**The World Bank**

Washington, D.C. 20433 U.S.A.

[Date]

Dear [ ]:

Re: [Country] – [Project Name]

# Financial Terms and Conditions of the IBRD Flexible Loan (IFL)

The International Bank for Reconstruction and Development (IBRD) offers borrowers the opportunity to tailor the IFL’s financial terms to meet sovereign debt management and/or project financing needs. Borrowers can select the following financial terms: currency, interest rate, disbursement schedule, and repayment terms. To best meet your portfolio and/or project needs, IBRD encourages you to consider loan term choices as early as possible during project preparation. This letter provides a summarized description of the loan term choices currently available for the above referenced project.

# 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 variable spread consists of IBRD's average cost margin on related funding relative to the applicable reference rate plus IBRD’s contractual spread of 0.50% and a maturity premium for loans with average maturities greater than eight years. It resets semi-annually, 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.

# Repayment Terms

The final maturity including the grace period, cannot exceed 35 years. Two types of repayment schedules are available:

* *Repayment schedules linked to commitment* - The loan repayment schedule is linked to the timing of loan commitment. Principal repayments are calculated as a share of the total loan amount disbursed and outstanding.
* *Repayment schedules linked to disbursement* - The loan repayment schedule is linked to actual disbursements. Each semester’s group of disbursements is treated as a separate tranche with its own repayment terms (i.e. grace period, final maturity, and amortization profile), and must be the same for all tranches within the loan. Generally, it is suitable for large investment projects or other projects involving on-lending.

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\*For the Deferred Drawdown Option (DDO), the spread applicable to each withdrawal is IBRD’s spread for the loan currency of the withdrawal in effect at 12:01 am Washington DC time, on the *withdrawal date*.

# Amortization Profile

Borrowers may choose a grace period and an amortization profile that best suits the needs of the project and/or portfolio, and meets IBRD’s average maturity limit of 20 years and final maturity limit of 35 years. Four types of amortization schedule are available:

* *Level Repayment*: The principal is repaid in equal installments over time.
* *Annuity Repayment*: The principal is repaid in increasing installments over time to keep the payments of principal plus interest as equal as possible.
* *Bullet Repayment:* The principal is repaid in one lump sum at the end of the term of the loan. Borrowers must specify the repayment date.
* *Customized Repayment*: Principal repayments can be customized to meet the borrower’s needs. Borrowers specify the payment dates and corresponding amounts.

# Embedded Risk Management Tools

IFLs have built-in flexibility to allow borrowers to manage interest rate and currency risks throughout the life of the loan. Borrowers may choose the embedded conversion options, namely currency conversions, interest rate conversions, and caps and collars. Borrowers may also choose Automatic Rate Fixing which operates as a standing order, as amounts are disbursed, to convert the reference rate portion of the lending rate from variable to fixed.

Enclosed please find the Loan Choice Worksheet which we ask you to complete and return to us so that we can reflect your choice of loan terms in preparing the draft legal documentation for this project. Borrowers may also download this form on-line. In addition to the loan worksheet, borrowers can access more detailed information on financial terms of IFLs, current pricing for variable spread and applicable pricing for legacy fixed spreads[[1]](#footnote-1), useful tools for weighing loan term choices, risk management options and transaction fees on the World Bank Treasury website at: <https://treasury.worldbank.org/en/about/unit/treasury/ibrd-financial-products>[.](http://treasury.worldbank.org/)

The World Bank Treasury is available to assist you in the selection of financial terms for this project. Please do not hesitate to contact Miguel Navarro-Martin, Manager, Financial Products and Client Solutions, +1 202 458-4722, mnavarromartin@worldbank.org.

Sincerely,

Attachments: Loan Choice Worksheet

1. The fixed spread term under the IFL is suspended effective April 1, 2021. [↑](#footnote-ref-1)