



CITY OF HAMILTON DEVELOPMENT BOND PRESENTATION

MARSH CANADA LIMITED

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May 20, 2021



Contents

- Development Bond History
- Development Bond Overview
- Bond Wording
- Surety Credit
- Surety Underwrite
- Benefits
- Municipalities



Development Bond History

- Many Canadian municipalities accept only Letters of Credit (LCs) as security.
- Industry and municipality collaboration to craft a commercially viable Development Bond instrument that is a practical alternative to LCs.
- City of Calgary became the first major municipality to accept the Bond.
- Multiple municipalities have since begun accepting the Bond.

Development Bond Overview

- Development Bond is another security option that a Municipality may accept.
- Bond provides financial assurance to a Municipality that a Developer will successfully complete all obligations under the development agreement.
- Bond may be reduced, and ultimately released, upon achievement of Construction Completion Certificates and Final Acceptance Certificate.

Development Bond Wording

- **Pay on demand**
 - No onus on Municipality to prove default; sole and absolute discretion
 - Surety no right to defend
- Defined **payment period** of 7 days
- **Irrevocable**
- **Evergreen** – automatically renews annually
- Notice of **cancellation provision** – 90 days' notice
 - If replacement security not provided, Municipality can draw on Bond
- **Partial drawdowns** permitted
- Bond amount **may be reduced** – only with written approval from Municipality

LC vs Development Bond

Features	Letter of Credit	Development Bond
Demand in nature	✓	✓
Irrevocable	✓	✓
Evergreen / continuous	✓	✓
Partial draw-downs permitted	✓	✓
Partial reductions in amount permitted	✓	✓
References specific agreement	✓	✓
Notice of Cancellation required	✓	✓

Surety Credit

- Sureties are regulated by OSFI (like banks)
- Minimum capitalization requirements
- AM Best rating
 - Recommend minimum threshold of A-

Surety Underwrite

- Sureties are selective – not all developers will qualify for bonds
- Thorough review of:
 - Developer's credit quality
 - Developer's history
 - Project-specific details
 - Project economics
 - Schedule
 - Construction trades
- Corporate guarantees

Benefits

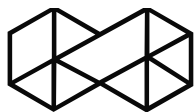
- Improves liquidity for Developer
 - Funds can go towards cash flowing the development
 - Funds freed up for further investment in the community
- Provides Municipality with same financial assurance as LCs
- Surety prequalification provides Municipality with additional assurance of Developer's ability to successfully complete development

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