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Perspective on NIC or TIC

Industry Standard Definitions of NIC and TIC

"NET INTEREST COST (or "NIC") is a common method of computing the interest expense to the issuer of issuing bonds, which usually serves as the basis of award in a competitive sale. NIC takes into account any premium and discount paid on the issue. NIC represents the dollar amount of coupon interest payable over the life of a serial issue, without taking into account the time value of money (as would be done in other calculation methods, such as the "true interest cost" method). While the term "net interest cost" actually refers to the dollar amount of the issuer's interest cost, it is also used to refer to the overall rate of interest to be paid by the issuer over the life of the bonds. The formula for calculating the NIC rate is:

$$\frac{\text{Total Coupon Interest Payments + Discount (or – Premium)}}{\text{Bond Years}^{(1)}}$$

TRUE INTEREST COST (or "TIC") is also known as "Canadian Interest Cost". Under this method of computing the borrowing issuer's cost, interest cost is defined as the rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue securities. TIC computations produce a figure slightly different from the net interest cost (NIC) method since TIC considers the time value of money while NIC does not."

Source: *Glossary of Municipal Securities Terms*, Municipal Securities Rulemaking Board, 1985.

The TIC bid discourages early year's high coupon or later year's deep discount bidding, and is most compatible with compliance with the issuer's concern with present value. Furthermore, this is currently the most commonly used method for bidding on bond issues.

The time value of money, or "Present Value" undertake computations that are used to determine whether or not a particular investment with a specified future cash flow is a good investment. This is based upon the premise that one dollar paid today is worth more than a dollar paid in future years. Present Value includes evaluating any borrowing where money is paid today over the future stream of such borrowing, to demonstrate the projected future expense. As such, an analysis assigns an implicit time value on money by measuring the effect of foregoing the return from potential future investment of money. In summary, the Absolute Savings are the actual numbers of dollars paid over the life of the issue. Present Value is the actual value today of amounts paid over the life of the issue.

NOTE: [(1)] A Bond Year is $1,000 of debt outstanding for one (1) year. The number of "bond years" in an issue is equal to the product of the number of bonds (One bond equals $1,000 regardless of actual certificate denomination) and the number of years from the dated date (or other stated date) to the stated maturity. The total number of bond years is used in calculating the average life of an issue and its net interest cost. Computations are often made of bond years for each maturity or for each coupon rate, as well as total bond years for an entire issue. Source: *Glossary of Municipal Securities Terms*, Municipal Securities Rulemaking Board, 1985.