

#### **1.4. Rates - Proposed Finance Terms**

Every financing agreement we complete is customized and structured to best meet the customer's needs. We take great care in structuring a lease plan to not only meet the current funding needs but also one that matches the goals for the duration of the lease agreement. Financing can be structured with annual, semi-annual, quarterly, or monthly payments with payments beginning at a mutually agreed upon start date – up to two years deferred in some cases.

The pricing model used for this proposal is like any index derived end rate, whereas, you use a base index and add basis points to the index to determine the final base rate, or to put it another way, a cost-plus method. The “cost” being the SOFR Swap Rate, the most current and most widely used index by many national lenders. The SOFR Swap Rate will vary by term or length of the financing agreement and adjust daily per the market.

Community Leasing Partners (CLP) will provide H-GAC members with an overall progressive, customizable, and aggressive pricing model based off the attached pricing matrix. CLP will use SOFR Swaps as the market index rate. These SOFR Swap Rates are available daily via <https://www.chathamfinancial.com/technology/us-market-rates> or <https://financelobby.com/interest-rate-swaps/>

This model was selected as the entire municipal financing industry transitioned from a past interest-rate-swap model (LIBOR) to this updated index, which was recommended by the American Bankers Association, the Board of Governors of the Federal Reserve system, and the Federal Reserve Bank of New York as the new, preferred index.

The pricing model shows CLP's cost basis (SOFR Swap Rates) and CLP's mark-up over the cost which includes the administrative fee paid to H-GAC, resulting in the final end-user interest rate. Please note that the customer has the option to choose annual, semi-annual, quarterly, or monthly payment options. Regardless of the payment frequency chosen, the same resulting rate derived from the formula will be used for all payment modes.

Please note that the cost basis will depend on the variables as shown on the uploaded pricing matrix. These include transaction size and lease term selected. As stated on the pricing matrix, CLP will reserve the right to provide an end-user with an enhanced (lower) cost basis if they retain a strong rating from an independent rating entity, such as Moody's, S&P, or Fitch. These rating entities provide an independent, third-party in-depth review of an entity's financial strength; therefore, it allows lenders to place strong confidence in their ability to satisfy the terms of the financing agreement, leading to an improved cost basis.

THIS IS VERY IMPORTANT, AS THE RATES PROVIDED FOR A \$50K PURCHASE SHOULD NOT BE THE SAME RATES AS A \$500K OR \$1M PURCHASE, WHICH IS WHY A DIFFERENTIAL IS SHOWN. THIS IS THE RESULT OF ECONOMIES OF SCALE (THE LARGER THE DEAL, THE

BETTER THE RATE). IT IS IN THE BEST INTEREST OF H-GAC MEMBERSHIP TO HAVE A SCALED PRICING PLAN TO ENSURE THEY ARE RECEIVING A MARKET COMPETITIVE RATE ON ALL PURCHASES.

For an H-GAC member to generate the final interest rate, they would need to complete the following steps:

1. Identify the dollar amount of the project being financed and preferred finance term (e.g. 5 or 7 years).
2. Confirm if you are using a municipal tax-exempt or non-tax-exempt rate. If a customer needs assistance to determine this classification, CLP would be happy to assist.
3. Locate the appropriate dollar amount and finance term provided on the pricing matrix.
4. Collect the basis points listed on the matrix for the appropriate terms being used.
5. Source the SOFR Swap rate from one of the following websites, being sure to select a corresponding term. For example, if you are using a 5-year term, please use the 5-year SOFR Swap Rate. If you are selecting a term that is not represented by a like-term SOFR Swap, please take the average of the SOFR rates between the terms provided. For example, for a 6- year term, use the SOFR Swap rates for the 5- and 7-year terms, and divide by two.
  - a. <https://www.chathamfinancial.com/technology/us-market-rates>
  - b. <https://financelobby.com/interest-rate-swaps/>
6. To determine the final rate, take the collected basis points from the pricing matrix and add the like-term SOFR Swap rate from one of the websites above (see example below).
  - a. Example: \$600,000, purchase for a 7-year term for a municipal tax-exempt lease
    - i. Basis points from pricing matrix = 2.55
    - ii. Corresponding 5-year SOFR Swap Rate = 3.21% (rounded up from 3.208%)
    - iii. Final interest rate:  $2.55 + 3.21 = 5.76\%$

The rates generated by the attached pricing matrix are generally 25% discounted when compared to our standard yields used in the balance of our bank retail portfolio.

There are two general pricing models included in the document upload section of the response – Tax Exempt Municipal Rates and Non-Tax-Exempt Rates for qualified non-profit entities. The Tax-Exempt Municipal Rates are discounted to reflect the savings associated with no Federal income tax having to be paid on the qualified municipal lease transactions, which equates to a discount of approximately 20% compared to non-tax-exempt rates.

H-GAC members that qualify for tax-exempt municipal lease rates must be a qualified political subdivision retaining one of the three sovereign powers: power to tax, police power, or power of eminent domain. They must also be a state or possession of the US. Political subdivisions vary by state and entity type and do include, but are not limited to, states, counties, school districts, authorities (water, sewer, fire), special purpose districts (water, sewer, fire, parks), universities, hospitals, and potentially qualified conduit issuers (sponsored by a qualified political subdivision).

There are some non-profits that do qualify for tax-exempt rates if certain conditions are met. For those not able to meet such conditions, they would qualify for the non-tax-exempt rates provided.

**There are \$0 of additional documentation or closing fees anticipated or expected related to a financing program through CLP. H-GAC fees are separate and included within the overall pricing model.**

The progressive pricing matrix provided shows volume discounts as a function of overall transaction size (five tiers), each with increasingly larger discounts. The larger the overall purchase amount, the lower the rate. In addition, based on the overall dollar amount financed by the same end-user in a calendar year, a reduced rate will also be utilized for repeat customers.

With the extensive experience of CLP, we felt it was important to provide these five tiers (three tiers for 12- and 15-year terms) and recognize the discounts associated with each tier. Why? Because this is how the municipal finance industry regularly prices lease transactions, CLP believes it is important to provide H-GAC members with the best value by recognizing the same discounts as seen in the market. In our opinion, anything less than a four-tier pricing matrix would result in inflated rates with some purchases, thereby reducing the value and savings for H-GAC members.

Because the market is unpredictable and the formulas we use today may not be market appropriate in the future, we reserve the right to offer H-GAC members better pricing than what is provided in our attached matrix throughout the contract term.

We also reserve the right to provide an H-GAC member with “rated” pricing even though they may not be officially rated, as we may determine in reviewing their financial information, that they should qualify for the “rated” index.