

Underwriting Approach: Tax Allocation Bonds

Introduction Radian uses the following general underwriting criteria for redevelopment project areas. Radian reviews many factors during its evaluation and no one factor is examined in isolation. Though a project area may fall short in certain criteria, strengths in other areas may mitigate a concern. The following should be used as general guidelines.

Target Market Radian provides credit enhancement for a wide range of tax increment/tax allocation project areas. Many of the project areas Radian gets comfortable with are small or mid-sized project areas (100–250 acres) located in demographically favorable locales. Radian also underwrites project areas with moderate to significant commercial/industrial concentration.

Deal Size “BBB” category project areas: \$3MM to \$75MM. “A” category project areas: \$3MM to \$100MM.

Key Credit Factors

• Financial Strength

- **Assessed Value Trends.** Stable or improving growth trends. The history of appeals will be reviewed and assessed as to frequency and magnitude.
- **Debt Service Coverage.** Radian generally sees coverage of at least 1.25x MADS, but has flexibility for stronger credits.
- **Taxpayer Diversity.** Radian will review a list of the top ten taxpayers — their descriptions, history in the area and any outstanding appeals. Generally, the top ten taxpayers represent 1%–70% of Incremental Assessed Value. Underwriting prefers to be able to assume away the top taxpayer and still have at least 1.0x coverage.

• Demographic Analysis

- Project area demographics are analyzed to focus on factors that may affect growth in the project area. Key data points evaluated include population, employment, and wealth and income indicators.
- Other characteristics Underwriting views favorably are: a significant residential component and future growth potential (as evidenced by current construction or vacant land).

Security Structure and Financial Covenants

- Security interest in tax increment revenues
- 1.25x additional bonds test
- Fully funded debt service reserve account

Documentation Requirements

- Draft POS including Appendix A
- Most recent Official Statement
- List and description of top ten taxpayers
- Appeal history
- Five years of historical assessed valuation and collections

Key Contacts

James George, VP • 212 984.9279 • james.george@radian.biz

John DeLuca, SVP, Director of Marketing • 212 984.9222 • john.deluca@radian.biz