

Qualified and Non-Qualified Loans

WIFA Policy #: III.9

Purpose:

Categorize loans into one of two categories as the basis for pledging security for WIFA's bonds.

Policy

Section 1: Board Actions - If WIFA's Board of Directors determines an applicant is capable of receiving and repaying financial assistance in accordance with:

- WIFA Policy III.7 - Financial Capability and Financial Assistance Requirements for Governmental Entities, or
- WIFA Policy III.8 - Financial Capability and Financial Assistance Requirements for Non-Governmental Entities.

WIFA will categorize the loan into one of two categories in accordance with Sections 2, 3, 4 and 5 of this policy. WIFA will categorize loans through Board actions on loan resolutions.

Section 2: Loan Categories - WIFA will categorize all loans into one of two categories:

Qualified (Q) - Includes loans which WIFA has not pledged as security for WIFA's bonds. WIFA will categorize loans as Qualified in accordance with the methodology described within Section 3 of this policy and in accordance with the decision diagrams detailed within Section 5 of this policy.

Not Qualified (NQ) - Includes loans which WIFA has not pledged as security for WIFA's bonds. WIFA will categorize loans as Not Qualified in accordance with the methodology described within Section 3 of this policy and in accordance with the decision diagrams detailed within Section 5 of this policy.

Section 3: Methodology - In accordance with WIFA Policies III.7 and III.8, WIFA will categorize loans as Qualified and Not Qualified pursuant to the methodology described below.

Historical and Projected Coverage Test - In accordance with WIFA Policies III.7 and III.8, WIFA will set historical and projected revenues coverage requirements by repayment source. WIFA will use historical and projected coverage as a guide in categorizing the loan. Table 1 summarizes these coverage requirements.

Table 1: WIFA Coverage Requirements by Repayment Source

Repayment Source	Coverage Requirement
General Obligation	General Obligation Pledge
Enterprise Revenues *	Net Revenues \geq 1.2 * Maximum Annual Debt Service
Sales/Excise Taxes	Gross Revenues \geq 2.0 * Maximum Annual Debt Service
Special Assessments	Full Cash Value of Benefitting Properties \geq 10 * Total Special Assessments
Other *	Varies by Source, subject to approval by the Board of Directors

* Coverage Requirements are identical for Governmental and Non-Governmental Entities

Loan Origination Analysis 1: Financial Capability - In accordance with WIFA Policies III.7 and III.8, WIFA's Board of Directors determines if an applicant is financially capable of receiving and repaying financial assistance. If WIFA determines an applicant is financially capable, WIFA will use the capability analysis as an aid in categorizing the loan.

Loan Origination Analysis 2: System Capability - In accordance with WIFA Policies III.7 and III.8, WIFA's Board of Directors determines if an applicant is legally, technically, and managerially capable of receiving and repaying financial assistance. If WIFA determines an applicant is legally, technically, and managerially capable, WIFA will use the capability analysis as an aid in categorizing the loan.

WIFA will rely on existing credit data, therefore, if the applicant is rated BAA, BBB+, or higher from a nationally recognized rating agency and has no other mitigating factors (legal, technical or managerial shortcomings), then it will be categorized as Qualified.

Annual Loan Review - As required within the financial assistance agreement and as detailed within Section 5 of this Policy, an applicant will certify WIFA's loan coverage requirements and the fund balances of locally held debt service reserves. Based on operating performance evidenced by the annual loan review, WIFA may reclassify the loan.

Section 4: Pledging Qualified Loans - Qualified loans can be pledged as security for WIFA's bonds at the time of bond issuance. WIFA will calculate cash flow coverage (pledged revenue in excess of current bond debt service) based on receivables from Qualified Pledged loans in combination with other pledged assets (cash, reserves, and other investments). WIFA will categorize loans as Qualified in accordance with the methodology described within Section 3 of this policy and in accordance with the decision diagrams detailed within Section 5 of this policy.

If there are sufficient revenues from Qualified Pledged loans and other assets to cover WIFA's bond debt service, WIFA reserves the right not to pledge a loan to preserve future programmatic flexibility.

Section 5: Diagrams - WIFA will categorize loans in accordance with the methodology described within Section 3, by repayment source, and by applicant with the aid of the following decision diagrams:

- Section 5 A: General Obligation
- Section 5 B: Enterprise Revenues - Municipalities, Sanitary Districts, County Operated Sewer Systems, Private Water Companies, and County Improvement Districts
- Section 5 C: Sales/Excise Taxes
- Section 5 D: Special Assessments - Municipal Improvement Districts
- Section 5 E: Special Assessments - Sanitary Districts & County Improvement Districts

Responsibility: Chief Financial Officer

Statutory Reference: A.R.S. Title 49, Chapter 8

Rule Reference: A.A.C. R18-15-104

Original Issue Date: May 11, 1999

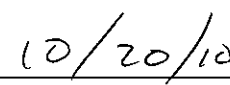
Previous Amendment Date(s): N/A

Most Recent Amendment Date: October 20, 2010 (*Replaces All Previous Versions*)

Approval:



Interim Executive Director



Date

Section 5 A: General Obligation

(In accordance with A.R.S. §§ 49-1224(B)(2) and 1244(B)(2), WIFA may rely on an applicant's underlying bond ratings for the pledged revenue source as evidence of financial capability.)

Loan Origination Analysis 1: Financial Capability

Analyze a three-year history of property tax collections, system revenues and expenses.

Based on historical performance, project or request a third party to project revenues and expenses for the next five years.

Loan Origination Analysis 2: System Capability

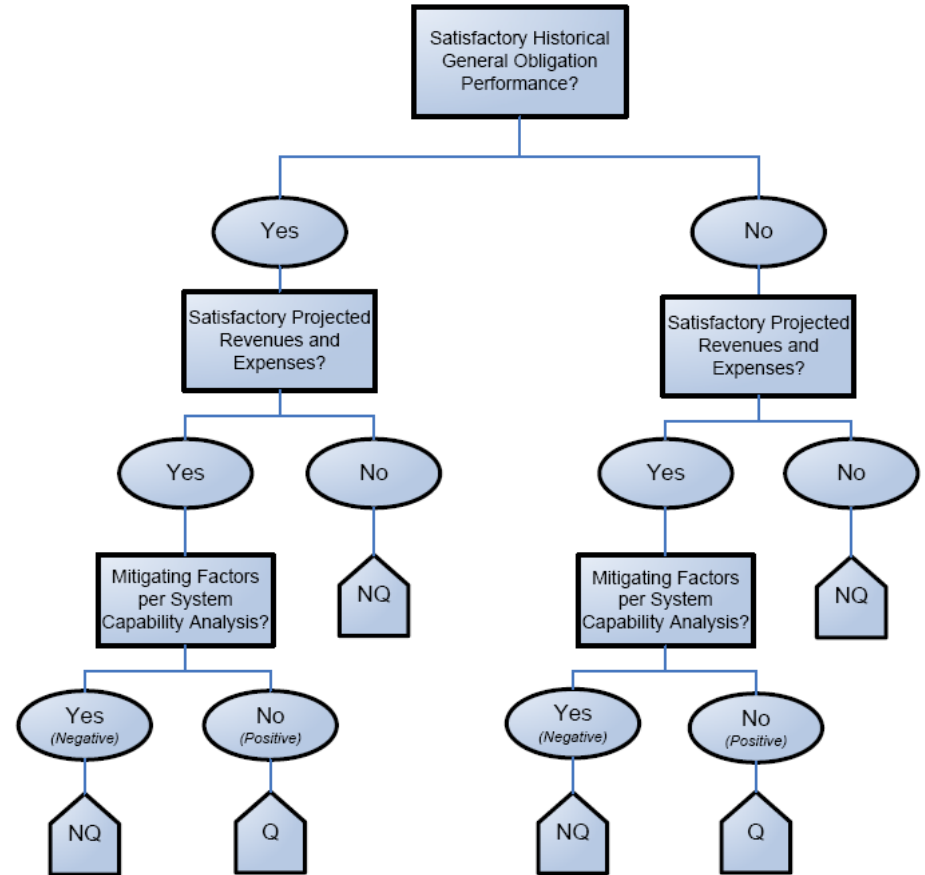
Review legal, technical, and managerial structure to assess system capability and viability.

Review compliance with applicable regulatory agencies.

Annual Loan Review

Borrower will submit audited financial statements and/or Comprehensive Annual Financial Reports.

WIFA reserves the right to reclassify loans based on the results of the annual loan review.



Section 5 B: Enterprise Revenues - Municipalities, Sanitary Districts, County Operated Sewer Systems, Private Water Companies, and County Improvement Districts

(In accordance with A.R.S. §§ 49-1224(B)(2) and 1244(B)(2), WIFA may rely on an applicant's underlying bond ratings for the pledged revenue source as evidence of financial capability.)

Historical and Projected Coverage Test

Net Revenues \geq 120% * Maximum Annual Debt Service

Debt Service Reserve = Maximum Annual Debt Service funded within five years.

Loan Origination Analysis 1: Financial Capability

Analyze a three-year history of revenues and expenses.

Based on historical performance, project or request a third-party to project revenues and expenses for the next five years.

Loan Origination Analysis 2: System Capability

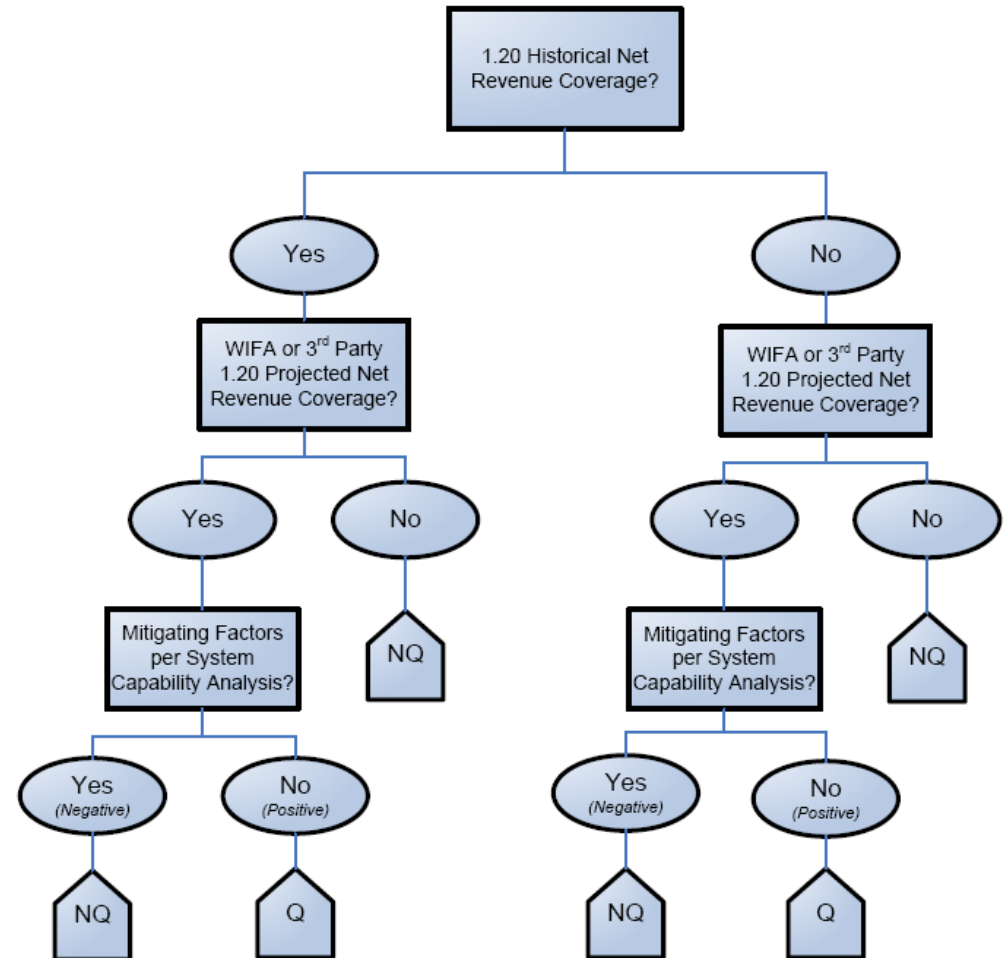
Review legal, technical, and managerial structure to assess system capability and viability.

Review compliance with applicable regulatory agencies.

Annual Loan Review

Borrower will certify coverage levels and balance of borrower's Debt Service Reserve. Borrower will submit financial statements and/or Comprehensive Annual Financial Reports.

WIFA reserves the right to reclassify loans based on the results of the annual loan review.



Section 5 C: Sales/Excise Taxes

(In accordance with A.R.S. §§ 49-1224(B)(2) and 1244(B)(2), WIFA may rely on an applicant’s underlying bond ratings for the pledged revenue source as evidence of financial capability.)

Historical and Projected Coverage Test

Gross Revenues \geq 200% * Debt Service

Debt Service Reserve = Maximum Annual Debt Service funded within five years.

Loan Origination Analysis 1: Financial Capability

Analyze a three-year history of revenues and expenses.

Based on historical performance, project or request a third-party to project revenues and expenses for the next five years.

Loan Origination Analysis 2: System Capability

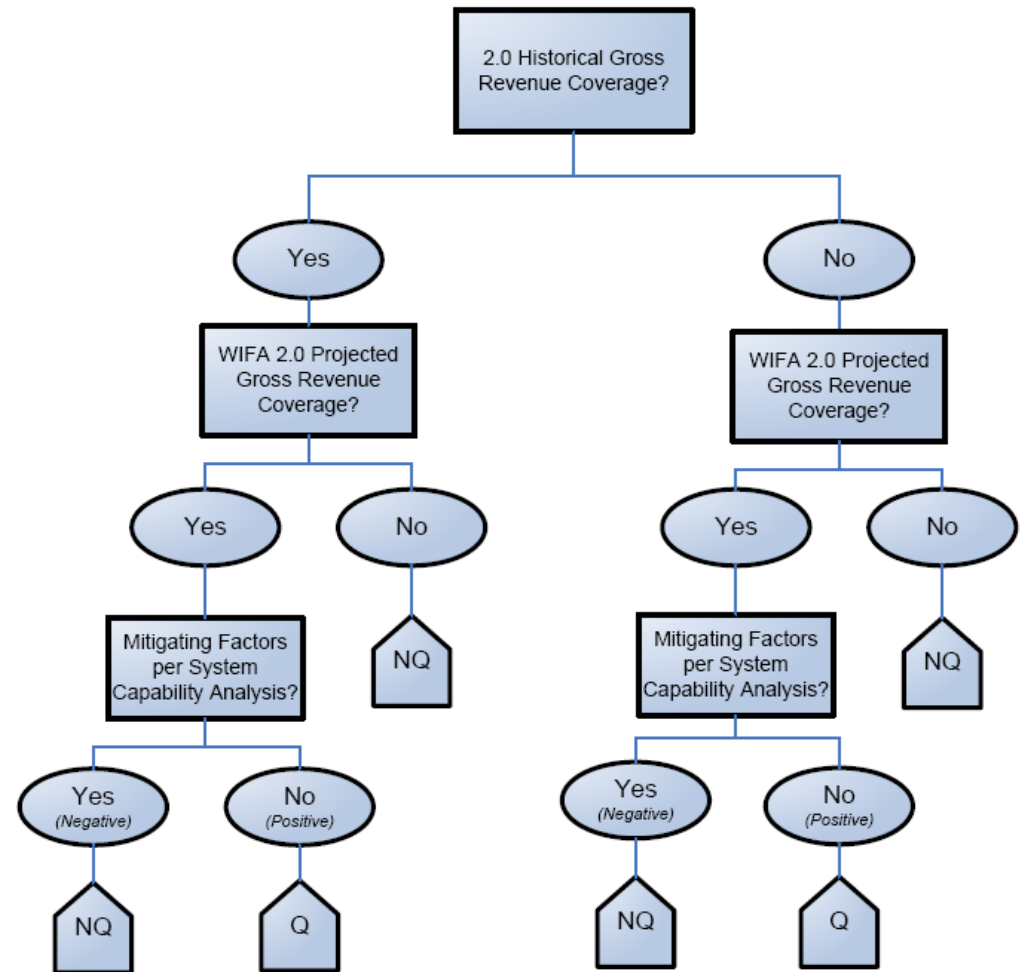
Review legal, technical, and managerial structure to assess system capability and viability.

Review compliance with applicable regulatory agencies.

Annual Loan Review

Borrower will certify coverage levels and balance of the borrower’s Debt Service Reserve. Borrower will submit financial statements and/or Comprehensive Annual Financial Reports.

WIFA reserves the right to reclassify loans based on the results of the annual loan review.



Section 5 D: Special Assessments - Municipal Improvement Districts

Projected Coverage Test

Full Cash Value = 10 * Total Assessments

Loan Origination Analysis 1: Financial Capability

Analyze most recent data on full cash values, three-year operating history of sponsoring municipality's General Fund, and sponsoring municipality's experience with previous and existing improvement districts.

Loan Origination Analysis 2: System Capability

Review legal, technical, and managerial structure to assess system capability and viability.

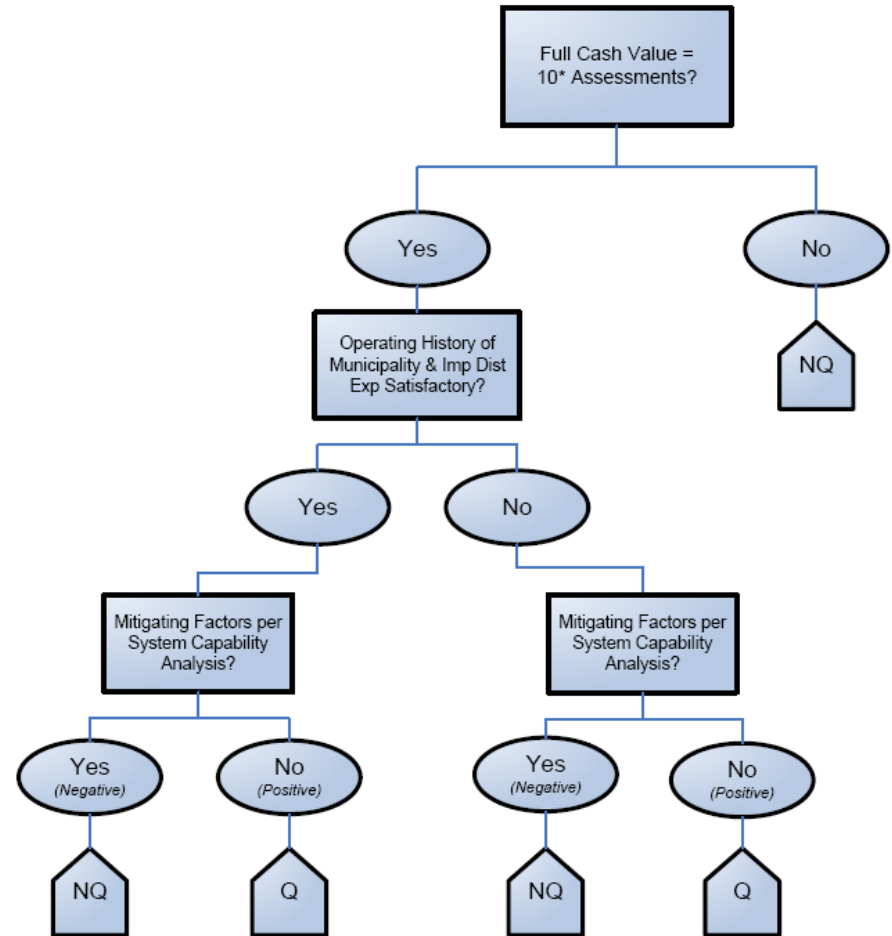
Review compliance with applicable regulatory agencies.

Annual Loan Review

Borrower will certify full cash value levels.

Municipalities will certify balance within General Fund.

WIFA reserves the right to reclassify loans based on the results of the annual loan review.



Section 5 E: Special Assessments - Sanitary Districts & County Improvement Districts

Projected Coverage Test

Full Cash Value = 10 * Total Assessments

Loan Origination Analysis 1: Financial Capability

Analyze most recent data on full cash values, three-year operating history of sponsoring political subdivision's General Fund, and sponsoring political subdivision's experience with previous and existing improvement districts.

Loan Origination Analysis 2: System Capability

Review legal, technical, and managerial structure to assess system capability and viability.

Review compliance with applicable regulatory agencies.

Annual Certification

Sponsoring political subdivision will certify full cash value levels and certify balance within General Fund.

WIFA reserves the right to reclassify loans based on the results of the Annual Certification.

