

Nevada State Infrastructure Bank

Interest Rate Setting Methodology

Overview:

Pursuant to the regulations governing the administration of the Nevada State Infrastructure Bank, the Board of Directors is responsible for establishing a methodology for determining the interest rate on a loan or other financial assistance provided by the Bank.

This methodology has been designed to help the Bank achieve the following goals:

- 1) Mitigating the risks of lending to lower creditworthy borrowers by including risk-based factors in the interest rate setting methodology;
- 2) Increasing the attractiveness of the loans issued to borrowers with higher-rated credits, thereby improving the Bank's overall loan portfolio risk profile;
- 3) Allowing for interest rate adjustments and/or subsidies to be provided to qualified borrowers, yet simultaneously allowing the Bank to achieve its mission with respect to promoting employment opportunities and assisting underserved areas of the State by making additional subsidies available to borrowers in disadvantaged communities;
- 4) Ensuring long-term viability for the Bank by setting interest rates in a manner that covers the Bank's cost of funding loans, easily adjusting to changing market and economic conditions, and satisfying tax compliance requirements; and
- 5) Achieving the previous mentioned goals in a manner that is based on publicly available pricing data and is transparent to the borrowers and prospective applicants.

This methodology may be revised or amended as necessary by the Board of Directors of the Bank.

Interest Rate Benchmark and Adjustments:

Interest rates on loans and other financial assistance provided by the Bank to qualified borrowers are based on an interest rate benchmark based on the Municipal Market Data Index (MMD) published by Refinitiv.

This benchmark can be found in Appendix A.

Interest rates adjustments and subsidies will be set by the Board of Directors based on the following factors:

- (a) The structure and organization of the applicant;

- (b) The local fiscal capacity for the project, as measured by the median household income, debt per user or household and applicable taxes, and charges and fees as a percentage of the median household income;
- (c) The security for repayment and repayment pledge, as measured by the credit rating and credit review of the applicant and lien position of the Bank's financing as senior, parity, or subordinated;
- (d) The term of the financing offered by the Bank;
- (e) Other terms and conditions of the Bank's financing, including, without limitation, the frequency of repayment, repayment provisions and, as applicable, reserves and coverage;
- (f) The review and analysis of the project conducted by the staff of the Bank; and
- (g) Other factors determined by the Board of Directors, including without limitation, type of project, location of a project within a disadvantaged or historically underserved community, and the overall impact that a project may have on improving educational, health, and other socioeconomic outcomes for Nevada residents.

The Bank's interest rate adjustment process can be found in Appendix B.

Board discretion for additional subsidies:

Currently, the Bank is offering loans and other financial assistance for qualified projects through four separate accounts:

- The State Infrastructure Bank General Account;
- The Affordable Housing Revolving Account;
- The Charter School Capital Needs Revolving Account; and
- The Federal Infrastructure Matching Fund Account.

Recognizing that the types of qualified projects that may be financed through these respective accounts are different in nature, the interest rate adjustment process set forth in Appendix B may be further adjusted by the Board of Directors on a case-by-case basis. For example, interest rates on loans from the Affordable Housing Revolving Account would not exceed the interest rate on the first position mortgage loan rate.

Additional subsidies will be evaluated by first using the benchmark set forth in the MMD Index, and then incorporating additional project-specific subsidies to best suit the project type for each account.

APPENDIX A

Interest Rate Benchmark

Note: The chart below should be used only as a guide to help borrowers calculate projected interest rates. To ensure this methodology adequately reflects changes in the market, actual interest rates for borrowers will be determined by the MMD GO rate at the time of the loan.

Municipal Market Data General Obligation Yield Benchmark Rates (as of 9/6/23)				
	Aaa	Aa	A	Baa
One Year	3.23%	3.36%	3.58%	4.54%
Two Year	3.14%	3.29%	3.50%	4.45%
Five Year	2.86%	3.12%	3.32%	4.16%
10 Year	2.86%	3.20%	3.46%	4.05%
15 Year	3.39%	3.80%	4.10%	4.58%
20 Year	3.61%	4.01%	4.32%	4.76%
25 Year	3.78%	4.18%	4.49%	4.92%
30 Year	3.85%	4.25%	4.55%	4.99%

APPENDIX B

Interest Rate Adjustment Process

Interest rates on loans and other financial assistance provided to qualified borrowers through the Bank will be based on the following process:

Step 1: Use the borrower's published letter category ratings to determine the base rate from the MMD AAA GO Rates applicable to the borrower's loan term.

Unrated and/or below investment grade borrowers would utilize the assigned Baa rate for this step.

Once this is base rate is determined, please continue to Step 2.

Step 2: Apply interest rate adjustments/subsidies to the base rate determined in Step 1 subject to certain limits:

1. **General subsidy** - available to all rated borrowers equal to 15% of the applicable base rate. Unrated borrowers would receive a subsidy equal to 10% of the applicable base rate.
2. **Additional subsidies** – May be available to borrowers based on:
 - (a) the structure and organization of the applicant
 - (b) the local fiscal capacity for the project, as measured by the median household income, debt per user or household and applicable taxes, and charges and fees as a percentage of the median household income;
 - (c) The security for repayment and repayment pledge, as measured by the credit rating and credit review of the applicant and lien position of the Bank's financing as senior, parity, or subordinated;
 - (d) The term of the financing offered by the Bank;
 - (e) Other terms and conditions of the Bank's financing, including, without limitation, the frequency of repayment, repayment provisions and, as applicable, reserves and coverage;
 - (f) The review and analysis of the borrower's application for financing conducted by the staff of the Bank; and
 - (g) Other factors that determined by the Board of Directors, including without limitation, type of project, location of a project within a disadvantaged or historically underserved community, and the overall impact that a project may have on improving educational, health, and other socioeconomic outcomes for Nevada residents.
3. With the exception of loans made through the Affordable Housing Revolving Account, the Charter School Capital Needs Revolving Account, and the Federal Infrastructure

Matching Fund Account; the total subsidies applicable to loans would be limited to the equivalent of a 2-letter category credit upgrade and 1 Security Pledge upgrade, unless otherwise specified by the Board of Directors.

4. Upper limits on loan rates would be governed by tax law limitations on the portfolio yield.

By applying this methodology under these guidelines, individual loans would be structured using the adjusted rates derived from the items listed above.

Examples of various interest rate scenarios can be found below:

Aaa Rated Borrower (1 year)	
Base Rate:	3.23%
Subsidy (15% of applicable base rate):	-0.48%
Subsidized Rate for Aaa Rated Borrower:	2.75%

Baa Rated Borrower (30 years)	
Base Rate:	4.99%
Subsidy (15% of applicable base rate):	-0.75%
Subsidized Rate for Baa Rated Borrower:	4.24%

Unrated Borrower (30 years)	
Base Rate (use Baa for unrated):	4.99%
Subsidy (10% of applicable base rate):	-0.50%
Subsidized Rate for Unrated Borrower:	4.49%