AMENDED AND RESTATED
NEW MEXICO FINANCE AUTHORITY
PUBLIC PROJECT REVOLVING FUND
DEBT MANAGEMENT POLICY

A. PURPOSE

The statutory mission of New Mexico Finance Authority ("NMFA") is to coordinate the planning and financing of public projects for qualified entities, and to provide financing for public projects in a manner that will not impair the capacity of the Public Project Revolving Fund ("PPRF"). In the context of that mission, this Amended and Restated Debt Management Policy (the "Debt Management Policy") sets forth the parameters for issuing debt and managing the outstanding PPRF debt portfolio. The PPRF debt portfolio currently includes bonds issued under a General Indenture of Trust and Pledge (the "Senior Lien PPRF Program") and bonds issued under a Subordinated General Indenture of Trust and Pledge (the "Subordinate Lien PPRF Program" and together with the Senior Lien PPRF Program, the "”PPRF Program"). The purpose of the Debt Management Policy is to provide guidance to decision makers regarding the purposes for which debt may be issued, the types and amounts of debt permitted, the timing and methods of sale that may be used, and structural features that should be considered under different circumstances. Adherence to the Debt Management Policy will help to ensure that the NMFA creates and maintains a sound debt position for the PPRF and that the credit quality of the PPRF Program and the outstanding PPRF debt will be protected.

This Debt Management Policy also provides guidance to decision makers with respect to the issuance of variable rate debt instruments in a manner that complies with the Public Securities Short–Term Interest Rate Act, Sections 6-18-16, NMSA 1978, as amended, and furthers the statutory mission of the NMFA.

Implementation of this Debt Management Policy will be subject to the requirements of the Federal Internal Revenue Code, as may be amended from time to time, to ensure that bonds that are issued as tax-exempt bonds, remain tax-exempt.

The specific purposes of this Debt Management Policy are to:

1. Institute debt management guidelines for the PPRF Program;

2. Ensure high quality debt management decisions, including full and timely repayment of all borrowings and achievement of lowest possible cost of capital within established risk parameters;

3. Impose order and discipline in the debt issuance process, while maintaining responsiveness to qualified borrowers;

4. Promote consistency and continuity in the decision making process;

5. Comply with and obtain the benefits of the Public Securities Short-Term Interest Rate Act by achieving savings in interest cost to the NMFA and other debt management benefits that may be achieved through the use of variable rate debt instruments;

6. Demonstrate a commitment to long-term financial planning objectives; and

7. Ensure that the debt management decisions are viewed positively by rating agencies and the investment community.

B. DEBT MANAGEMENT GOALS

The goals of this Debt Management Policy are to maintain and enhance future borrowing capacity for the PPRF Program through: (i) planned, periodic issuances of PPRF bonds to reimburse the PPRF for loans previously originated, focusing on reimbursement at advantageous rates, where practicable; (ii) the financing of loans that have special credit risk concerns, with bonds that have corresponding features, secured with a subordinate lien under the Subordinate Lien Indenture, in order to contain the specific financing costs of such loans and avoid spreading such costs to the overall PPRF Program; and (iii) the selective refunding of outstanding PPRF bonds at advantageous rates.

C. IMPLEMENTATION

This Debt Management Policy shall be implemented by a Debt Management Committee, which shall utilize comprehensive debt management techniques to accomplish the following objectives:

1. Full and timely payment of principal and interest on all outstanding PPRF debt;

2. Debt shall be incurred only for those purposes provided by statutes establishing the PPRF, statutes authorizing issuance of debt by the NMFA and as otherwise permitted by law;

3. Principal retirement schedules (other than for variable rate PPRF debt) shall be structured to: (1) match loan repayment revenues for loans being financed or reimbursed, (2) achieve a low borrowing cost for PPRF debt, and (3) respond to market demand;

4. Debt shall generally be limited to obligations with serial and term maturities but may be sold in the form of capital appreciation bonds or other structures if circumstances warrant;

5. The NMFA shall communicate periodically with bond rating agencies (Moody's, Standard & Poor's or such other agencies that provide credit ratings from time to time for the outstanding PPRF debt (the "Bond Rating Agencies") to ensure complete and clear understanding of the credit worthiness of the PPRF Program; and

6 Financial reports and bond offering documents shall provide full, complete and accurate disclosure of financial conditions and results. All reports shall conform to the disclosure needs of rating agencies, underwriters and investors.

D. DEBT MANAGEMENT COMMITTEE RESPONSIBILITIES UNDER THE DEBT MANAGEMENT POLICY

1. Purpose of Debt Management Committee

The purpose of the Debt Management Committee is to implement and maintain this Debt Management Policy and to review and recommend to the Chief Executive Officer of the NMFA and the NMFA Board of Directors ("Board"), the structuring plans for all debt offerings related to the PPRF Program and, to the extent necessary, for refunding and restructuring outstanding PPRF debt.

2. Responsibilities

The responsibilities of the Debt Management Committee shall be to:

(a) Implement and maintain debt management techniques in accordance with this Debt Management Policy.

(b) Review and evaluate results of PPRF debt financing operations including, but not limited to:

i. Issuance of long-term and short-term debt obligations;

ii. Selection of bond type, structure, methods of sale and marketing of bonds, establishing benchmarking where appropriate; and

iii. Investor and rating agency communications.

(c) Review and evaluate services provided by Financial Advisors, Bond Counsel, Disclosure Counsel, Tax Counsel, Underwriters, Trustees, Remarketing Agents, Auction Agents and other service providers in bond and related financial transactions for effectiveness and quality of service, as needed.

(d) In connection with outstanding variable rate debt, review and evaluate the information set forth in Section G(2) of this Debt Management Policy on a monthly basis, and prepare a report to the NMFA concerning that information for each Board or relevant committee meeting.

(e) Annually review and, if necessary, suggest revisions to this Debt Management Policy based upon the Committee's review of operations and market conditions.

(f) In connection with Variable Rate and Credit Enhancement Products:

i. develop and recommend to the Board methods of procuring such products;

ii. develop and recommend to the Board appropriate disclosure practices with respect to such products;

iii. develop and recommend to the Board contingency plans for addressing a rising interest rate environment, including setting aside reserves;

iv. develop and recommend to the Board methods of evaluation of the total costs of use of such products, including fees under expected and adverse scenarios; and

v. develop and recommend to the Board amendments to the Debt Management Policy.

3. Membership and Meetings

The NMFA's Chief Executive Officer (or designee), the Chief Financial Officer, Chief of Programs, Chief Investment Officer, Chief Lending Officer, and Chief Financial Strategist are appointed as the Debt Management Committee, with the General Counsel serving as an advisory member. In addition, the Board may appoint one or more Board members to the Debt Management Committee. The Committee shall meet as needed concerning the information to be reviewed and evaluated pursuant to Section G(2) of this Policy.

E. CREDIT RATINGS

The NMFA plans to carry out the following actions and otherwise to actively manage the outstanding PPRF debt in order to maintain or improve the ratings on Bonds issued under the PPRF Program:

1. The NMFA shall make every reasonable effort to maintain or improve the underlying high quality long-term ratings on outstanding PPRF debt;

2. The NMFA shall continue to apply for ratings on PPRF bonds which have been rated by one or more of the rating agencies in the past;

3. The NMFA shall maintain a line of communications with the Bond Rating Agencies and all entities providing credit enhancement from time to time in connection with the outstanding PPRF debt (the "Credit Enhancement Providers"), informing them of major financial events affecting the outstanding PPRF debt and borrowers who have outstanding PPRF loans as such events occur. All communications, both oral and written, in response to requests for information shall be made by the NMFA Chief Executive Officer or his designee;

4. The NMFA shall report annually, after acceptance by the Board, all financial information, including its annual audit to the Bond Rating Agencies and Credit Enhancement Providers;

5. The NMFA shall provide full disclosure of operations to the Bond Rating Agencies and Credit Enhancement Providers. The NMFA staff, with the assistance of underwriters, financial advisors, swap advisors, disclosure counsel, bond counsel, issuer’s counsel, tax counsel, or any other advisors as deemed necessary by the NMFA, shall prepare the necessary materials for presentations to the Bond Rating Agencies and the Credit Enhancement Providers;

6. The NMFA shall notify the Bond Rating Agencies by telephone or through written correspondence when the NMFA begins preparation for an issue of PPRF bonds. After the initial contact, the draft of the preliminary official statement relating to the bond sale will be delivered to the Bond Rating Agencies. A personal meeting with the Bond Rating Agencies should be scheduled at least once every year as well as whenever a new type of financing is initiated; and

7. It is the mission of the NMFA to deliver the lowest possible rates to its clients consistent with sound credit management policies. It is the goal of the NMFA to establish policies and procedures to obtain or maintain the strength of PPRF bonds at a AAA level.

F. FIXED VS. ADJUSTABLE RATE DEBT MIX

The PPRF Program currently offers fixed rate loans which are reimbursed using fixed rate revenue bonds. Given the nature of the PPRF’s current reimbursement structure, the NMFA will not issue adjustable rate bonds to reimburse fixed rate loans.

NMFA believes that for certain large and sophisticated borrowers some amount of variable rate debt in their overall debt mix may be prudent and conservative. The NMFA may consider variable rate loans to those borrowers, subject to approval by the Board. Based on the current debt ratings and the Bond Rating Agencies views on adjustable rate debt, the NMFA will not have unhedged adjustable rate debt in excess of 20% of the aggregate outstanding principal amount of debt issued under the PPRF Program. The NMFA will also evaluate the total amount of PPRF moneys available for investment in short term instruments, to determine the appropriate fixed vs. adjustable rate debt mix. The limitation on the amount of unhedged adjustable rate debt will be reviewed periodically and adjusted with the approval of the Board, based upon input from rating agencies.

G. MANAGEMENT OF RISK IN THE PPRF PROGRAM

1. General Considerations. In order to provide for a regular and proactive plan for reimbursement bond issues, more streamlined approval process, and closer timing of loan and bond closings and matching of interest rates of loans and reimbursement bonds, the NMFA will take the following steps:

(a) Develop schedule for issuing PPRF reimbursement bonds approximately each quarter over the next 12-24 months:

i. The Board may adopt periodic intent resolutions authorizing staff and consultants to bring bond transactions to the Disclosure Committee for recommendation to the Board for approval, specifying the purposes and approximate amounts of bonds to be approved by the Board in a subsequent bond resolution. Such intent resolutions are expected to be adopted on approximately a quarterly basis;

ii. Intent resolutions will include authority to prepare disclosure documentation as needed prior to each sale;

iii. The Board will approve an authorizing resolution for each series approximately one month prior to bond pricing. Each authorizing resolution should be accompanied by a near-final Preliminary Official Statement or other disclosure documentation for review and comment by the Board; and

iv. The Board may adopt a sale resolution for each series of PPRF bonds prior to closing, which could occur approximately two to three weeks after adoption of each sale resolution.

(b) Implement short-term borrowing tools (e.g., bond anticipation note program, a commercial paper program, line of credit) to provide additional short-term borrowing capability for the PPRF, as an adjunct to regular bond issuance, to provide needed cash for the PPRF if market conditions or other factors militate against issuing bonds at a particular time. Short-term borrowing tools should be secured either by proceeds of periodic reimbursements bonds or by a subordinate lien on PPRF;

(c) Obtain cost modeling for regular or periodic use of short-term obligations and redemption with bonds;

(d) Where appropriate, use interest rate locks or interest rate cap agreements or other hedging devices to eliminate or reduce rate risk;

(e) Structure reimbursement bond series so that particular costs of loan features (e.g. variable rates, synthetic fixed rates with swaps) reflected in the interest rate on the reimbursement bonds are passed through, or in limited circumstances, shared with borrowers requesting those features:

i. Loans providing right to prepay at any time may be reimbursed with variable rate bonds or fixed rate bonds allowing extraordinary redemption upon loan prepayment;

ii. Variable interest rate loans may be offered to sophisticated borrowers and may be reimbursed with variable rate bond series, the terms, risks and costs of which may be passed along to the borrowers requesting variable rate loans;

iii. Benefits of a swap from variable to synthetic fixed rate bonds may be offered to sophisticated borrowers who agree to be liable for all termination payments, basis risk, and other risks associated with such financial options;

iv. Provide structuring enhancement on loans for projects with state-wide impact; and

v. Provide structuring enhancement to borrowers with unmet needs (equipment financings, borrowers with limited access to capital markets, difficult multi-borrower/regional projects).

2. Periodic Evaluation of Specific Information in Conjunction with Variable Rate Debt. The Debt Management Committee will meet as necessary regarding the action items below and will provide periodic reports concerning those items at NMFA Board Meetings.

(a) Review the weekly floating rates;

(b) Review cash balances versus total adjustable exposure outstanding to analyze internal hedging. If total investment assets of 2-years or shorter are less than the total actual floating rate exposure, review additional risk management tools to reduce floating rate exposure;

(c) Review risk management opportunities for outstanding debt portfolio; and

(d) Review additional educational opportunities regarding risk management tools.

H. SPECIAL RESERVE ACCOUNTS

1. General Considerations.

In order to provide a diverse mix of product structures, and to further enhance the credit strength of the PPRF, the NMFA may establish Special Reserve Accounts. Special Reserve Accounts *held outside* the General and Subordinated Indentures of Trust will be designated as ***Contingent Liquidity Accounts***. Special Reserve Accounts *subject to* the General and, to the extent provided for below, Subordinated Indentures of Trust will be designated as *Indentured Reserve Funds*.

2 The Contingent Liquidity Account.

As of July 1, 2017 the Contingent Liquidity Account will be defunded and funds held in the Contingency Liquidity Account will be transferred in full to the Supplemental Credit Reserve Fund.

Uses and funding levels of the Contingency Liquidity Account will be redefined in policy should the Contingency Liquidity Account be reactivated in the future.

3. Common Debt Service Reserve Fund.

The Common Debt Service Reserve Fund shall only be used to make debt service payments for PPRF loans pledged to the General Indenture ("Senior PPRF Loans") as provided in this Debt Management Policy and in the General Indenture.

(a) Funding Level

i. In each fiscal year in which the Common Debt Service Reserve Fund is in existence, it shall be funded, unless adjusted by the Board as provided below, at a level equivalent to:

- 0% of maximum annual debt service payable in the Maximum Debt Service Year of loans outstanding secured by revenue pledges classified by NMFA as Governmental Gross Receipts Tax, or State Gross Receipts Tax – collectively, Risk Group One;

- 20% of maximum annual debt service payable in the Maximum Debt Service Year of loans outstanding secured by revenue pledges classified by NMFA as Law Enforcement Protection Fund, General Obligation, Mill Levy, or Gross Receipts Tax (other than Governmental or State Gross Receipts Tax) – collectively, Risk Group Two;

- 35% of maximum annual debt service payable in the Maximum Debt Service Year (defined below) of loans outstanding secured by revenue pledges classified by NMFA as State Fire Protection Fund, Enterprise System Revenues, Special Assessments or Local Special Tax – collectively, Risk Group Three;

  - For each revenue pledge type in each Risk Group, annual debt service on bullet bonds shall be calculated as interest due for each year. In the bullet year, the debt service shall be calculated as interest due plus the bullet principal amount less amounts held in a sinking fund.

ii. Common Debt Service Reserve Fund funding levels will be calculated with reference to the year in which the total annual debt service of Senior PPRF Loans then outstanding is at its highest dollar amount (the "Maximum Debt Service Year"). Only Senior PPRF Loans will be included in the calculation. The initial calculation will be made within thirty (30) days of all required changes to the General Indenture being adopted and, subsequently, on June 1 of each year and will be rounded up to the nearest thousand dollars.

iii. NMFA may from time to time add revenue pledge categories to those included above. New revenue pledge categories may be either included in the three Risk Groups identified in Section 3(a)(i) above or a new Risk Group may be established using a different Risk Group calculation percentage ("Factor").

iv. The Board may from time to time adjust the funding percentages of the Risk Group Factors and adjust the category in which a revenue pledge is categorized provided the adjustment does not diminish the Common Debt Service Reserve coverage already established for existing Senior PPRF Loans.

v. The Common Debt Service Reserve Fund was initially funded at a level of approximately $23,200,000, based on the actual Maximum Debt Service Year at the time the fund was created. This initial funding came from the Contingent Liquidity Account. From and after the initial funding, annual funding of the Common Debt Service Reserve Fund in a given year shall not exceed the amount funded to the Contingent Liquidity Account in a given year, but amounts available in subsequent years shall be used to satisfy any unfunded requirements.

vi. In the event that on June 1 of each year, the amount in the Common Debt Service Reserve Fund exceeds the required Maximum Debt Service Year funding level, then such excess shall be available to defease outstanding General Indenture Bonds at the discretion of Board. Otherwise, the excess funds will be maintained in the Common Debt Service Reserve Fund until the next calculation is made on June 1 of the following year.

(b) Use of the Common Debt Service Reserve Fund.

The Common Debt Service Reserve Fund will be available to the NMFA only as a credit enhancement of last resort for PPRF General Indenture bonds and can only be used for Debt Service shortfalls not otherwise covered by other NMFA resources pledged under the General Indenture of Trust.

4. The Supplemental Credit Reserve Fund.

(a) Funding Level

i. The Supplemental Credit Reserve Fund will be funded at a level equal to the funding level of the Common Debt Service Reserve Fund.

At any fiscal year end should the Supplemental Credit Reserve Fund funding level be less than the Common Debt Service Reserve funding level up to 100% of the prior year's Governmental Gross Receipts Tax distribution that is available to the New Mexico Finance Authority after release from the pledges of the General and Subordinated Indentures of Trust *less* any funds transferred to the Common Debt Service Reserve Fund under its funding requirements may be used to fund the Supplemental Credit Reserve Fund up to a level equal to the funding level of the Common Debt Service Reserve Fund.

ii. The Supplemental Credit Reserve Fund may decline below minimum Supplemental Credit Reserve Fund funding levels temporarily so long as the New Mexico Finance Authority reasonably expects to meet required Supplemental Credit Reserve Fund funding levels within one year.

(b) Uses of the Supplemental Credit Reserve Fund. The Supplemental Credit Reserve Fund will be available to the New Mexico Finance Authority for the following uses within the Public Project Revolving Fund Subordinated Indentures of Trust:

i. Debt Service shortfalls of subordinate lien Public Project Revolving Fund bonds;

ii. Replenishment of draws on the debt service reserves or reserve sureties;

iii. Ensuring that loans temporarily funded by a PPRF line-of-credit prior to reimbursement by a PPRF bond issue are repaid on a timely basis;

iv. Ensuring that appropriate loan are repaid on a timely basis. Year-to-year appropriation loans are those loans dependent: 1) on the General Fund of the State of New Mexico as the primary means of loan repayment; or, 2) on the annual budget of the United States Government for payments in lieu of taxes ("PILT") or Federal Impact Aid as the primary means of loan repayment.

Appropriation loan par amounts outstanding in the PPRF Subordinate Lien cannot exceed twice the fully funded level of the Supplemental Credit Reserve Fund;

v. Ensuring that State Fire Protection Fund and Law Enforcement Protection Fund loans are repaid on a timely basis.

I. PARAMETERS AND CONSIDERATIONS FOR MANAGEMENT OF OUTSTANDING PPRF DEBT AND BONDS ISSUED UNDER THE PPRF PROGRAM

1. Determination of Lien Level. The NMFA will determine at which lien level to place PPRF loans based on several objectives, including:

(a) Increasing the portfolio diversity of each of the PPRF lien level;

(b) Enhancing security of the PPRF program through non-reimbursed, or equity, loans;

(c) Achieving the highest ratings possible, while retaining sufficient program flexibility to continue meeting the PPRF programs lending objectives; and

(d) Structural features associated with the underlying loan (e.g. all variable rate debt will, by necessity, be sold through the subordinate lien).

2. The Debt Management Committee shall report to the Board at least semi-annually on the major credits in each lien level and on the progress of diversity and equity goals in the program.

3. Long-Term Debt

   (a) The term of debt may not exceed the term of the loans being financed or reimbursed; and

   (b) Long-term debt may be issued on senior or subordinate lien.

4. Variable Rate Debt

   (a) All variable rate debt will be issued with terms on the loan matched to the terms on the bonds;

   (b) Variable rate will be issued on subordinate lien level;

   (c) Outstanding unhedged variable rate exposure will not exceed 20% of the aggregate outstanding principal amount of senior and subordinate lien debt;

   (d) Probability of occurrence analysis will be used by the Debt Management Committee in considering the impact of contingent variable rate exposure on the 20% unhedged variable rate limitation;

   (e) Acceptable variable rate products:

      i. Multi-modal variable rate demand bonds;

      ii. Auction rate securities;

      iii. Commercial paper; and

      iv. Put bonds;

   (f) Factors to consider when considering variable rate debt:

      i. Balance in Contingent Liquidity Account;

      ii. Cash flow risk;

      iii. Balance sheet asset mix;

      iv. Rating agency considerations;

v. Liquidity Risk;

vi. Tax risk; and

vii. Financial sophistication of the underlying borrower on whose behalf variable rate debt is issued;

(g) Authorized Debt Instruments:

i. Current interest bonds;

ii. Zero coupon and capital appreciation bonds; and

iii. Derivative Products, including interest rate swaps and hedging instruments (e.g. caps/ floors/ collars) provided the use and structure of the products are in accordance with the Board's adopted Derivatives Policy.

J. TAX COMPLIANCE POLICIES FOR TAX-EXEMPT GOVERNMENTAL BONDS AND BUILD AMERICA BONDS

1. Purpose

Issuers of tax-exempt "governmental bonds" and taxable Build America Bonds ("BABs") must comply with federal tax rules pertaining to expenditure of proceeds for qualified costs, rate of expenditure, use of bond financed property, investment of proceeds in compliance with arbitrage rules, and retention of records. The following policies are intended to establish a system for monitoring compliance with these rules.

2. Expenditure of Proceeds for Qualified Costs

Expenditure of bond and loan proceeds will be reviewed by NMFA's Controller.

(a) Bond and loan proceeds will be disbursed pursuant to an approved form of requisition stating the date, amount and purpose of the disbursement.

(b) Requisitions must identify the financed property in conformity with the tax certificate executed by the issuer or borrower at closing, including any certifications as to the character and average economic life of the bond or loan financed property.

(c) Requisitions for costs that were paid prior to the issuance of the bonds and loans are, in general, limited to costs paid subsequent to, or not more than 60 days prior to, the date a "declaration of intent" to reimburse the costs was adopted by the bond issuer or borrower. If proceeds are used for reimbursement, a copy of the declaration will be obtained and included in the records for the issue or loan if not already part of the transcript.

(d) Requisitions will be summarized in a "final allocation" of proceeds to uses not later than 18 months after the in-service date of the financed property (and in any event not later than 5 years and 60 days after the issuance of the bonds or closing of the loan).

3. Rate of Expenditure

(a) Expenditure of proceeds will be monitored against the tax certificate expectation to spend or commit 5% of net sale proceeds within 6 months, to spend 85% of net sale proceeds within 3 years, and to proceed with due diligence to complete the project and fully spend the net sale proceeds. Reasons for failure to meet the expected schedule will be documented and retained in the records for the issue.

(b) Expenditure of "available construction proceeds" will be monitored against the following schedule for the arbitrage rebate exception for construction issues if applicable:

10% within 6 months

45% within 12 months

75% within 18 months

100% within 24 months

4. Additional Requirements for Expenditure of Proceeds of Direct Payment BABs

Direct Payment BABs, which are taxable bonds for which the IRS pays the issuer a subsidy amount equal to 35% of the issuer's interest cost whether issued or purchased by NMFA, are subject to all of the above policies on expenditures for qualifying costs plus additional policies as follows:

(a) Proceeds of Direct Payment BABs may be used only for capital expenditures, such as costs incurred to acquire, construct, or improve buildings, equipment, and land, together with limited amounts for costs of issuance and reserve funds. Interest earnings on Direct Payment BABs must also be used for capital expenditures. Proceeds of Direct Payment BABs cannot be used for operating expenses or other "working capital" costs. Requisitions for costs of a project financed with BABs will accordingly be monitored to confirm that they are for capital costs of the project.

(b) No more than 2% of the proceeds of Direct Payment BABs can be spent for costs of issuance ("COI"). Compliance with this rule will be established by recording COI paid from bond or loan proceeds in a special account that will be measured against the 2% limit.

(c) Reserve funds cannot exceed the least of 10% of bond proceeds, maximum annual debt service, or 125% of average annual debt service. The initial funding of any reserve fund will be measured against this limit.

(d) In addition to new money capital expenditures, proceeds of Direct Payment BABs may be used (1) to reimburse prior capital expenditures under the general reimbursement rules (see prior section of this policy) and (2) to refinance temporary short-term obligation issued after February 17, 2009, to finance capital expenditures paid or incurred after that date.

(e) Direct Payment BABs may not be issued at more than a de minimis premium as defined. Compliance with this rule should be established at closing and would not normally require subsequent compliance activity.

(f) Tax Credit BABs, which are taxable bonds for which the IRS allows the bondholder a federal income tax credit equal to 35% of the bond interest, are not subject to these additional requirements and therefore can be issued for any purpose or project that could be financed with tax-exempt governmental bonds.

(g) Similarly to Direct Payment BABs, Tax Credit BABs may not be issued at more than a de minimis premium as defined.

5. Use of Bond-Financed Property

Use of bond or loan financed property when completed and placed in service will be reviewed by NMFA's Controller.

(a) Average nonexempt use of bond or loan financed property over the life of the issue cannot exceed 10% of the proceeds or in certain circumstances 5%.

(b) Agreements with business users for lease, management, sponsored research, or any other potential nonexempt use of bond or loan financed property will be reviewed prior to execution for compliance with the 10% limit, as set forth in the tax certificate for the issue.

(c) No item of bond or loan financed property will be sold or transferred to a nonexempt party without advance arrangement of a "remedial action" under the applicable Treasury regulations.

6. Investments

Investment of bond and loan proceeds not invested by the borrower in compliance with the arbitrage bond rules and rebate of arbitrage will be supervised by NMFA's Chief Investment Officer.

(a) Guaranteed investment contracts ("GIC") will be purchased only using the three-bid "safe harbor" of applicable Treasury regulations, in compliance with fee limitations on GIC brokers in the regulations.

(b) Other investments will be purchased only in market transactions.

(c) Calculations of rebate liability will be performed annually by outside consultants.

(d) Rebate payments will be made with Form 8038-T no later than 60 days after each fifth anniversary of the date of issuance and (b) the final retirement of the issue. Compliance with rebate requirements will be reported to the bond trustee and the issuer.

(e) Identify date for first rebate payment at time of issuance. Enter in records for the issue.

7. Filings with Internal Revenue Service

(a) Filings with the Internal Revenue Service will be the responsibility of the Trustee for BABs issued by the NMFA.

i. For BABs issued by the NMFA after February 2010, Form 8038-B must be filed not later than the 15th day of the 2nd calendar month following the quarter in which the bonds were issued. Filing Form 8038-B will be confirmed with bond counsel.

ii. If the bond issue consists of both tax-exempt bonds and BABs, the NMFA will report the tax-exempt portion on Form 8038-G and the BAB portion on Form 8038-B.

(b) Filings with the Internal Revenue Service will be the responsibility of the issuer for BABs issued by NMFA borrowers.

8. Additional Filing Requirements for Direct Payment BABs

(a) Form 8038-B must include a debt service schedule as set forth in the instructions to that form. See also Notice 2009-26 for more information. Compliance will be confirmed with bond counsel.

(b) Payment of the Direct Payment subsidy amount must be requested on Form 8038-CP as follows:

(c) For fixed rate BABs, Form 8038-CP should be filed not less than 45 days (and not more than 90 days) prior to the applicable semiannual interest payment date.

(d) For variable rate BABs, Form 8038-CP should be filed not more than 45 days after the last interest payment date within the quarterly period for which the subsidy payment is requested.

(e) The Form 8038-B associated with a Form 8038-CP filing must be filed at least 30 days prior to the submission of the first Form 8038-CP of the bond issue.

9. Additional filing requirements for Tax Credit BABs

   (a) Form 8038-B must meet requirements for Tax Credit BABs under Notice 2009-26.

   (b) No supplemental filings on Form 8038-CP are required for Tax Credit Bonds.

10. Records

    Management and retention of records related to tax exempt bond issues and loans will be supervised by NMFA's Controller.

    (a) Records will be retained for the life of the bonds or loans plus any refunding bonds plus three years. Records may be in the form of documents or electronic copies of documents, appropriately indexed to specific bond issues or loans and compliance functions.

    (b) Retainable records pertaining to bond issuance and loans include transcript of documents executed in connection with the issuance of the bonds (including bond indenture, official statement, 8038-B, and tax certificate with election to issue bonds as Direct Payment BABs or Tax Credit BABs if applicable) and any amendments, copies of Form 8038-CP if applicable, and copies of rebate calculations and records of payments including Forms 8038-T.

    (c) Retainable records pertaining to expenditures of bond and loan proceeds include requisitions, trustee statements and final allocation of proceeds.

    (d) Retainable records pertaining to use of property include all agreements reviewed for nonexempt use and any reviewed documents relating to unrelated business activity.

    (e) Retainable records pertaining to investments include GIC documents under the Treasury regulations, records of purchase and sale of other investments, and records of investment activity sufficient to permit calculation of arbitrage rebate or demonstration that no rebate is due.

K. Overall Responsibility

Overall administration and coordination of this policy is the responsibility of NMFA's Chief Financial Officer.

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