

**7380.0272 INTEREST RATE DETERMINATIONS.****Subpart 1. In general.**

A. Except as provided in part 7380.0275 for participation loans, the rate of interest on a loan must be based on the principal redemption schedule of the loan, the appropriate bond yield scale identified in subpart 2, and the applicable interest rate discounts identified in subpart 3.

B. The interest rate on a loan must be set based on the date that the authority receives from the applicant a formal request to proceed with the loan agreement. This must be after the authority has received all of the following:

- (1) a complete application;
- (2) project certification by the Department of Health; and
- (3) documentation of as-bid costs.

C. In no case may the interest rate on a loan be less than one percent.

D. For loans funded in whole or in part with proceeds of authority bonds, the rate of interest on those loans must not exceed a rate which results in the yield on the loan being materially higher than the yield on the bonds as required and defined in the Internal Revenue Code of 1986, as amended, and the regulations and interpretations of the United States Department of Treasury promulgated with respect thereto, including and without limitation Code of Federal Regulations, title 26, section 1.148(2)(d).

Subp. 2. **Bond yield scale.** The bond yield scale used in calculating the loan rate must be the greater of the authority scale, if authority bond proceeds are available, or the market scale, as described in items A to D.

A. For loans secured with a tax-exempt general obligation bond, the rate must be based on the greater of the Aaa market scale or the unadjusted authority scale.

B. For loans secured with a taxable general obligation bond, the rate must be based on the greater of the Aa market scale or the authority scale adjusted for the difference between the Aaa market scale and the Aa market scale.

C. For loans under item A, the authority has the option to accept a tax-exempt revenue bond, in place of a tax-exempt general obligation bond, from a city of the first class that cannot issue a general obligation bond to finance a water supply system without first obtaining the approval of the electors at a referendum. The rate for a loan secured with a tax-exempt revenue bond must be based on the greater of the Aaa market scale or the unadjusted authority scale.

D. For loans under item B, the authority has the option to accept a taxable revenue bond, in place of a taxable general obligation bond, from a city of the first class that cannot

issue a general obligation bond to finance a water supply system without first obtaining the approval of the electors at a referendum. The rate for a loan secured with a taxable revenue bond must be based on the greater of the Aa market scale or the authority scale adjusted for the difference between the Aaa market scale and the Aa market scale.

Subp. 3. **Interest rate discounts.** Interest rate discounts must be provided as described in items A and B unless item C applies.

A. Borrowers are eligible for a base discount as determined by the authority in part 7380.0255, subpart 1, item C.

B. Borrowers with a project service area population under 2,500 must receive additional discounts on loan amounts up to \$20,000 per household as provided in subitems (1) and (2).

(1) A borrower must receive an interest rate discount of 50 basis points if the median household income level of the borrower is below the median household income level for the metropolitan or nonmetropolitan area, as applicable, based on the most recent census.

(2) A borrower must receive an interest rate discount based on its estimated average annual residential system cost per household after completion of the project. If the average residential system cost per household, as a percentage of median household income of the borrower, is greater than:

(a) 2.00 percent, the borrower must receive a discount of 150 basis points;

(b) 1.75 percent but less than 2.00 percent, the borrower must receive a discount of 125 basis points;

(c) 1.50 percent but less than 1.75 percent, the borrower must receive a discount of 100 basis points;

(d) 1.25 percent but less than 1.50 percent, the borrower must receive a discount of 75 basis points; or

(e) 1.00 percent but less than 1.25 percent, the borrower must receive a discount of 50 basis points.

C. For loans with projects involving a significant water user, the interest rate discounts provided in items A and B must not be applied unless a significant water user agreement is in place.

Subp. 4. **Demographic data.** For the purpose of calculating interest rate discounts in subpart 3, the data used to determine the population and median household income of the borrower must be that which most accurately measure the current population and

median household income of the project's service area. If there is reason to believe that the United States Census data or the data from the state demographer is not a current, accurate representation of the median household income or population of the project's service area, the borrower may document the reasons why the data is not an accurate representation, and obtain additional information regarding median household income or population of the project's service area. The information must consist of reliable data from local, regional, state, or federal sources, or from a survey conducted by a reliable impartial source. If the authority determines that the demographic data submitted by the borrower does not reflect the most current or accurate measure of the population and median household income of the project's service area, the authority shall update the demographic data to reflect the most current and accurate figures.

**Statutory Authority:** *MS s 446A.07; 446A.081; 446A.11*

**History:** *32 SR 321*

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