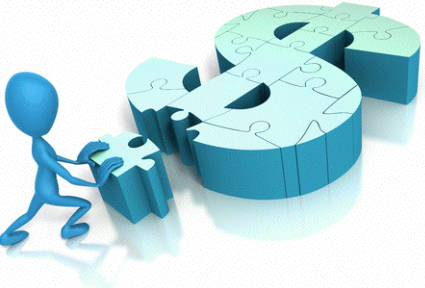
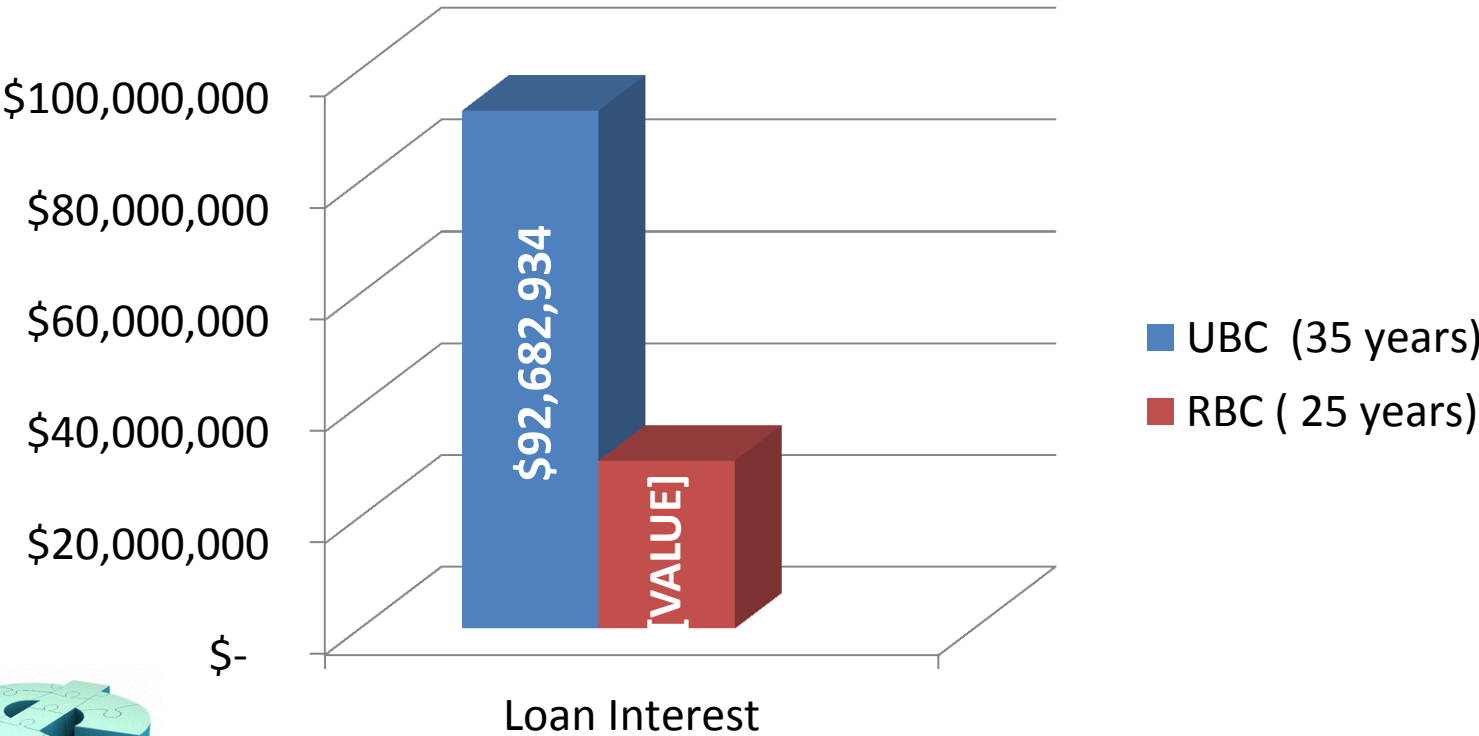
## **Benefits:**

- 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



# 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...?

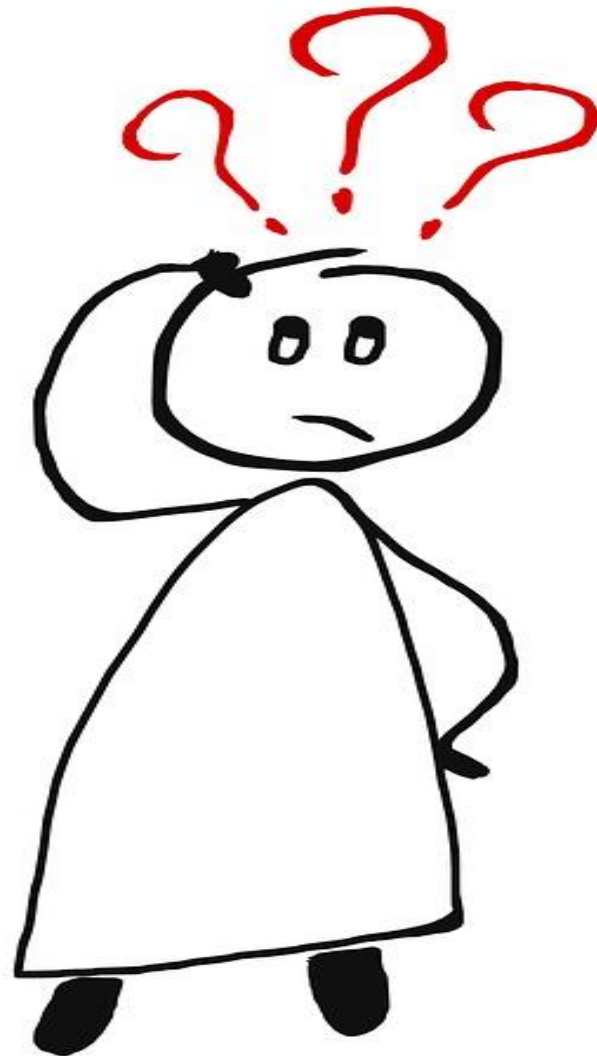
- UBC rate is 5.75%
- Fixed rate is 2.55% (currently)
- Variable rate is 0.50%
- These rates would need to increase manifold for us to reach the same level as UBC



# 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 loan facility from Royal Bank of Canada to repay the loan from UBC to finance the construction of the Nest, and to renovate the basement of the old SUB, and direct the Managing Director to finalize the deal as soon as possible.