



# Interest Rate and Notching Factors

MnCIFA Staff Investing Team

# Core Principles for Interest Rating Methodology

- Aligned to our statute and current public documents (Lending Manual, Investment Strategy, Strategic Plan)
- Easy to understand, with goal of high level public facing explainer
- Standard process for updates
- Use Treasury Rates as our base

\*Incorporates lessons learned from Michigan Saves, California iBank, LPO, and other state agencies

# Purpose of each rating

- **Scoring Framework:** Scores project against all MnCIFA's objectives, including non-financial
- **Risk Rating:** Determines MnCIFA Financial Risk
- **Interest Rate:** Prices MnCIFA Risk

# Spread based on financial Strength and underwriting

- Treasury curve as base

Treasury Curve as of 6/4/2025		Indicative Rate Matrix					
Rates	Base Rate	Rating	Spread	2-year	5-year	10-year	20-year
1	4.12%	AAA	0	3.96%	4.04%	4.46%	5.00%
2	3.96%	AA	25	4.21%	4.29%	4.71%	5.25%
3	3.93%	A	50	4.46%	4.54%	4.96%	5.50%
5	4.04%	BBB	100	4.96%	5.04%	5.46%	6.00%
7	4.23%	BB	150	5.46%	5.54%	5.96%	6.50%
10	4.46%	B	250	6.46%	6.54%	6.96%	7.50%
20	5.00%	CCC	350	7.46%	7.54%	7.96%	8.50%
30	4.98%	CC	450	8.46%	8.54%	8.96%	9.50%
Source: Treasury		C	550	9.46%	9.54%	9.96%	10.50%

Source: [https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily\\_treasury\\_yield\\_curve&field\\_tdr\\_date\\_value=2025](https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=2025)

# Environmental Justice, Workforce, Geography, and Additionality

Notching Factors	Statute/Source
<b>Located in or benefits an energy justice community:</b> <i>1) defined as a disadvantaged community by federal government</i> <i>2) 40% or more of population is nonwhite</i> <i>3) 35% or more of households in the community have an income that is at or below 200 percent of the federal poverty level</i> <i>4) 40% or more of the community's residents over the age of five have limited English proficiency</i> <i>5) the community is located within Indian country, as defined in United States Code, title 18, section 1151</i>	Subd. 2i
<b>Furthering lending goals to preferred projects creating good jobs:</b> <i>1) maximize the creation of high-quality employment and apprenticeship opportunities for local workers, especially workers from environmental justice communities, labor organizations, and Minnesota communities hosting retired or retiring electric generation facilities</i> <i>(3) certify, for all contractors and subcontractors, that the rights of workers to organize and unionize are recognized</i> <i>(4) agree to implement a project labor agreement</i>	Subd. 6a
<b>Geographic Diversity:</b> <i>7) Finance projects in all regions of the state</i>	Subd. 4a(7)
<b>Leverages private investment</b> that would not have been available but for MnCIFA financing	Subd. 4a(4)/Board

# Pricing Risk: Construction, Term, Equity, Position, and Capital Needs

Notching Factors	Statute/Source
<b>New Construction Loan</b> (New buildings, manufacturing sites, long construction schedule. Does not include solar, partial renovations, efficiency installations)	SIT Committee
<b>Term Longer Than 10 Year</b>	Lending Manual
<b>Less than 20% Equity</b>	SIT Committee Recommendation
<b>Subordinate position</b>	SIT Committee Recommendation
<b>Established Technology with good alternative options for financing</b>	Board

# Interest Rate Example: 30,000 ft

Project Rating Term	30,000 Feet AA 2	
<b>Downward Notching Factors (Rate Reductions)</b>		
<i>Located in or benefits an energy justice community</i>	High/Yes ▼	-100
<i>Furtheres lending goals to preferred projects creating good jobs</i>	Low/No ▼	0
<i>Geographic Diversity</i>	Low/No ▼	0
<i>Leverages Private Investment</i>	High/Yes ▼	-50
	Subtotal	-150
<b>Upward Notching Factors (Rate Increases)</b>		
<i>New Construction Loan</i>	High/Yes ▼	100
<i>Term 10 years or longer</i>	Low/No ▼	0
<i>Less than 20% equity</i>	Low/No ▼	0
<i>Subordinate Position</i>	Low/No ▼	0
<i>Established Technology with good alternative financing options</i>	Low/No ▼	0
	Subtotal	100
<b>Treasury Base Rate</b>	3.96%	
<b>Treasury Base Rate + Financial Risk Spread</b>	4.21%	
<b>Notching Adjustments</b>	-0.50%	
<b>Indicative Rate</b>	3.71%	

# Origination Fees

- MnCIFA will start charging origination fees
- Waiting for CFO to confirm MnCIFA budget, operating costs, and legal fees moving forward
- Starting with a \$10K base for smaller deals
- Will develop a discount methodology for target communities and projects