Corporación Financiera de América del Norte
S.A. de C.V. SOFOM, E.N.R.

LOAN POLICIES AND PROCEDURES
TABLE OF CONTENTS

I. INTRODUCTION .................................................................................................................. 3

II. POLICIES FOR MAKING LOANS .................................................................................. 3

A. Eligible Borrowers ............................................................................................................ 4
B. Project Location ................................................................................................................ 4
C. BECC Certification .......................................................................................................... 4
D. Eligible Sectors ................................................................................................................ 4
E. Financial Terms and Conditions ..................................................................................... 6
   1. General Principles ....................................................................................................... 6
   2. Lending Limits ............................................................................................................ 6
   3. Eligible Costs ............................................................................................................. 8
   4. Form of Loan .............................................................................................................. 8
   5. Maturities .................................................................................................................. 8
   6. Currency; Exchange Risk .......................................................................................... 8
   7. Interest Payments; Calculation of Interest Rates ....................................................... 8
      a. Market-rate Loans .................................................................................................. 8
      b. Low Interest Rate Lending Facility (LIRF) Loans ............................................... 9
      c. Loans for which the Interest Rate Is Subsidized Through a NADB Grant Program .................................................. 10
   8. Commitment Fee ........................................................................................................ 10
   9. Other Fees ................................................................................................................ 10
  10. Demonstrable and Reasonable Assurance of Repayment ......................................... 10
  11. Security ...................................................................................................................... 11
  12. Limited Recourse Financing .................................................................................... 11
  13. Recourse Financing .................................................................................................. 11
  14. Federal Guaranties ..................................................................................................... 11
  15. Other Guaranties ........................................................................................................ 11
  16. Debt Service Coverage Ratio .................................................................................... 12
  17. Reserves ..................................................................................................................... 12
      a. General ................................................................................................................ 12
      b. Reserve Requirements ....................................................................................... 12
      c. Debt Service Reserve ........................................................................................ 14
      d. Operations and Maintenance Reserve .............................................................. 14
      e. Repair and Replacement Reserve .................................................................... 15
  18. Use of Loan Proceeds; Procurement ........................................................................ 15
  19. Other Terms and Conditions ..................................................................................... 15
F. Information and Disclosure Policies ............................................................................. 15
G. Waivers to and Revisions of Policies .......................................................................... 15
III. PROCEDURES FOR MAKING LOANS

A. Application

B. Acceptance Agreement

C. Loan Financing Proposal

D. Evaluation of the Financing Proposal

E. Approval of Financing Commitment

F. Negotiation and Execution of Loan Agreement

G. Disbursement of Funds

H. Project Supervision

I. Project Close-out

J. Loan File Información

1. Application, which must contain:

2. Authorization of the NADB Board of Directors and authorization of the COFIDAN Board of Directors

3. Loan study

4. Legal documentation of the borrowers and guarantors

ANNEX 1: LOAN APPLICATION

ANNEX 2: ACCEPTANCE AGREEMENT
I. INTRODUCTION

The Corporación Financiera de América del Norte, S.A. de C.V. SOFOM, E.N.R., (COFIDAN), formerly a limited-purpose financial institution, was established by the North American Development Bank (NADB), which is headquartered in San Antonio, Texas, and the United Mexican States through the offices of the Mexican Ministry of Finance and Public Credit (SHCP). The purpose of COFIDAN is to make loans in the environmental infrastructure sector to Mexican states and municipalities, as well as to their government-run agencies and institutions, and to private companies for projects and programs that have been duly approved by the Board of Directors of the Border Environment Cooperation Commission (BECC) and the North American Development Bank (NADB) (hereinafter the “Board of Directors”). In the financing operations that COFIDAN executes with NADB, the latter will bear the credit risk; therefore, COFIDAN will not need to establish reserves against such risk. Likewise, in the financing operations that COFIDAN and NADB execute, COFIDAN will transfer to its borrowers the conditions determined by NADB, including the interest rate and amortization period; therefore COFIDAN will not incur any liquidity or interest rate risks. Moreover, COFIDAN’s asset and liability transactions are denominated in the same currency, so there is no foreign exchange risk.

Activities related to project development, selection and evaluation, the procedures for obtaining financing and disbursements referred to in these Loan Policies and Procedures will be performed by COFIDAN, through the North American Development Bank, which will be responsible for keeping and safeguarding all the information.

II. POLICIES FOR MAKING LOANS

COFIDAN is authorized to make direct loans with its own funds. Since risk-sharing is fundamental to sound banking practices, COFIDAN may require other participants to provide a portion of the funding required for a project in the form of grants, equity contributions, or other loans. Projects must have sufficient revenues, equity, grants or other financial support to ensure repayment of COFIDAN’s loan.

In addition to reducing COFIDAN’s share of risk in a project, success in attracting other sources of financing for COFIDAN-financed projects maximizes COFIDAN resources available for funding other projects and provides further evidence that a project has a demonstrable and reasonable assurance of repayment. COFIDAN fully cooperates with other public and private sources of investment capital for the environmental infrastructure projects for which COFIDAN provides loan financing.

The following are the basic policies for making loans that govern COFIDAN participation in an environmental infrastructure project.
A. **Eligible Borrowers.**

1. Eligible borrowers are divided into two categories, Governmental and Private Borrowers.
   a) A “Governmental Borrower” is defined as any political subdivision of the government of Mexico, including states, municipalities or other governmental entities.
   b) A “Private Borrower” is defined as any other private enterprise in the territory of Mexico, including corporations, financial institutions, investors, and non-governmental organizations.
   c) The borrower for a project being sponsored by a public-private partnership will be considered a Governmental Borrower if the project has been determined to be a “Community Environmental Infrastructure–Community-wide Impact” project for purposes of BECC certification. The benefit to any such borrower of any lower financing cost as a result of being considered a Governmental Borrower shall be passed on to the project community.

2. In addition, borrowers may be defined as “investment grade” or “non-investment grade” borrowers.
   a) An “investment grade” borrower is a borrower with a BBB- or above global local currency rating by Fitch or Standard & Poor’s, or Baa3 or above by Moody’s.
   b) A “non-investment grade” borrower is a borrower with a global local currency rating below the ratings noted above. The national scale ratings in Mexico that are regarded as equivalent to investment grade are ratings by Moody’s of Aa3.mx or above, by Standard & Poor’s of mxAA- or above, and by Fitch of AA-(mex) or above.

B. **Project Location.** Projects must be located in the U.S.-Mexico border region, which is defined as the area in Mexico that is within 300 kilometers south of that border. A project may be located outside the border region if the NADB Board of Directors determines that the project would remedy a transboundary environmental or health problem.

C. **BECC Certification.** To be eligible for COFIDAN loan financing, a project must be certified by BECC.

D. **Eligible Sectors.** The environmental infrastructure projects that may be certified by BECC and financed by COFIDAN are defined as those that will prevent, control or reduce environmental pollutants or contaminants, improve the drinking water supply, or protect flora and fauna so as to improve human health, promote sustainable development or contribute to a higher quality of life. Moreover preference is given to projects relating to water pollution, wastewater treatment, water conservation, municipal
solid waste and related matters. The general characteristics of projects eligible for BECC certification and COFIDAN financing are described below.

<table>
<thead>
<tr>
<th>ELIGIBLE SECTORS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Priority Sectors</strong></td>
</tr>
<tr>
<td>a) <em>Water pollution</em> projects encompass facilities for the collection, transportation, treatment, storage and distribution of potable water from the sources of supply (groundwater or surface water) to the user. Facilities include, but are not limited to, buildings, structures, equipment and other appurtenances for: the collection of surface water or groundwater supplies, storage facilities such as natural impoundments or reservoirs; transportation of water by aqueducts, whether open channel, pipelines, or tunnels; treatment systems necessary to meet potable water standards; distribution systems to meet the requirements for domestic, commercial, industrial and firefighting purposes, including pipe systems and networks, pumping stations, storage facilities, fire hydrants, service connections, meters and other appurtenances; and storage, handling, treatment, recycling or reclamation systems for solids resulting from the treatment of water.</td>
</tr>
<tr>
<td>b) <em>Wastewater treatment</em> projects encompass facilities for the collection, conveyance, treatment and disposal of wastewater and solids derived from the treatment of such wastewater. Wastewater is water carrying wastes from residential, commercial or industrial buildings that is a mixture of water and dissolved or suspended solids, liquids or gases. Facilities include, but are not limited to, buildings, structures, equipment, and other appurtenances for: sewers (gravity, pressure, or vacuum); interceptors; force mains; pumping and lift stations; treatment systems for primary, secondary or tertiary treatment of wastewater necessary to meet treatment standards; industrial and commercial pretreatment; storage, handling, treatment, recycling or reclamation of solids resulting from the treatment of wastewater; and systems for the disposal of effluent or solids.</td>
</tr>
<tr>
<td>c) <em>Municipal solid waste</em> projects encompass facilities that are designed to collect or dispose of municipal solid waste (i.e., waste generated by households and commercial establishments, but excluding construction and hazardous wastes). A municipal solid waste project could include purchase of garbage collection and disposal equipment, closure of disposal sites, or facilities for transfer or disposal of municipal solid waste, or for recycling or recovering useful material from municipal solid waste.</td>
</tr>
</tbody>
</table>
Related matters include: industrial and hazardous waste projects, water conservation projects, water and wastewater hookups for housing, and recycling and waste reduction projects.

2. Additional Sectors

Additional types of projects that may qualify as environmental infrastructure projects include, but are not limited to, projects that improve air quality, public transportation projects, projects related to clean and efficient energy, and projects that improve municipal planning, development and water management.

E. Financial Terms and Conditions. The terms and conditions of a COFIDAN loan will be appropriate to the project financed and structured with a view toward preserving COFIDAN’s resources.

1. General Principles. In considering a request for a loan, COFIDAN must:

   - Take into account the ability of the borrower to obtain the loan from private sources of financing on terms which, in the opinion of COFIDAN, are reasonable for the borrower;
   - Pay due regard to prospects that the borrower and its guarantor, if any, will be in a position to meet their obligations under the loan contract; and
   - Establish that the rate of interest, other charges and the schedule for repayment of principal are appropriate for the purposes or project in question.

In approving a loan for a project, the Board of Directors must find that the project is economically and financially sound, and pay due regard to the prospects that the project will generate sufficient revenues, by user fees or otherwise, to be self-sustaining or that funds will be available from other sources to meet debt servicing obligations.

2. Lending Limits.

   a. Single Obligor Limit (SOL). The maximum allowable credit exposure approved for a particular obligor—through loans to the obligor, loans guaranteed by the obligor, and/or any other applicable credit instrument, net of disbursements repaid and any financing cancellations—is 15% of the NADB’s available capital resources (defined below).
An additional 10% of the NADB’s available capital resources will be allowed for an obligor whose loans above the 15% limit meet one of the following criteria:

i. The loan is fully secured by readily marketable collateral (defined below); or

ii. The loan payment mechanism is a “fideicomiso,” a Mexican municipal or state irrevocable trust in which the payment and/or guaranty is funded by committed “participaciones”; or

iii. The loan is to a State or political subdivision and it constitutes a general obligation of the State or political subdivision (defined below).

Once a loan is approved, it remains approved even if the level of available NADB capital resources falls such that the obligor exceeds the single obligor limit.

Available capital resources are defined as NADB’s funded, unimpaired paid-in capital, plus undesignated retained earnings, plus eligible callable capital, where “funded” means the paid-in capital that the shareholders have paid NADB; “unimpaired” means that there is no existing obligation or designation associated with this paid-in capital (for example, it is not dedicated to community adjustment and investment purposes or to a specific program); and “eligible callable capital” is the callable capital that corresponds to current borrowings by NADB.

Readily marketable collateral is defined as financial instruments and bullion that are salable under ordinary market conditions with reasonable promptness at a fair market value determined by quotations based upon actual transactions on an auction or similarly available daily bid and ask-price market.

A general obligation of the State or political subdivision is defined as an obligation payable from a special fund or by an obligor not possessing general powers of taxation, when an obligor possessing general powers of taxation, including property taxation, has unconditionally promised to make payments into the fund or otherwise provide funds to cover all required payments on the obligation.

b. Maximum Loan per Project. COFIDAN may provide a loan for up to 85% of the eligible costs of a project, depending on project risks and other characteristics. For projects with eligible costs up to and including $1 million, COFIDAN may provide a loan for up to 100% of the eligible costs of a project, depending on project risks and other characteristics. Actual loan amounts will be based on a borrower’s ability to afford a particular loan for a particular project, determined by COFIDAN’s standard credit analysis, taking into account factors such as
current level of indebtedness, capacity to service current and proposed
debt and credit quality.

3. **Eligible Costs.** COFIDAN may provide loan financing to meet the
costs and expenses related to the purposes of a loan. Project costs eligible for
COFIDAN loan financing may include the acquisition of land and any buildings
thereon, site preparation and development, design, construction, reconstruction,
rehabilitation, improvement, the acquisition of necessary machinery and
equipment, legal, finance, and development costs, interest during construction,
contingency or reserve funds, customs and other duties, and other incidental
costs approved by COFIDAN.

4. **Form of Loan.** A direct loan is executed through a loan agreement
and attendant documentation entered into by the borrower and COFIDAN and, if
necessary, between COFIDAN’s borrower and NADB.

5. **Maturities.** COFIDAN may offer loan maturities up to 25 years,
depending on individual project requirements, such as the ability to afford the
annual debt service. Grace periods are negotiable and may cover the anticipated
project construction and start-up phase. Term structure must be appropriate to
the type of project financed and generally consistent with market practice for
such projects. In general, the total repayment term shall not exceed the useful life
of the project.

6. **Currency; Exchange Risk.** The cost of a currency exchange hedge
has to be included in COFIDAN loans because of the funding provided by NADB.

7. **Interest Payments; Calculation of Interest Rates.** Interest on
outstanding balances will be payable on a monthly, quarterly or semi-annual
basis. Interest rates for particular loans may be established at loan closing, and
will depend on the interest rate structure for which the project is approved.
COFIDAN can offer market-rate loans, Low Interest Rate Lending Facility (LIRF)
loans and loans for which the interest rate is subsidized through an NADB grant
program. Loans to Private Borrowers will be at market rates. Loans to
Governmental Borrowers may be at other interest rate structures noted below if
the Government Borrower meets the applicable eligibility requirements.

a. **Market-rate Loans.** For market-rate loans, COFIDAN will
charge an interest rate that is composed of a base rate plus an
administrative margin and a risk exposure spread.

   i. **Base rate.** COFIDAN will charge a base interest rate
related to the yield on U.S. Treasury securities or to the LIBOR
rate, TIIE rate, or any other U.S. dollar or Mexican peso rate
related to the interest rate on borrowings by the Banko pesos
mexicanos relacionada con la tasa de captación del BDAN.

   ii. **Administrative margin.** To cover administrative costs an
administrative spread over the base rate will be charged, within
the ranges indicated in the following table.
iii. **Risk exposure spread.** This spread covers the risks associated with each loan and will vary from 0 to 400 basis points, according to the creditworthiness of the borrower or guarantor in direct recourse transactions, or the creditworthiness of the project in limited recourse transactions.

iv. **Paying points up front.** A borrower may pay points up front, provided that the amount of basis points over the benchmark in the all-in interest cost of the loan, excluding any commitment fee, does not exceed 550 basis points.

### b. Low Interest Rate Lending Facility (LIRF) Loans.

LIRF loans are subject to the availability of LIRF funds. LIRF loans are available for projects in COFIDAN’s priority sectors. For a project to be eligible for a LIRF loan, the project sponsor must be a Governmental Borrower that is not rated as an investment-grade borrower, the project must be in a community with average household income at or below the average household income of communities in the BECC-NADB Mexico border region, and COFIDAN must determine through its standard financial analysis that the project requires a LIRF interest rate. In addition, the project must be located within 200 km of the U.S.-Mexico boundary in México. Total LIRF funding for projects located in Mexico between 100 km-200 km of the U.S.-Mexico boundary is limited to 25% of the total LIRF funding available. The maximum amount of LIRF loan that may be approved for a single project is $16 million. Any loan amount exceeding $16 million shall be at a COFIDAN market rate. For LIRF loans, COFIDAN will charge an interest rate that is composed of a base rate plus an administrative margin and a risk exposure spread.

i. **Base rate.** For LIRF loans with maturities of up to five years, the one-year consumer price index inflation forecast of the Philadelphia Federal Reserve Bank’s (PFRB) Survey of Professional Forecaster’s (the “CPI”) will serve as the base interest rate. For LIRF loans with terms of between five and ten years, the PFRB’s ten-year CPI will serve as the base interest rate. PFRB updates these forecasts quarterly, and they are available on the Internet at: [www.phil.frb.org/files/spf/cpie1.txt](http://www.phil.frb.org/files/spf/cpie1.txt) and [www.phil.frb.org/files/spf/cpie10.txt](http://www.phil.frb.org/files/spf/cpie10.txt), respectively. For loans with maturities longer than ten years, the base interest rate will be established by taking the ten-year inflation forecast and adding one basis point for each year beyond ten years.

## Loan Policies and Procedures

<table>
<thead>
<tr>
<th>Loan Amount (US Dollars)</th>
<th>Administrative Spread (Basis points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $5 million</td>
<td>100 – 150</td>
</tr>
<tr>
<td>$5 million to $17 million</td>
<td>60 – 150</td>
</tr>
<tr>
<td>More than $17 million to $50 million</td>
<td>40 – 150</td>
</tr>
<tr>
<td>More than $50 million</td>
<td>25 – 150</td>
</tr>
</tbody>
</table>
ii. *Administrative margin.* A la tasa base se sumarán 50 puntos base para cubrir los costos de apertura y de administración del crédito.

iii. *Risk exposure spread.* This spread covers the risks associated with each LIRF loan and will vary from 30 to 75 basis points, according to the creditworthiness of the borrower or guarantor in direct recourse transactions, or the creditworthiness of the project in limited recourse transactions.

c. **Loans for which the Interest Rate Is Subsidized Through a NADB Grant Program.** For these loans, COFIDAN will determine an interest rate subject to the provisions of the applicable grant program. The project sponsor and project will have to meet the eligibility and other requirements of the specific grant program.

8. **Commitment Fee.** The purpose of the commitment fee is to offset the opportunity cost of allocating resources for the exclusive use of particular borrowers.

a. **Market-rate Loans.** The borrower will be charged a commitment fee of three-quarters of one percent per annum of the undisbursed balance of the loan.

b. **LIRF Loans and Loans for which the Interest Rate is Subsidized through a NADB Grant Program.** The borrower will be charged a commitment fee of one-quarter of one percent per annum of the undisbursed balance of the loan. In cases where loan amounts exceed LIRF or subsidized loan limits, the commitment fee for market-rate loans will apply to the market-rate portion of the loan.

c. **Accrual.** The commitment fee begins to accrue 30 days after the date of the first disbursement of a loan. For loans with scheduled disbursements for which the interest rate for each disbursement is set on the date of the disbursement (e.g., loans using FOAEM as an exchange rate hedge mechanism), the commitment fee will accrue on the undisbursed balance of disbursements that deviate from the scheduled dates or amounts.

9. **Other Fees.** COFIDAN may charge other fees to reflect fees charged by other local lenders for similar loans.

10. **Demonstrable and Reasonable Assurance of Repayment.** All loans made by COFIDAN must offer a demonstrable and reasonable assurance of repayment. To comply with this requirement, COFIDAN must determine that demonstrable and reasonable assurance exists that the borrower will be able to repay the loan in accordance with the loan repayment schedule. Factors considered in making such a determination vary, depending upon the borrower and the nature and size of the project being financed, but generally relate to the capacity of the borrower and/or project to generate sufficient revenues through
user fees or other dedicated sources of revenues to service its debt. Should COFIDAN determine that a project's revenues or a borrower's financial position do not meet the requirement of demonstrable and reasonable assurance of repayment, additional security arrangements, guaranties or sources of repayment, or additional grant or equity support will be required.

11. **Security.** Loans from COFIDAN must be secured with project and/or borrower cash flows, which may take the form of user fees, dedicated taxes, earnings from the sale of project output, other project earnings, or other dedicated sources of revenue. COFIDAN may also require borrowers to secure their loan with other project assets, including the following: a mortgage on fixed assets (land, plant, and other buildings), a mortgage on or security interest in movable assets (equipment and other business assets), a pledge of a project sponsor's share in the project, and the assignment of the sponsor's insurance policies and other contractual benefits. The value of the security must at all times be greater than the loan outstanding. In order to ensure that the value of project security is properly maintained, COFIDAN will inspect the security as frequently as it deems necessary.

12. **Limited Recourse Financing.** Limited recourse financing refers to a loan for which the primary sources of funds for repayment are the revenue derived from the operation of the project and the project's assets. COFIDAN may provide limited recourse financing, provided that the project has a demonstrable and reasonable assurance of repayment from project cash flows and other project assets.

13. **Recourse Financing.** COFIDAN will, where appropriate, require recourse to a project sponsor or guarantor if it determines that a loan’s security provisions are insufficient to ensure that the loan has a demonstrable and reasonable assurance of repayment. In the case of a local or regional Governmental Borrower, such recourse may include:

   i. Pledges of federal, state or local tax revenue ("participaciones").
   
i. Establishment of a utility service district or enterprise fund, which could be designed to allow the project to draw on other sources of revenue in the service area.

14. **Federal Guaranties.** In the case of loans to Private Borrowers or to regional or local Governmental Borrowers, COFIDAN may require that the federal government of the country in which the project is to be carried out, or a public institution or a similar agency of such federal government acceptable to COFIDAN, guarantee the repayment of the principal and the payment of interest and other charges on a loan.

15. **Other Guaranties.** COFIDAN must be protected against project performance and completion risks through appropriate guaranties. For that reason, COFIDAN may request limited or general guaranties from project sponsors, borrowers, equity investors, contractors, suppliers, operators or other relevant parties to guarantee technical, operational, or financial performance and completion of a project.
16 **Debt Service Coverage Ratio (DSCR).** The DSCR requirement ensures that sufficient cash flow is available to cover the required debt service. In principle, it is the ratio of the total available anticipated cash flow to the required debt service. A value over 1 provides a margin of security to COFIDAN.

a. **Definitions.** Except for loans using an irrevocable trust mechanism or mandate, the DSCR is defined as the Total Net Cash Flow divided by Total Fixed Obligations (Total Net Cash Flow/Total Fixed Obligations) of a project. “Total Net Cash Flow” is defined as the cash flow available after all operating, maintenance and capital expenditures. Cash flow from revenues should not include billed revenues, but actual cash collected. “Total Fixed Obligations” is defined as principal and interest on all debt plus any lease payments or other fixed obligations. For loans using an irrevocable trust mechanism or mandate, the DSCR is defined as the amount of funds placed periodically in the trust divided by the debt service for the same period on the total amount of the loans to which the trust or mandate applies.

b. **Application.** A minimum DSCR of 1.2 will be required for all loans, except in the case of loans made through an irrevocable trust mechanism for which the payment and/or guarantee is funded by federal, state or local tax revenue (“participaciones”), a minimum DSCR of 1.0 will be required.

17. **Reserves.**

a. **General.** Reserve requirements address two key objectives: mitigation of project risk and development of sound financial practices by COFIDAN’s borrowers. To these ends, COFIDAN may require any or all of the following reserve funds in making a loan to a borrower:

- **Debt service reserve (DSR)** to meet debt payment obligations in situations when the borrower does not have available cash. The DSR provides a level of liquidity that will minimize default risks in situations that adversely affect borrower cash flows.

- **Operations and maintenance reserve (OMR)** to fund non-recurring operations and maintenance costs that might arise from catastrophic events.

- **Repair and replacement reserve (RRR)** to cover emergency repairs or replacements whose magnitude may surpass what is normally dealt with in the operational budget.

b. **Reserve Requirements.** COFIDAN establishes reserve requirements on the basis of an analysis of a project’s technical and financial risks. These elements determine reserve levels and the timeframe for funding them, within the standard parameters shown in the table below.
### STANDARD RESERVE PARAMETERS

<table>
<thead>
<tr>
<th>Type of Project</th>
<th>Reserve Amount</th>
<th>Timeframe to Fund Reserves</th>
<th>De-Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Service Reserve (DSR)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal projects financed by utility or other municipal revenue.</td>
<td>6 months to 1 year of debt service</td>
<td>Up to 30-60 months from first disbursement, respectively.</td>
<td>Upon loan payback</td>
</tr>
<tr>
<td>Municipal projects financed by utility or other municipal revenue, backed by a tax pledge (participations)</td>
<td>2 to 3 months of debt service</td>
<td>Up to 24 or 36 months from first disbursement, respectively</td>
<td>Upon loan payback</td>
</tr>
<tr>
<td>Private sector projects</td>
<td>2 months to 1 year of debt service</td>
<td>Up to 12 months from first disbursement.</td>
<td>Upon loan payback</td>
</tr>
<tr>
<td>Municipal or utility projects with an irrevocable state or municipal trust payment and guaranty structure</td>
<td>2 months of debt service</td>
<td>Up to 24 months from first disbursement.</td>
<td>Upon loan payback</td>
</tr>
<tr>
<td></td>
<td>No debt service reserve is required when a fixed interest rate is selected</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations and Maintenance Reserve(OMR)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All projects</td>
<td>Up to 3 months of O&amp;M project budget, determined by COFIDAN’s Technical Services Department.</td>
<td>Up to 36 months from first disbursement.</td>
<td>Upon loan payback</td>
</tr>
<tr>
<td>Reserva para renovaciones y reposiciones (RRR)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All projects</td>
<td>Up to 10% of project equipment value, determined by COFIDAN’s Technical Services Department.</td>
<td>Up to 48 months from first disbursement.</td>
<td>Upon loan payback</td>
</tr>
</tbody>
</table>

With respect to the DSR, OMR and RRR requirements, the basis for the establishment of the reserve amounts shall be described in the financing proposal provided to the Board of Directors.

Reserves must remain funded until the COFIDAN loan is fully repaid. The borrower may then dispose of the reserves at its discretion; COFIDAN, however, encourages maintenance of reserves beyond the life of the project to build and maintain the technical and financial capacity of the project and project sponsor.
c. **Debt Service Reserve.** The main factors considered by COFIDAN in establishing DSR requirements are:

- Quality of the guaranty provided and / or collateral pledged.
- Loan payment mechanism.
- Current available cash flows and reserves.
- Overall financial health of the borrower (financial ratios).
- Construction period and timeframe for the project to generate new cash flows in relation to the project debt amortization schedule.

Other factors that are reviewed in so far as they have an impact on the project include:

- Any existing loan covenants and debt service.
- Debt repayment profile (if any) and historical experience with creation of reserves.
- Customary requirements of other creditors in the same industry, geographic area and current market conditions.

The quality of the guaranty or collateral will substantially impact the level and timeframe for funding the debt service reserve.

**d. Operations and Maintenance Reserve.** Factors considered in establishing OMR requirements include:

- Budgeted project operations and maintenance costs.
- Historical and projected trends of project operations and maintenance costs.
- Adequacy of internal operational controls.
- Experience of the operations and maintenance management team.
- Risks associated with the type of project.
- Existing operations and maintenance reserves or reserves required in the past.
- Customary business practices in the industry and/or region.

The procedure for establishing an operations and maintenance reserve includes an inspection of revenues and expenses for recent years and identification of consistencies and trends. The analysis also considers the factors for revenue shortfall or extraordinary expenses associated with the type of system, such as water, wastewater or solid waste, to get a sense of the level of risk associated with the operation.
e. **Repair and Replacement Reserve.** Factors considered when establishing RRR requirements include:

- Value of project equipment subject to wear and tear and its expected useful life.
- Risks associated with the type of facility or project equipment.
- Adequacy of internal operational controls.
- Existing RRR or reserves required in the past.
- Customary business practices in the industry and/or region.

The type of equipment or installations will have an impact on the amount and timing of establishing the RRR. A solid waste project that has simple equipment will not have the same needs as a wastewater treatment plant that will suffer greater wear and tear on specific equipment, such as pumps, and lesser wear on long-term installations such as sewer lines.

18. **Use of Loan Proceeds; Procurement.** COFIDAN will impose no condition that the proceeds of a loan be spent in the territory of the U.S. or Mexico. COFIDAN will take measures to ensure that the proceeds of any loan made by COFIDAN are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency. All COFIDAN loan proceeds must be expended in accordance with COFIDAN’s procurement policies and procedures, which are outlined in the document entitled, “Procurement Policies and Procedures.”

19. **Other Terms and Conditions.** COFIDAN shall have the power to determine any other terms and conditions it deems necessary to ensure a demonstrable and reasonable assurance of repayment of such loans.

F. **Information and Disclosure Policies.** COFIDAN promotes an open information policy, to the extent practicable and consistent with sound commercial practices.

G. **Waivers to and Revisions of Policies.** The provisions established in the section, “Policies for Making Loans” may be changed only by decision of the Board of Directors, based on a policy paper. In exceptional circumstances, the Board may approve a waiver to the provisions in that section for a specific financing proposal. If COFIDAN expects to recommend a waiver to the Board as part of a loan financing proposal, COFIDAN shall present a policy paper to the Board on the relevant policy issue(s) at least two months in advance of presenting the financing proposal to the Board.
III. PROCEDURES FOR MAKING LOANS

To assist project sponsors in determining whether their environmental infrastructure projects are eligible for BECC certification and COFIDAN loan financing, COFIDAN can provide preliminary guidance regarding potential financial designs and structures of projects. As part of this process, COFIDAN will encourage communities to engage in long-term planning for their infrastructure needs and to establish effective and sustainable methods of operation.

In working with project sponsors on preliminary financing proposals, COFIDAN will determine whether the ability of projects to qualify for COFIDAN loans might benefit from grant support from NADB’s Technical Assistance Program (TAP). During this time, NADB may also assist project sponsors in securing complementary loans, equity, grants or other forms of financing from a variety of public and private sources, including the Border Environment Infrastructure Fund (BEIF) funded by the U.S. Environmental Protection Agency (EPA). COFIDAN’s evaluation of a project’s financial proposal will identify the levels of non-reimbursable financial support a project might need to meet repayment obligations and ensure affordability of the project for the relevant border community’s rate-payers.

Once a project sponsor has determined to secure BECC certification and COFIDAN loan financing for an eligible environmental infrastructure project, the sponsor should apply to BECC for certification of the project at the same time it applies to COFIDAN for financing of the project. BECC certification guidelines are contained in the BECC document entitled “Border Environment Cooperation Commission Project Certification Criteria.” BECC and NADB will work on a cooperative basis with the project sponsor to ensure that all requirements for certification and financing are addressed in a timely manner.

The following procedures must be followed to access COFIDAN loan financing:

A. Application. The project sponsor must complete a loan application (see Annex 1) and submit the application to COFIDAN in order for VOIFIDAN to begin its loan review process. COFIDAN may charge an application fee if the application is accepted by its Board of Directors.

B. Acceptance Agreement. After preliminary review by COFIDAN of an application for financing, and before COFIDAN and any of its financial, legal or other consultants begin their intensive evaluation of a loan proposal, the project sponsor must enter into an acceptance agreement with NADB. The acceptance agreement includes provisions for payment of expenses incurred by COFIDAN and/or NADB in analyzing the project sponsor’s loan proposal. For most projects, COFIDAN will require the advice of outside financial consultants, legal counsel, engineers, and other advisors. There may also be other costs associated with conducting proper due diligence. Consistent with standard commercial practice, COFIDAN will generally pass through these costs to the project sponsor. A model acceptance agreement with NADB is contained in Annex 2 of this document.

C. Loan Financing Proposal. After preliminary review by COFIDAN of an application for financing and execution of the acceptance agreement, the project
sponsors must proceed to develop, with COFIDAN’s assistance, a complete financing proposal with detailed information for COFIDAN’s consideration. COFIDAN will review the material submitted in a timely manner to determine if the proposal includes all the information required to proceed with an evaluation. If COFIDAN determines that the information is incomplete, it will explain the deficiencies to the applicant. A project sponsor’s financing proposal should address the following information requirements.

<table>
<thead>
<tr>
<th>INFORMATION REQUIREMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. General Project Information</strong></td>
</tr>
<tr>
<td>a) A project description that includes:</td>
</tr>
<tr>
<td>i. Information on the applicant (potential borrower):</td>
</tr>
<tr>
<td>name, address, phone, fax; names and positions of</td>
</tr>
<tr>
<td>legal representative and key project contact person;</td>
</tr>
<tr>
<td>ii. A description of the project, its objectives,</td>
</tr>
<tr>
<td>environmental benefits, impacts, participants and</td>
</tr>
<tr>
<td>main characteristics, the problem that will be solved</td>
</tr>
<tr>
<td>with the project and the population groups which</td>
</tr>
<tr>
<td>will benefit directly from its implementation;</td>
</tr>
<tr>
<td>iii. the total cost with a breakdown by category of the</td>
</tr>
<tr>
<td>expected financial structure (equity, grants, debt);</td>
</tr>
<tr>
<td>iv. Project schedule; and</td>
</tr>
<tr>
<td>v. A brief description of the planning, construction,</td>
</tr>
<tr>
<td>operation and maintenance processes.</td>
</tr>
<tr>
<td>b) All information and documentation submitted as part of</td>
</tr>
<tr>
<td>the BECC certification process.</td>
</tr>
<tr>
<td>c) Where appropriate, a feasibility study containing a</td>
</tr>
<tr>
<td>detailed description of all aspects of the project, and/or</td>
</tr>
<tr>
<td>a detailed information memorandum, prepared by a qualified</td>
</tr>
<tr>
<td>party and acceptable to COFIDAN, to include description,</td>
</tr>
<tr>
<td>location, legal status, ownership, and background on key</td>
</tr>
<tr>
<td>elements of the project, such as the status of agreements,</td>
</tr>
<tr>
<td>licenses, local partner participation, guarantors, and financing.</td>
</tr>
<tr>
<td>d) Draft agreements, to the extent available, for key elements</td>
</tr>
<tr>
<td>of the project, including supply, off-take, revenues, and operations and maintenance.</td>
</tr>
<tr>
<td>e) Where applicable, a description of how the project fits into the long-term master plans of the service system and the long-term strategic plans of the community or communities in the service area or affected areas.</td>
</tr>
</tbody>
</table>
### INFORMATION REQUIREMENTS

<table>
<thead>
<tr>
<th>f)</th>
<th>Where applicable, a description of the user fee system in place for the service area, including both historical and projected data on rate levels, comparability of rates to other service areas in the border region, legal authority and capacity to raise rates, and the collections system.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. <strong>Project Participants</strong></td>
<td>a) The potential borrower should present information describing its operations, strategies and policies; organizational and technical structure; management and accounting systems; asset revaluation policy; auditing procedures; the names of auditors and legal counsel.</td>
</tr>
<tr>
<td></td>
<td>b) Sponsors must provide all relevant financial information, including audited financial statements for the last five years.</td>
</tr>
<tr>
<td></td>
<td>c) If the sponsors are part of a joint venture or consortium, information should be provided for all the participants. Shareholders’ and/or partnership agreements should also be provided.</td>
</tr>
<tr>
<td></td>
<td>d) Sponsors and guarantors must provide sufficient evidence that they are empowered to assume and discharge obligations in the currency of the loan.</td>
</tr>
<tr>
<td>3. <strong>Technical Information</strong></td>
<td>a) An engineer’s report indicating, among other things: the current condition of the system; proposed expansion and improvements; compliance with environmental standards and regulations; project cost assessment; assessment of parties involved in building, operating and maintaining the project.</td>
</tr>
<tr>
<td></td>
<td>b) A detailed estimate of operating costs.</td>
</tr>
<tr>
<td></td>
<td>c) A description of the project costs and specifications, with a breakdown of the costs by category.</td>
</tr>
<tr>
<td></td>
<td>d) A detailed description of the measures taken to protect against project completion risk, including liquidated damage provisions, performance bond requirements, and other guaranty arrangements.</td>
</tr>
<tr>
<td></td>
<td>e) A project implementation and disbursement schedule, which includes all phases of the project process: planning, bidding, contracting, design, construction, preliminary and regular operation and maintenance.</td>
</tr>
<tr>
<td>INFORMATION REQUIREMENTS</td>
<td></td>
</tr>
<tr>
<td>--------------------------</td>
<td></td>
</tr>
<tr>
<td>f) Un plan de operación y mantenimiento.</td>
<td></td>
</tr>
<tr>
<td>g) A capital improvement program.</td>
<td></td>
</tr>
<tr>
<td>h) An overall procurement plan.</td>
<td></td>
</tr>
</tbody>
</table>

4. Economic Information

| a) Economic information about the project service area should include, among others, economic growth, population trends, income trends and economic activity. |
| b) Where applicable, the service area’s customer profile, including customer mix; system hook-ups; service area demand; service history; percentage of demand covered by the service; sales by category of customer; number of customers by category (including population served but not metered); largest customers by revenue and service; sales system and procedures (service coverage; other service methods; billing and collection history during the last three years); and an assessment of potential opposition to rate hikes. |
| c) Where applicable, market information on the service area, including ten years of historical usage; rates and collections data; present and projected needs and capacity of the service; system demand forecast with assumptions; description of competition, if any; projected market share; identity and location of customers by class; and strategies for hook-ups, rates, and collections. |

5. Financial Information

| a) A breakdown of anticipated project costs and expenditures from the initial planning phase through start-up, including interest during construction and working capital requirements, by major cost category. |
| b) A summary of the anticipated project financing plan and security package, including the proposed source, amount, currency, and terms of debt, equity investments, and grants; the sources of finance in the event of project cost overruns; and a description of contingency reserves and escrow accounts. Information on the terms, security requirements, and status of financing commitments of other lenders to the projects, if applicable, should be provided. |
### INFORMATION REQUIREMENTS

<p>| c) | Audited annual financial reports for the last five fiscal years; a draft annual financial report for the current fiscal year; and budget for the following fiscal year. |
| d) | Where applicable, an analysis of unit costs and rates by category for the last five years and projected for the next five years; and a comparative rate analysis with other cities in the region. |
| e) | Projected annual financial statements covering the period from project development through final maturity of the proposed COFIDAN loan, to include balance sheet, income statement, cash flow statement, projected debt, and debt service ratios. Projections should also include a sensitivity analysis. |
| f) | An evaluation of finance sources: equity, debt, grants; debt/bond issuance history; information on outstanding and other proposed loans and liabilities. |
| g) | The assumptions for developing financial projections, including, but not limited to, the bases for estimates of user fees or other dedicated sources of repayment; operating and administrative costs, depreciation, amortization and tax rates; and local government policy on user fees/rates. |
| h) | Where the currency of the loan differs from the currency of project revenues, a description of the measures that will be taken (hedging or recourse arrangements) to protect the borrowers, the COFIDAN loan or third-party guaranties from exchange risk. |
| i) | Where COFIDAN requires recourse to a project sponsor or guarantor, detailed financial information on the capacity of the sponsor or guarantor to meet its financial obligations must be provided, as well as a detailed description of the potential collateral. |
| j) | A description of the principal risks and benefits of the project to the sponsors, lenders, and guarantors. |
| k) | A description of the types of insurance coverage to be purchased for both the pre- and post-completion phases of the project. |</p>
<table>
<thead>
<tr>
<th>INFORMATION REQUIREMENTS</th>
</tr>
</thead>
</table>

| **6. Legal/Regulatory Information** | a) A description of progress made toward obtaining all essential government authorizations, licenses, permits, and other legal requirements, including ordinances authorizing project and other license/concession provisions. There must be a reasonable assurance that all required operating permits will be obtained when necessary.  

b) A description of rate-setting procedures, as well as the corresponding rate ordinances or resolutions.  
c) Any sales contracts and supply agreements.  
d) Documentation and other evidence that project sponsors, borrowers, guarantors and other contractual partners:  

i. are legally organized, are in compliance with the relevant legal formalities, and have legal personality;  

ii. are empowered to contract loans with COFIDAN in the currency offered by COFIDAN;  

iii. are empowered to undertake obligations to act as specified in the loan contracts of COFIDAN;  

iv. have the legal power to carry out such changes in organization and structure as might be needed for the project;  

v. are not the subject of adverse litigation;  

vi. are acting consistently with, and are not in breach of, other contracts and obligations; and  

vii. are able to submit to any arbitration required by the loan agreement and adapt their procurement procedures to COFIDAN policies.  

e) Appropriate board resolutions, legal opinions, certifications and similar assurances of compliance with legal requirements. |

---

D. **Evaluation of the Financing Proposal.** COFIDAN, with the assistance of NADB and outside consultants as necessary, will perform a comprehensive analysis of each complete financing proposal. This process will include an in-depth review of project risks (including construction risks; operating risks; technology risks; management risks; input/supply risks; market risks; foreign exchange risks; interest rate risks, and regulatory risks) and the financial structure of the project. Through this analysis,
COFIDAN must ensure that projects are technically, environmentally, financially and economically sound, that project sponsors have the institutional, managerial and structural capacity to carry out projects, and that the loan proposal meets all of the basic policies governing COFIDAN loans, as set forth in this document. In performing this analysis, COFIDAN generally considers the following factors:

### FACTORES DE EVALUACIÓN DE CRÉDITOS

| 1. General | a) The project should be a part of a long-term strategic or master plan that promotes the most effective use of integrated resources, including capital. |
|            | b) The project design and cost shall be appropriate for projects of similar type and size for a particular service area. |
|            | c) Appropriate least-cost solutions will be encouraged for all aspects of a project, especially its operation and maintenance. |
|            | d) Appropriate new designs and technologies will be acceptable so long as the technology risk is not borne by COFIDAN. |
|            | e) The project must generate user fees or other dedicated sources of revenue in the service area and must demonstrate that an effective system for collecting the user fees or dedicated revenue is in place. |
|            | f) Where applicable, the rate setting and approval process must be transparent and should allow the implementation of timely and adequate rate increases, as necessary. |
|            | g) Effective demand management and public awareness strategies should be incorporated into all project designs. |
|            | h) Supply unit pricing and costs should reflect market-based pricing, consistent with COFIDAN’s procurement guidelines. |
|            | i) Concessions and contracts let by governmental bodies to private companies shall have been procured under fair, reasonable, competitive and transparent procedures consistent with COFIDAN’s procurement guidelines. |
### FACTORES DE EVALUACIÓN DE CRÉDITOS

**j)** Where applicable, sponsors or their guarantors shall have authorized levels of rates and charges sufficient to repay all debt, cover operations and maintenance costs, and fund all reserves, as specified in the loan documents.

### 2. Project Participants

a) Project sponsors, borrowers, guarantors and other contractual partners must be able to demonstrate the technical, managerial, and financial capabilities to perform their respective obligations within the project.

b) Project sponsors, borrowers and guarantors must demonstrate that they are empowered to assume and discharge financial obligations deriving from the loan contracts, especially obligations for receiving, maintaining and managing funds, as well as making payments on loans.

c) Project sponsors, borrowers and guarantors must have sufficient assets to meet their obligations.

d) As appropriate, project sponsors or borrowers must show that they have the legal power to set rates for the project and the capacity to implement rate increases, where user fees are a key component of project security. If project sponsors or borrowers do not have the legal capacity to set rates, the guaranty of the entity that does have the legal power to set rates may be required.

e) In the assessment of project management, project sponsors or borrowers must demonstrate that they have the capacity to provide service at a reasonable price, implement capital improvement programs independently, and undertake the necessary accounting and financial reporting requirements specified by COFIDAN.

### 3. Technical

a) Project technology must be appropriate and effective. To the extent possible, a project sponsor or borrower must obtain all permits and licenses to construct and operate a project prior to initial disbursement, and there must be a reasonable assurance that all required operating permits will be obtained when necessary. The project sponsors and borrowers must provide a description of all licenses and permits
<table>
<thead>
<tr>
<th>FACTORES DE EVALUACIÓN DE CRÉDITOS</th>
</tr>
</thead>
<tbody>
<tr>
<td>required for a project, and a plan for securing such licenses and permits. COFIDAN will require the sponsor or borrower to periodically report on the program for securing such licenses and permits.</td>
</tr>
<tr>
<td>b) A technical feasibility study or sufficiently detailed engineering information must be provided to demonstrate the technical feasibility of the project.</td>
</tr>
<tr>
<td>c) A comprehensive operations and maintenance plan for the term of COFIDAN’s financing must be provided to ensure the ability of local utilities to operate and maintain the system.</td>
</tr>
<tr>
<td>d) The project’s procurement procedures must be consistent with COFIDAN’s procurement procedures.</td>
</tr>
</tbody>
</table>

4. Economic

| a) The service area of the proposed project is a focal point in the evaluation of credit risk and, when appropriate, must be able to sustain a level of user fees or other dedicated sources of revenues sufficient to service project debt. |
| b) An economic analysis of the project must be available in order to measure the adequacy and stability of the project’s customer base, the sensitivity to economic cycles, future capital needs, and when appropriate the adequacy, competitiveness and affordability of user fees or other dedicated sources of revenues. |
| c) The economic analysis of the service area must support a determination that over the life of the project the service area will be economically viable and the project debt will be serviced. |

5. Financial

| a) Projects should be financially self-sustaining. COFIDAN will examine and evaluate all factors of a borrower and a project, where appropriate, to determine whether or not it will generate sufficient revenues to cover the project’s long-term operations and maintenance costs, fund the required reserves, and repay the debt. |
| b) The project should have long-term arrangements for the effective collection of user fees and other project revenues; long-term contracts, where appropriate, from creditworthy entities for the purchase of any |
### FACTORES DE EVALUACIÓN DE CRÉDITOS

<table>
<thead>
<tr>
<th>Loan Policies and Procedures</th>
<th>COFIDAN</th>
</tr>
</thead>
</table>

- project output; and, where necessary and customary, long-term contracts for the purchase of the project’s major project inputs such as fuel, raw materials, and for operations and maintenance. Such contracts should extend beyond the term of COFIDAN financing.

- The project should contain an appropriate allocation of risk to the parties best suited to manage those risks. A sensitivity analysis should indicate a sufficient debt service coverage ratio to ensure uninterrupted debt servicing for the term of the debt.

- The analysis of the creditworthiness of a borrower will include an analysis of the borrower’s debt service capacity that explicitly takes into account the sensitivity of the borrower’s creditworthiness to potential variability in interest rates; and the exposure element applied to the loan shall reflect this analysis.

- Projects and project sponsors must obtain customary and adequate insurance against normally insurable risks, (e.g., theft of assets, fire, specific construction risks).

6. **Legal/Regulatory**

   - a) Legal and regulatory analysis must demonstrate that the project meets all national, state and local legal and regulatory requirements of the place where the project is to be located.
   
   - b) Loan documentation must conform to COFIDAN policies and guidelines.
   
   - c) Project sponsors, borrowers, guarantors and other contractual partners must demonstrate that they are empowered to undertake the obligations to act as specified in their agreements with CODFIDAN.

---

**E. Approval of Financing Commitment.** Upon completion of the evaluation of a financing proposal, COFIDAN staff will make an initial determination whether the proposal meets all of the policies governing COFIDAN loan financing. Proposals meeting all policy requirements will be submitted for final approval as follows:

1. First, project certification and financing will be presented to NADB’s Board of Directors.
2. Then, the general terms and conditions of the loan will be presented to COFIDAN’s Board of Directors for approval.

F. Negotiation and Execution of Loan Agreement. COFIDAN will negotiate the final terms and conditions of the loan agreement with the borrower, consistent with the terms and conditions authorized by its Board of Directors. COFIDAN, working with outside legal counsel as necessary, will work with the borrower to prepare the relevant legal documentation for execution by COFIDAN and the borrower. The loan agreement will establish all the terms and conditions of the loan, including among others, provision for payment of principal, interest and other charges, maturities, and dates of payment, and the currency or currencies in which payment will be made to COFIDAN. Standard loan covenants will also be included as part of the loan agreement and, when appropriate, negative pledge, cross-default and pre-payment clauses, as well. The following issues are among those also addressed in the final negotiation and drafting of a loan agreement:

- **Conditions Precedent to the Availability of the Loan.** Before drawing down the loan, the borrower must satisfy the conditions precedent to the availability of the loan specified in the loan agreement. Among such conditions, the borrower is usually required to provide COFIDAN with such documents as promissory notes, evidence of the borrower’s authority to enter into the loan agreement, a legal opinion, a list of the items to be financed and a copy of the necessary authorizations from the authorities in the borrower’s country. When the borrower has complied with all these conditions, COFIDAN will make the loan available to the borrower, in accordance with the disbursement schedule in the loan agreement.

- **Conditions Precedent to the Disbursement of the Loan.** Once the conditions precedent to the availability of the loan have been satisfied, the borrower may request a disbursement. The borrower may have to satisfy additional conditions precedent to the first disbursement of the loan and subsequent disbursements.

- **Reporting.** For each project financed by COFIDAN, the following financial and technical reports, as well as others specified in the loan agreement, will be required until the loan is repaid:
  - audited annual financial statements with unaudited monthly or quarterly financial statements, as appropriate;
  - annual budgets;
  - timely reports on any financial problems of the project;
  - monthly status reports on the project’s development during construction;
  - annual operation and maintenance reports;
  - timely reports on any significant technical problems encountered by the project; and
  - interim and final reports on environmental and human health impacts of the project.
G. **Disbursement of Funds.** In general, the loan funds are disbursed for eligible costs against project construction invoices. A request for disbursement is made on a form that must be accompanied by copies of invoices and by a report by the project manager or supervisor supporting the request. A detailed description of COFIDAN’s disbursement policies and procedures can be found in the document entitled, “Disbursement Policies and Procedures.”

H. **Project Supervision.** COFIDAN monitors both project construction and completion, and project operation and maintenance, throughout the term of a loan. A detailed description of COFIDAN’s supervision policies and procedures can be found in the document entitled, “Supervision of Procurement and Contracting.”

I. **Project Close-out.** Once a project is completed, it requires financial closure. The project closure process consists of documenting results to formalize acceptance of a project by the project sponsor.

J. **Loan File Información.** COFIDAN’s loan files will contain the information indicated below; however, at the discretion of COFIDAN, additional information may also be included in the files.

1. **Application, which must contain:**
   a. The name of the applicant,
   b. The amount requested,
   c. The project to which it will be allocated,
   d. If applicable, preference for a fixed or variable rate.

2. **Authorization of the NADB Board of Directors and authorization of the COFIDAN Board of Directors.**

3. **Loan study.**

4. **Legal documentation of the borrowers and guarantors:**
   a. Federal Taxpayer Registration and proof of residence
   b. Documents of incorporation, as well any other information concerning their corporate purpose and their powers and authority with respect to the loan
   c. Documentation evidencing the powers and authority of the legal representatives and their corresponding official IDs.
   d. The authorization of the State Congress for pledging federal tax revenue (“participaciones”) when used as a guaranty for the loan
   e. Borrowers other than a state or municipal entity or government-run agency, shall have to provide the information indicated in points 1, 2 and 3 above, along with their shareholder structure. Moreover, when the shareholders are entities, the information indicated in points 1, 2
and 3 above and the shareholder structure shall have to be provided for each shareholder. In the case of individuals, the following information shall have to be provided: the corresponding ID, proof of residence, Federal Taxpayer Registration, Unique Population Registration Number (CURP), principal activity and e-mail address, as well as any other information that may be legally required for this file.

This documentation must be updated whenever there are changes to the personality of the borrower and/or guarantor or that of any of the representatives of either one and, if applicable, their shareholders.

CONTACT INFORMATION

For additional information regarding COFIDAN’s policies and procedures, please contact one of the following NADB staff:

Director of Project Development
Chief Financial Officer
General Counsel

North American Development Bank
203 S. St. Mary’s, Suite 300
San Antonio, Texas 78212

Telephone: (210) 231-8000
Fax: (210) 231-6232
www.nadb.org
ANNEX 1:  LOAN APPLICATION

[ Date ]

[ Name ]
Director General
Corporación Financiera de América del Norte, S.A. de C.V., SOFOM, E.N.R.
Presente

Dear [ Name ]:

On behalf of [ insert name of applicant ] (Borrower’s acronym or abbreviated name), I hereby submit this application for a loan from the Corporación Financiera de América del Norte, S.A. de C.V., SOFOM, E.N.R. (COFIDAN) in the amount of MX$XXXX (XXX pesos M.N.). Such financing will be in support of [ insert name or brief description of the project], a project that is seeking certification by the Border Environmental Cooperation Commission (BECC). We understand that submission of this letter request does not guarantee any funding commitment from COFIDAN.

(The applicant) agrees to reimburse COFIDAN for consulting and other expenses it incurs in evaluating the Project. (The applicant) agrees that any financial assistance provided by COFIDAN is subject to its policies, procedures and guidelines.

Sincerely,


[Authorized Signature]
Name
Position
ANNEX 2: ACCEPTANCE AGREEMENT

DATE

ADDRESS

RE: Acceptance Agreement

Dear ADDRESSEE:

The North American Development Bank (“NADB”) is in receipt of the application from __________________________ (“Applicant”) for loan financing from NADB for the proposed __________________________ (the “Project”), dated ____________. NADB understands that Applicant has also submitted the Project to the Border Environment Cooperation Commission (“BECC”) for certification. I am pleased to confirm that, after preliminary review of financial and other information relating to the Project, NADB is prepared to consider participating in the financing of the Project through a NADB loan (the “Loan”).

This letter shall constitute the acceptance agreement between NADB and Applicant required under Part IV, paragraph B, of NADB’s Loan Policies and Procedures. Applicant acknowledges and agrees that execution of this acceptance agreement shall not be construed to represent a commitment on the part of NADB to provide financing to the Project. Participation by NADB in the financing of the Project shall be subject to the following, to the satisfaction of NADB: (1) NADB’s completion of its evaluation and review of the Loan and the comprehensive financing package for the Project; (2) finalization of the financing package for the Project with evidence of commitment from all funding partners; (3) negotiation of the amount and all other terms and conditions of the Loan; (4) certification of the Project and approval of the Loan by BECC/NADB’s Board of Directors; (5) negotiation and execution of all Loan documentation; and (6) payment by Applicant of all expenses incurred by NADB in the evaluation and review of the loan proposal.

NADB requires a written commitment from Applicant to pay NADB’s out-of-pocket expenses (the “Expenses”) incurred in the evaluation, review and documentation of the Loan, which shall be deemed granted with the execution of this acceptance agreement. These Expenses typically may include: (1) the fees of outside legal counsel retained by NADB for the due diligence on the Loan and the preparation, drafting, and negotiation of the Loan documentation; and (2) the fees of outside consultants retained by NADB for the preparation of financial and technical reports or analyses related to the Loan. The Expenses will be payable by Applicant no later than the closing date of the Loan, or on such earlier date that NADB, in its sole discretion, determines that NADB will not participate in the financing for the Project.
Applicant agrees to cooperate fully with NADB in its evaluation and review of the Loan. Applicant further agrees to provide NADB with such information relating to the Loan and the Project as NADB may reasonably request. Applicant acknowledges that, in performing its evaluation and review of the Loan, NADB will rely upon information furnished by Applicant, and that Applicant shall be responsible for the accuracy of such information. Applicant hereby represents and warrants that any written or oral information provided to NADB by Applicant will not contain any untrue statement of material fact or omit any material fact necessary to support statements therein.

NADB shall have no liability (in tort, contract or otherwise) to Applicant or to any of its officers, employees, agents or representatives for any claims, liabilities, losses, damages or expenses arising out of any act or omission of NADB in performing its evaluation and review of the Loan unless the same is finally judicially determined to have resulted solely from NADB’s gross negligence or willful misconduct. Applicant agrees to indemnify and hold harmless NADB and each of its directors, officers, employees, agents and representatives from and against any and all expenses, losses, claims, damages and liabilities (including all legal or other expenses) arising out of, or related to its evaluation and review of the Loan, other than any expense, loss, claim, damage or liability arising from NADB’s gross negligence or willful misconduct.

Kindly arrange to have an authorized signatory sign on behalf of Applicant one enclosed original of this letter to indicate Applicant’s agreement with the arrangements described in this letter. Return one signed original to NADB, and retain the other for Applicant’s files. NADB looks forward to working with you.

Sincerely,

Project Development Director

I agree with the terms and conditions contained in this acceptance agreement. I represent and warrant that all consents, permits and approvals required to sign this acceptance agreement on behalf of Applicant and to make payment of the Expenses referred to in this acceptance agreement have been obtained.

FOR: APPLICANT

NAME:

TITLE:

DATE: