



LOAN POLICIES AND PROCEDURES



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I. INTRODUCTION

The primary purpose of the North American Development Bank (NADB) is to provide financing for environmental infrastructure projects located in the U.S.-Mexico border region and certified by its Board of Directors. This document describes the basic policies and procedures that NADB follows in providing loan financing to environmental projects. The loan policies and procedures are based on the *Agreement between the Government of the United States of America and the Government of the United Mexican States Concerning the Establishment of a North American Development Bank* (the “Charter”).

II. CHARTER PRINCIPLES

The Charter sets forth the following key principles governing NADB loan financing:

- **Certification.** NADB may provide loans only to environmental infrastructure projects that meet or are capable of meeting the certification criteria established by its Board.
- **Board of Directors.** The Board of Directors determines whether to certify a project and whether to authorize loan financing for that project.
- **Geographic Limitations.** The Board of Directors may certify environmental infrastructure projects in the U.S.-Mexico border region, which is defined as the area in the United States that is within 100 kilometers of the international border between the U.S. and Mexico, and the area in Mexico that is within 300 kilometers of that border. The Board of Directors may also certify an environmental infrastructure project outside the border region if it determines that the project would remedy a transboundary environmental or health problem.
- **Specific Projects.** NADB loans must be for specific projects.
- **Eligible Entities.** NADB may make loans to the federal governments of the United States or Mexico, to any agency or political subdivision of such governments, or to any entity in the territory of the United States or Mexico.
- **Private Sector.** NADB may make loans to supplement private investment when private capital is not available on reasonable terms and conditions. NADB encourages the investment of public and private capital in the environmental infrastructure projects for which it provides loan financing.
- **Technical Assistance.** A key NADB function is to provide technical and other assistance for the financing and implementation of environmental infrastructure projects that have been certified or are under development for certification. The guidance that NADB can provide to communities and project sponsors in designing and structuring projects is an important factor in the effectiveness of NADB’s loan program. For information regarding NADB’s technical assistance grant program, see the NADB document entitled “Technical Assistance Program Operating Guidelines.”

Other Charter provisions relevant to NADB's loan program will be incorporated throughout this document.

III. POLICIES FOR MAKING LOANS

The Charter authorizes NADB to make direct loans with its own funds. Since risk-sharing is fundamental to sound banking practices, NADB 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 revenue, equity, grants or other financial support to ensure repayment of NADB's loan.

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

The following are the basic policies for making loans that govern NADB participation in an environmental infrastructure project.

A. Eligible Borrowers.

1. NADB divides the eligible borrowers defined in the Charter into two categories, Governmental and Private Borrowers.

a) A "*Governmental Borrower*" is defined as:

- The federal government of the United States or Mexico;
- Any agency of the federal government of the United States or Mexico; or
- Any political subdivision of the government of the United States or Mexico, including states, municipalities or other governmental entities.

b) A "*Private Borrower*" is defined as any other entity in the territory of Mexico or the United States, 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.

B. Project Location. Projects must be located in the U.S.-Mexico border region, which is defined as the area in the United States that is within 100 kilometers of the international border between the U.S. and Mexico, and the area in Mexico that is within 300

kilometers of that border. A project may be located outside the border region if the Board of Directors determines that the project would remedy a transboundary environmental or health problem.

C. Certification. To be eligible for NADB loan financing, a project must be certified by the Board of Directors.

D. Eligible Sectors. The Charter defines environmental infrastructure projects that may be certified and financed by NADB as projects 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. The Charter gives preference to projects relating to water pollution, wastewater treatment, water conservation, municipal solid waste and related matters. The general characteristics of projects eligible for certification and financing are described below.

ELIGIBLE SECTORS	
1. Priority Sectors	<p>a) <u>Water pollution</u> 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.</p> <p>b) <u>Wastewater treatment</u> 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</p>

ELIGIBLE SECTORS	
	<p>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.</p> <p>c) <i>Municipal solid waste</i> 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.</p> <p>d) <i>Related matters</i> has been defined by the Board of Directors to include: industrial and hazardous waste projects, water conservation projects, water and wastewater hookups for housing, and recycling and waste reduction projects.</p>
<p>2. Expanded Mandate Sectors</p>	<p>Additional types of projects that may qualify as environmental infrastructure projects under the Charter 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. In this document, these projects are referred to as “expanded mandate” projects.</p>

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

1. **General Principles.** In considering a request for a loan, NADB 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 NADB, 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/sponsor is economically/financially sound and pay due regard to the prospects that the project/sponsor will be able to generate sufficient revenue 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, loans of the obligor guaranteed by NADB and/or any other applicable credit instrument, net of disbursements repaid and any financing cancellations—is 20% of the NADB’s usable equity (defined below).

An additional 10% of the NADB’s usable equity will be allowed for an obligor whose loans above the 20% 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 guarantee is funded by committed “*participaciones*” or any other revenue from a public entity the law allows to be used as source of payment or guarantee; 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); or

iv. The loan is to an entity of the U.S. Federal Government or the Mexican Federal Government.

Once a loan is approved, it remains approved even if the level of usable equity falls such that the obligor exceeds the single obligor limit.

Usable equity is defined as the Bank’s funded, unimpaired paid-in capital, plus undesignated retained earnings, plus special reserve, plus capital preservation reserve, where “funded” means the paid-in capital that the shareholders have paid the Bank; and “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).

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 backed by the credit and taxing power of the issuing jurisdiction or by a borrower not possessing general powers of taxation, when an obligor possessing general powers of taxation has unconditionally promised to make payments into the fund or otherwise provide funds to cover all required payments on such obligation.

b. Maximum Loan per Project. NADB may provide a loan for up to 85% of the eligible costs of a project, depending on project risks and other characteristics. In the case of public sector loans, regardless of the amount, and private corporate loans or loans with corporate guarantees that do not exceed USD \$20 million, the Bank may finance up to 100% of project eligible costs provided the loans have an alternate source of payment or guarantee that demonstrates capacity for full repayment of the loan regardless of the ability of the project to generate revenue. In addition, for any project with eligible costs up to and including USD \$1 million, NADB 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 NADB'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. NADB may provide loan financing to meet the costs and expenses related to the purposes of a loan. Costs eligible for NADB 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; taxes, customs and other duties; and other incidental costs approved by NADB.

4. Forms of Loans. Typically, a loan is evidenced by a loan agreement and attendant documentation entered into by NADB (or, for loans to Mexican public sector borrowers, NADB's Mexican entity, *Corporacion Financiera de America del Norte, S.A. de C.V. SOFOM, ENR* – "COFIDAN") and the borrower. Nevertheless, NADB can make loans in different forms, as long as the financing documentation contains terms and conditions that protect NADB's interests in a manner comparable to the protections of typical NADB loan documents. Forms of loans include, but are not limited to: direct loans, bond purchases, lease agreements, back-leveraged loans, revolving line of credits, credit guarantees and stand-by revolving loans.

5. Maturities. NADB may offer loan maturities up to 30 years, depending on individual project requirements such as the ability of a community to afford the annual debt service. Grace periods for principal repayment 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, except for public sector projects and loans with corporate

guarantees where the source of cash for debt service payment does not depend on the revenue generated by the relevant project.

6. Currency; Exchange Risk.

a. Borrowers in the United States. NADB loans to borrowers in the United States are contracted in U.S. dollars.

b. Borrowers in Mexico. NADB loans to borrowers in Mexico may be in Mexican pesos or U.S. dollars. For loans in pesos, unless the source of funding for the loan is also in pesos, a currency hedge must be obtained. For loans in dollars, NADB must be assured that the borrower will be able to generate the dollars when payment is due.

7. Interest Payments; Calculation of Interest Rates. Interest on outstanding balances will be payable on specified installment dates at least annually. Interest rates for particular loans will be established at loan closing and will depend on the interest rate structure for which the financing is approved. NADB can charge a fixed or variable market-based interest rate in the following manner:

i. *Interest Rate.* NADB will charge an interest rate expressed as a spread relative to U.S. Treasury securities, LIBOR rate or any of its substitutes (i.e. SOFR), or TIE rate, or any other reference rate widely used by the market in U.S. dollars or Mexican pesos. In determining the Interest Rate for a financing, NADB will consider a Base Rate plus an Applicable Margin as defined below.

ii. *Base Rate.* NADB's base rate for financing will be the bank's cost of funding, unless there is targeted funding for a specific lending program, in which case the cost of the targeted funding will become the base rate. The base rate will be adjusted to the term of the financing by considering the modified duration of NADB's cost of funding and adjusting by the yield curve of the bank's issued debt.

iii. *Applicable Margin.* NADB will charge a margin over the Base Rate. This Applicable Margin will be constructed to cover an administrative spread and a risk premium, based on the following guidelines and expressed in basis points (bps; one basis point is equal to 1/100th of 1%):

- (1) an administrative spread to cover NADB's current administrative expenses. This component of the spread will be constructed by comparing the Bank's administrative and other expenses to the Bank's revenue generating assets. The spread will be updated periodically, and the updated calculation will be available at NADB's webpage; plus
- (2) a risk premium, within a range of 5 - 400 bps. This risk premium is related to the characteristics of the loan, including term, size, presence of other lenders (i.e. complexity of the loan), contract revenue source and quality of the purchaser, among others, as

well as debtor's capitalization, experience and third-party support.

iv. *Paying points up front.* In lieu of a portion of basis points of spread, 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.

8. Commitment Fee. The purpose of NADB's commitment fee is to compensate NADB for the opportunity cost of allocating resources for the exclusive use of particular borrowers. NADB will charge the borrower a commitment fee on the undisbursed balance of the loan, which will begin 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, the commitment fee will accrue on the undisbursed balance of disbursements that deviate from the scheduled dates or amounts. The commitment fee will be set by the Pricing Committee.

9. Other Fees. NADB 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 NADB must offer a demonstrable and reasonable assurance of repayment. To comply with this requirement, NADB 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 revenue to service its debt. Should NADB determine that a project's revenue or a borrower's financial position do not meet the requirement of demonstrable and reasonable assurance of repayment, additional security arrangements, guarantees or sources of repayment, or additional grant or equity support will be required so that the project complies with this requirement.

11. Security. Loans from NADB 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. NADB may also require borrowers to secure their loan with any other type of guarantee including, but not limited to the following: a mortgage on fixed assets (land, plant, and other buildings), a mortgage on or security interest in movable assets (equipment, 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 guarantee, together with the cash flows, must be greater than the NADB loan at time of closing. In order to ensure that the value of project security is properly maintained, NADB 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. NADB 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. NADB 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. In the United States, general obligation financing, whereby a state, locality, or municipality is pledging its full faith and credit to repay the financial obligations. These obligations can typically call on tax revenue or general revenue sources to meet debt service requirements.
- ii. In Mexico, pledges of federal, state or local tax participations or any other revenue from a public entity that by law may be used as a source of payment or guarantee.
- iii. 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.
- iv. Tax revenue in general, fees and charges collected by local governments and public enterprises.
- v. Irrevocable revolving lines of credit and similar guarantees.

In the case of private sponsors, such recourse refers to any other revenue or assets that would sufficiently cover the debt service, regardless of the capacity of the financed project to generate such debt service by itself.

14. Federal Guarantees. In the case of loans to Private Borrowers or to regional or local Governmental Borrowers, NADB 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 NADB, guarantee the repayment of the principal and the payment of interest and other charges on a loan.

15. Other Guarantees. NADB must be protected against project performance and completion risks through appropriate guarantees. NADB may require limited or general guarantees 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 total debt service. A value over 1 provides a margin of security to NADB.

a. Definition. The formula for calculating the DSCR will be specifically defined for each loan based on the characteristics of the transaction and/or borrower and the payment mechanism. Where possible, preference will be given to commonly used, market standard formulas. The justification for, and recommendation of, a specific formula for each proposed loan, along with the minimum level of coverage required, will be included in every certification and financing proposal submitted to the Board of Directors for its review and approval.

b. Application. Except as noted below, a minimum DSCR of 1.2, or its equivalent, depending on the formula and/or the cash flow scenario used for calculating the DSCR pursuant to paragraph (a) of this section 16, will be required for all NADB loans.

i. For loans to public sector borrowers in the U.S. or Mexico where the pledged revenue is sufficient to cover the debt service, a minimum DSCR of 1.0 will be required.

ii. For loans to Public-Private Partnerships in which revenue, in an amount sufficient to cover the debt service, is pledged as a source of payment or guarantee, a minimum DSCR of 1.0 will be required.

iii. For construction-only or other short-term loans when there is no cash flow generation prior to project completion or the repayment of the principal amount, or when the accrued interest is capitalized, a minimum DSCR may not be required, provided the borrower demonstrates a credible and strong source of payment for the loan, including its debt service.

iv. For loans to investment-grade corporates, a minimum DSCR may not be required provided that alternative financial indicators, appropriate to the relevant industry, are utilized to evaluate repayment risks and monitor the credit quality evolution of such borrower.

17. Reserves.

a. General. Reserve requirements address two key objectives: mitigation of project risk and development of sound financial practices by NADB’s borrowers. To these ends, NADB shall require a debt service reserve, except as stated under the standard reserve parameters below, and may also require other reserve funds in making a loan to a borrower, as defined herein:

- 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. NADB 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

Type of Project	Reserve Amount	Timeframe to Fund Reserves	De-Funding
Debt Service Reserve (DSR)			
U.S. municipal projects financed by utility or other municipal revenue (including revenue bonds)	6 months to 1 year of debt service.	Up to 30-60 months from first disbursement, respectively.	Upon loan payback.
Mexico municipal projects financed by utility or other municipal revenue	6 months to 1 year of debt service.	Up to 30-60 months from first disbursement, respectively.	Upon loan payback.
Mexico state, municipal or utility projects with irrevocable trust payment and/or guarantee structure for which the payment and/or guarantee is funded by state, municipal or other utility revenue	1 to 3 months of debt service.	Up to 30-60 months from first disbursement, respectively.	Upon loan payback.

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Type of Project	Reserve Amount	Timeframe to Fund Reserves	De-Funding
Mexico municipal projects financed by utility or other municipal revenue, backed by a tax pledge (participations)	2 to 3 months of debt service.	Up to 24 or 36 months from first disbursement, respectively.	Upon loan payback.
Private sector projects	2 months-1 year of debt service.	Up to 12 months from first disbursement.	Upon loan payback.
U.S. municipal projects backed with tax pledge (i.e., general obligation bonds)	No debt service reserve.		
Mexico municipal or utility projects with irrevocable state or municipal payment and guarantee trust structure for which the payment and/or guarantee is funded by federal tax revenue (" <i>participaciones</i> ")	No debt service reserve.		
Construction-only and other short-term loans	No debt service reserve, credible source of repayment required		
All other transactions not covered under the parameters described above	To be recommended by Bank's Management based on the factors set forth in paragraph 17.c.		
Operations and Maintenance (O&M) Reserve			
All projects	Up to 3 months of O&M project budget, determined by NADB's Technical Services Department.	Up to 36 months from first disbursement.	Upon loan payback.
Repair and Replacement Reserve (RRR)			
All projects	Up to 10% of project equipment value, determined by NADB's Technical Services Department.	Up to 48 months from first disbursement.	Upon loan payback.

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 NADB loan is fully re-paid. The borrower may then dispose of the reserves at its discretion; NADB, 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. Factors considered by NADB in establishing DSR requirements include:

- Quality of the guarantee 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 guarantee or collateral will substantially impact the level and timeframe for funding the debt service reserve.

d. Operations and Maintenance Reserve. Factors considered by NADB 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 / region.

The procedure for establishing an operations and maintenance reserve includes an inspection of revenue 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 by NADB 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 / 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. NADB will impose no condition that the proceeds of a loan be spent in the territory of the U.S. or Mexico. NADB will take measures to ensure that the proceeds of any loan made by NADB are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency. All NADB loan proceeds must be expended in accordance with NADB's procurement policies and procedures. These policies and procedures are outlined in the NADB document entitled, "North American Development Bank Procurement Policies and Procedures."

19. Other Terms and Conditions. In making direct loans, NADB 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. NADB promotes an open information policy, to the extent practicable and consistent with sound commercial practices. Generally, all documents relating to a proposed NADB loan may be made publicly available; certain exceptions are applicable. For a complete discussion of NADB's information and disclosure policies, please see the document, "Procedures Regarding Disclosure and Confidentiality."

G. Revisions to and Waivers of Policies. The provisions of Section III, "Policies for Making Loans" will be changed only by decision of the Board of Directors, based on a policy paper. If NADB expects to recommend a change to the provisions in advance of a loan financing proposal, NADB shall present a policy paper to the Board on the relevant policy issue(s) at least two months in advance of presenting the corresponding financing proposal to the Board. In exceptional circumstances, the Board may approve a waiver to the provisions of Section III, "Policies for Making Loans" for a specific financing proposal, which will be presented as part of such proposal.

IV. PROCEDURES FOR MAKING LOANS

To assist project sponsors in determining whether their environmental infrastructure projects are eligible for certification and loan financing, NADB can provide preliminary guidance regarding potential financial designs and structures of projects. As part of this process, NADB 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, NADB will determine whether the ability of projects to qualify for NADB loans might benefit from grant support from NADB's Technical Assistance (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 NADB's Border Environment Infrastructure Fund (BEIF), funded by the U.S. Environmental Protection Agency. NADB'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 ratepayers.

Once a project sponsor has determined to secure NADB loan financing for an eligible environmental infrastructure project, the sponsor should apply for project certification and financing. The certification guidelines are contained in the document entitled "Project Certification Criteria and Process." The Board of Directors approves certification and financing of projects simultaneously. 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 NADB loan financing:

A. Application. Applicants for financing must indicate to NADB in writing their interest in NADB financing, which may be done by electronic means directed to the NADB staff member(s) assigned as the point(s) of contact for the applicant. Applicants should provide at least the following: name and location of the project, the general objectives or type of project, the loan amount requested from NADB, and the sponsor's or project's contact information. For those loans in which a bidding process is required, the invitation to such bidding process can be considered sufficient indication of interest in NADB financing.

B. Acceptance Agreement. The project sponsor or the borrower must enter into an acceptance agreement with NADB prior to the use of material NADB resources in the development of the relevant project. The acceptance agreement includes provisions for payment of expenses incurred by NADB in analyzing the project sponsor's loan proposal. For most projects, NADB 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, NADB will pass through these costs to the project sponsor.

C. Loan Financing Proposal. The project sponsor or borrower must provide the necessary information to complete a financing proposal with detailed information for NADB's consideration. NADB will review the material submitted in a timely manner to determine if it includes all the information required. If NADB determines that the information is incomplete,

it will explain the deficiencies to the applicant. As applicable, the material requested from the sponsor or borrower may include, but not be limited to, the following information:

GUIDELINE FOR INFORMATION REQUIREMENTS	
1. General Project Information	<p>a) A project description that includes:</p> <ul style="list-style-type: none"> i. information on the applicant (potential borrower): name, address, phone, email, fax; names and positions of legal representative and key project contact person; ii. a description of the project, its objectives, environmental benefits, impacts, participants, main characteristics, outcomes and population to benefit; iii. the total cost with a breakdown by main category of the expected financial structure (equity, grants, debt); iv. project schedule; and v. a brief description of the planning, construction, operation and maintenance processes. <p>b) Where appropriate, a feasibility study containing a detailed description of all aspects of the project, including description, location, legal status, ownership, and background on key elements of the project, such as the status of agreements, licenses, local partner participation, guarantors, and financing.</p> <p>c) Draft agreements, to the extent available, for key elements of the project, including supply, off-take, revenue and operations and maintenance.</p> <p>d) 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.</p> <p>e) 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.</p>

GUIDELINE FOR INFORMATION REQUIREMENTS	
2. Project Participants	<ul style="list-style-type: none"> a) The potential borrower should present information describing its organizational and technical structure. b) Sponsors must provide all relevant financial information, including audited financial statements. c) If the sponsors are part of a joint venture or consortium, information should be provided for all relevant participants. Shareholders' and/or partnership agreements should also be provided. d) Sponsors and guarantors must provide sufficient evidence that they are empowered to assume the NADB loan. e) The information necessary for the Know Your Customer (KYC) process will be required for both the entities and individuals relevant to the transaction, namely: official identifications, legal and corporate powers, administrative responsibilities, shareholder positions, corporate structures, related entities, taxpayer registration, and legal domiciles, among others.
3. Technical Information	<ul style="list-style-type: none"> a) A project summary indicating, among other things: the project to be financed; proposed expansion and improvements; compliance with environmental standards and regulations; if available, parties expected to be involved in building, operating and maintaining the project. b) A detailed estimate of operating costs. c) A description of the project costs and specifications, with a breakdown of the costs by category. d) Where applicable, a detailed description of the measures taken to protect against project completion risk, including liquidated damage provisions, performance bond requirements, and other guarantee arrangements. 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.

GUIDELINE FOR INFORMATION REQUIREMENTS	
	<ul style="list-style-type: none"> f) An operations and maintenance plan. g) Where applicable, a capital improvement program. h) Where applicable, an overall procurement plan.
4. Economic Information	<ul style="list-style-type: none"> a) Where necessary for market risk assessment, 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	<ul style="list-style-type: none"> a) A breakdown of anticipated project costs and expenditures, as applicable, 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

GUIDELINE FOR INFORMATION REQUIREMENTS	
	<p>financing commitments of other lenders to the projects, if applicable, should be provided.</p> <p>c) As required and applicable, comprehensive audited annual financial reports for the last five fiscal years; financial reports for the current fiscal year; budget for the following fiscal year.</p> <p>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.</p> <p>e) As applicable, projected annual financial statements covering the period from project development through final maturity of the proposed NADB financing, to include balance sheet, income statement, cash flows, projected debt, and debt service ratios. Projections should also include a sensitivity analysis.</p> <p>f) Finance sources: equity, debt, grants; debt/bond issuance history; information on outstanding and other proposed loans and liabilities.</p> <p>g) Where applicable, describe relevant assumptions for 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.</p> <p>h) Where the currency of the loan differs from the currency of project revenue, a description of the measures that will be taken (hedging or recourse arrangements) to protect the borrowers and/or the NADB loan or third-party guarantee from exchange risk.</p> <p>i) Where NADB 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.</p> <p>j) A description of the principal risks and benefits of the project to the sponsors, lenders, and guarantors.</p>

GUIDELINE FOR INFORMATION REQUIREMENTS	
	<p>k) Where applicable, a description of the types of insurance coverage to be purchased for both the pre- and post-completion phases of the project.</p>
<p>6. Legal/Regulatory Information</p>	<p>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.</p> <p>b) Where applicable, a description of rate-setting procedures, as well as rate ordinances or resolutions.</p> <p>c) Where applicable, any sales contracts and supply agreements.</p> <p>d) Documentation and other evidence that project sponsors, borrowers, guarantors and other contractual partners:</p> <ul style="list-style-type: none"> i. are legally organized, are in compliance with the relevant legal formalities, and have legal personality; ii. are empowered to contract credits with NADB in the currency offered by NADB; iii. are empowered to undertake obligations to act as specified in the loan contracts of NADB; 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 material adverse litigation; vi. are acting consistently with, and are not in breach of, other contracts and obligations; and vii. where applicable, are able to submit to any arbitration required by the loan agreement and adapt their procurement procedures to NADB policies. <p>e) Appropriate board resolutions, legal opinions, certifications and similar assurances of compliance with legal requirements.</p>

D. Evaluation of the Financing Proposal. NADB staff, with the assistance of outside consultants as necessary, will perform a comprehensive analysis of each complete financing proposal. This process will include an in-depth review of project/loan risks (including credit risks, 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, NADB must ensure that projects are technically, environmentally, financially and economically sound, that project sponsors have the institutional, managerial and structural capacity to carry out their projects, and that a loan proposal meets all of the basic policies governing NADB loans set forth in Section III of this document. In performing this analysis, NADB generally considers the following factors.

LOAN EVALUATION FACTORS	
1. General	<ul style="list-style-type: none"> a) If applicable, if the project is part of an articulated long-term strategic or system 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. 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 NADB. e) Where applicable, if the project generates user fees or other dedicated sources of revenue in the service area and demonstrates 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) Where applicable, effective demand management and public awareness strategies should be incorporated into project designs.

LOAN EVALUATION FACTORS	
	<p>h) Supply unit pricing and costs should reflect market-based pricing, consistent with NADB’s procurement guidelines.</p> <p>i) Concessions and contracts let by governmental bodies to private companies shall have been procured under fair, reasonable, competitive and transparent procedures consistent with NADB’s procurement guidelines.</p> <p>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.</p>
2. Project Participants	<p>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.</p> <p>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.</p> <p>c) Project sponsors, borrowers and guarantors must have sufficient assets to meet their obligations.</p> <p>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 guarantee of the entity that does have the legal power to set rates may be required.</p> <p>e) In NADB’s assessment of project management, where applicable, 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</p>

LOAN EVALUATION FACTORS	
	the necessary accounting and financial reporting requirements specified by NADB.
3. Technical	<p>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 required for a project, and a plan for securing such licenses and permits. NADB will require the sponsor or borrower to periodically report on the program for securing such licenses and permits.</p> <p>b) A technical feasibility study or sufficiently detailed engineering information must be provided to demonstrate the technical feasibility of the project.</p> <p>c) A comprehensive operations and maintenance plan for the term of NADB's financing must be provided to ensure the ability of local utilities to operate and maintain the system.</p> <p>d) The project's procurement procedures must be consistent with NADB's procurement procedures.</p>
4. Economic	<p>a) The service area of the proposed project is a focal point in the evaluation of credit risk and, therefore, when appropriate, must be able to sustain a level of user fees or other dedicated sources of revenue sufficient to service project debt.</p> <p>b) If applicable, 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 revenue.</p> <p>c) If applicable, 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.</p>

LOAN EVALUATION FACTORS	
5. Financial	<ul style="list-style-type: none"> a) NADB will examine and evaluate all factors of a borrower and a project, where appropriate, to determine whether or not it will generate sufficient revenue to cover the project’s long-term operations and maintenance costs, fund the required reserves, and repay the debt. b) Where applicable, the project should have long-term arrangements for the effective collection of user fees and other project revenue; long-term contracts, where appropriate, from creditworthy entities for the purchase of any 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 NADB financing. c) 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. d) 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. e) Where applicable, 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	<ul style="list-style-type: none"> 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 NADB policies and guidelines. c) Project sponsors, borrowers, guarantors and other contractual partners must demonstrate that they are

LOAN EVALUATION FACTORS	
	empowered to undertake the obligations to act as specified in their agreements with NADB.

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

1. The detailed financing proposal will first be presented to NADB's internal Funding Committee, which is composed of senior NADB staff and chaired by the Managing Director.
2. Upon recommendation of the Funding Committee, the detailed certification and financing proposal will be presented to the Board of Directors for its consideration.
3. Following the Board of Directors' approval of certification and financing, a Financing Commitment in the amount authorized by the Board of Directors will be provided to the project sponsor or borrower in the form of a letter. A Financing Commitment is the formal authorization of NADB financial support and commits NADB to make the proposed loan, subject to the borrower's satisfaction of the terms and conditions set forth in the Financing Commitment.

F. Negotiation and Execution of Loan Agreement. NADB staff will negotiate the final terms and conditions of the loan agreement with the borrower, consistent with the Financing Commitment authorized by the Board of Directors. NADB's General Counsel, working with outside legal counsel as necessary, will work with the borrower to prepare the relevant legal documentation for execution by NADB 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 NADB. NADB will also require standard loan covenants as part of its loan agreement, and will make appropriate use of negative pledge, cross-default and prepayment clauses. 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 NADB 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, NADB 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 NADB, the following financial and technical reports, as appropriate or applicable, 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
 - annual budgets;
 - timely reports on any financial problems of a 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. A detailed description of NADB's disbursement policies and procedures can be found in the NADB document entitled, "Disbursement Manual."

H. Project Supervision. A detailed description of NADB's supervision policies and procedures can be found in the NADB document entitled, "Supervision of Procurement and Contracting."

I. Project Closeout. Once a project is completed, it requires a closeout report. Borrowers will provide the necessary information for NADB to produce the report, which includes information on the actual project built and its outcomes. The specific information needed for the report is defined on a per project basis and will be required by the loan contract.

CONTACT INFORMATION

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

Director of Infrastructure Financing and Financial Services
Chief Financial Officer
General Counsel

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