

# OHIO WATER DEVELOPMENT AUTHORITY

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## Interest Rate Swap Policy

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### BACKGROUND

The following are the general policies that the Ohio Water Development Authority will follow in the utilization of interest rate swaps and related interest rate hedging techniques. The Authority intends for this Interest Rate Swap Policy to be applied in conjunction with and, to the fullest extent possible, consistently with its Investment Policy and its Debt Management Policy and not to supersede either.

### DEFINITIONS

"Counterparty" shall mean the party to an Interest Rate Agreement other than the Authority.

"Interest Rate Agreement" shall mean an interest rate swap or exchange agreement, an agreement establishing an interest rate floor or ceiling or both, and any other interest rate hedging agreement, including options to enter into or cancel such agreements, as well as the reversal or extension thereof.

### GUIDELINES

#### A. Conditions to Entering into Interest Rate Agreements.

The Authority will consider entering into an Interest Rate Agreement only for one or more of the following purposes:

1. Reduce the Authority's exposure to changes in interest rates with respect to a particular borrowing; or
2. Manage interest rate risk, taking into account the Authority's current asset/liability balance and reasonably expected changes therein for the particular program for which the Interest Rate Agreement is being considered; or
3. Achieve a reasonably anticipated lower net cost of borrowing with respect to related obligations.

In connection with each proposed Interest Rate Agreement, the Authority shall obtain the advice of its financial advisor and shall analyze and determine how the Interest Rate Agreement is intended to accomplish one or more of the foregoing purposes. In providing such advice and in making such determinations, the financial advisor and the Authority shall consider that the loans that provide the source of revenues and security for the payment of program bonds generally

bear interest at fixed interest rates that cannot be subsequently adjusted and that the Authority's payment obligations (whether direct or synthetic) with respect to its program bonds need to conform to the revenue stream anticipated from the loans pledged to the repayment of those bonds.

No Interest Rate Agreement shall be entered into unless such agreement relates to indebtedness of the Authority that is either outstanding or authorized at the time of the execution or effective date of the Interest Rate Agreement.

B. Procurement of Interest Rate Agreements.

The Authority may enter into an Interest Rate Agreement through negotiation with a Counterparty or through a competitive bidding process and shall obtain the advice of its financial advisor regarding the preferable course in the particular circumstances.

C. Form of Documentation

To document any Interest Rate Agreement, the Authority shall utilize the standard documentation prepared by the International Swaps and Derivatives Association, Inc. ("ISDA"), such as the Master Agreement, Schedule and Confirmation, with such modifications and supplements as the Authority deems necessary to accomplish the purposes of the Interest Rate Agreement, and the Authority shall obtain the advice of bond counsel regarding such modifications and supplements and regarding the conformity of the Interest Rate Agreement with the applicable law and with any applicable trust agreements or other agreements to which the Authority is at the time already a party. Notwithstanding the foregoing, the Authority may approve other forms of documentation if, after obtaining the advice of bond counsel, the Authority determines that such other forms of documentation serve the best interests of the Authority. Regardless of the form of documentation, the Authority shall, in connection with its consideration of any proposed Interest Rate Agreement, obtain the advice of its bond counsel and financial advisor regarding the proposed source or sources of payment for any obligations of the Authority under the Interest Rate Agreement and the security for such payment and, based on that advice, shall cause the Interest Rate Agreement to specify the source or sources of and the security for periodic and non-periodic payment obligations of the Authority (which may or may not be the same), which the Authority shall have determined to be consistent with applicable law and trust agreements and with the best interests of the Authority.

D. Risks Associated with Interest Rate Agreements.

Prior to entering into an Interest Rate Agreement, the Authority shall obtain the advice of its financial advisor regarding the risks associated with entering into the Interest Rate Agreement, including, if applicable and without limitation:

- counterparty risk,
- basis risk, and
- tax risk,

and the full range of circumstances that might result in a termination of the Interest Rate Agreement either with or without the approval or consent of the Authority and any consequent obligation of the Authority to make a termination payment. The Authority shall consider the identified risks in determining whether the potential benefits offered by the Interest Rate Agreement justify the Authority's assuming its inherent risks. The Authority shall also consider the likely or potential repercussions from a proposed Interest Rate Agreement for the ratings on any of the Authority's outstanding or proposed debt obligations.

E. Standards for Counterparty Selection and Security for Financial Interest.

Except as provided in the next sentence, the Counterparty to an Interest Rate Agreement with the Authority or the Counterparty's guarantor shall be required to have either a counterparty rating or a long-term debt rating at the time the Interest Rate Agreement is entered into of not less than a "AA" category from a nationally recognized ratings service. In the event a proposed Counterparty or its guarantor does not have or fails to maintain either a counterparty rating or a long-term debt rating equal to or higher than a "AA" category, the Counterparty or its guarantor shall be required to collateralize the termination value of the Interest Rate Agreement with eligible collateral or shall provide a guaranty, surety, or other credit enhancement for its obligations under the Interest Rate Agreement from a guarantor, surety or other credit enhancement provider with a long-term debt rating equal to or higher than a "AA" category. Eligible collateral shall mean direct obligations of the United States or any agency thereof. At all times the eligible collateral shall have a market value (as evidenced by weekly valuations) at least equal to 102% of the termination value of the Interest Rate Agreement. If collateral is required, the Authority shall designate a custodian bank independent of the Counterparty to hold such collateral on behalf of the Authority, and the Authority shall execute a written custodial agreement with the custodian bank to provide for the custody of collateral required from a Counterparty. If the rating of the Counterparty or its guarantor is lowered below a "AA" category or is suspended after an Interest Rate Agreement is entered into, the Counterparty shall be required to (i) collateralize in the manner described above the termination value of the Interest Rate Agreement, (ii) provide a guarantor or a substitute entity with a counterparty rating or a long-term debt rating equal to or higher than a "AA" category within 5 business days of such downgrade or suspension, or (iii) take such other actions for the preservation of the security for the Counterparty's payment obligations as the Authority shall have approved for the particular Interest Rate Agreement, based on the advice of its financial advisor.

F. Credit Enhancement, Liquidity and Reserves.

The Guidelines do not require (except in those cases where the Counterparty is required to provide collateral, guaranty, surety, or other credit enhancement to secure the termination value of an Interest Rate Agreement) either the Authority or the Counterparty to obtain credit enhancement or a liquidity facility in connection with entering into an Interest Rate Agreement or to maintain any reserves in connection with such agreement, but the Guidelines do not preclude such arrangements or requirements if the Authority approves them for a particular Interest Rate Agreement based upon the advice of its financial advisor.

G. Financial Statement Reporting.

The Authority shall account for any Interest Rate Agreement on its financial statements through generally accepted governmental accounting principles.

H. Financial Monitoring.

Unless the Counterparty has provided collateral to secure its obligations under an Interest Rate Agreement, the Counterparty shall agree to provide the Authority with at least monthly mark-to-market calculations showing the current termination value of the Interest Rate Agreement. If the Counterparty or its guarantor has provided collateral to secure its obligations under an Interest Rate Agreement, the Counterparty shall agree to provide at least weekly valuations of the collateral and the termination value of the Interest Rate Agreement. The Authority shall establish and maintain a process for monitoring and reviewing the valuations required by these Guidelines.

I. Application and Source of Payments.

If the Authority receives a non-periodic payment in connection with entering into or performing under an Interest Rate Agreement, including any termination payment, the Authority shall consult with its bond counsel as to whether there are any restrictions on the application or investment of such payment under state law, federal tax law (with regard to tax- exempt debt) or any applicable trust agreement or other agreement to which the Authority is a party. If the Authority is required to make any payment, including a non-periodic payment, under an Interest Rate Agreement, it shall make such payment only from sources as are identified in the Interest Rate Agreement and otherwise are legally available for such payment.