

**OFFICIAL MINUTES
OF THE
BOARD OF EDUCATION, DAYTON CITY SCHOOL DISTRICT**

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Ronald Lee

Jeffrey J. Mims Jr.

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Interim Superintendent of
Schools

Lori Ward
Deputy to the Superintendent

Stanley E. Lucas
Treasurer / Chief Financial
Officer

Student Senate Representative:

March 27, 2009

Special Meeting

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These Minutes approved APRIL 7, 2009, Dayton, Ohio

These Minutes published APRIL 8, 2009, Dayton, Ohio

**Board of Education, Dayton City School District
Dayton, Montgomery County, Ohio
March 27, 2009 – Special Meeting**

The Board of Education of the Dayton City School District convened in special session on Friday, March 27, 2009 at 7:35 a.m. in the Administration Building, 115 S. Ludlow Street, Dayton, Montgomery County, Ohio, with President Mims in the Chair.

March 24, 2009

SPECIAL MEETING

In accordance with Section 3313.16 of the Ohio Revised Code and File: BD of the Handbook of Policies, Rules & Regulations of the Board, I hereby call for a special meeting of the Board of Education of the Dayton City School District, Montgomery County, Ohio, to be held in the Administration Building, 5th Floor, 115 S. Ludlow St. Dayton, Ohio on Friday, March 27, 2009 at 7:30 a.m.

At this meeting the Board may choose to vote on recommendations from the superintendent and/or treasurer which may be presented for approval.

This meeting is in compliance with Section 121.22 (G) <5> and 121.22 (G) <1> of the Ohio Revised Code.

The media is being advised of this meeting in compliance with the Ohio Sunshine Law.

ROLL CALL

MEMBERS ANSWERING ROLL CALL: Isaacs, Lacey, Lee, Mims, Nerny, Taylor – 6
{SSR – Keith} - ABSENT

MEMBERS ABSENT: Thompson – 1

PLEDGE

Pledge of allegiance to the flag.

RESOLUTION TO ADOPT BOARD POLICY
(FIRST & SECOND READINGS)

RATIONALE:

In as much as the Board of Education is committed to the continued updating of its Policies, Rules and Regulations Manual and the committee, which was appointed, has been working toward that goal, the following are brought at this time for second reading in compliance with Board File.

NOW, THEREFORE, BE IT RESOLVED that the Board of Education of the Dayton City School District, Montgomery County, Ohio, hereby accepts and adopts the following policies which have been codified for inclusion in the Handbook of Policies, Rules and Regulations:

File: DFAA

INVESTMENT POLICY

Revised to provide guidance to the Board, superintendent and treasurer on interest rate swap transactions.

**Board of Education, Dayton City School District
Dayton, Montgomery County, Ohio
March 27, 2009 – Special Meeting**

See attachments for detailed copies of these regulations

It was moved by Ms. Thompson and seconded by Mr. Mims to accept the adoption of this policy.

AYES: Isaacs, Lacey, Lee, Mims, Nerny, Taylor – 6

NAYS: None - 0

Motion Carried.

ADJOURNMENT

There being no further business, it was moved by Ms. Thompson and seconded by Mr. Lacey to adjourn.

AYES: Isaacs, Lacey, Lee, Mims, Nerny, Taylor – 6

NAYS: None – 0

Motion Carried. Meeting adjourned at 7:50 a.m.

ATTEST:

Stanley E. Lucas, Treasurer / Chief Financial Officer

Jeffrey J. Mims, Jr., President

**RESOLUTION TO ADOPT BOARD POLICY
(FIRST AND SECOND READINGS)**

RATIONALE:

Inasmuch as the Board of Education is committed to the continued updating of its Policies, Rules and Regulations Manual and the committee, which was appointed, has been working toward that goal, the following are brought at this time for the first and second readings in compliance with Board File.

NOW, THEREFORE, BE IT RESOLVED that the Board of Education of the Dayton City School District, Montgomery County, Ohio, hereby accepts and adopts the following policies which have been codified for inclusion in the Handbook of Policies, Rules and Regulations:

FILE	TITLE	CHANGE	MOTION/ SECOND	YES/NO/ ABSTAIN
DFAA	Investment Policy	<i>Revised to provide guidance to the Board, superintendent and treasurer on interest rate swap transactions.</i>		

INTEREST RATE SWAP POLICY

PURPOSE

This Interest Rate Swap Policy (the "Policy") is intended to guide and direct the Treasurer, Superintendent and Board of Education as they, from time to time, consider swap or interest rate hedge programs. The Policy is intended to provide a framework for evaluation and discussion by the Board, the Board's Finance Committee, Treasurer, and Superintendent. When a proposed swap transaction is recommended by the Treasurer for consideration, such recommendation should clearly address the extent to which the proposal conforms to the Policy. Any provision of a proposal that is non-compliant should be identified and the rationale for waiving the policy should be presented so that the Board can make an informed decision.

BACKGROUND

The following are the general policies that the Dayton Public Schools (the "District") will follow to guide its utilization of interest rate swaps and related interest rate hedging products ("Swaps"). The District is authorized to enter into such financial arrangements under R.C. Section 9.98 and R.C. Chapter 133.

As contemplated by the Board, it is prudent for the District to monitor the interest rate markets and to explore the use of Swaps to assist the District in managing its interest rate risk or interest cost. A variety of financial instruments are available to the District as alternatives to traditional fixed or floating rate bonds. It is the policy of the District to use Swaps if, after verifying compliance with the Policy, the District reasonably expects to achieve one or more of the following goals:

1. Reduce exposure to changes in interest rates with respect to a particular borrowing; or
2. Better management of interest rate risk, taking into account the District's current and or reasonably expected asset/liability balance; or
3. A reasonably anticipated lower net cost of borrowing with respect to related debt obligations; or
4. Optimize capital structure; including scheduled debt service payments and/or fixed vs. variable rate allocations; or
5. Improve management of market exposure in advance of anticipated bond issuances (through the use of anticipatory hedging instruments); or
6. Reduce risk and increase financial flexibility for the District; or
7. Take advantage of changing market and credit conditions to the benefit of the District's overall debt and capital management profile.

In additions to all other requirements under the Code, the District shall, using any legal and financial professionals it deems appropriate, determine how each respective Swap accomplishes one or more of the foregoing purposes. In addition to the analysis of risks presented below, the District shall review long-term implications associated with entering into such Swaps, including costs of borrowing, historical interest rate trends, variable rate capacity, credit enhancement capacity, opportunities to refund related obligations and other similar considerations.

DEFINITIONS

“Counterparty” shall mean the party to an Interest Rate Agreement other than the District.

“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.

As stated above, the District shall obtain the advice of its independent financial advisor and independent swap advisor (“Advisors”) and shall analyze and determine how the Interest Rate Agreement is intended to accomplish one or more of the above purposes.

No Interest Rate Agreement shall be entered into unless such agreement relates to indebtedness of the District that is either outstanding or authorized at the time of the execution or effective date of the Interest Rate Agreement; nor shall any Interest Rate Agreement have a scheduled term that exceeds the term of the indebtedness to which the Interest Rate Agreement relates.

B. Procurement of Interest Rate Agreements.

The District 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 Advisors regarding the preferable course in the particular circumstances. Prior to entering into an Interest Rate Agreement, the District shall determine whether a proposed Counterparty would be acting as principal in the proposed transaction and, if not, shall specifically obtain the advice of its Advisors as to whether the capacity in which the proposed Counterparty is proposing to act will adversely affect the economic terms of the proposed transaction for the District. To provide safeguards on negotiated transactions, the District shall secure outside professional advice to assist in the process of structuring, documenting and pricing the transaction and determining the most appropriate term for the transaction, and to verify that a fair price was obtained.

C. Form of Documentation.

To document any Interest Rate Agreement, the District shall utilize the standard documentation prepared by the International Swaps and Derivatives Association, Inc. ("ISDA"), including the ISDA Master Agreement, Schedule to the ISDA Master Agreement, Confirmation and, when applicable, Credit Support Annex, with such modifications and supplements as the District deems necessary to accomplish the purposes of the Interest Rate Agreement, and the District 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 any other agreements to which the District is at the time already a party. An Interest Rate Agreement may specify that the laws of the State of New York shall apply to its interpretation other than with respect to the legal authority and power of the District to enter into the Interest Rate Agreement. Notwithstanding the foregoing, the District may approve other forms of documentation if, after obtaining the advice of bond counsel, the District determines that such other forms of documentation serve the best interests of the District. Regardless of the form of documentation, the District shall, in connection with its consideration of any proposed Interest Rate Agreement, obtain the advice of its bond counsel and Advisors regarding the proposed source or sources of payment for any obligations of the District 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 District (which may or may not be the same), which the District shall have determined to be consistent with applicable law and with the best interests of the District.

D. Risks Associated with Interest Rate Agreements.

The use of interest rate derivatives allows issuers to incorporate a great deal of flexibility with regard to both current and anticipated debt financings. Each derivative product has very different risks, advantages, and disadvantages and should be used only after careful consideration. Some of the risk factors that might influence consideration of a specific product and the District's plan to assess and monitor those risks follow.

Interest Rate Risk

Description: In general the District incurs interest rate risk in the bond market whenever it agrees to pay a fixed sum of money annually for debt obligations. The risk is that rates will be better, or lower, at a later time but the District will be unable to take advantage of the lower rates due to its previous obligations. Similar to any fixed income instrument, the value of an interest rate derivative also moves in relation to the level of current and projected benchmark interest rates. Generally speaking, interest rate risk with regard to a derivative is the economic impact of how the movement of these benchmark interest rates over time affects the market value of the derivative. For a transaction in which the District pays a fixed rate, the District should expect the value of the swap to increase in value to the District as interest rates rise and decrease as rates fall. The opposite is true for a transaction in which the District receives a fixed rate (synthetic floating rate debt, for example). The sensitivity to changes in interest rates is based on both the size and time to maturity of the transaction. The District is concerned with interest rate risk for debt that is to be fixed but is not yet locked in, for swaps that require the District to pay a floating

rate, or for fixed rate swaps that may indicate a positive mark-to-market and require the counterparty to make higher than current market payments.

Policy: The District will monitor the market value of each swap on at least a weekly basis with valuations to be provided by the counterparty on each transaction. Additionally, for transactions that require the District to pay a floating rate and transactions that are swapped to a fixed rate, the District will estimate, at least annually, the remaining potential interest payments of the swapped debt at the then current market rate and the trailing 12 month high rate. For purposes of these calculations, the actual bond rate, an estimate based on the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index, the Bond Buyer Municipal Note Index, or the London Interbank Offered Rate (LIBOR) may be used. SIFMA is an industry compilation of a benchmark for short-term, floating-rate, tax-exempt notes.

LIBOR is the rate of interest at which banks borrow funds, in marketable size, from other banks in the London interbank market. LIBOR, the most widely used benchmark or reference rate for short term taxable interest rates, is an international rate. LIBOR may be stated in various maturities such as 30 day, 90 day, and six month, and the relevant rate for this analysis should be chosen based on the underlying index on the swap or debt. LIBOR may be found in the Wall Street Journal, Bloomberg, and many other financial media outlets.

Basis Risk

Description: Basis risk refers to a mismatch between the interest rate received under the swap contract and the interest rate due on the District's underlying bonds. To the extent the rate received does not offset the obligation on the bonds, the swap will result in an under-hedged position. An over-hedged position may result if the index paid is greater than the obligation on the bonds. This mismatch occurs most frequently when the swap rate is based on an index that is similar, but not equal to the index on which the rate on the bonds is based. For example, many swaps for municipal issuers are based on a percent of a LIBOR designed to approximate a tax-exempt index (SIFMA). While SIFMA has historically traded between 65% and 70% of LIBOR, there have been times when the ratio has been much higher. In these instances, a percent of LIBOR swap will not pay enough to the issuer to offset the rate on the bonds. Conversely, when SIFMA trades at a level that is lower than the percent of LIBOR selected on the swap, payments made on the swap exceed the amount needed to offset the bond liability. Typically, floating to fixed swaps that introduce basis risk to the District will result in a lower fixed rate than those with no basis risk. If there is a fundamental shift in the market that permanently changes the way the swap performs relative to the bonds, the District may incur additional cost to adjust the swap to a level that eliminates the basis or incur the cost of the basis to maturity of the swap (see Tax Risk).

Policy: The Board shall not enter into transactions that involve basis risk that rely on historical relationships to achieve a desired economic result. In the event that the District enters into transactions that involve basis risk, the District will first review the historical data to determine a statistical range of values that may be used to evaluate the potential cash flow differential that could result from high, low, and normal relationships. These values, along with current market data, will be used as a basis to determine the relative value of assuming the basis risk inherent in

each respective transaction with appropriate budgetary safeguards incorporated into the District's financial projections. In all cases, the Board shall be fully apprised of the nature of the basis risk and the rationale for assuming such risk. The District will monitor the relationship between the swap index and the actual bond rate on a monthly basis and make adjustments to the estimated annual cash flow requirements as needed.

Termination Risk

Description: Termination risk is the risk that a swap could be terminated prior to the stated maturity leaving the District "exposed" to an unhedged position or in a position to make a payment to the counterparty. The District may terminate a swap for many reasons, most of which would presumably result in an economic gain for the District. Both the District and the counterparty, however, may terminate for reasons related to both credit and performance. If, for example, the District fails to make a payment on the swap, or in some cases, other debt of the District, the counterparty may enforce a remedy. This remedy may result in the District being required to post all or a portion of the remaining market value of the swap or the remaining market value is used to terminate the swap. The market value is exchanged at that time and no other payments are made. The termination payment is based on the market value of the swap and may be either an asset or liability to the District. The value may be considerable and could have a serious impact on the balance sheet and debt paying ability of the District. If the swap is terminated and the counterparty owes a payment to the District, the issuer may be in the position of an unsecured creditor.

Policy: The District will mitigate termination risk by selecting counterparties meeting the requirements of the Ohio Revised Code and evaluating the use of collateral agreements to capture market valuation prior to a default or other termination event. The District will monitor the market value of all swaps on a monthly basis. The District will monitor and comply with all covenants of its debt or other obligations that may trigger a termination event under each Interest Rate Agreement. Cross default provisions shall only apply to obligations secured by the same source of payments as the bonds or notes being hedged. The District will not enter into any agreement that requires the District to post collateral to mitigate credit exposure for the benefit of the counterparty.

Credit/Counterparty Risk

Description: Credit/Counterparty risk is the risk that the swap counterparty will not perform pursuant to the contract's terms. Under a fixed payer swap, for example, if the counterparty defaults, the District would be exposed to an unhedged variable rate bond position. If interest rates were higher at the time of the default, the District would be in a position to replace the old hedge at a new, potentially higher rate. The creditworthiness of a counterparty is indicated by its credit rating. Additional credit protection may be established through the use of rating and default thresholds as well as collateralization requirements below certain credit ratings (rating triggers).

Policy: The District will mitigate credit/counterparty risk by selecting counterparties meeting the requirements of the Swap Act and evaluating the use of collateral agreements to capture

market valuation prior to a default or other termination event. The District will monitor credit ratings, market values, collateral positions, ratings thresholds, and collateralization requirements of transactions with each counterparty on at least an annual basis and take remedies available under the respective Interest Rate Agreements that may be beneficial to the District.

Market Access Risk

Description: Market access risk refers to the inability to access the capital markets, renew a liquidity or credit facility, or otherwise borrow funds at the time the District requires access to funding.

Policy: The District will monitor and comply with all covenants of its debt, leases, installment purchase contracts, or other obligations and implement prudent debt management policies and procedures to maintain access to funding.

Tax Risk

Description: Tax risk is a form of basis risk associated with a fundamental shift in the valuation of tax-exempt bonds and swaps due to a change in the Internal Revenue Code of 1986, as amended, (the "Code"). This change in value may be the result of elimination or the reduction of the income tax rates for purchasers of tax-exempt bonds. In each case, the benefit to the purchaser of the bonds is either eliminated or reduced, thus increasing the required rate of return to restore market equilibrium between taxable investments and tax-exempt investments. The District may realize a potential economic benefit by choosing to enter into transactions that shift the tax risk from the counterparty to the District. As discussed in the Basis Risk section, the rate on a swap (LIBOR based) that retains tax risk is lower than a tax-exempt swap (SIFMA) that may eliminate tax risk. If there is a shift in the Code (lower tax rates), the rate paid on the swap will likely not be sufficient to offset the increased cost of the floating rate debt.

Policy: In the event that the District enters into transactions that involve tax risk, the District will first review the historical data to determine a statistical range of values that may be used to evaluate the potential cash flow differential that could result from high, low, and normal relationships. These values, along with current market data, will be used as a basis to determine the relative value of assuming the tax risk inherent in each respective transaction with appropriate budgetary safeguards incorporated into the District's financial projections. The District will monitor the relationship between the swap index and the actual bond rate on a monthly basis and make adjustments to the estimated annual cash flow requirements as needed.

Rollover Risk

Description: Rollover Risk is the potential that the District may need to find a replacement counterparty as part of an overall plan of finance if an interest rate swap does not extend to the final maturity of the underlying debt.

Policy: The District will minimize Rollover risk by not relying on the execution of future swap agreements to achieve the District's financing objectives. The Treasurer shall determine the

appropriate term for an Interest Rate Agreement on a case-by-case basis. The slope of the yield curve, the marginal change in swap rates from year to year along the curve, and the impact that the term of the swap has on the overall exposure to a counterparty shall be considered in determining the appropriate term of any Interest Rate Agreement. In connection with the issuance or carrying of obligations, the term of an Interest Rate Agreement between the District and a counterparty shall not exceed the latest maturity date of the bonds or notes referenced in the Interest Rate Agreement.

Risk Summary

Prior to entering into an Interest Rate Agreement, the District shall obtain the advice of its Advisors regarding the risks associated with entering into the Interest Rate Agreement, including those discussed above. The District shall consider the identified risks in determining whether the potential benefits offered by the Interest Rate Agreement justify the District's assuming its inherent risks. The District shall also consider the likely or potential repercussions from a proposed Interest Rate Agreement for the ratings on any of the District's outstanding or proposed debt obligations. With specific regard to any provision of any Interest Rate Agreement that may cause a reduction in the rating assigned to any outstanding debt obligations of the District by a rating agency to be a termination event with a potential accompanying termination payment by the District, the Interest Rate Agreement shall afford the District the right to discharge its obligation to make such a termination payment by specified means that may include the provision of additional credit enhancement or collateral. Unless the District is advised by its Advisors in a particular transaction that doing so would not be economically beneficial to the District, the District shall cause any Interest Rate Agreement that it enters into to allow the District to terminate the Interest Rate Agreement at its discretion at any time upon payment or receipt, as the case may be, of a termination payment based upon the then current market value of the District's rights and obligations under the Interest Rate Agreement.

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 District 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 cash or 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 the termination value of the Interest Rate Agreement, and each category of eligible collateral shall have a value equal at least to the following percentage of the amount of the termination value for which it serves as collateral

Cash : 100% (if valued daily; if weekly, then 102%)

- Direct obligations of the United States: 102%
- Obligations of agencies of the United States: 105%

If collateral is required, the District shall designate a custodian bank independent of the Counterparty to hold such collateral on behalf of the District, and the District 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 District shall have approved for the particular Interest Rate Agreement, based on the advice of its Advisors. In addition to meeting the foregoing rating requirements, each Counterparty shall have demonstrated to the reasonable satisfaction of the District and its Advisors that it has a record of successfully executing Interest Rate Agreements of the sort that the District is proposing to enter into with that Counterparty.

F. Credit Enhancement, Liquidity and Reserves.

The Policy does 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 District 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 Policy does not preclude such arrangements or requirements if the District approves them for a particular Interest Rate Agreement based upon the advice of its Advisors.

G. Financial Statement Reporting.

The District 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 District with at least weekly 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 District shall establish and maintain a process for monitoring and reviewing the valuations required by this Policy.

I. Application and Source of Payments:

If the District receives a non-periodic payment in connection with entering into or performing under an Interest Rate Agreement, including any termination payment, the District shall consult with its bond counsel as to whether there are any restrictions on the application or investment of such payment under the laws of the State of Ohio, the Code (with regard to tax-exempt debt) or other agreements to which the District is a party. If the District 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.

GLOSSARY OF TERMS

CREDIT SUPPORT ANNEX - Covers the mutual posting of collateral, if required under the ISDA, to cover exposures of the counterparties to one another based on the net mark-to-market values of all Swaps under the agreement.

THE CONFIRMATION - is executed for a specific derivative transaction and details the specific terms and conditions applicable to that transaction (fixed rate, floating rate index, payment dates, calculation methodology, amortization, maturity date, etc.).

COUNTERPARTY - A principal to a Swap or other derivative instrument, as opposed to an agent such as a broker.

HEDGE - A position taken in order to offset the risk associated with some other position. Most often, the initial position is a cash position and the hedge position involves a risk-management instrument such as a Swap.

INTEREST RATE CAP - An instrument that pays off on each settlement date based on the market value of a reference rate (i.e. BMA or LIBOR) and a specified contract rate; effectively establishes a maximum on a variable rate.

INTEREST RATE FLOOR - An instrument that pays off on each settlement date based on the market value of a reference rate (i.e. BMA or LIBOR) and a specified contract rate; effectively establishes a minimum on a variable rate.

INTEREST RATE SWAP - An interest rate Swap is a contract between two parties to exchange cash flows over a predetermined length of time. Cash flows are typically calculated periodically based on a fixed or variable interest rate against a set "notional" amount (amount used only for calculation of interest payments). Principal is not exchanged.

ISDA - The International Swaps and Derivatives Association. The global trade association whose members are dealers in the derivatives industry. Most Swap transactions are traded under standard documentation created by ISDA.

ISDA MASTER AGREEMENT - The primary document for the terms and conditions governing the Swaps market. The ISDA Master Agreement contains the terms for events of default, termination events, representations and covenants, early termination provisions and payment calculations.

LIBOR - The London Inter-Bank Offered Rate. The interest rate that the banks charge each other for loans (usually in Eurodollars). This rate is applicable to the short-term international inter-bank market, and applies to very large loans borrowed for anywhere from one day to five years. The LIBOR is officially fixed once a day by a small group of large London banks, but the rate changes throughout the day.

NOTIONAL AMOUNT - The stipulated principal amount for a Swap transaction. There is no transfer of ownership in the principal for a Swap; but there is an exchange in the cash flows for the designated coupons.

SCHEDULE TO THE ISDA MASTER AGREEMENT - specifies what options for the various terms in the Master Agreement have been selected to govern the derivative transactions executed under the agreement.

SWAPTION - A swaption is an option on a Swap. The swaption purchaser has the right to enter a specific Swap for a defined period of time. This option can be exercised on a specific exercise date or series of exercise dates. It usually requires a payment by the party receiving the option.

SWAP CURVE - The name given to the Swap's equivalent of a yield curve. The Swap curve identifies the relationship between Swap rates at varying maturities. Used in similar manner as a bond yield curve, the Swap curve helps to identify different characteristics of the Swap rate versus time.

[Adoption date:]

