



**SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION  
INTEREST RATE SWAP POLICY**

The purpose of the Interest Rate Swap Policy of the San Diego County Regional Transportation Commission (SANDAG) is to establish guidelines for the use and management of interest rate swaps and options. The "Interest Rate Swap Policy" or the "Policy" is intended to provide general procedural direction regarding the use, procurement and execution of interest rate swaps. The Policy is intended to relate to various interest rate hedging techniques, including the contractual exchange of different fixed and variable rate payment streams through interest rate swap agreements and is not intended to relate to other derivative products that SANDAG may consider.

SANDAG is authorized under California Government Code Section 5922 to enter into interest rate swaps to manage the amount and duration of rate, spread, or risk when used in combination with the issuance of bonds or notes.

**1. Scope and Authority**

This Interest Rate Swap Policy shall govern SANDAG's use and management of all interest rate swaps and options. While adherence to this Policy is required in applicable circumstances, SANDAG recognizes that changes in the capital markets, SANDAG's programs and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy and will require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate provided specific authorization from the Board of Directors is obtained.

The Interest Rate Swap Policy shall be reviewed and updated at least annually and presented to the Board of Directors for approval. Day-to-day responsibility for management of interest rate swaps shall fall within the responsibilities of the Director of Finance.

SANDAG shall be authorized to enter into interest rate swap transactions only with qualified swap counterparties. The Director of Finance, in consultation with SANDAG's bond counsel and financial advisor, shall have authority to select the counterparties, so long as the criteria set forth in the Interest Rate Swap Policy are met.

**2. Approach and Objectives**

Interest rate swaps and options are appropriate interest rate management tools that can help SANDAG meet important financial objectives. Properly used, these instruments can increase SANDAG's financial flexibility, hedge exposure to interest rate risk, provide opportunities for interest rate savings or enhanced investment yields, and help SANDAG manage its balance sheet through better matching of assets and liabilities. Swaps should be integrated into SANDAG's overall debt program and should not be used for speculation or leverage.

Swaps are appropriate to use when they achieve a specific objective consistent with SANDAG's overall financial strategies. They may be used, for example, to lock in a current market fixed rate or create additional variable rate exposure. They may also be used to produce interest rate savings, to limit or hedge variable rate exposure, to alter the pattern of debt service payments or for asset/liability matching purposes. Swaps may be used to cap, limit or hedge variable rate payments. Options granting the right to commence or cancel an underlying swap may be used to the extent the swap itself is consistent with these guidelines or SANDAG determines there are other advantages to be derived in purchasing or granting the option; however, SANDAG must determine if the use of any such option is appropriate and warranted given the potential benefit, risks, and SANDAG's objectives. SANDAG, together with SANDAG's financial advisor and bond counsel, shall periodically review SANDAG's swap guidelines and recommend appropriate changes.

### **3. Conditions for Use of Interest Rate Swaps and Options**

#### **3.1. Rationale**

SANDAG may use interest rate swaps and options if it is reasonably determined that the proposed transaction is expected to:

3.1.1 Optimize capital structure, including schedule of debt service payments and/ or fixed vs. variable rate allocations.

3.1.2 Achieve appropriate asset/liability match.

3.1.3 Reduce risk, including:

3.1.3.1 Interest rate risk;

3.1.3.2 Tax risk; or

3.1.3.3 Liquidity renewal risk.

3.1.4 Provide greater financial flexibility.

3.1.5 Generate interest rate savings.

3.1.6 Enhance investment yields.

3.1.7 Manage exposure to changing markets in advance of anticipated bond issuances (through the use of anticipatory hedging instruments).

#### **3.2. Benefit Expectation**

Financial transactions, using fixed rate swaps or other derivative products, should result in debt service savings of at least 2% when compared to the projected debt service SANDAG would consider for traditional bonds or notes. This threshold will serve as a guideline and will not apply should the transaction, in SANDAG's sole judgment, meet any of the other objectives outlined herein. The debt service savings target reflects the

greater complexity and higher risk of derivative financial instruments. Such comparative savings analyses shall include, where applicable, the consideration of the probability (based on historical interest rate indices, where applicable, or other accepted analytic techniques) of the realization of savings for both the derivative and traditional structures.

For example, assuming a refunding of \$100 million of existing bonds, if a traditional fixed rate advance refunding that does not use derivative products would have a present value savings threshold of \$5.0 million, which is 5.0% of the refunded par, then a refunding structure utilizing a derivative product would have to achieve a threshold of \$7.0 million in present value savings, or 7.0% of the refunded par. Therefore, the transaction utilizing a swap or other derivative product would have to generate an additional \$2.0 million to meet the target. Such analysis should consider structural differences in comparing traditional vs. derivative alternatives, e.g., the non-callable nature of derivative transactions.

For variable rate or other swap transactions that do not result in a fixed interest rate, SANDAG will evaluate any additional value generated through the transaction in assessing the benefits of proceeding, including the ability to meet the objectives outlined herein. These benefits include, for example, managing interest rate or tax risk, optimizing the capital structure or further reducing interest expense.

In determining any benefit in implementing a fixed-to-variable swap, the cost of remarketing, in addition to the cost of credit enhancement or liquidity fees, must be added to the projected variable rate of the bonds or notes. Such a calculation should consider the trading performance of comparable bonds or notes and any trading premium resulting from a specific form of credit enhancement or liquidity and/or any impact related to broader industry trends.

### 3.3. Maximum Notional Amount

SANDAG will limit the total notional amount of outstanding interest rate swaps based on the proper management of risks, calculation of termination exposure, and development of a contingency plan. The total "net notional amount" of all swaps related to a bond or note issue should not exceed the outstanding or expected to be issued par amount of the related bonds or notes. For purposes of calculating the net notional amount, credit shall be given to any fixed versus variable rate swaps that offset for a specific bond or note transaction

### 3.4. Maximum Maturity

SANDAG shall determine the appropriate term for an interest rate swap agreement on a case-by-case basis. In connection with the issuance or carrying of bonds or notes, the term of the swap agreement between SANDAG and a qualified swap counterparty shall not extend beyond the final maturity date of the related bonds or notes.

### 3.5. Liquidity Considerations

SANDAG shall consider the impact of any variable rate bonds or notes issued in combination with an interest rate swap on the availability and cost of liquidity support for other variable rate programs. SANDAG recognizes that there is a limited supply of letter of credit or liquidity facility support for SANDAG's variable rate bonds or notes, and the usage of liquidity support in connection with an interest rate swap may result in higher overall financing costs. SANDAG shall consider the benefits of not using liquidity when using a fixed rate bond in conjunction with a swap to variable to create synthetic variable rate debt.

### 3.6. Call Option Value Considerations

When considering the relative advantage of an interest rate swap to fixed rate bonds, SANDAG will consider the value of the call option on fixed rate bonds, or the cost of including a call or cancellation option in a swap. The value derived from the ability to call bonds at a future date is foregone when using a "non-callable" swap for the remaining term of the bonds. While fixed rate bonds are typically structured with a call provision at a certain time, after which the bonds may be refunded, this opportunity may be lost through the utilization of a long-dated "non-callable" swap, impairing SANDAG's ability to reap economic savings, unless this option is specifically included under the swap.

## **4. Interest Rate Swap Features**

### 4.1 Interest Rate Swap Agreement

SANDAG will use terms and conditions as set forth in the International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement. The swap agreement between SANDAG and each swap counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions, provisions and safeguards as SANDAG, in consultation with its bond and general counsel and financial advisor, deems necessary or desirable.

Subject to the provisions contained herein, the terms of SANDAG's swap agreement shall use the following guidelines:

4.1.1 SANDAG's downgrade provisions triggering termination shall in no event be worse than those affecting the counterparty.

4.1.2 Governing law for swaps will be New York or California.

4.1.3 The specified indebtedness related to credit events in any swap agreement should be narrowly defined and refer only to indebtedness of SANDAG that could have a materially adverse affect on SANDAG's ability to perform its obligations under the swap.

4.1.4 Collateral thresholds for the swap provider, and for SANDAG if applicable, should be set on a sliding scale reflective of credit ratings of the swap provider or guarantor. Collateral should be held by an independent third party.

4.1.5 Eligible collateral is outlined in Appendix A.

4.1.6 Termination value should be set by a "market quotation" methodology, unless SANDAG deems an alternative methodology to be appropriate.

4.1.7 SANDAG will consider the use of swap insurance to mitigate possible termination risk and also to mitigate the need for SANDAG to post collateral under the Credit Support Annex.

## 4.2 Interest Rate Swap Counterparties

### 4.2.1 Credit Criteria

SANDAG will only do business with highly rated counterparties or counterparties whose obligations are supported by highly rated parties. SANDAG will structure swap agreements to protect itself from credit deterioration of counterparties, including the use of credit support annexes or other forms of credit enhancement to secure counterparty performance. Such protection shall include any terms and conditions in SANDAG's sole discretion are necessary or appropriate or in SANDAG's best interest.

SANDAG will make its best efforts to work with qualified swap counterparties that at the time of execution of a swap transaction have a general credit rating of: (i) at least "Aa3" or "AA-" by one of the nationally recognized rating agencies and not rated lower than "A2" or "A" by any nationally recognized rating agency, or (ii) have a "AAA" subsidiary as rated by at least one nationally recognized credit rating agency. The nationally recognized rating agencies are Moody's Investors Services, Inc., Standard and Poor's Rating Services, and Fitch Ratings.

For lower rated (below "AA-") counterparties, SANDAG will seek credit enhancement in the form of:

4.2.1.1 Contingent credit support or enhancement;

4.2.1.2 Collateral consistent with the policies contained herein;

4.2.1.3 Ratings downgrade triggers; or

4.2.1.4 Guaranty of parent, if any.

In addition, qualified swap counterparties must have a demonstrated record of successfully executing swap transactions as well as creating and implementing innovative ideas in the swap market.

#### 4.2.2 Swap Dealers

Each swap counterparty with which SANDAG executes a swap transaction will be registered with the Commodity Futures Trading Commission ("CFTC") as a "swap dealer."

#### 4.3 Limitations on Termination Exposure to a Single Counterparty

In order to diversify SANDAG's counterparty credit risk, and to limit SANDAG's credit exposure to any one counterparty, limits will be established for each counterparty based upon both the credit rating of the counterparty as well as the relative level of risk associated with each existing and proposed swap transaction. The guidelines below provide general termination exposure guidelines with respect to whether SANDAG should enter into an additional transaction with an existing counterparty. SANDAG may make exceptions to the guidelines at any time to the extent that the execution of a swap achieves one or more of the goals outlined in these guidelines or provides other benefits to SANDAG. In general, the maximum Net Termination Exposure, as defined below, to any single counterparty should be set so that it does not exceed a prudent level as measured against the available financial resources of SANDAG.

Such guidelines will also not mandate or otherwise force automatic termination by SANDAG or the counterparty. Maximum Net Termination Exposure is not intended to impose retroactively any terms and conditions on existing transactions. Such provisions will only act as guidelines in making a determination as to whether or not a proposed transaction should be executed given certain levels of existing and projected net termination exposure to a specific counterparty. Additionally, the guidelines below are not intended to require retroactively additional collateral posting for existing transactions. Collateral posting guidelines are described in the "Collateral Requirements" section below. The calculation of net termination exposure per counterparty will take into consideration multiple transactions, some of which may offset the overall exposure to SANDAG.

Under this approach, SANDAG will set limits on individual counterparty exposure based on existing as well as new or proposed transactions. The sum of the current market value and the projected exposure shall constitute the Maximum Net Termination Exposure. For outstanding transactions, current exposure will be based on the market value as of the last quarterly swap valuation report provided by the financial advisor. Projected exposure shall be calculated based on the swap's potential termination value taking into account possible adverse changes in interest rates as implied by historical or projected measures of potential rate changes applied over the remaining term of the swap.

For purposes of this calculation, SANDAG shall include all existing and projected transactions of an individual counterparty and all transactions will be analyzed in aggregate such that the maximum exposure will be additive.

The exposure thresholds, which will be reviewed periodically by SANDAG to ensure that they remain appropriate, will also be tied to credit ratings of the counterparties and

whether or not collateral has been posted as shown in the table below. If a counterparty has more than one rating, the lowest rating will govern for purposes of the calculating the level of exposure.

The following chart provides the Maximum Net Termination Exposure to a swap counterparty given the lowest credit rating.

<b>Credit Rating Category</b>	<b>Maximum Collateralized Exposure</b>	<b>Maximum Uncollateralized Exposure</b>	<b>Maximum Total Termination Exposure</b>
AAA	Not applicable	\$50 million	\$100 million
AA	\$50 million	\$50 million	\$100 million
A	\$30 million	\$15 million	\$45 million
Below A	\$30 million	None	\$30 million

If the exposure limit is exceeded by a counterparty, SANDAG shall conduct a review of the exposure limit per counterparty. SANDAG, in consultation with its bond counsel and financial advisor, shall explore remedial strategies to mitigate this exposure.

#### 4.4 Collateral Requirements

As part of any swap agreement, SANDAG may require collateralization or other forms of credit enhancements to secure any or all swap payment obligations. As appropriate, SANDAG may require collateral or other credit enhancement to be posted by each swap counterparty under the following circumstances:

4.4.1 Each counterparty to SANDAG may be required to post collateral (subject to applicable thresholds) if the credit rating of the counterparty or parent falls below the "AA" category. Additional collateral for further decreases in credit ratings of each counterparty shall be posted by each counterparty in accordance with the provisions contained in the Credit Support Annex of the ISDA Agreement between each counterparty and SANDAG.

4.4.2 Threshold amounts shall be determined by SANDAG on a case-by-case basis. SANDAG will determine the reasonable threshold limits for the initial deposit and for increments of collateral posting thereafter.

4.4.3 In determining maximum uncollateralized exposure, SANDAG shall also consider and include, as applicable, financial exposure to the same corporate entities that it may have through other forms of financial dealings, such as securities lending agreements and commercial paper investments.

4.4.4 Collateral shall be deposited with a third party trustee, or as mutually agreed upon between SANDAG and the counterparty.

4.4.5 A list of acceptable securities that may be posted as collateral and the valuation of such collateral will be determined and mutually agreed upon during negotiation

of the swap agreement with each swap counterparty. A complete list of acceptable securities and valuation percentages are included as Attachment A.

4.4.6 The market value of the collateral shall be determined on at least a weekly basis, or more frequently if SANDAG determines it is in SANDAG’s best interest given the specific collateral security.

4.4.7 SANDAG shall determine on a case-by-case basis whether other forms of credit enhancement are more beneficial to SANDAG.

4.5 Swap Insurance

If, after a cost/benefit analysis, it is determined that it would be beneficial to insure the interest rate swap, swap insurance will be pursued.

4.6 Security and Source of Repayment

SANDAG will generally use the same security and source of repayment (pledged revenues) for the interest rate swap as is used for the related bond or note issue.

4.7 Prohibited Interest Rate Swap Features

SANDAG will not use interest rate swaps that are: (i) speculative or create extraordinary leverage or risk, (ii) lack adequate liquidity to terminate without incurring a significant bid/ask spread, (iii) provide insufficient price transparency to allow reasonable valuation, or (iv) are used as investments.

**5. Evaluation and Management of Interest Rate Swap Risks**

Prior to the execution of any swap transaction, SANDAG’s Director of Finance, financial advisor and bond counsel shall evaluate the proposed transaction and report the findings to SANDAG’s Board. Such a review shall include the identification of the proposed benefit and potential risks. As part of this evaluation, SANDAG shall compute the Maximum Net Termination Exposure to the proposed swap counterparty.

5.1 Evaluation Methodology

SANDAG will review the following areas of potential risk for new and existing interest rate swaps:

Type of Risk	Description	Evaluation Methodology
Basis Risk	The mismatch between actual variable rate debt service and variable rate indices used to determine swap payments.	SANDAG will review historical trading differentials between the variable rate bonds or notes and the index.
Tax Risk	The risk created by potential tax events that could affect swap payments.	SANDAG will review the tax events in proposed swap agreements. It will also evaluate the impact of potential changes in tax law on LIBOR indexed swaps.

<b>Type of Risk</b>	<b>Description</b>	<b>Evaluation Methodology</b>
Counterparty Risk	The risk that the counterparty fails to make required payments.	SANDAG will monitor exposure levels, ratings thresholds and collateralization requirements.
Termination Risk	The risk that the transaction is terminated in a market dictating termination payment by SANDAG.	SANDAG will compute its termination exposure for all existing and proposed swaps at market value and under a worst-case scenario. SANDAG will consider use of swap insurance to mitigate this risk.
Rollover Risk	The mismatch of the maturity of the swap and the maturity of the underlying bonds or notes.	SANDAG will determine its capacity to issue variable rate bonds or notes that may be outstanding after the maturity of the swap.
Liquidity Risk	The inability to continue or renew a liquidity facility.	SANDAG will evaluate the expected availability of liquidity support for swapped and unhedged variable rate debt and will consider the use of variable rate debt that does not require liquidity (e.g., auction rate securities)
Credit Risk	The occurrence of an event modifying the credit rating of the issuer or its counterparty.	SANDAG will monitor the ratings of its counterparties and insurers.

## 5.2 Managing Interest Rate Swap Risks

### 5.2.1 Annual Report to the Board

Staff will evaluate the risks associated with outstanding interest rate swaps at least annually and provide a written evaluation to the Board of Directors. This evaluation will include the following information:

- 5.2.1.1 A description of all outstanding interest rate swaps, including related bond series, types of swaps, rates paid and received by SANDAG, existing notional amount, average life and remaining term of each swap agreement and the current termination value of outstanding swaps.
- 5.2.1.2 Separately for each swap, the actual debt service requirements versus the projected debt service on the swap transaction. For any swap used as part of a refunding, the actual cumulative savings versus the projected savings at the time the swap was executed.
- 5.2.1.3 The credit ratings of each swap counterparty, parent, guarantor and credit enhancer insuring the swap payments, if any.
- 5.2.1.4 Actual collateral posting by swap counterparty, if any, per swap agreement and in total by swap counterparty.

- 5.2.1.5 Information concerning any material event involving outstanding swap agreements, including a default by a swap counterparty, counterparty downgrade or termination.
- 5.2.1.6 An updated contingency plan to replace, or fund a termination payment in the event an outstanding swap is terminated.
- 5.2.1.7 The status of any liquidity support used in connection with interest rate swaps, including the remaining term and current fee.

SANDAG shall review the Interest Rate Swap Policy with the Board at least annually.

#### 5.2.2 Contingency Plan

SANDAG shall determine the termination exposure of each of its swaps and its total swap termination payment exposure at least annually and prepare a contingency plan to either replace the swaps or fund the termination payments, if any, in the event one or more outstanding swaps are terminated. SANDAG shall assess its ability to obtain replacement swaps and identify revenue sources to fund potential termination payments.

### 5.3 Terminating Interest Rate Swaps

#### 5.3.1 Optional Termination

SANDAG will structure interest rate swaps to include optional termination at the current market valuation, which would allow SANDAG to terminate a swap prior to its maturity if it is determined that it is financially advantageous to do so, but will not provide this right to the counterparty.

#### 5.3.2 Mandatory Termination

In the event a swap is terminated as a result of a termination event such as a default or credit downgrade of either counterparty, SANDAG will evaluate whether it is financially advantageous to obtain a replacement swap or, depending on market value, make or receive a termination payment.

In the event SANDAG makes a swap termination payment, SANDAG shall attempt to follow the process identified in its swap contingency plan. SANDAG shall also evaluate the economic costs and benefits of incorporating a provision into the swap agreement that will allow SANDAG to make termination payments over time.

## 6. Disclosure and Financial Reporting

SANDAG will take steps to ensure that there is full and complete disclosure of all interest rate swaps to the SANDAG Board of Directors, rating agencies and in disclosure documents. With

respect to its financial statements, SANDAG will adhere to the guidelines for the financial reporting of interest rate swaps as set forth by the Government Accounting Standards Board.

## **7. Dodd-Frank Act**

### **7.1 Conformance to Dodd-Frank**

It is the intent of SANDAG to conform this Policy to the requirements relating to legislation and regulations for derivatives transactions under Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, as supplemented and amended from time to time, including any regulations promulgated in connection therewith (herein collectively referred to as "Dodd-Frank"). Pursuant to such intent, it is the policy of SANDAG that, with respect to each interest rate swap: (i) each swap advisor engaged or to be engaged by SANDAG will function as the designated qualified independent representative of SANDAG, sometimes referred to as the "Designated QIR"; (ii) each swap advisor will agree to meet and meets the requirements specified in CFTC Regulation 23.450(b)(1) or any successor regulation thereto (herein referred to as the "Representative Regulation"); (iii) each swap advisor will provide a written certification to SANDAG to the effect that such swap advisor agrees to meet and meets the requirements specified in the Representative Regulation; (iv) SANDAG will monitor the performance of each swap advisor consistent with the requirements specified in the Representative Regulation; (v) SANDAG will exercise independent judgment in consultation with its swap advisor in evaluating all recommendations, if any, presented by any swap dealer with respect to transactions authorized pursuant to this Policy; and (vi) SANDAG will rely on the advice of its swap advisor with respect to interest rate swaps authorized pursuant to this Policy and will not rely on recommendations, if any, presented by any swap dealer with respect to interest rate swaps authorized pursuant to this Policy.

### **7.2 Legal Entity Identifier**

SANDAG shall obtain and maintain current at all times a "legal entity identifier" from a firm designated by the CFTC to provide such numbers.

### **7.3 Clearing**

In connection with the execution of any swap entered into on or after September 9, 2013, SANDAG shall complete and maintain, as required by the CFTC, an annual filing regarding how it generally meets its financial obligations associated with entering into uncleared swaps.

### **7.4 Recordkeeping**

Comprehensive records shall be maintained, either in paper or electronic form, of any interest rate swap entered into by SANDAG for at least five (5) years following the termination thereof. Such records shall be retrievable within five (5) business days and shall be open to inspection by the CFTC.

Adopted: November 2005

Amended November 2013

Amended November 2014

**APPENDIX A: ACCEPTABLE COLLATERAL**

SECURITY	VALUATION PERCENTAGE
(A) Cash	100%
(B) (x) Negotiable debt obligations issued by the U.S. Treasury Department or the Government National Mortgage Association (“Ginnie Mae”), or (y) mortgage backed securities issued by Ginnie Mae (but with respect to either (x) or (y) excluding interest only or principal only stripped securities, securities representing residual interests in mortgage pools, or securities that are not listed on a national securities exchange or regularly quoted in a national quotation service) and in each case having a remaining maturity of:	
(i) less than one year	99%
(ii) greater than one year but less than 10 years	98%
(iii) greater than 10 years	95%
(C) (x) Negotiable debt obligations issued by the Federal Home Loan Mortgage Corporation (“Freddie Mac”) or the Federal Home Loan Mortgage Association (“Fannie Mae”) or (y) mortgage backed securities issued by Freddie Mac or Fannie Mae but excluding interest only or principal only stripped securities, securities representing residual interests in mortgage pools, or securities that are not listed on a national securities exchange or regularly quoted in a national quotation service.	95%
(D) Any other collateral acceptable to SANDAG’s sole discretion.	The valuation percentage shall be determined by the Valuation Agent from time to time and in its reasonable discretion.

For example, if a counterparty is required to post \$1.0 million of collateral and wished to use Ginnie Mae’s with five years remaining to maturity, it would be required to post \$1,052,632 (\$1.0 million/0.95) to satisfy the collateral requirement.

## **APPENDIX B: GLOSSARY OF TERMS**

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### **Asset/Liability Matching**

Matching the term and amount of assets and liabilities in order to mitigate the impact of changes in interest rates.

### **Bid/Ask Spread**

The difference between the bid price (at which a market maker is willing to buy) and the ask price (at which a market maker is willing to sell).

### **Call Option**

The right to buy an underlying asset (e.g. a municipal bond) after a certain date at a certain price. A call option is frequently embedded in a municipal bond, giving the issuer the right to buy, or redeem, the bonds at a certain price.

### **Collateral**

Assets pledged to secure an obligation. The assets are potentially subject to seizure in event of default.

### **Downgrade**

A negative change in credit ratings.

### **Forward Starting Swap**

Interest rate swap that starts at some time in the future. Used to lock-in current interest rates.

### **Hedge**

A transaction that reduces the interest rate risk of an underlying security.

### **Interest Rate Exchange Agreement**

An agreement detailing the contractual exchange of interest payment streams between counterparties. Often the exchange of a fixed and a floating interest rate between two parties. Also called an interest rate swap.

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An agreement detailing the contractual exchange of interest payment streams between counterparties. Often the exchange of a fixed and a floating interest rate between two parties. Also called an interest rate exchange agreement.

### **Liquidity Support:**

An agreement by a bank to make payment on a variable rate security to assure investors that the security can be sold.

### **LIBOR**

London Interbank Offered Rate. Often used as an index to compute the variable rate paid on an interest rate swap.

### **Maximum Net Termination Exposure**

The aggregate termination payment for all existing and projected swap transactions that would be paid by an individual counterparty. For purposes of this calculation, the aggregate termination payment is equal to: (i) the termination payment based on the market value of all existing swaps, plus (ii) the expected worst-case termination payment of the proposed transaction. The expected worst-case termination payment shall be

calculated assuming interest rates, as measured by the appropriate index (typically the Bond Buyer Revenue Bond Index or Bond Market Association), increase (or decrease) by two standard deviations from the sample mean over a period of time corresponding to the term of the swap.

**Notional Amount**

The amount used to determine the interest payments on a swap.

**Termination Payment**

A payment made by a counterparty that is required to terminate the swap. The payment is commonly based on the market value of the swap, which is computed using the rate of the initial swap and the rate on a replacement swap.