Major Terms and Conditions of the IBRD Variable Spread Loan (VSL)[i]

Originally called Variable-Rate Single Currency Loan (VSCL or SCL)

Lending Rate	The lending rate on VSLs consists of: (a) a *variable base rate* of six-month market reference rate in respect of each interest period for each loan; and (b) a *variable spread.* The lending rate is reset every six months, on each interest payment date, and applies to the interest period beginning on that date. All VSL interest payment dates fall on the 15th of the month. The lending rate is expressed, and interest accrues, on a market reference rate day-count convention on daily principal volumes disbursed and outstanding. [1] Interest continues to accrue on any overdue principal, but IBRD does not charge interest on overdue interest on its loans.
Commitment Charge	The contractual commitment charge for a VSL is 0.75% annually on the undisbursed amount of the loan. Commitment charges begin accruing 60 days after the Loan Agreement is signed.[2]
Waivers	In conjunction with the annual review of IBRD's net income, the Board may waive (a) part of the interest charges on its loans in the coming year for all eligible borrowers, and (b) a portion of the commitment charge to be collected in the coming year for all borrowers. To be eligible for the interest rate waiver, a borrower must have serviced all of its IBRD loans and have paid all amounts under IBRD guarantees and hedging products during the preceding six-month period within 30 calendar days of their due dates.[3] The interest rate and commitment charge waivers apply to all loan products offered by IBRD for standard lending operations. At the beginning of each fiscal year, IBRD notifies each borrower of the interest rate waiver and commitment charge waiver applicable for that fiscal year.[4]
Front-end Fee	For all loan commitments IBRD charges a front-end fee of 1% of the amount of the loan, payable on loan effectiveness. At the option of the borrower, the front-end fee can be paid out of the loan proceeds. When the borrower does not finance the front-end fee, the borrower must pay the fee no later than 60 days after the effectiveness date, but before the first withdrawal from the loan. If the loan is cancelled, adjustments to the front-end fee are handled as follows: a) If the loan is cancelled in full before effectiveness, no front-end fee is charged. b) If part of the loan is cancelled before effectiveness, the amount of front-end fee payable is

[1] The market reference rate day-count conventions are: actual/360 days for U.S. dollars, Japanese yen, and euro; and actual/365 days for pounds sterling.

[2] Although commitment charges begin to accrue 60 days after signing, the Bank does not charge commitment charges for loans which fail to become effective.

[3] Except for any overdue payments that the World Bank determines to be minor in nature or beyond the borrower's control.

[4] Commitment charges, lending rate waivers, and commitment charge waivers are expressed and accrued on an actual/365-366 day-count convention. The World Bank Treasury website sets out these waivers (*www.treasury.worldbank.org*).

reduced on a pro rata basis and the adjusted front-end fee is payable to the Bank upon effectiveness.

c) If the loan is partially or fully cancelled on or after effectiveness, no adjustment to the front-end fee is made. This applies equally to loans disbursed in tranches: if a tranche is cancelled after effectiveness, no portion of the front-end fee is refunded to the borrower.

Loan Currencies

VSLs are committed and repayable in the currency or currencies of the loan selected by the borrower. IBRD offers VSLs in euro, Japanese yen, U.S. dollars, and other currencies that it can efficiently intermediate.

Maturity Limits

The amortization, grace period, and final maturity of the loan are set at the time of IBRD approval of the loan. Grace periods and final maturities are expressed in periods of six or 12 months, with the first and final principal repayment dates identified as follows:

(a) The first principal repayment date generally occurs six months after the expiration of the grace period.[5]

(b) The final principal repayment date is calculated as the first interest payment date plus the number of years to final maturity, less six months.

The final maturity and grace period limits are based on specific income categories. For each category, the standard repayment terms are as follows:

Country Income Category	Grace period (years)	Final maturity (years)	Repayment Pattern
I & II	5	20	Annuity
III	4	17	Annuity
	5	17	Level
IV & V	3	15	Annuity
	5	15	Level

Flexibility in Setting Terms. If justified by the Region on the grounds of project or country needs, the standard terms may be modified as follows:

(a) For countries in all income categories, the grace period may be extended if the final maturity of the loan is shortened from the standard terms to compensate for any such extension (at the rate of one year of final maturity for every six months of grace).

(b) For countries in income categories I and II, the grace period and final maturity of a loan

[5] The first principal repayment date is the semiannual interest payment date agreed upon by IBRD and the borrower at negotiations, such that the interval from the expected date of Board approval of the loan to the first principal repayment date is three to nine months longer than the grace period. If the actual loan approval date is significantly earlier or later than the date expected at negotiations, the grace period provided may no longer be in accordance with these terms. In that case, the first and final principal repayment dates are be changed to comply with these terms.

	may be modified as long as the loan's average life[6] remains within the standard set for borrowers in that category. (c) For countries in all income categories, the grace periods and final maturities on particular loans may be extended, provided that compensating reductions are made in the grace periods and final maturities of other loans made to or guaranteed by the country in the same fiscal year. The weighted average grace period and final maturity for all loans committed to a country in the same fiscal year must remain within the country limit.
Amendment of Approved Terms	Borrowers must choose the repayment terms before IBRD approval; repayment terms cannot be changed once IBRD has approved the loan. Also, IBRD normally does not reschedule interest or principal payments on its loans or participate in debt rescheduling agreements with respect to its loans. However, IBRD may amend existing repayment terms under extraordinary country or project circumstances or when the principal disbursed and outstanding is less than the scheduled principal repayment.
Payment Dates	Debt service payment dates will be on the 15th day of a month and semi-annually thereafter, as decided by the borrower during loan negotiation.
Prepayment	VSLs may be prepaid in full or in part. IBRD charges a prepayment premium. It is based on IBRD's redeployment cost of the prepaid funds and is derived from the difference between the contractual lending spread of the prepaid loan and the contractual lending spread in effect for VSLs in the currency of the prepaid loan at the date of prepayment.[7] The net present value of the cash flows is computed by taking into account current market rates and the total spread in effect for VSLs at the date of prepayment. Prepaid amounts are applied first to the latest maturities due on the loan.[8]

[6] Average loan life is a measure of the period during which the borrower has use of the loan proceeds, and is calculated as the sum of the annual loan balances divided by the face value of the loan.

[7] Article III, Section 3.04 (c) of the General Conditions applicable to VSLs provides that the premium payable on prepayment of any maturity shall be an amount reasonably determined by the Bank to represent any cost to the Bank of redeploying the amount to be prepaid from the date of prepayment to the maturity date. Although the spread on the VSL includes a variable margin that is adjusted every six months on the basis of the weighted average cost margin of the debt allocated to VSLs, under current practices, the calculation of the redeployment cost derived from the difference in the variable margins would result in a de minimis amount being payable to the Bank (being the difference in spreads for the period from the date of prepayment until the next following interest payment date). As this amount is not likely to be significant, under current practices, the difference in the VSL's variable margin is not included in the calculation of the prepayment premium.

[8] If a borrower fully prepays a VSL with an undisbursed balance remaining, amortization payments will be due immediately after the grace period on any future disbursements. Thus the borrower may prefer to cancel any undisbursed balance on a loan for which the disbursed balance would be prepaid in full.

[i] This product was withdrawn in 2008. The above is not necessarily a complete treatment of the terms and conditions of these loans. Borrowers should refer to their loan agreements and General Conditions with respect to their individual loans.