

Peralta Community College District Retirement Board

Interest Rate Mitigation Policy

(Swap Policy)

The interest rate swap policy established by and for the Peralta Community College Retirement Board is designed to provide direction regarding the use, execution and management of interest rate swaps and related instruments. These include but are not limited to swaps, caps, floors, collars and options in connection with the incurrent of debt obligations. Periodically the Retirement Board will review and made necessary modification of this policy. Monitoring of these financing products is required to preserve the Districts credit strength, rating and budget flexibility.

1. Purpose for Interest Rate Risk Mitigation Products

- To achieve an appropriate match of assets and liabilities;
- To reduce the cost of fixed or variable rate debt, through swaps and related products by synthetically creating fixed or variable rate exposures;
- To lock in current fixed rates for future use, including synthetically advance refunding debt that cannot be refunded with conventional cash-market issuance;
- To hedge or actively manage rate, basis, and other risks;

2. Permitted Instruments

- Interest rate swaps including pay fixed/receive floating swaps (fixed rate swap), receive floating/pay fixed rate (floating rate swap), or pay floating/receive floating (basis swaps). Swaps may include option features as index conversion and extensions.
- Interest rate caps, floors, and collars.
- Stand-alone options to enter into swaps (swaptions) on a particular date, series of dates, or during a period of time in the future.

3. Condition for the use of Interest rate Swaps

- To lock in a fixed rate or to create additional variable rate exposure. May be to produce interest rates savings limit or hedge variable rate payments, alter pattern of debt service, or asset/liability management.
- In consideration of liquidity support and letters of credit for a variable rate program.

4. Interest Rate Swap Features

- Interest Rate Swap Agreement shall contain the terms and conditions as set forth in an International Swaps and Derivatives Association (ISDA) Master Agreement including any schedules, confirmation, credit support annexes or other agreements used by recognized derivatives dealers.
- Interest Rate Swap Counterparties shall be qualified institutions with two long term credit rating are at least Aa3 or AA- or equivalent, by any two nationally recognized rating agencies. Payment obligations of the counterparty are unconditionally guaranteed by an entity such as a rating agency.
- Term and Notional Amount shall be on a case-by-case basis. For a bond issuance, outstanding notional amount should relate to the amortization schedule of the related or exiting debt.

- Collateral Requirements based on credit rating of the counterparty, requiring collateralization or other forms of credit enhancements to secure swap payment obligations. Collateral requirements will be determined in consultation with legal counsel, swap advisor and financial advisor.
- Security and Source of Repayment for the interest rate swap are usually the same as for the bonds.
- Cancellation Provisions will be reviewed and used if efficient.
- Prohibited Interest Rate Swap features include speculative or extraordinary leverage, lack of adequate liquidity to terminate with incurring a significant bid/ask spread, insufficient price transparency, investment use.

5. Evaluation Process for a Proposed Transaction

- Assessment of all risks
- Alternative financing options and evaluation of risks and benefits
- Security and sources of payments
- Procurement process and suitability of counterparties
- Impact on District's credit
- Cost and availability of on-going resources for effective operations and risk management
- Options component analysis

6. Interest Rate Swap Risks

- Counterparty Risk
- Termination Risk
- Collateral Posting Risk
- Basis Risk
- Tax Risk
- Rollover Risk
- Liquidity Risk
- Credit Risk

7. Ongoing Risk Management and Report Requirements

- Active Management to maximize benefit and minimize risk. Include monitoring adequacy of posted collateral, compliance with accounting requirements, continuous monitoring market conditions as prepared by the Vice Chancellor Finance.
- Ongoing Reporting providing the status of all interest rate swap agreements.

8. Execution and Ongoing Management

- Retirement Board shall seek to minimize the risk and maximize the benefits through active management of this swap policy.
- Retirement Board is authorized to manage existing Swap transactions with Board of Trustee of the Peralta Community College District approval insuring consistency with any applicable resolution of the Board of Trustees. This approval will extend to future termination or modification of existing swap agreements.