

New York City
Interest Rate Exchange Agreement Policy
As amended June 26, 2013

This policy governs the use by the City of New York (the “City”) of Interest Rate Exchange Agreements. “Interest Rate Exchange Agreement” or “Derivative” shall mean a written contract between the City and a counterparty, entered into in connection with the issuance of City debt or in connection with City debt already outstanding, to provide for an exchange of payments based upon fixed and/or variable interest rates. The failure by the City to comply with any provision of this policy will not invalidate or impair any Interest Rate Exchange Agreement.

Authority for Interest Rate Exchange Agreements

The City is authorized to enter into IREAs under section 54.90 of the New York State Local Finance Law (“LFL”). The LFL sets forth parameters for City IREAs and requires the City to have a written policy governing the use and reporting of IREAs.

Conditions Under Which the City May Enter into Interest Rate Exchange Agreements

Purposes

Interest Rate Exchange Agreements may be used for the following purposes only:

1. To achieve significant savings as compared to a product available in the bond market. Significant savings shall be calculated after adjusting for (a) applicable fees, including takedown, remarketing fees and credit enhancement fees and (b) call options that may be available on the bonds. Examples may include synthetic fixed rate debt and synthetic variable rate debt. Significant savings may also be deemed to occur if the use of IREAs helps to achieve diversification of a particular bond offering so as to lower the cost of borrowing on the bonds not subject to the IREA.
2. To facilitate the issuance, sale, resale or repurchase of variable-rate bonds.
3. To prudently hedge risk in the context of a particular financing or the overall asset/liability management of the City. Examples may include buying interest rate caps and entering into delayed-starting swaps.
4. To incur variable rate exposure within prudent guidelines, such as selling interest rate caps or entering into a swap in which the City’s net payment obligation is floating rate.
5. To achieve more flexibility and diversification in meeting overall financial objectives than available in conventional markets. An example may include a swaption with an upfront payment.
6. To protect the City from counterparty credit risk.

Legality

The City must receive an opinion acceptable to the market from a nationally recognized law firm that the Interest Rate Exchange Agreement is a legal, valid and binding obligation of the City and entering into the transaction complies with applicable law. In addition, the City must receive an opinion acceptable to the City as to the counterparty from a counsel acceptable to the City.

No Speculation

Interest Rate Exchange Agreements shall not be used for purposes outside of those enumerated above and shall only entail risks that are appropriate for the City to take.

Methods by Which Such Contracts Shall be Solicited and Procured

In general, the City should procure Interest Rate Exchange Agreements by competitive bidding. The competitive bid can limit the number of firms solicited to no fewer than three. The City shall determine which parties it will allow to participate in a competitive transaction. In situations in which the City would like to achieve a specific policy goal, the City may allow a firm or firms not submitting the bid that produces the lowest cost to match the lowest bid and be awarded up to a specified percentage of the notional amount of the Interest Rate Exchange Agreement. In addition, to encourage competition, the City may allow the second and third place bidders to match the winning bid up to a specified amount of the notional amount as long as their bid is no greater than a specified spread from the winning bidder. The parameters for the bid and any matching bid permitted must be disclosed in writing to all potential bidders.

Notwithstanding the above, the City may procure Interest Rate Exchange Agreements by negotiated methods in the following situations:

1. The City makes a determination, in consultation with its swap advisor, that due to the IREA's characteristics (such as size, price transparency, liquidity, etc), market conditions and other business considerations, a negotiated transaction would result in the most favorable pricing and execution. In this situation, the City and its swap advisor should attempt to price the swap based upon an agreed-to methodology relying on available pricing screens to obtain inputs to a mathematical model.
2. The City makes a determination, in light of the facts and circumstances, that a negotiated transaction will promote its interests by encouraging and rewarding innovation or the substantial commitment of time and resources by a counterparty or will achieve diversification of counterparty exposure.

Use and Selection of Swap Advisor

The City will utilize a swap advisor (“Swap Advisor”) to assist with the evaluation and execution of IREA transactions, as well as with the ongoing monitoring and valuation of its IREA portfolio. The Swap Advisor will meet all the necessary registration, qualification and other requirements required under applicable law, rules and regulations. In addition, the Swap Advisor selection criteria may be changed from time to time to enable the City to make any necessary representations related to its Swap Advisor. The City will periodically update its IREA policy to reflect any changes and additions to such rules and regulations affecting the requirements related to swap advisors and will periodically evaluate the performance and services provided by its Swap Advisor.

The Swap Advisor shall qualify as a Qualified Independent Representative (“QIR”) under rules and regulations of the Commodity Futures Trading Commission (“CFTC”) and the Securities and Exchange Commission (“SEC”) promulgated pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), as set forth below:

1. The principals and/or senior staff of the Swap Advisor providing services to the City will have sufficient knowledge to evaluate IREA transactions and risks;
2. Principals and/or senior staff will have prior IREA experience at major swap dealer(s) or comparable experience at financial or swap advisory firms;
3. The Swap Advisor will have all required industry and regulatory registrations and licenses and will not be subject to any statutory disqualification related to such registrations or licenses;
4. The Swap Advisor will be independent of a swap dealer or major swap participant (each as defined in the Dodd-Frank Act) For purposes hereof, “independent” means that (i) the Swap Advisor shall not be and, for a period of at least one year prior to engagement by the City, shall not have been associated with any swap dealer or major swap participant, (ii) there is no principal relationship between the Swap Advisor and a swap dealer or major swap participant, (iii) the Swap Advisor is not directly or indirectly, through one or more persons, controlled by, in control of, or under common control with a swap dealer or major swap participant and (iv) the Swap Advisor was not referred, recommended or introduced to the City by a swap dealer or major swap participant within one year of the City’s engagement of the Swap Advisor;
5. The Swap Advisor will have models and access to historic and live market data necessary to price IREA transactions in real-time, perform historic and prospective risk analyses, and provide portfolio reporting and monitoring, independently of dealers, consultants and counterparties; and

6. The Swap Advisor shall be subject to restrictions on certain political contributions imposed by the CFTC, the SEC, or a self-regulatory organization that is subject to the jurisdiction of the CFTC or the SEC.

Obligations of the Swap Advisor

The City and its Swap Advisor shall enter into a written contract pursuant to which the Swap Advisor shall (i) undertake a fiduciary duty to act in the best interests of the City, (ii) agree to make appropriate and timely disclosures to the City of all material conflicts of interest that could reasonably affect the judgment or decision making of the Swap Advisor with respect to its obligations to the City, (iii) agree to develop and comply with written policies and procedures reasonably designed to manage and mitigate such material conflicts of interest and (iv) evaluate, consistent with any guidelines provided by the City, fair pricing and appropriateness of the IREA and provide a written opinion that the terms and conditions of any IREA entered into reflect a fair market value as of the date of its execution. The contract between the City and its Swap Advisor shall also contain such terms and conditions as the Swap Advisor and the City shall mutually agree upon.

Without limiting the generality of the foregoing, in the event that the City is planning to execute a new derivatives transaction, the Swap Advisor will disclose to the City any potential conflicts of interest. This includes any compensation the Swap Advisor has received from a potential counterparty in the preceding 12 months and any business relationships the Swap Advisor has with any potential counterparty. Further, the Swap Advisor shall not receive any compensation from a counterparty related to a City derivative without prior written consent of the City.

Form and Content of Interest Rate Exchange Agreements

To the extent possible, the over-the-counter Interest Rate Exchange Agreements entered into by the City shall contain the terms and conditions set forth in the International Swap and Derivatives Association, Inc. (“ISDA”) Master Agreement, including any Schedules, Credit Support Annexes and Confirmations as these may be updated from time-to-time to reflect then-current legal requirements and best practices. The schedule should be modified to reflect specific legal requirements and business terms desired by the City. When possible, the City will negotiate the Master Agreement, Schedule, Credit Support Annex and confirmation with qualified counterparties in advance of a potential transaction to facilitate the use of IREAs in situations in which their use is desirable.

The City shall consider including provisions that permit it to assign its rights and obligations under the Interest Rate Exchange Agreement and to optionally terminate the agreement at its market value at any time. In general, the counterparty shall not have the right to assign or optionally terminate an agreement.

The City will monitor market conditions and regulatory developments to ensure that new or modified IREA documents reflect then-current requirements and best

practices, as appropriate. Additionally, the City will ensure all new ISDA documents will include then-current provisions related to Termination, Events of Default, Collateral Posting, and similar matters.

Events of Default

Events of default of a counterparty shall include the following:

1. Failure to make payments when due
2. Material breach of representations and warranties
3. Illegality
4. Failure to comply with provisions relating to credit ratings and rating downgrades
5. Failure to comply with any other provisions of the agreement after a specified notice period

Termination

The City will have the right to terminate the agreement upon an event of default or termination event caused by the counterparty. Upon such termination, the counterparty will be the defaulting party for purposes of calculating the termination payment owed.

If a counterparty's credit rating is downgraded below a specified threshold, the City may exercise a right to terminate the agreement prior to its scheduled termination date. The City will seek to require, whenever possible, that terminations triggered by a counterparty credit downgrade will occur on the side of the bid-offered spread which is most beneficial to the City, and which would allow the City to go back into the market to replace the downgraded party with another suitable counterparty at no out-of-pocket cost to the City.

Aspects of Risk Exposure Associated with IREA Contracts

Before entering into an Interest Rate Exchange Agreement, the City shall evaluate, with the assistance of its swap advisor, all the risks inherent in the transaction. These risks to be evaluated will include counterparty risk, termination risk, rollover risk, basis risk, and tax event risk.

The City 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 City's exposure through the use of sensitivity analyses showing reasonable worst case scenarios. The analyses should be based on all outstanding IREA transactions of the City. The City may also elect to take into account the exposure of the New York City Transitional Finance Authority and any

other related entities to a particular counterparty. The City may also take in to account investment, credit, liquidity and other exposures to potential counterparties in evaluating risks.

Standards and Procedures of Counterparty Selection

The City may enter into an Interest Rate Exchange Agreement authorized by Section 54.90.d of the Local Finance Law if (a) the counterparty thereto shall have a credit rating from at least one nationally recognized statistical rating agency that is within the two 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 unconditionally guaranteed by an entity with such credit ratings and (b) the counterparty has demonstrated experience in successfully executing Interest Rate Exchange Agreements. If after entering into an agreement the ratings of the counterparty or, if applicable, its guarantor are downgraded below the required ratings, 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 reasonably acceptable to the City meeting the rating requirements or (b) the counterparty (or guarantor) collateralizes the Interest Rate Exchange Agreement in accordance with the provisions set forth in this policy and in the Interest Rate Exchange Agreement.

The City may enter into an Interest Rate Exchange Agreement authorized by Section 54.90.c of the Local Finance Law if: (i) at least one of the counterparty's credit ratings is in the double-A rating category, or (ii) the payment obligations of the counterparty shall be unconditionally guaranteed by an entity with such a credit rating or (iii) at least one of the counterparty's ratings is in the single-A category and the counterparty provides collateral securing its obligations under the Interest Rate Exchange Agreement in accordance with the criteria set forth in this policy and the Interest Rate Exchange Agreement.

Provisions for Collateralization

Should 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, not satisfy the requirements set forth in "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 the principal and interest on which are guaranteed by, the United States of America or any agency thereof and such collateral shall be deposited with the City or an agent thereof. In the case of an Interest Rate Exchange Agreement entered into pursuant to Section 54.90.d of the Local Finance Law, such collateral shall have a net market value of at least 102% of the net market value of the agreement to the City.

The City will monitor ratings and net market values of IREAs so that if and when collateral posting requirements may be reasonably expected to be triggered, it can

establish a collateral account with the City's Fiscal Agent, enter into necessary agreements and establish procedures for collateral monitoring, management and reporting.

Long-Term Implications

In evaluating a particular transaction involving the use of Interest Rate Exchange Agreements, the City shall review the long-term implications associated with entering into Interest Rate Exchange Agreements, including costs of borrowing, historical interest rate trends, variable rate capacity, credit enhancement capacity, opportunities to refund related debt obligations, the relationship between swap and bond amortizations and other similar considerations.

Methods to be Used to Reflect Such Contracts in the City's Financial Statements

The City shall reflect the use of Interest Rate Exchange Agreements on its financial statements in accordance with Generally Accepted Accounting Principles.

Monitoring and Reporting

The City shall issue a quarterly report to the director of the budget of the State of New York, the chairs of the Senate Finance Committee and the Assembly Ways and Means Committee, and the State Comptroller on or before the 15th day of each month following the end of each quarter in which it enters into or continues to be a party to an Interest Rate Exchange Agreement (including for this purpose such agreements entered into pursuant to Section 54.90.c of the Local Finance Law), which shall list all such Interest Rate Exchange Agreements and shall include, but not be limited to, the following information for each such Agreement, to the extent applicable:

- (a) a description of the contract, including a summary of its terms and conditions, the notional amount, rates, maturity, the estimated market value of each agreement, and other provisions thereof and the method of procurement;
- (b) any amounts which were required to be paid and received, and any amounts which actually were paid and received thereunder;
- (c) any credit enhancement, liquidity facility or reserves associated therewith including an accounting of all costs and expenses incurred, whether or not in conjunction with the procurement of credit enhancement or liquidity facilities;
- (d) The full name, description and credit ratings of each counterparty or the applicable guarantor; and
- (e) an assessment of the counterparty risk, termination risk, and other risks associated therewith, which shall include the aggregate marked to market value for each counterparty and relative exposure compared to other counterparties and a calculation of the City's exposure for each counterparty.

Such report shall include a copy of this policy in the quarter after it is adopted or subsequently modified.

Policy Updates/Regulatory Matters

The City intends to comply with all regulatory requirements concerning IREAs that are applicable to the City as these requirements may be promulgated from time to time by the Commodities and Futures Trading Commission (“CFTC”), the Securities and Exchange Commission or other regulatory body with jurisdiction over the City’s IREAs. The CFTC is presently recognized as a regulatory body with authority over some aspects of City IREAs and the City will monitor and comply with applicable CFTC requirements. The City will periodically update its swap policy to reflect any changes and additions to relevant rules and regulations.