MIT Golub Center for Financial Policy
Mission & Metrics: Finance Training for US Credit Program Professionals

Group Project: Credit Program Design
Strengthening the Supply Chain for Infrastructure Investment

Given critical physical infrastructure needs across the US, policymakers are considering ways the federal government might spur national infrastructure development and improvement. Providing credit guarantees to qualifying businesses that produce essential inputs for public infrastructure investments (e.g., construction, design services, engineering, materials, etc.) would help ensure the availability of the goods and services necessary for state and local governments to pursue large-scale infrastructure investment programs.

Your group's assignment is to come up with a suggested structure for this new federal credit guarantee program. Imagine that Congress has appropriated $200 million to cover credit subsidies associated with the program for each of the next 5 years, starting in the 2nd half of 2017. Funds have also been appropriated to cover administrative costs.

You are encouraged to make additional assumptions about the types of likely participants, their behavior, and the constraints they face, etc., that help to determine and explain the best course of action. In structuring your proposal, please be prepared to answer the following questions:

1. What are the potential benefits of making this a credit program rather than a grant program?

2. What would be the key determinants of and restrictions on eligibility? State the share you assume will fall into each risk group in the spreadsheet.

3. What information would be required from borrowers?

4. Would the agency, a private financial partner, local governments, or some other entity be responsible for selecting and screening borrowers and administering other aspects of the program?

5. How would the loan products or guarantees offered be structured and why?

-- What range of maturities would be offered? Why?

-- What sizes of loans would be offered? What would determine size limits?

-- What fees would be collected and how much would they be? How much upfront? How much each period?

-- What repayment options would be made available?

-- What percentage guarantee would be provided? What interest rate do you expect borrowers will have to pay given your choice of guarantee percentage?

6. What further rules or structures would you impose to limit moral hazard and adverse selection, and to monitor and control credit risk more generally?

7. What could be done to economize on administrative costs?

8. Based on your answers to the above questions, approximately how many loans are you able to make and stay within the appropriated limit each year? What would be the average loan size? What would be the total amount of credit backed by the guarantees?