VIRGINIA COMMONWEALTH UNIVERSITY

VCU

Debt Management

Policy Type: Board of Visitors
Responsible Office: Vice President for Finance and Administration, Associate Vice President for Finance and Administration and Treasury Services
Initial Policy Approved: 11/16/2006
Current Revision Approved: 09/19/2013

Policy Statement and Purpose

Mission Statement

Virginia Commonwealth University's mission as a premier, urban, public research university in Virginia is to advance knowledge and student success through its commitments to:

- An engaged, learner-centered environment that fosters inquiry, discovery and innovation in a global setting;
- Research that expands the boundaries of new knowledge and creative expression and promotes translational applications to improve human health;
- Interdisciplinary collaborations that bring new perspectives to complex problems and mobilize creative energies that advance innovation and solve global challenges;
- Healthcare that strives to preserve and restore health for all people, to seek the cause and cure of diseases through groundbreaking research, and to educate those who serve humanity;
- Diversity that provides a climate of inclusion, a dedication to addressing disparities wherever they exist, and an opportunity to explore and create in an environment of trust; and
- Sustainable, university-community partnerships that enhance the educational, economic and cultural vitality of the communities the University serves in Virginia and around the world.

Purpose

This policy sets forth the University's policies regarding the use of debt to provide funding for projects in support of the University's mission of being a preeminent leader in teaching, learning and research. The University maintains a strategic plan that is also supported by a campus master plan. The University develops a six-year capital plan in support of its strategic plan and campus master plan.

The use of debt is an important part of the funding plan for the University's capital plan and this policy will create the link between the use of debt and the University's mission and strategic goals.

There is a close collaboration between the University and the VCU Health System. This debt policy explicitly recognizes and reiterates the separation of responsibility for debt incurred or guaranteed by the VCU Health System and the University. The two entities will examine their mutual needs and opportunities, including the exploration of financing alternatives by VCU Health System, the University, or a combination thereof.

The objectives of the debt policy are to:

1. Provide guidelines for strategically using debt in terms of affordability and capacity
2. Establish a framework for allocating the University's use of debt for projects that most support the mission and strategic goals of the University
3. Establish debt reporting guidelines
4. Establish debt management and risk guidelines

The policy establishes a framework from which the University will make decisions on how much debt to issue, types of debt, debt and risk composition, and project prioritization. The guidelines are being created to ensure that the University maintains its strong financial position in order to better fulfill and support its mission.

Noncompliance with this policy may result in disciplinary action up to and including termination. VCU supports an environment free from retaliation. Retaliation against any employee who brings forth a good faith concern, asks a clarifying question, or participates in an investigation is prohibited.

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Who Should Know This Policy

Vice Presidents, Senior Executives, Vice Provosts, Deans, Directors, and Department Heads are responsible for knowing this policy and familiarizing themselves with its contents and provisions.

Goals

The University seeks to manage its debt and overall financial profile with the following goals:

1. Manage the University credit profile in order to:
    a. Meet its strategic objectives
    b. Maintain requirements under the Management Agreement dated March 30, 2009 between the Commonwealth of Virginia and the Board of Visitors (BOV) of the Virginia Commonwealth University, in order to provide the University flexibility to issue debt, on its own behalf, under the State's Restructured Higher Education Financial and Administrative Operations Act of 2005
    c. Maintain access to the capital markets
    d. Obtain favorable costs of capital, flexibility, and favorable terms within its desired risk profile
2. Optimize the University's debt composition (fixed rate v. variable rate, short-term v. long-term, direct debt v. indirect debt versus privatized financing, public debt v. private debt)
3. Manage the repayment schedule of the debt in order to preserve debt capacity and flexibility over the longer term while also meeting the liquidity objectives of the University

Oversight and Approvals

The Office of the Vice President for Finance and Administration is responsible for implementing this policy and for all debt financing activities of the University. The policy and any subsequent, material changes to the policy are approved by the University's Board of Visitors. The approved policy provides the framework under which debt management decisions are made.

Compliance with this policy is monitored by VCU Treasury Services with oversight from the Office of the Associate Vice President for Finance and Administration. The Office of the Vice President for Finance and Administration reports regularly to the BOV on the University's debt position and plans.

The BOV must pass a resolution before any long-term debt is issued. As part of this resolution, the BOV will also establish financing parameters to be followed by the University when issuing long-term debt. Additionally, prior to issuing tax-exempt debt of which at least a portion will be used to reimburse the University for prior expenditures, federal tax law requires the BOV to pass a resolution declaring its intent to issue tax-exempt debt or to have delegated the authority to do so to a designated authority.

The University issues, on its own behalf, debt under Chapter 3 of Title 23 of the Virginia Code or non-State Tax Supported Debt under the State's Restructured Higher Education Financial and Administrative Operations Act of 2005, Chapter 4.10 of Title 23 (the "Restructuring Act") and pursuant to that certain Management Agreement dated March 30, 2009, by and between the Commonwealth of Virginia and Virginia Commonwealth University, as amended (the "Management Agreement").

Definitions

There are no definitions associated with this policy.

Procedures

Project Prioritization

The University recognizes that debt as a source of capital is scarce, and it is essential that the University has ready, cost effective access to capital. The University recognizes that all institutions are constrained by the amount of capital projects that can be supported without jeopardizing its long-term strategic goals. Therefore, not every desired project can, nor should be financed by debt. The University will make decisions relative to the use of debt as it considers each project in the context of the University's mission.

The University will evaluate the funding sources for proposed capital projects in the context of the strength of the project, its role in supporting the mission of the University, strategic priorities of the University, and in the context of the guidelines provided in this Debt Policy. In general, projects will be given priority for debt financing if they are educational, research related and critical to the mission of the University. In prioritizing projects to be University debt financed, the University will consider:

- strategic importance to the University and the role the project plays within the strategic plan
- revenue producing projects, or projects that are otherwise able to support the associated debt, and are not dependent on the general revenue pledge of the University and would be considered "off-credit"

The University Budget Advisory Committee (UBAC) oversees the management of the University's annual operating and capital budgets and reviews resource issues of campus-level significance that arise within the fiscal year. The University will ensure UBAC evaluates the funding sources for all university debt-financed projects prior to approval by the BOV.

Debt Capacity and Affordability

In evaluating the University's current debt levels and future debt financings, the University will consider the impact of its total debt on both its debt capacity and debt affordability. Debt affordability considers the University's ability to pay the debt service on an annual basis through its operating budget and identified revenue streams. Debt capacity considers the University's financial resources and the University's ability to leverage its financial resources to finance certain capital projects. The University recognizes that in order to achieve its strategic goals it may issue debt in excess of its targeted debt capacity but in all cases it will not issue debt that will jeopardize its Management Agreement with the Commonwealth of Virginia. The University will measure its debt service burden as a percentage of total University expenses as follows:

Debt Burden: Annual debt service cost of University debt, including capital lease payments, as a percentage of operating expenses. No greater than 6.0%.

This ratio measures the University debt service cost as a percentage of total University expenses. It is a measure of the University's long-term operating flexibility.

In evaluating a future debt issuance, the University will also compare its financial profile to that of the Moody's and Standard & Poor's medians for the AA rating category as well as compare the University to a select group of other public institutions in its ratings group. The University recognizes that the financial ratios are a piece of the overall credit profile and that state funding, demand, and other industry dynamics could affect the way in which the rating agencies assess the credit rating of a public higher education institution. The financial ratios, median and peer comparisons will be presented to the Board of Visitors on an annual basis and at the time of a proposed financing.

Debt Management

The University views its debt portfolio holistically and will manage its debt level, debt composition, and risk profile from a portfolio standpoint.

In considering types of financing structures and funding sources available to the University, VCU will evaluate the benefits, risks and costs of each financing structure and funding source. The financing structure will be reviewed within the context of the goals of this Debt Policy and the University will perform a financial and risk analysis to determine the impact of the proposed financing on its debt capacity and debt affordability financial ratios. A proposed financing that would result in the University exceeding identified target ranges would require the Board of Visitors to approve and acknowledge the strategic importance of the project despite the impact on key financial ratios.

The University will actively manage its debt portfolio to take advantage of current market conditions, either to generate economic savings, to take advantage of alternative financing structures that would optimize the University's debt structure in the context of its goals identified in the Debt Policy, or for strategic purposes.

Risk Management

The University recognizes that there is a correlation between risk and cost and there are appropriate risks that the University may assume in order to optimize its debt portfolio. The University also recognizes that the risks in the University's debt portfolio should be viewed holistically and in the context of its assets, liabilities and operations. The University will identify and quantify its risk exposure to interest rate risk and its resulting impact on the University's operating budget; and liquidity risk and its impact on the University's balance sheet and liquidity objectives for its assets.

The University recognizes the value and flexibility that short-term debt or variable rate financing contributes to its debt portfolio. While interest rate risks associated with variable rate debt can be mitigated through asset/liability management, liquidity risk and market access risk remain in certain financing structures. The University will maintain "Committed Debt" of no less than 70 percent of total debt. Committed Debt is defined as any debt that is either committed to maturity without a put or has a put that is exercisable in no less than two years.

The University may consider the use of derivative products in order to achieve the goals outlined in its Debt Policy. Derivatives will only be undertaken by the University upon quantification and evaluation of their risks and done so in accordance with the Interest Rate Swap Guidelines shown in Appendix A.

In addition, the University will consider the risks associated with concentration of banking services, credit and counterparty providers, including in the investment portfolio, in order to diversity its dependency risk on financial institutions.

Post Issuance Compliance

The University has adopted post issuance compliance procedures through its Tax-Exempt Debt Compliance Policy in order to ensure that it complies with federal tax law requirements for the use of tax-exempt debt. The policy provides a framework for complying with federal laws relating to the issuance and post-issuance monitoring of tax-exempt bonds.

Reporting and Monitoring Requirements

The University will provide a report to the Board of Visitors on an annual basis that demonstrates compliance with its Debt Policy, including key financial ratios and quantifying risk elements of the debt portfolio. A pro-forma analysis of the key financial ratios will be presented to the Board of Visitors in advance of approving a proposed debt financing. VCU Treasury Services will monitor the financial ratios and risk exposure on a regular basis.

Contacts

Treasury Services officially interprets this policy. The Director of Treasury Services and Treasurer is responsible for obtaining approval for any revisions as required by the policy *Creating and Maintaining Policies and Procedures* through the appropriate governance structures. Please direct policy questions to Treasury Services.

Forms

There are no forms associated with this policy and procedures.

Related Documents

1. VCU Operating Pool Investment Policy (hyperlink internal documents located at vcu.edu)
2. Investment Policy Statement for VCU's Glasgow Endowed Fund (hyperlink internal documents located at vcu.edu)
3. Tax-Exempt Debt Compliance Policy

Revision History

This policy supersedes the following archived policies:

Initial Approval: November 16, 2006	*VCU Debt Management Policy*
Approved Revision: September 19, 2013	*Debt Management*

FAQs

There are no FAQs associated with this policy and procedures.

Appendix A: Interest Rate Swap Guidelines

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INTEREST RATE SWAP GUIDELINES

I. Introduction

The purpose of the Interest Rate Swap Guidelines of the Virginia Commonwealth University (the "University") is to establish guidelines for the use and management of interest rate swaps. These Interest Rate Swap Guidelines have been prepared in accordance with the recommended practices of the Government Finance Officers Association regarding the contents of an interest rate swap policy.

II. Scope and University

This Interest Rate Swap Policy shall govern the University's use and management of all interest rate swaps. While adherence to these Guidelines are required in applicable circumstances, the University recognizes that changes in the capital markets, agency programs, and other unforeseen circumstances may from time to time produce situations that are not covered by the Interest Rate Swap Policy and will require modifications or exceptions to achieve policy goals.

The Interest Rate Swap Guidelines shall be reviewed and updated by the University at least every two years. The Vice President of Finance and Administration (the "Vice President") and Associate Vice President of Finance and Administration (the "Associate Vice President") are the designated administrators of the University's Debt Policy, which includes the Interest Rate Swap Guidelines. The Associate Vice President shall have the day-to-day responsibility for structuring, implementing, and managing interest rate swaps.

The Board of Visitors (the "Board") shall approve any transaction involving an interest rate swap. The University shall be authorized to enter into interest rate swap transactions only with qualified swap counterparties. The Vice President, in consultation with the Associate Vice President, University Financial Advisor and University Bond Counsel, shall have the University select the counterparties so long as the criteria set forth in these Interest Rate Swap Guidelines are met.

III. Conditions for the Use of Interest Rate Swaps

A. General Usage

The University will use swaps to lock-in a fixed rate or, alternatively, to create additional variable rate exposure. Interest Rate Swaps may be used to produce interest rate savings, limit or hedge variable rate payments, alter the pattern of debt service payments or for asset/liability matching purposes.

In connection with the use of any swaps, the University's Board shall make a finding that the authorized swaps will be used to alter interest rate risk and/or alter the cost of borrowing in a beneficial manner, and when used in combination with new or outstanding bonds, will enhance the relationship between risk and return or achieve other policy objectives of the University.

B. Maximum Notional Amount

The University will limit the total notional amount of outstanding interest rate swaps based on criteria set forth in this Interest Rate Swap Policy regarding the proper management of risks, calculation of termination exposure and development of a contingency plan.

C. Liquidity Considerations

The University shall consider the impact of any variable rate bonds issued in combination with an interest rate swap on the availability and cost of liquidity support for other University variable rate programs. The University recognizes that there is a limited supply of letter of credit or liquidity facility support for University variable rate bonds and the usage of liquidity support in connection with an interest rate swap may result in higher overall costs.

D. Call Option Value Considerations

When considering the relative advantage of an interest rate swap to fixed rate bonds, the University will consider the value of the call option on fixed rate bonds. The value derived from the ability to call bonds at a future date is foregone when using a swap unless cancellation provisions are explicitly included in the swap. Typically the University sells bonds that are callable after 10 years and could be refunded at that time. Interest rate swaps will not have a par call provision, unless the University pays for this option, and cannot be refunded in the future to provide economic savings.

E. Adherence To Dodd-Frank

It is the intent of the University to conform this Interest Rate 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 the University that, with respect to each interest rate swap: (i) each swap advisor engaged or to be engaged by the University will function as the designated qualified independent representative of the University, sometimes referred to as the "Designated QIR"; (ii) each swap advisor agree to meet and meets the requirements specified in Commodity Futures Trading Commission ("CFTC") Regulation 23.450(b)(1) or any successor regulation thereto (herein referred to as the "Representative Regulation"); (iii) each swap advisor provide a written certification to the University to the effect that such swap advisor agrees to meet and meets the requirements specified in the Representative Regulation; (iv) the University will monitor the performance of each swap advisor consistent with the requirements specified in the Representative Regulation; (v) the University 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) the University will rely on the advice of its swap advisor with respect to interest rate swaps authorized pursuant to this Policy and not rely on recommendations, if any, presented by any swap dealer with respect to interest rate swaps authorized pursuant to this Policy.

The University shall obtain and maintain current at all times a “legal entity identifier” from a firm designated by the CFTC to provide such numbers.

In connection with the execution of any swap entered into on or after September 9, 2013, the University 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.

Comprehensive records shall be maintained, either in paper or electronic form, of any interest rate swap entered into by the University 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.

IV. Interest Rate Swap Features

A. Interest Rate Swap Agreement

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

Subject to the provisions contained herein, the terms of any University swap agreement shall use the following guidelines:

i. Downgrade provisions triggering termination shall in no event be worse than those affecting the counterparty.
ii. Preferred governing law for swaps will be Virginia. Exceptions to Virginia law must be approved by Bond Counsel and University Counsel.
iii. The specified indebtedness related to credit events in any swap agreement should be narrowly defined and refer only to indebtedness of the University that could have a materially adverse effect on the University’s ability to perform its obligations under the swap. Debt should typically only include obligations within the same lien as the swap obligation.
iv. Collateral thresholds for the swap provider should be set on a sliding scale reflective

of credit ratings. Collateral requirements should be established and based upon the credit ratings of the swap provider or guarantor.

v. Eligible collateral should generally be limited to the list of permitted investments as outlined in the University's enabling legislation.

vi. The University shall have the right to optionally terminate a swap agreement at "market," at any time over the term of the agreement.

vii. Termination value should be set by a "market quotation" methodology, unless the University deems an alternate appropriate.

B. Interest Rate Swap Counterparties

1. Credit Criteria

The University will make its best efforts to work with qualified swap counterparties that 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 "Aa3 or "AA-") counterparties, the University will seek credit enhancement in the form of:

i. Contingent credit support or enhancement;
ii. Collateral consistent with the policies contained herein;
iii. Ratings downgrade triggers;
iv. 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.

2. Counterparty Exposure

The University shall endeavor to diversify its exposure to counterparties. To that end, before entering into a swap agreement, the University will determine its exposure to the relevant counterparty or counterparties and determine how the proposed transaction would affect that exposure. The exposure should be measured in terms of notional amount, mark to market valuation and volatility. The University shall also take into account the University exposure to any related entities of a particular counterparty as well as other credit facilities outstanding between the University, the University and the counterparty.

C. Term and Notional Amount

In connection with the issuance or carrying of bonds, the term of the swap agreement shall not extend beyond the final maturity date of the related bonds. The total "net notional amount" of all swaps related to a bond issue should not exceed the amount of outstanding bonds. 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 transaction.

D. Collateral Requirements

As part of any swap agreement, the University may, based on credit ratings of the counterparty, require collateralization or other forms of credit enhancements to secure any or all swap payment obligations. As appropriate, the University, in consultation with Bond Counsel and Swap Advisor, may require collateral or other credit enhancement to be posted by any swap counterparty if the credit rating of the counterparty or parent falls below the "AA" credit rating 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 collateral support agreement to each counterparty with the University.

Threshold collateral amounts shall be determined by the University on a case-by-case basis. The University will determine the reasonable threshold limits for the initial deposit and for increments of collateral posting thereafter. Collateral shall be deposited with a third party trustee, or as mutually agreed upon between the University and the counterparty. 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. The market value of the collateral shall be determined on a monthly basis or more frequently if the University determines it is in its best interest given the specific collateral security.

E. Prohibited Interest Rate Swap Features

The University will not use interest rate swaps that:

- i are 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,
- iv are used as investments,
- v cause the total swapped debt to exceed 50% of the University's total debt outstanding.

V. Evaluation and Management of Interest Rate Swap Risks

Prior to the execution of any swap transaction, the Vice President, Associate Vice President and University's Swap Advisor and Bond Counsel shall evaluate the proposed transaction and the

Vice President shall report the findings to the University's Board of Visitors. Such a review shall include the identification of the proposed benefit and potential risks.

A. Evaluation Methodology

The University 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.	The University will review historical trading differentials between the variable rate bonds and the index.
Tax risk	The risk created by potential tax events that could affect swap payments.	The University will review the tax events in proposed swap agreements. The University will evaluate the impact of potential changes in tax law on LIBOR indexed swaps.
Counterparty risk	The failure of the counterparty to make required payments.	The University will monitor exposure levels, ratings thresholds, and collateralization requirements.
Termination risk	The need to terminate the transaction in a market that dictates a termination payment by the issuer.	The University will compute its termination exposure for all existing and proposed swaps at market value.
Rollover risk	The mismatch of the maturity of the swap and the maturity of the underlying bonds.	The University will determine its capacity to issue variable rate bonds that may be outstanding after the maturity of the swap.
Liquidity risk	The inability to continue or renew a liquidity facility.	The University will evaluate the expected availability of liquidity support for swapped and unhedged variable rate debt.
Credit risk	The occurrence of an event modifying the credit rating of the issuer or its counterparty.	The University will monitor the ratings of its counterparties and insurers.

B. Managing Interest Rate Swap Risks

1. Annual Report to the Finance, Budget and Investment Committee of the Board

The University will evaluate the risks associated with outstanding interest rate swaps at least annually and provide a written report to the University Finance, Budget and Investment Committee of the findings. This evaluation will include the following information:

i. A description of all outstanding interest rate swaps, including related bond series, types of swaps, rates paid and received by University, existing notional amount, the average life and remaining term of each swap agreement, and the current termination value of all outstanding swaps.
ii. Separately for each swap, the actual debt service requirements versus the projected debt service on the swap transaction; and for any swaps used as part of a refunding, the actual cumulative savings versus the projected savings at the time the swap was executed.
iii. The credit rating of each swap counterparty, parent, guarantor, and credit enhancer insuring swap payments, if any.
iv. Actual collateral posting by swap counterparty, if any, per swap agreement and in total by swap counterparty.
v. Information concerning any material event involving outstanding swap agreements, including a default by a swap counterparty, counterparty downgrade, or termination.
vi. An updated contingency plan to replace or fund a termination payment in the event an outstanding swap is terminated.
vii. The status of any liquidity support used in connection with interest rate swaps, including the remaining term and current fee.

The University shall review the Interest Rate Swap Guidelines at least every two years.

2. Contingency Plan

The University shall compute 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. The University shall assess its ability to obtain replacement swaps and identify revenue sources to fund potential termination payments.

C. Terminating Interest Rate Swaps

1. Optional Termination

The University, in consultation with its Swap Advisor and Bond Counsel, may terminate a swap if it is determined that it is financially advantageous.

2. Mandatory Termination

In the event a swap is terminated as a result of a termination event, such as a default or a decrease in credit rating of either the University or the counterparty, the University 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 the University makes a swap termination payment, the University shall attempt to follow the process identified in its swap contingency plan. The University shall also evaluate the economic costs and benefits of incorporating a provision into the swap agreement that will allow the University to make termination payments over time.

VI. Selecting and Procuring Interest Rate Swaps

A. Financing Team

The University will retain the services of a nationally recognized municipal bond counsel firm and qualified swap advisor for all interest rate swaps.

B. Underwriter Selection

In the event bonds are issued in connection with interest rate swaps, the University will select an Underwriter based on criteria established by the Vice President and Associate Vice President and taking into account the experience level of each firm in regards to interest rate swaps.

C. Counterparty Selection

The University will utilize a competitive bidding process to select a swap counterparty and price a swap when that process will provide the lowest financing cost. The University may use a negotiated process to select a swap counterparty and price a swap when it believes market or competitive conditions justify such a process. Conditions that may suggest a negotiated selection are provided below.

i. Marketing of the swap will require complex explanations about the security for repayment or credit quality.
ii. Demand is weak among swap counterparties.
iii. Market timing is important, such as for refundings.
iv. Coordination of multiple components of the financing is required.
v. The swap has non-standard features, such as a forward starting swap.
vi. The par amount for the transaction is significantly larger than normal.

VII. Disclosure and Financial Reporting

The University will take steps to ensure that there is full and complete disclosure of all interest rate swaps to the University, to rating agencies and in disclosure documents. Disclosure in marketing documents shall provide a clear summary of the special risks involved with swaps and any potential exposure to interest rate volatility or unusually large and rapid changes in market value. With respect to its financial statements, the University will adhere to the guidelines for the financing reporting of interest rate swaps, as set forth by the Government Accounting Standards Board.

Definitions

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 and 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 the event of default.

Downgrade A negative change in credit ratings.

Forward Starting Swap Interest rate swaps that start 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 Swap The exchange of a fixed interest rate and a floating interest rate between counterparties.

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 The London Interbank Offer Rate. Used as an index to compute the variable rate on an interest rate 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 on the initial swap and the rate on a replacement swap.