

Headline News:

1/30/12: Seminole casino doubles down

(www.sun-sentinal.com)

1/27/12: Warm Springs Casino to open

(www.registerguard.com)

1/24/12: Mohegan seeks refinancing with exchange offer

(www.bloomberg.com)

1/15/12: Senecas plan to get bigger in Buffalo

(www.bizjournals.com)

1/5/12: Tejon tribe gains recognition, possibility of casino

(www.bakersfield.com)

Select TFA Mandates

California Tribe: TFA is engaged as Financial Advisor and Placement Agent in connection with raising \$63 million of debt.

California Tribe: TFA is engaged as Financial Advisor to the Tribe.

California Tribe: TFA is engaged to perform a lease valuation.

East Coast Tribe: TFA is engaged as Financial Advisor to the Tribe.

Pacific Northwest Tribe: TFA is engaged as Financial Advisor to the Tribe.

What Does the Recent Fed Announcement Mean?

By Aaron Mugg

In January, the Federal Open Market Committee announced that it intends to keep the target range for the Fed Funds Rate at 0 to 1/4 percent through 2014 and that it will continue programs designed to decrease longer-term interest rates. Also, for the first time ever, the Committee published a range of projections for three economic measures – inflation, unemployment, and GDP. Of these measures, the inflation projection of 2% represents a stated policy goal of the Fed and serves to anchor public expectations.

Collectively, these actions serve as a declaration that the Fed sees the need to continue to implement policies designed to spur economic growth through 2014 and beyond.

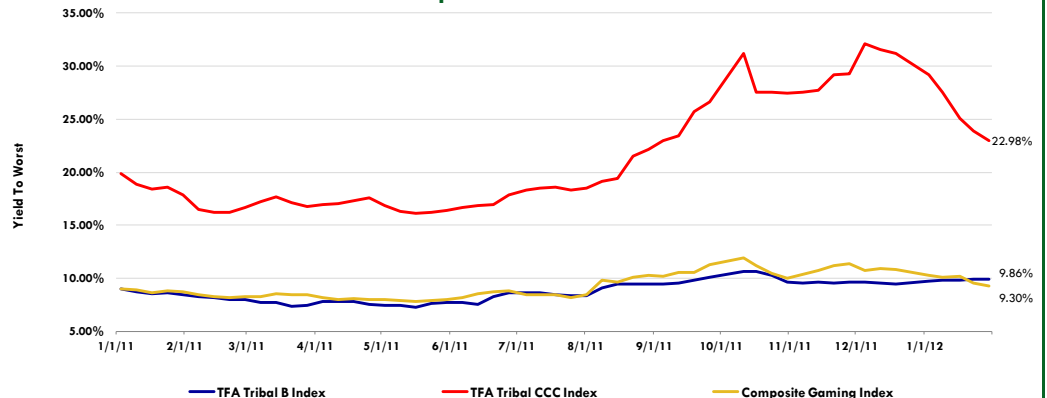
So What Does This Mean?

In a nutshell, the announced target for the Fed Funds Rate assures banks of extremely low short-term borrowing costs over the next 2-3 years, which in turn should be passed along to their customers in the form of lower interest rates on loans.

Low interest rates are a double-edged sword. From an investing perspective, it limits the return attainable via saving cash or equivalent securities. Savers are penalized. For example, with savings accounts and money market funds yielding nearly 0% and inflation at around 2%, the saver actually *loses purchasing power* over time by investing in the lowest risk instruments. Only by tak-

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TFA Index Chart: A Comparison of HY Bond Interest Rates



Source: Wall Street High Yield Research
Notes: Yield to Worst represents the current average interest rate on bonds that comprise each index. Composite Gaming Index represents the average market interest rate of over 80 corporate and Tribal high yield gaming issues

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ing greater risks with their investing strategies will savers be in a position to achieve greater returns in this environment.

On the other hand, given these conditions, borrowers are rewarded as the Fed is trying to spur capital investments and other forms of economic activity. Loans are cheaper and projects that could not have been financed a year ago are hitting the markets. We are seeing investors chasing yield as money has flowed into areas such as the High Yield market, driving demand and thus investment in these riskier assets. Last week saw over \$8 billion in new issuance in the High Yield market alone and the launch of 4 new deals in the corporate gaming space. In bank loans, we continue to see evidence of aggressive pricing for conservatively leveraged Native American borrowers.

How Can Tribes Take Advantage of These Conditions?

Given the backdrop of a modest economic recovery and the high operating cash demands of many Tribal businesses, if your Tribe happens to be in the fortunate position of generating excess cash or has the capacity to borrow – con-

sider re-investment in your existing businesses (or launching a new one). Before just parking your available cash in a (very low yielding) interest bearing account or chasing returns in the financial markets, re-evaluate the potential returns on capital projects that have been put on hold, such as a refurbishment of the gaming floor, a hotel expansion or another tribal economic proposition.

Second, take this opportunity to review your outstanding debt and your banking relationships. You may have a golden opportunity to refinance your existing debt into a structure featuring a lower interest rate, less amortization, or more flexible covenants. The reduced debt service could result in significant savings over time and free up cash for tribal government or additional economic development programs.

Finally, there is an old adage thrown about in financial circles – “don’t fight the Fed” – and for good reason: its policy decisions move markets. If the Fed is implementing policies that reward borrowing and encourage capital investment, it can’t hurt to ask the question and do the math – what you can accomplish may surprise you.

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