



# **Debt Pricing Policy**

**Updated: July 2, 2009**

## **Development Authority of the North Country**

### **DEBT PRICING POLICY**

This establishes the Debt Pricing Policy of the Development Authority in cases where interest rate swaps are used.

#### **Purpose**

Interest rate swaps may be used to prudently mitigate variable rate exposure as it relates to the Development Authority's debt portfolio.

#### **Legality**

The Development Authority must receive an opinion from its counsel that the agreement relating to the interest rate swap is a legal, valid and a binding obligation of the Development Authority and entering into the transaction complies with applicable City, State and Federal laws.

#### **Speculation**

Interest rate swaps shall not be used for speculative purposes outside of prudent risks that are appropriate for the Development Authority in securing a fixed interest rate on a variable rate debt. Additionally, the Development Authority shall not use an interest rate swap for which there is (a) insufficient market liquidity for its transfer or termination at market, or (b) insufficient price transparency to allow realistic valuation of its market value on an ongoing basis.

#### **Methods of Soliciting and Procuring Interest Rate Swaps**

In general, the Development Authority should procure interest rate swaps by competitive bidding. The competitive bid can limit the number of firms solicited to no fewer than three. The Development Authority shall determine which parties it will allow to participate in a competitive transaction.

Notwithstanding the above, the Development Authority may procure an interest rate swap by negotiated methods in the following situations:

1. The Development Authority may enter into an interest rate swap on a negotiated basis if the interest rate swap is embedded within a bond issue proposed or Bank Qualified Loan and meets the Development Authority's savings target.

## **Form and Content of Interest Rate Swap Agreement**

To the extent possible, the interest rate swap entered into by the Development Authority shall contain the terms and conditions set forth in the International Swaps and Derivatives Association, Inc. (“ISDA”) Master Agreement, including any schedules and confirmation. The schedule should be modified to reflect specific legal requirements and business terms desired by the Development Authority. If possible, the Development Authority should attempt to negotiate the master agreement and schedule with qualified counterparties to facilitate the use of interest rate swaps in situations in which their use is desirable.

### **Optional Termination**

The Development Authority shall include a provision that permits the Development Authority optionally to terminate the agreement at the market value of the agreement at any time. In general, the counterparty shall not have the right to optionally terminate an agreement.

#### *Events of Default*

Events of default of a counterparty shall include the following:

1. Failure to make payments when due
2. Breach of representations and warranties
3. Illegality
4. Failure to comply with downgrade provisions
5. Failure to comply with any other provisions of the agreement after a specified notice period

An event of default by the counterparty shall lead to termination of the agreement with the Development Authority being the affected party for purposes of calculating the termination payment owed.

### **Aspects of Risk Exposure Associated with Such Contracts**

Before entering into an interest rate swap, the Development Authority shall evaluate all the risks inherent in the transaction. These risks to be evaluated should include counterparty risk, termination risk, basis risk, and liquidity/remarketing risk.

The Development Authority shall endeavor to diversify its exposure to counterparties. To that end, before entering into a transaction, it should determine its exposure to the relevant counterparty or counterparties and determine how the proposed transaction would affect the exposure. The exposure should not be measured solely in terms of notional amount, but rather how changes in interest rates would affect the Development Authority’s exposure (“Value at Risk”). The Value at Risk should be based on all outstanding interest rate swap transactions by the Development Authority.

## **Standards and Procedures of Counterparty Selection**

The Development Authority may enter into a interest rate swap if (a) the counterparty shall have credit ratings from at least one nationally recognized statistical rating agency that is within the three highest investment grade categories and ratings which are obtained from any other nationally recognized statistical rating agencies shall also be within the three highest investment grade categories, or the payment obligations of the counterparty shall be collateralized, as described below, or unconditionally guaranteed by an entity with such credit ratings and (b) the counterparty has demonstrated experience in successfully executing interest rate swaps.

If after entering into an agreement the ratings of the counterparty are downgraded below the ratings listed above by any one of the rating agencies, then the agreement shall be subject to termination unless (a) the counterparty provides either a substitute guarantor or assigns the agreement, in either case, to a party meeting the rating criteria reasonably acceptable to the Development Authority or (b) collateralizes its obligations.

## **Provisions for Collateralization**

If the rating (a) of the counterparty, if its payment obligations are not unconditionally guaranteed by another entity, or (b) of the entity unconditionally guaranteeing its payment obligations, if so secured, does not meet or falls below the rating required by “Standards and Procedures of Counterparty Selection” above, then the obligations of such counterparty shall be fully and continuously collateralized by direct obligations of, or obligations of the principal and interest on which are guaranteed by, the United States of America or any agency thereof with a net market value of at least 102% of the net market value of the applicable contract (subject to minimum threshold amounts specified by the Development Authority) and such Collateral shall be deposited with the Development Authority or an agent thereof.

## **Long-Term Implications**

In evaluating a particular transaction involving the use of interest rate swaps, the Development Authority shall review long-term implications associated with entering into interest rate swaps, including costs of borrowing, historical interest rate trends, variable rate capacity, credit enhancement capacity, opportunities to refund related debt obligations and other similar considerations.

## **Change in Policy**

This policy may be revised from time to time at the Development Authority’s discretion based upon rating agency feedback, ISDA standards, and efforts by the Authority to protect its financial interests and other factors.

## **Methods to be Used to Reflect Such Contracts in the Development Authority's Financial Statements**

The Development Authority shall reflect the use of interest rate swaps on its financial statements in accordance with Generally Accepted Accounting Principles.

## **Monitoring and Reporting**

The Development Authority shall issue a report to the Development Authority Board Members at least once per year and as requested by the Development Authority Board Members. Such report shall include the following:

1. A summary of key terms of the agreements, including notional amounts, interest rates, and maturity. Key terms are to include the full name, description and credit ratings of each counterparty or the applicable guarantor and, if applicable, a listing of the acceptable collateral provided by any counterparty or guarantor as required by this Policy.
2. The marked to market value of each agreement.
3. Discussion of other risks associated with each transaction.

Revision/Review Approval Date: July 2, 2009