	Interest Rate Swap Policy
	History: Approved by the Colorado School of Mines Board of Trustees, October 24, 2008

1.0 STATEMENT OF AUTHORITY AND PURPOSE

This policy is promulgated by the Board of Trustees pursuant to the authority conferred upon it by §23-41-104(1), C.R.S. (2008), to set forth a policy governing the use by the School of interest rate swap transactions for the purpose of either reducing the cost of existing or planned debt, or to hedge the interest rate of existing or planned debt. By using swaps in a prudent manner, the School can take advantage of market opportunities to reduce costs and reduce interest rate risk. The use of swaps must be tied directly to School debt instruments, and the School shall not enter into swap transactions for speculative purposes. This policy shall supersede any previously promulgated CSM policy that is in conflict herewith.

2.0 LEGALITY/APPROVAL

To enter into a Master Swap Agreement (which governs each swap transaction), the School must receive approval from the President, Finance and Audit Committee of the Board and the Board of Trustees. The School must also receive an opinion from bond counsel that the agreement relating to the swap transaction is a legal, valid, and binding obligation of the School and that entering into the transaction complies with applicable State and federal laws.

3.0 FORM OF AGREEMENTS

Each new Master Swap Agreement shall contain terms and conditions as set forth in the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, as amended, and such other terms and conditions including schedules and confirmations as deemed necessary by an Authorized Representative.

4.0 METHODS OF PROCURING SWAPS

Swaps can be procured via competitive bids or on a negotiated basis

4.1 Competitive

The competitive bid should include a minimum of three firms with counterparty credit ratings of ‘A’ or ‘A2’ or better from Standard & Poor’s or Moody’s, respectively.

4.2 Negotiated

Swaps may be procured by negotiated methods if a determination is made that due to the complexity of a particular transaction, a negotiated bid would result in the most favorable pricing.

5.0 MANAGEMENT OF SWAP TRANSACTION RISK

Certain risks are created when the School enters into any swap transaction. In order to manage the associated risks, guidelines and parameters for each risk category follow.

5.1 Value Owned by Counterparty

To limit and diversify the School's counterparty risk and to monitor credit exposure to each counterparty, the School may not enter into a swap transaction with an otherwise qualified counterparty unless the cumulative mark-to-market value owed by the counterparty (and its unconditional guarantor, if applicable) to the School shall be less than or equal to $10 million.

5.2 Calculation of Value Owned

The $10 million limitation shall be the sum of all mark-to market values between the subject counterparty and the School regardless of the type of swap transaction, net of collateral posted by the counterparty. Collateral will consist of cash, U. S. Treasury securities, and Federal Agency securities guaranteed unconditionally by the full faith and credit of the U. S. Government. Collateral shall be deposited with a third party trustee acceptable to School or as mutually agreed upon between School and each counterparty.

5.3 Limits Based on Credit Rating

Specific limits by counterparty are based on the cumulative mark-to-market value of the swap(s) and the credit rating of the counterparty. The limits are as follows:

(a) Aaa/AAA; $10 million
(b) Aa1/AA+; $9 million
(c) Aa2/AA; $8 million
(d) Aa3/AA-; $7 million
(e) A1/A+; $6 million
(f) A2/A; $5 million

The School will not accept a counterparty with a rating of less than A2/A.

5.4 Downgraded Rating

If counterparty's credit rating is downgraded such that the cumulative mark-to-market value of all swaps between counterparty and the School exceeds the maximum permitted by this policy, the counterparty must terminate a portion of the swap, post collateral, or provide other credit enhancement that is satisfactory to the School and ensures compliance with this policy.

6.0 RISKS CONSIDERED PRIOR TO IMPLEMENTATION OF SWAP TRANSACTION

When implementing an interest rate swap transaction, the School shall consider the following risks possible to swap transactions:

6.1 Termination Risk

The School shall consider the merits of including a provision that permits it to optionally terminate a swap agreement at any time over the term of the agreement (elective termination right). In general, exercising the right to optionally terminate an agreement should produce a benefit to the School, either through receipt of a payment from a termination, or if a termination payment is made by the School, a conversion to a more beneficial debt instrument or credit relationship. If no other remedies are available, it is possible that a termination payment by the School may be required in the event of termination of a swap agreement due to a counterparty default or following a decrease in credit rating.

6.2 Amortization Risk

The amortization schedules of the debt and associated swap transaction should be closely matched for the duration of the swap. Mismatched amortization schedules can result in a less than satisfactory hedge and create unnecessary risk. In no circumstance may the term of a swap transaction extend beyond the final maturity date of the affected debt instrument, or in the case of a refunding transaction, beyond the final maturity date of the refunding bonds.

6.3 Basis Index Risk

Basis risk arises as a result of movement in the underlying variable rate indices that may not be in tandem, creating a cost differential that could result in a net cash outflow from the School. Basis risk can also result from the use of floating, but different, indices. To mitigate basis risk, any index used as part of an interest rate swap agreement shall be a recognized market index, including but not limited to the Securities Industry and Financial Markets Association (SIFMA) or the London Interbank Offered Rate (LIBOR).

6.4 Tax Risk

Tax risk is the risk that tax laws will change, resulting in a change in the marginal tax rates on swaps and their underlying assets. Tax risk is also present in all tax-exempt debt issuances. Finance and Administration will need to understand and document tax risk for a contemplated swap transaction as part of the approval process.

7.0 APPENDIX A – DEFINITIONS

Counterparty – a participant in a swap or other derivatives agreement who exchanges payments based on interest rates or other criteria with another counterparty.

Counterparty Long-Term Debt Rating – lowest prevailing rating from Standard & Poor's / Moody's maximum cumulative mark-to-market value of swaps owed to School by counterparty (net of collateral posted).

Hedge – a transaction entered into to reduce exposure to market fluctuations.

Interest Rate Swap – a transaction in which two parties agree to exchange future net cash flows based on predetermined interest rate indices calculated on an agreed notional amount. The swap is not a debt instrument and there is no exchange of principal.

ISDA Master Agreement – the International Swaps and Derivatives Association, Inc, is the global trade association for the derivatives industry. The ISDA Master Agreement is the basic governing document that serves as a framework for all interest rate swap, swap enhancement, and derivative transactions between two counterparties. It is a standard form used throughout the industry.

London Interbank Offered Rate (LIBOR) – the rate of interest at which banks borrow funds from other banks in the London interbank market. It is a commonly used benchmark for interest rate transactions ranging from one month to one year.

Mark-to-Market – calculation of the value of a financial instrument (like an interest rate swap) based on the current market rates or prices of the underlying indices.

Master Resolution – the Master Resolution Establishing The Board of Trustees of the Colorado School of Mines System Enterprise Revenue Bonds, adopted on August 24, 2007 and each supplemental resolution thereto authorizing parity debt.

Notional Amount – the size of the interest rate swap and the dollar amount used to calculate interest payments.

SIFMA Index – the Securities Industry and Financial Markets Association, the principal benchmark for the floating rate payments for tax-exempt issuers. The index is a national rate based on a market basket of high-grade, seven-day, tax-exempt variable rate bond issues.