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PRODUCT NOTE

IBRD Short Maturity Loan (SML)

Highlights

The Short Maturity Loan (SML):

- *7-years final maturity*
- *Offers a lower interest rate loan spread of 20-bps*
- *For clients seeking shorter maturities for lower pricing*
- *Best suited for development policy loans*

IBRD's Short Maturity Loan (SML) is designed for clients who prefer shorter maturities and lower pricing.

This loan type is explicitly aimed at countries with access to capital markets, enabling them to repay or refinance the loan with a shorter maturity.

The SML fits well with fast-disbursing operations like Development Policy Financing (DPF), to maximize the cost of the debt service.

Repayment Terms

The SML's maximum **final maturity is 7 years**, including the grace period from the date of the board's approval.

The SML follows the same principles as the IBRD Flexible Loan, which allows borrowers to customize repayment terms (i.e., grace period, repayment period, and amortization profile) to meet each client's debt management or project needs.

Pricing

The SML offers a lower interest rate loan spread of **20-bps** compared to an 8-year average repayment maturity (ARM) pricing bucket.

Variable Spread (%)			
		SML 7 years final maturity	**8 Years ARM and below**
Average Funding Spread		Based on the IBRD average funding spread updated every quarter	
Contractual Spread		+0.50	
Maturity Premium	Group A	**-0.20**	**0**
	Group B	**-0.20**	**0**
	Group C	**-0.20**	**0**
	Group D	**-0.15**	**+0.05**

Risk Management Features

The SMLs benefit from the same risk management tools as the IBRD Flexible Loan to mitigate currency and/or interest rate risks over the life of the loan. Eligible small states also have a disaster risk management option by selecting to include the Climate Resilient Debt Clause (CRDC) in their loan agreement[1]

[1] Eligible borrowers can defer their principal and interest payments and other loan charges for up to two years, for loans with at least five years of remaining maturities. Small states include: IBRD and IDA-eligible Small State Economies, members of Small States Forum and Small Island Developing States as defined by UN.

Lending Rate	The lending rate consists of a variable reference rate plus a variable spread. The lending rate is reset on each interest payment date and applies to interest periods beginning on those dates. The reference rate is the value of the applicable market rate for a six-month interest rate period (SOFR for USD, TONA for JPY, SONIA for GBP, and EURIBOR for EUR). The loan interest rate charge can be capitalized. The variable spread, resets quarterly: Consists of IBRD's average cost margin on related funding relative to the applicable reference rate plus IBRD's contractual spread of 0.50%. The variable spread is recalculated on a quarterly basis and applies to the interest period commencing on the interest payment date falling on or immediately following the recalculation date but falling prior to the next recalculation date. The SML offers a lower interest rate loan spread of 20-bps compared to an 8-year average repayment maturity (ARM) pricing bucket.
Fees	Front-end fee of 0.25% of loan amount is due within 60 days of effectiveness date of the project, but before the first withdrawal from the loan, and may be financed out of loan proceeds. Commitment fee of 0.25% is charged on undisbursed balances and starts to accrue 60 days after signing date except for the loans that benefit from the 4-year grace period. The CRDC is offered to eligible borrowers at no cost to them.
Maturity Limits and Repayment Schedules	Policy Limits: For short-maturity loans (SMLs), the final maturity is 7 years, including the grace period from the date of the board approval. Borrowers have the flexibility to tailor the repayment schedule during loan preparation. Once the loan is approved by IBRD, the repayment schedule cannot be changed. Borrowers have a choice of two types of repayment schedules: • Commitment-linked Repayment Schedule: The loan repayment schedule begins at loan commitment. Principal repayments are calculated as a share of the total loan amount disbursed and outstanding • Disbursement-linked Repayment Schedule: The loan repayment schedule is linked to actual disbursements. Each semester's group of disbursements is similar to a tranche with its own repayment terms (i.e., grace period, final maturity, and repayment pattern). Each semester's group of disbursements would have the same repayment terms.
Loan Currencies	• Currency of Commitment: Loans are offered in most major currencies like EUR, GBP, JPY, and USD. Other currencies may be available if the IBRD can fund itself efficiently in the market. Borrowers may contract loans in more than one currency. • Currency of Disbursement: Disbursements may take place in any currency, as requested by the client. Currencies are acquired by IBRD and passed on to the client at market terms. The loan obligation, however, remains in the currency of commitment. • Currency of Repayment: The loan principal, interest, and any other fees must be repaid in the currency of commitment. However, currency conversion options may be available as specified below.
Currency Conversion	• Undisbursed Amounts: All or part of the undisbursed balance may be converted from one major currency into another major currency which IBRD can efficiently intermediate (see "Currency of Commitment" above). • Disbursed Amounts: All or part of the disbursed and outstanding balance may be converted into another currency, including the borrower's local currency, subject to the availability of a liquid swap market for that currency. Amounts converted to certain local currencies may be repaid in a major currency, although the borrower's obligation will be denominated in the local currency.
Interest Rate Conversion	The reference rate applicable to the disbursed balance may be converted to a fixed rate and may be subsequently converted to a variable reference rate. The variable spread component of the lending rate, however, will not be converted. Alternatively, a cap or collar on the reference rate may be established for up to the entire disbursed and outstanding amount.
Conversion Fees	Transaction fee(s) for currency and/or interest rate conversions may apply (http://treasury.worldbank.org).
Payment Dates	Debt service payment dates will be on the 1st or 15th day of a month and semi-annually thereafter, as decided by the borrower during loan negotiation.
Prepayment	Borrowers may prepay all or part of the outstanding loan balance at any time. There is no prepayment fee; however, for loans with conversion in place, there could be a cost of unwinding the hedge.

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.

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