

THE BOARD OF REGENTS OF THE UNIVERSITY OF HOUSTON SYSTEM

DEBT POLICY As of August 23, 2023

Purpose

This policy governs the use of debt to finance capital projects within The University of Houston System (System). The prudent use of debt can help the System achieve its strategic objectives while maintaining a credit rating that appropriately balances financial flexibility with cost of capital. As provided in the Texas Education Code, the Board of Regents may establish a systemwide revenue financing program.

Financing Programs

The System issues debt through two primary programs: the Consolidated Revenue Financing Program (CRFP) and the Higher Education Fund (HEF). This policy will govern the issuance of all System debt.

Consolidated Revenue Financing Program (CRFP) – This program was created by the Board of Regents of The University of Houston System (Board) through the adoption of a Master Resolution on April 15, 1990. The Board established this program for the System for the purpose of assembling the System’s revenue-supported debt capacity into a single financing program in order to provide a cost-effective debt program to component institutions of the System and to maximize the financing options available to the Board.

Higher Education Fund (HEF) - Article VII, Section 17 of the Texas Constitution authorizes the Board to issue bonds and notes secured by pledged revenues consisting of up to 50% of the money allocated annually to the Board. Bonds issued under this authority are typically referred to as HEF bonds or constitutional appropriation bonds. The proceeds from the sale of HEF bonds or notes may only be used to finance eligible projects as described in Article VII, Section 17 of the Texas Constitution including (i) acquiring land, constructing and equipping permanent improvements, major repair and rehabilitation of permanent improvements, acquiring capital equipment, library books and library materials, and refunding previously issued HEF indebtedness; and (ii) major repair and rehabilitation of leased buildings or other permanent improvements, provided there is clean and adequate consideration to the System in the overall transaction, such as the existence of a lease of sufficient length to provide expected benefits which would justify the expenditure. The Texas Constitution prohibits the issuance of HEF debt for maintenance, minor repairs, operating expenses, student housing, intercollegiate athletics, or auxiliary projects, except to the extent of a project’s use for educational and general activities. HEF bonds and notes must be competitively bid and may not be issued for more than 10 years.

Authority

All debt incurred by the System will be issued or incurred pursuant to resolutions approved by the Board and in accordance with the general laws of the State of Texas, including particularly Article VII, Sections 17 of the Texas Constitution, Chapter 55 of the *Texas Education Code*, and Chapters 1207 and 1371 of the *Texas Government Code*.

Before any debt can be issued, the System must obtain an opinion from nationally recognized bond counsel to the effect that the debt is a valid and legally binding obligation of the issuer, payable from the security described therein.

The System must also receive the necessary approval from the Texas Bond Review Board, as applicable, and the approving opinion of the Texas Attorney General.

Goals

The System seeks to manage its debt within its overall financial profile as follows:

- Strategically allocate the System's debt capacity to those projects identified as priority projects that are critical to the mission and that advance the strategic objectives of the System.
- Align the financial position of the System consistent with a targeted long-term bond rating in the "Aa2/AA" category in order to obtain favorable cost of capital, flexibility, and terms.

Debt Guidelines

Any debt must be issued in strict compliance with applicable law. The following debt guidelines will apply:

Project Funding - The System will borrow money, through the issuance of long-term debt, to finance only those projects that have been approved for financing by the Board. Capital projects are generally evaluated and prioritized through the System's Capital Improvement Program. For construction projects that require debt financing, bond proceeds will be provided only after the project's site, program and budget has been approved by the Board. Short-term financing may be issued to support the programming and design costs of a project prior to the availability of bond proceeds.

Interest Rate Exposure - The Treasurer will evaluate and recommend to the Senior Vice Chancellor for Administration and Finance the appropriate amount of its interest rate exposure, defined as the possible increase in capital costs resulting from rising short-term interest rates, associated with variable rate debt. The System will limit its variable rate debt in accordance with rating agency guidelines for assessing the debt structure of peer institutions of higher education with comparable credit ratings. In determining the amount of variable rate debt, the Treasurer will evaluate the level of variable rate assets that may be available to provide a natural hedge to interest rate fluctuations. The System will seek to minimize its cost of capital within a prudent level of exposure to interest rate volatility.

Amortization - The amortization of tax-exempt and taxable debt will be based on the types of assets financed, the expected availability of cash flows to meet debt service requirements, tax regulations, and the Financing program. Generally, the amortization of tax-exempt and taxable debt should not exceed the useful life of the financed asset and, as relates to tax-exempt debt, may never exceed the Internal Revenue Service limit of 120% of the useful life of the financed asset.

- CRFP: The maximum maturity of CRFP debt is limited to 30 years from the projected completion of the projects being financed.
- HEF: The maximum maturity of HEF debt is limited to 10 years by Article VII, Section 17 of the Texas Constitution.

Financial Ratios – In evaluating its debt capacity and affordability, the System will consider current debt levels, future debt financings, and the goal to at least maintain its short term and long term credit ratings.

The System Treasurer’s Office will annually calculate and benchmark the financial ratios used by the Nationally Recognized Statistical Ratings Organization to ensure the System is operating within metrics comparable to institutions within the same long term credit rating . These ratios are calculated with and without consideration of the effect of state appropriations for Capital Construction Assistance Project (CCAP) bond issuances. Ratio trends and benchmarks will be compiled in summary format and provided to the System Senior Vice Chancellor for Administration and Finance.

Debt Financing Resources - Debt coverage is defined as Net Operating Income divided by Maximum Annual Debt Service.

Individual, non-gift, revenue streams considered for proposed debt service must meet a minimum 1.15 debt coverage ratio test, unless the debt service is supported by the State of Texas pursuant to the CCAP program. In such case, the debt coverage ratio requirement is 1.00 times. Capital projects funded by gift pledges cannot be considered for debt financing until signed pledge agreements and/or cash on hand is at least 75% of the total project cost. The costs of borrowing will be addressed in the project pro-forma. Pledges are preferred to be paid within 5 years but may be for no longer than 10 years. Pledges received in excess of debt service requirements will first be used to cover unfunded portions of the project and then retained for future debt service needs.

Annually, all units with revenue funded debt financing (including gift financed), will remit their current 10-year proforma to the System Treasurer’s Office. Pro-forma financial reports will be compiled in summary format, including revenue shortfalls and unit action plans, and provided to the System Senior Vice Chancellor for Administration and Finance.

Economies of Scale - Debt financings will be coordinated to the extent practical so that multiple project needs can be accommodated in a single borrowing, thereby increasing the efficiency of the debt issuance. Since many issuance costs do not vary with the size of a borrowing, a large bond issue increases the efficiency of the financing by spreading fixed costs over a greater number of projects.

Method of Sale – The System Senior Vice Chancellor for Administration and Finance shall determine the method of sale of bonds to be either competitive, negotiated or private placement. Generally, a competitive sale is the preferred method of sale but the other options may be appropriate because of project specifics or market conditions.

Refunding Opportunities - The Treasurer will consider refinancing of outstanding debt issues when net savings for that refinancing measured on a net present value basis are positive. As tax exempt refunding allows for a maximum of 90 days escrow, it is important to use refinancing opportunities wisely. In evaluating refunding opportunities, the Treasurer will consider the value of the call option to be exercised, including the amount of time to the call date and the amount of time from the call date to maturity. The System will generally use 4% to 5% net present value savings as its minimum threshold for determining the viability of a refunding under consideration. Refundings that do not produce savings or meet the minimum net present value savings threshold may be considered under certain circumstances, such as eliminating restrictive bond covenants or other situations that produce a greater benefit to the System.

Disclosure - The Treasurer will provide updated financial information and operating data and timely notice of specified material events to EMMA, pursuant to the System's continuing disclosure undertakings with respect to Rule 15c2-12 promulgated by the Securities and Exchange Commission.

Tax Compliance - The Office of the Treasurer will monitor the System's ongoing responsibilities for tax compliance including monitoring funds for yield restriction and arbitrage rebate calculations. The Office will ensure that arbitrage is timely calculated and remitted to the US Government as applicable in accordance with the Internal Revenue Code. Additionally, the Office of the Treasurer will monitor private use of any tax-exempt financed facilities, including contracts with private corporations or Federal or corporate sponsored research, and report to the Senior Vice Chancellor for Administration and Finance whenever private use of any bond issuance reaches 7% or greater.

Hedging Instruments - The Treasurer will consider and recommend to the Senior Vice Chancellor for Administration and Finance the use of interest rate swaps and other interest rate risk management tools after carefully evaluating the risks and benefits of any proposed transaction in accordance with the System's Interest Rate Swap Policy (see Appendix A). By using swaps in a prudent manner, the System may be able to take advantage of market opportunities to minimize expected costs and manage interest rate risk. As outlined in the System's Interest Rate Swap Policy, the use of swaps must be tied directly to System debt instruments. The System will not enter into swap transactions for speculative purposes.

Project Financing - The Treasurer will consider and recommend to the Senior Vice Chancellor for Administration and Finance the use of project financing in those limited circumstances where the benefits of such a transaction exceed the increased costs. Project financing can be a useful financing technique in certain circumstances; however, these transactions are typically less efficient and more costly than traditional financing due to lower credit ratings, fewer economies of scale, the likely covenant to establish a reserve fund, and the cost of bond

insurance. Project financing does not necessarily preserve or increase debt capacity relative to traditional financing. The Nationally Recognized Statistical Ratings Organizations and the System include project debt when assessing the System's debt capacity. The amount of such debt to include in the System's debt capacity assessment will depend on various considerations as outlined by the Nationally Recognized Statistical Ratings Organizations.

Taxable Debt - The System may use taxable debt for those projects that have an intended use or other characteristics that preclude the use of tax-exempt debt. The System will strive to allocate its available resources, including equity capital, among its various capital projects to minimize or eliminate the need to issue taxable debt, thereby minimizing the System's cost of capital. Any use of taxable debt will be identified during Board approval and be subject to the same statutory requirements as tax-exempt debt.

Reporting Requirements - The Results of Financial Operations Report, which is based on Annual Financial Report (AFR) and budgetary information is prepared by the System and presented to the Board, and will present the total outstanding bond and note indebtedness.

Commercial Paper – The System's commercial paper program is a short-term debt program used principally to provide interim financing for capital projects during construction. Commercial Paper issuances may not exceed the aggregate principal amount authorized by the Board. The maximum amount of commercial paper that can mature in any single business day is \$20 million, and the maximum amount of commercial paper that can mature in any five consecutive business days is \$40 million, unless scheduled for repayment via the issuance of long term debt. The Senior Vice Chancellor for Administration and Finance will prioritize requests for the use of commercial paper.

The System Office of the Treasurer is responsible for monitoring and reporting on the issuance of commercial paper, including rollover and payment of interest. Commercial Paper cannot be issued beyond the end of the next fiscal year unless there is an approved financing plan in place with the System Office of the Treasurer. The System Senior Vice Chancellor for Administration and Finance must approve all such financing plans. The commercial paper will be refinanced through the issuance of long term debt. The System will be responsible for making timely payments to the paying agent as required by the commercial paper dealer in accordance with the related resolution.

The conversion of commercial paper notes to long-term indebtedness will be approved by the Board. The long term debt will be amortized and paid to the System as directed by the System. The System will be responsible for making timely payments to the paying agent as required by the related bond resolution and paying agent agreement.

Failed Remarketing Procedures – The Failed Remarketing Plan procedures, as provided in Exhibit A, will be administered by the Treasurer in the event of a failed remarketing of commercial paper or variable rate demand bonds, as applicable.

Compliance – The System shall have appropriate procedures related to tax exempt commercial paper and bond compliance, including issuance, expenditure of proceeds, and post-issuance

compliance consistent with regulations and statutes. The Senior Vice Chancellor for Administration and Finance, or delegated representative of the System, is responsible for ensuring that all bond covenants are in compliance and that all necessary approvals, certifications and authorizations are fully documented.

The System Office of the Treasurer and The Office of the General Counsel will identify appropriate System staff and ensure that they receive training on compliance with policy and IRS regulations regarding debt financing.

Miscellaneous

- A. The Senior Vice Chancellor for Administration and Finance is delegated the authority to designate a financing team consisting of System staff, bond counsel, financial advisor and underwriters. The Chair of the Finance and Administration Committee and the Vice Chair of the Board of Regents are authorized to price bond issues.
 - B. The Treasurer will take steps to effect the timely transfer of System funds for debt service payments and ensure that all payments are made.
 - C. Debt service funding is the responsibility of each System component participating in the Consolidated Revenue Financing Program and the Higher Education Fund Program.
 - D. The Treasurer or Designated Financial Officer is authorized and directed to execute Reimbursement Certificates as required by U.S. Treasury Regulations, Section 1.150-2, in connection with projects the Board intends to debt finance.
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Appendix A – Master Swap Policy

1. The System

Texas Education Code chapter 55 and Texas Government Code chapter 1371 authorize the System to enter into interest rate swap transactions and related agreements (each a “Swap Agreement”, and collectively the “Swap Agreements”) with one or more counterparties (each a “Swap Counterparty”, and collectively the “Swap Counterparties”). By resolution (a “Swap Resolution”), the Board of Regents (the “Board”) of the University of Houston System (the “System”), may authorize on a case-by-case basis one or more Swap Agreements on behalf of the System.

Each Swap Resolution must authorize the Swap Agreements and their major provisions in substantially final form, including the notional amount of the Swap Agreements, security for and terms of payment of the Swap Agreements, and qualified Swap Counterparties. Each Swap Resolution must specify the appropriate System official or officials (the “System Authorized Representative”) authorized to modify and complete the Swap Agreements, and specify the parameters for modification and final acceptance of the Swap Agreements. If the Swap Resolution and the Master Swap Policy conflict, then terms and conditions of the Swap Resolution control.

2. Purpose

The purpose of the Policy is to establish responsibilities, objectives, and guidelines for the approval, execution and maintenance of Swap Agreements used to manage the debt portfolio of the System. A Swap Agreement may be an integral part of the System’s asset/liability and debt management strategy. By using Swap Agreements, the System may be able to take advantage of market opportunities which reduce the costs of existing or planned Consolidated Revenue Financing Program (CRFP) debt or allow the System to hedge the interest rate of existing or planned CRFP debt. Swap Agreements can allow the System to actively manage asset and liability interest rate risk, balance financial risk, and achieve debt management goals and objectives through synthetic fixed rate and variable rate financing structures. The System will not enter into Swap Agreements for speculative purposes.

3. General Guidelines for Interest Rate Swap Agreements

The following are guidelines the System will follow in the evaluation and recommendation of Swap Agreements:

3.1. Legality

Each Swap Agreement must comply with Texas and federal law, and must not conflict with the material provisions and covenants of existing System resolutions, indentures or contracts. Each Swap Agreement governing a Swap transaction must be: 1) approved by the Board by a Swap Resolution; 2) approved by the Texas Attorney General in accordance with Texas Government Code chapter 1371; 3) accompanied upon delivery by an opinion acceptable to a System

Authorized Representative from nationally recognized bond counsel to the effect that the Swap Agreement is a legal, valid, and binding obligation entered into by the System in accordance with applicable State and federal laws.

3.2. Goals

The Swap Resolution should clearly state the goals to be achieved through the use of any Swap Agreements and any Swap Agreement execution parameters should be consistent with the System's stated goals.

3.3. Nationally Recognized Statistical Ratings Organizations

Execution of a Swap Agreement may not adversely impact any existing System credit rating without express consent of the Board. A contemplated Swap Agreement must conform to and may not conflict with the System's outstanding commitments or agreements with bond insurers, credit enhancers, surety providers and the System's liquidity requirements related to outstanding debt.

3.4. Term

The System will determine on a case-by-case basis the appropriate term for a Swap Agreement. However, the term of a Swap Agreement entered into for liability management purposes may not extend beyond the final maturity date of the underlying debt.

3.5. Impact on Variable Rate Capacity

The impact of a Swap Agreement on the System's variable rate debt exposure and the impact on the System's continued issuance of traditional variable rate products should be assessed before execution of any Swap Agreement. The Treasurer, with input from the System's financial advisor, will estimate the amount of basis risk and optional termination risk associated with a Swap Agreement (taking into account such risk from existing Swap Agreements) and include the estimate in the calculation of the System's total variable rate exposure.

3.6. Enhancements

If authorized by Texas law, the System may utilize other swap enhancement products, including but not limited to forward starting swaps, swap options, basis swaps, caps, floors, collars, and cancellation options, provided that such products are approved in accordance with Section 7 – Form of Swap Agreements and Other Documentation. The costs, benefits, and other matters regarding the swap enhancement should be considered during the approval process. Execution of swap option agreements in which the System receives up-front cash are prohibited.

3.7. Accounting Compliance

The impact of compliance with prevailing accounting principles must be disclosed in the System's annual financial reports.

3.8. Exit Strategy

The mechanics for determining termination values at various times and upon various occurrences must be explicit in each Swap Agreement. The potential termination costs should be considered before recommending to the Board approval of a Swap Resolution.

4. **Basis of Award**

4.1. Competitive Bid

Competitively bid Swap Agreements are deemed "quasi-competitive" and must include bona fide solicitations for bids from no fewer than three firms. Solicitations for bids must be made only to potential Swap Counterparties who are qualified under the terms of this policy.

4.2. Negotiated Transactions

In the case of a purely negotiated transaction, the System should obtain a "fair value opinion" from a swap advisor selected by the System that is regulated by the Securities and Exchange Commission and the Municipal Securities Rulemaking Board, which may be the System's financial advisor (the "Swap Advisor"). The Swap Counterparty must disclose payments to third parties regarding the execution of any derivative contract.

A System Authorized Representative may procure a Swap Agreement by negotiation in the following situations, in each instance as authorized in the Swap Resolution:

- 4.2.1. The System Authorized Representative determines that due to the complexity of a particular transaction, a negotiated bid will result in the most favorable pricing.
- 4.2.2. A System Authorized Representative determines that, in light of the facts and circumstances, a negotiated transaction will promote the System's interests by encouraging and rewarding innovation.

5. **Management of Swap Agreement Transaction Risk**

Swap Agreements with numerous Counterparties create risks for the System. To manage the associated risks, the following risks and related guidelines and parameters must be considered for each Swap Agreement:

5.1. Counterparty Risk

Limiting the exposure caused by a concentration of Swap Agreements between the System and any single Swap Counterparty reduces losses which may result from a Swap Counterparty default. In addition, the System may require under the terms of a Swap

Agreement the posting of mark-to-market collateral by any Swap Counterparty, as requested by the System, in accordance with the guidelines described in Section 6.3 – Collateral Requirements.

5.2. Termination Risk

5.2.1. *Optional Termination:*

The System will retain the right to terminate a Swap Agreement at any time during the term of the Swap Agreement at the then-prevailing market value of the Swap Agreement. In general, exercising the right to optionally terminate a Swap Agreement should produce a benefit to the System, either through receipt of a payment from a termination, or if a termination payment is made by the System, through conversion to a more beneficial debt position. Termination value must be readily determinable by one or more independent Swap Counterparties, who may assume the System's obligations under the Swap Agreement. A Swap Counterparty shall not have the option to terminate the Swap Agreement.

5.2.2. *Mandatory Termination:*

A termination payment may be required if a Swap Agreement is terminated for any reason. It is the intent of the System to review all available options prior to effecting a termination or making any termination payment. At a minimum, prior to making any termination payment, the System must have sufficient time to determine whether it is financially advantageous to obtain a replacement Swap Counterparty.

5.3. Amortization Risk (Term)

The slope of the swap curve, the marginal change in swap rates from year to year along the swap curve, termination value, and the impact that the term of the Swap Agreement has on the overall risk exposure of the System should be considered in determining the appropriate term of any Swap Agreement. Any Swap Agreement designated as a hedge should reflect the amortization of the debt that it is hedging.

5.4. Liquidity Risk

The System should consider if the swap market is sufficiently liquid (i.e., if enough potential qualified Swap Counterparties participate actively in the market to assure fair pricing) for the type of Swap Agreement or other product being considered and the potential ramifications of an illiquid market for such types of Swap Agreements. There may not be another appropriate party available to act as an offsetting Swap Counterparty.

5.5. Basis (Index) Risk (including Tax Risk)

Any index chosen as part of a Swap Agreement must be a recognized market index, including but not limited to The Securities Industries and Financial Markets Association Municipal Swap Index (SIFMA) or London Interbank Offering Rate (LIBOR).

The System will not enter into Swap Agreements that do not have a direct (one to one) correlation with the movement of an index without analyzing the risk associated with the enhancement.

The tax risk and impact to the System of each Swap Agreement should be detailed through the Swap Counterparty disclosure requirements outlined in Section 7 – Form of Swap Agreements and Other Documentation.

5.6. Bankruptcy Risk

Bond or swap counsel will be specifically engaged to review for the System the legal issues arising from the bankruptcy of a Swap Counterparty under a Swap Agreement or other product. Specifically, such bond or swap counsel will be engaged to review for the System the bankruptcy issues associated with the method of holding any collateral required to be posted.

6. Counterparty Approval Guidelines

6.1. Eligibility

The System may enter into Swaps Agreements only with eligible Swap Counterparties. To qualify as a Swap Counterparty under this policy, at the time a Swap Agreement is executed by the System, a proposed Swap Counterparty (i) must be rated at least AA-/Aa3/AA- by at least two of the three Nationally Recognized Statistical Ratings Organizations (Standard & Poor's, Moody's, and Fitch Ratings, respectively) and must have a minimum capitalization of \$50 million, or (ii) must be rated at least BBB-/Baa3/BBB- by two of the three Nationally Recognized Statistical Ratings Organizations and provide a credit support annex ("CSA") to the schedule to the ISDA master agreement that requires such party to deliver to a third party under an escrow, collateral or similar agreement collateral for the benefit and security of the System (a) that is of a kind and in such amounts as are specified therein and which relate to various rating threshold levels of the Swap Counterparty or its guarantor, from AA-/Aa3/AA- through BBB-/Baa3/BBB-, (b) that, in the judgment of the System, is reasonable and customary for similar transactions, taking into account all aspects of such transaction including without limitation the economic terms of such transaction and the creditworthiness of the Swap Counterparty or, if applicable, its guarantor; and (c) complies with any security requirements applicable to the System under Texas law, or (iii) must obtain credit enhancement from a provider with respect to its obligations under the transaction that satisfies the requirements of clause (i) of this paragraph, given the undertaking involved with the particular transaction.

Before execution of the Swap Agreement by the System, the Swap Counterparty must make available audited financial statements and rating and credit reports of the Swap Counterparty

(and any guarantor), and must identify to the best of its ability the amount and type of its derivative exposure and the net aggregate amount of its exposure to all parties (the System and others). The Swap Counterparty must agree in the Swap Agreement (and any guarantor must agree) that it will provide such financial statements and rating and credit reports to the System at least annually thereafter.

6.2. Swap Counterparty Exposure Limits and Transfer

In order to limit and diversify the System’s Swap Counterparty risk and to monitor credit exposure to each Swap Counterparty, the System will not enter into an Swap Agreement with a qualified Swap Counterparty if the following exposure limits are reached per Swap Counterparty:

- 6.2.1. As a percent of total outstanding debt, the maximum notional amount of Swap Agreements between a particular Swap Counterparty (and its unconditional guarantor, if applicable) and the System must not exceed 25% immediately after a proposed Swap would be delivered by the System. The net exposure total of all notional amounts between each Swap Counterparty and the System must include the total amount of System debt outstanding and authorized. As such, notional amounts for fixed to floating Swap Agreements may be used to “offset” the notional amounts for floating to fixed Swap Agreements, or vice-versa. Exposure limit calculations are net of insured termination payments.

Additionally, the System must not enter into a Swap Agreement with an otherwise qualified Swap Counterparty unless the cumulative mark-to-market termination value owed by the Swap Counterparty (and its unconditional guarantor, if applicable) to the System at the time of calculation is less than or equal to \$30 million. The \$30 million limitation is the sum of all mark-to-market values between the qualified Swap Counterparty and the System regardless of the type of Swap Counterparty or other similar product, net of collateral posted by the Swap Counterparty. Specific limits by any Swap Counterparty are based on the cumulative mark-to-market value of the Swap Agreement(s) or other similar products and the credit rating of the Swap Counterparty. The limits are as follows:

Swap Counterparty Long-Term Debt Rating (lowest prevailing rating from Standard & Poor’s / Moody’s)	Maximum Cumulative Mark-to-Market Value of Swaps Owed to System by Swap Counterparty (net of collateral posted)
AAA / Aaa	\$30 million
AA+ / Aa1	\$25 million
AA / Aa2	\$20 million
AA- / Aa3	\$15 million
A+ / A1	\$10 million
A / A2	\$5 million

If a Swap Counterparty’s credit rating is downgraded such that the cumulative mark-to-

market value of all Swap Agreements or other similar products between the Swap Counterparty and the System exceeds the maximum permitted by this policy, the Swap Counterparty must either terminate a portion of the Swap Agreement or similar product, post collateral securing the deficit as provided in the Swap Agreement, or provide other credit enhancement that is satisfactory to the System and ensures compliance with this policy.

Before execution of a Swap Agreement by the System, a swap advisor must provide a memorandum setting forth the exposure limit calculation, which will become a part of the official transcript for the transaction. Exposure limits will be reviewed by the Board at least annually.

6.2.2. Limitations on transfers of Swap Agreements by a particular Swap Counterparty should be carefully analyzed. If the Swap Agreement unilaterally restricts transfer or assignment, then the System must have the right to terminate the Swap Agreement without penalty if the Swap Counterparty transfers or assigns the Swap Agreement or the Swap Counterparty merges with another entity that changes the credit profile of the Swap Counterparty, unless the System gives its prior written consent to the transfer, assignment, or merger.

6.2.3. If the maximum notional limit for a particular Swap Counterparty is exceeded solely by reason of merger or acquisition involving two or more Swap Counterparties, the System will expeditiously analyze the exposure, but is not be required to “unwind” existing Swap Agreements unless the System determines that such action is in its best interest, given all the facts and circumstances.

6.2.4. If any exposure limit is breached by a Swap Counterparty, then the System will:

6.2.4.1. Conduct a review of the exposure limit calculation of the Swap Counterparty;

6.2.4.2. Determine if collateral may be posted to satisfy the exposure limits; and

6.2.4.3. Subject to the terms of this policy, enter into an offsetting Swap Agreement, if appropriate.

6.2.5. The System will not enter into contracts with derivative product companies (“DPCs”) that are classified as “terminating” or “Sub-T” DPC’s by the Nationally Recognized Statistical Ratings Organizations.

6.3. Collateral Requirements

Collateral posting requirements between the System and each Swap Counterparty may not be unilateral in favor of the Swap Counterparty. As part of the Swap Agreement, the System or the Swap Counterparty may require collateralization to secure any or all swap payment obligations. Collateral requirements will be subject to the following guidelines:

- 6.3.1. A Swap Agreement may not impose Collateral requirements on the System if the requirements would impair the System's existing operational flow of funds.
- 6.3.2. Each Swap Counterparty must provide a form of a Credit Support Annex in accordance with Section 6.
- 6.3.3. A list of acceptable securities that may be posted as collateral and the method of valuation of such collateral will be determined and mutually agreed upon with each Swap Counterparty during negotiation of the Swap Agreement.
- 6.3.4. The market value of the collateral must be determined as provided in the Swap Agreement on either a daily, weekly, or monthly basis by an independent third party.
- 6.3.5. Failure to meet collateral requirements will be a default under the Swap Agreement.
- 6.3.6. The Swap Agreement may provide for the right of assignment by one of the parties in the event of certain credit rating events affecting the other party. The System (or the Swap Counterparty) should first request that the Swap Counterparty (or the System) post credit support or provide a credit support facility. If the Swap Counterparty (or the System) does not provide the required credit support, then the System (or the Swap Counterparty) should have the right to assign the agreement to a third party acceptable to both parties and based on terms mutually acceptable to both parties. The credit rating thresholds to trigger an assignment should be included in the supporting documents.

7. Form of Swap Agreements and Other Documentation

Each Swap Agreement must contain terms and conditions as set forth in the International Swap & Derivatives Association, Inc. ("ISDA") Master Agreement and such other terms and conditions included in any schedules, confirmations, and credit support annexes as approved in accordance with the Swap Resolution authorizing that transaction. The Swap Advisor must provide a disclosure memorandum that includes an analysis by the Swap Advisor of the risks and benefits of the transactions, with amounts quantified. This analysis will include, among other things, a matrix of maximum termination values over the life of the Swap Agreement. The disclosure memorandum will become a part of the official transcript for the transaction. The Swap Advisor must also affirm receipt and understanding of the System's Master Swap Policy and must further affirm that the contemplated transactions fit within its policies as described herein.

7.1. Modification of Swap Agreements

Each Swap Resolution must provide specific approval guidelines for the Swap Agreements to which it pertains. These guidelines will provide for modifications to any approved Swap Agreements, provided such modifications, unless considered and approved by the Board, do not extend the average life of the Swap Agreement, increase the overall risk to the System,

or increase the notional amount of the Swap Agreement. The Swap Resolution must further designate which System officers are authorized to cause such modifications.

7.2. Aggregation of Swap Agreements

Unless the Swap Resolution states otherwise, the approval requirements set forth in each Swap Resolution are applicable for the total notional amount of transactions executed over a

consecutive three-month period for a given security or credit. Therefore, the notional amount of Swap Agreements including the average life of the Swap Agreements over a consecutive three-month period are considered in total (net of the notional amount of a Swap Agreement reversal) to determine what approval is required pursuant to a particular Swap Resolution.

8. Reporting Requirements

In the event the System has any outstanding swap instruments, The Senior Vice Chancellor for Administration and Finance will provide an annual report to the Board which addresses at least the following items:

- 8.1. The terms of any outstanding Swaps Agreements;
- 8.2. State the fair value of each Swap Agreement;
- 8.3. State the value of any collateral posted to or by the System under any Swap Agreements with each Swap Counterparty at the end of the fiscal year and the cash flows of any Swap Agreement;
- 8.4. Identify the Swap Counterparties to any Swap Agreement, any guarantor of any Swap Counterparties, and the credit ratings of any Swap Counterparty and guarantor; and
- 8.5. Determine whether the continuation of any Swap Agreements under the agreement would comply with the System's Master Swap Policy