

Adopted by the Board on March 26, 2002

**METROPOLITAN TRANSPORTATION AUTHORITY
GUIDELINES FOR ENTERING INTO PAYMENT AGREEMENTS**

Definitions

“**Authority**” means, as the context permits or requires, any or all of the following: the First Mutual Transportation Assurance Company; The Long Island Rail Road Company; the Manhattan and Bronx Surface Transit Operating Authority; the Metro-North Commuter Railroad Company; the Metropolitan Suburban Bus Authority; the Metropolitan Transportation Authority; the New York City Transit Authority; the Staten Island Rapid Transit Operating Authority; and the Triborough Bridge and Tunnel Authority.

“**Counterparty**” means the provider of a payment agreement with an Authority.

“**NRSRO**” means a nationally recognized statistical rating organization.

“**obligation**” means any obligation for the payment of money by an Authority, including, without limitation, a debt, installment sale or lease obligation.

“**payment agreement**” means, as the context permits or requires, any or all of the following: rate swap transaction (either variable to fixed or fixed to variable), basis swap, forward rate transaction, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions).

Rules of Construction

Words in the singular may be used in the plural and *vice versa*.

Form of Agreements

Payment agreements between the Authority and the Counterparty may include those payment, term, security (including provisions for collateral by both parties), default, remedy, termination, and other terms and conditions, and may be with those parties, as the Authority deems reasonably necessary or desirable, and to which the Authority and the Counterparty may mutually agree. Such payment agreements may be limited in their implementation by failure to meet any of the criteria, as listed below.

Failure by the Authority to comply with, or a violation of, the provisions of these guidelines shall not be deemed to alter, affect the validity of, modify the terms of, or impair any contract, agreement, or investment of funds.

Interest Rate Exposure

Any Authority may enter into a payment agreement if it is shown that such agreement is reasonably expected to:

1. reduce its exposure to changes in interest rates on a particular financial transaction, or in the context of the management of interest rate risk derived from the asset/liability balance of the Authority;

2. result in (a) an expected lower net cost of borrowing with respect to the related obligations; or (b) a higher net rate of return on investments made in connection with, or incidental to, (A) the issuance, incurring, or carrying of an Authority's obligations; or (B) other investments of the Authority which earnings provide funds for the operations of, or capital investments of, the Authority;

3. manage variable rate exposure consistent with prudent debt practices; or

4. reduce the financial exposure of the Authority, with respect to its current financial condition.

The Authority is prohibited from entering into a payment agreement when such agreement cannot be reasonably expected to achieve any of the objectives listed above.

The Authority is forbidden to enter into such agreement for speculative purposes, specifically if such agreement changes the overall interest rate exposure of the Authority such that it exceeds a reasonably expected exposure for an entity of such type.

Term of Payment Agreement

Subject to limitations imposed pursuant to agreements with bondholders, the term of any payment agreement cannot exceed the greater of the final maturity of then outstanding obligations of the Authority or the term of an approved financial plan of the Authority.

Credit Ratings of Counterparties

In recognition that credit exposure generally increases with the increased duration of payment agreements, the following term limits are applied to such payment agreements for a given rating.

1. When a payment agreement does not provide for ongoing collateralization requirements with respect to the Counterparty's scheduled payment obligations on and after the commencement of such obligations, the Authority can only enter into such payment agreement with any Counterparty subject to the following restrictions:

a. for payment agreements with term limitations of 10 years or less¹, the long-term rating of the Counterparty by at least one NRSRO, as of the date of the execution of such agreement, must be within the top three investment grades without regard to sub-categories; or the payment obligations of the Counterparty under such agreement must be unconditionally guaranteed by an entity which must have the required rating for such term; and

b. for payment agreements that have term limitations of greater than 10 years, the long-term rating of the Counterparty by at least one NRSRO, as of the date of the execution of such agreement, must be within the top two investment grades without regard to sub-categories; or the payment obligations of the Counterparty under such agreement must be unconditionally guaranteed by an entity which must have the required rating for such term.

2. If a payment agreement provides for ongoing collateralization requirements with respect to the Counterparty's scheduled payment obligations on and after the commencement of such obligations, the Authority can only enter into such payment agreements with any Counterparty if the long-term rating of the Counterparty by at least two NRSROs, as of the date of the execution of such agreement, is within the top three investment grades without regard to sub-categories; or the payment obligations of the Counterparty under such agreement must be unconditionally guaranteed by an entity that has the required rating as of the date of execution of such agreement.

¹ For purposes of this clause, if the payment agreement can be cancelled by the Counterparty prior to 10 years at no cost, such payment agreement shall be deemed to have a term limit of 10 years or less.

Collateralization

As part of a payment agreement, the Authority may require that the Counterparty provide collateralization to secure any or all of its payment obligations. When collateralization is determined to be appropriate, such collateralization is subject to the following restrictions:

1. the marked-to-market valuation of the scheduled net payment obligations of the Counterparty under the payment agreement must be collateralized by either direct obligations of, or obligations the principal and interest on which are guaranteed by, the United States of America, or by federal agency securities, that must be (a) deposited with the Authority, an agent of the Authority, with a third party in trust for the Authority, or in a third party custodial arrangement; and (b) maintained at a market value of not less than 100% of the net market value of the payment agreement to the Authority, as such net market value may be defined and determined from time to time under the terms of the payment agreement, and within the threshold limits of deposits to the collateral fund as described in paragraph 4 below;

2. the Authority may only enter into a payment agreement with a Counterparty that satisfies the criteria contained in these guidelines; and the payment agreement with such Counterparty must provide for collateralization by the Counterparty in the event the credit rating by at least two NRSROs of such Counterparty or its unconditional guarantor falls below the top three investment grades without regard to sub-categories;

3. if the rating of the Counterparty is below investment grade, the Authority must provide for the option to terminate the payment agreement at its market value, assign the payment agreement to a new Counterparty or require other remedies as may be determined by the Authority; and

4. the Authority and the Counterparty may agree to reasonable threshold limits for the initial deposit and for increments or decrements of collateral thereafter, and for, respectively, the initial and the subsequent increments or decrements to collateralization deposits. The Authority and the Counterparty may agree to calculate and effect the depositing or withdrawal of collateral at reasonable intervals, not less frequently than one month.

Any collateral provided pursuant to this subdivision must comply with the collateralization provisions contained in these guidelines.

Exposure Limits

The Authority on its own account or to benefit another Authority may not enter into an uncollateralized payment agreement with any Counterparty unless the current exposure, and the potential for such exposure to increase, as well as the potential exposure provided by an additional payment agreement as marked-to-market with the Counterparty, as of the commitment date of the proposed additional agreement does not exceed appropriate standards for the Authority. Such evaluation must take into account and present the following:

1. the credit rating of the Counterparty or its unconditional guarantor;

2. the capitalization of the Counterparty or its unconditional guarantor;

3. a calculation of the potential exposure provided by existing payment agreements of all of the Authorities with the Counterparty or its unconditional guarantor, plus the potential exposure of the additional payment agreement, as the marked-to-market valuation of such agreements, taking into account possible adverse changes in interest rates as implied by historical or projected measures of potential interest rate changes, and applied over the remaining terms of such agreements;

4. a determination that such potential exposure, giving effect to the financial stability and resources of the Counterparty or its unconditional guarantor, as reflected in (1) and (2) of this section,

would not exceed a prudent level for the Authority, as measured against gross revenues, available assets, or other financial resources of the Authority; and

5. a determination that entering into the payment agreement with the Counterparty would enhance diversification of potential credit exposure of the Authority to different counterparties, or not reduce diversification of such exposure among different counterparties below a prudent level.

The foregoing determination will be made by an authorized officer of the Authority, and any such determination which recites that the foregoing factors have been considered shall be conclusive and binding.

Basis Risk

The basis, or index, chosen as part of the payment agreement should be appropriate to the management of the obligations or the investments relevant to the overall interest rate exposure of the Authority. Such selection should be reasonably expected to limit variations between either payments for obligations or returns on investments against payments or returns provided by a payment agreement employing the index. The Authority may take basis risk if it is prudent and reasonably expected to lower its cost.

Selection of Counterparties and Terms and Conditions

General

Each Counterparty shall (1) have substantial and relevant experience with the type of payment agreement expected to be entered into and (2) meet the ratings criteria set forth above under “**Credit Ratings of Counterparties.**”

Negotiated

The Authority staff may negotiate a payment agreement with a Counterparty meeting the requirements of these Guidelines if, in the determination of Authority staff, it would be advantageous to do so. Authority staff shall consider, among other things, the then existing market for the type of payment agreement expected to be entered into, the availability of Counterparties for the type of payment agreement expected to be entered into, the size of the payment agreement, the costs and expenses associated with a negotiated versus competitive undertaking, and the proprietary nature of the proposed transaction or application thereof. In the event that the payment agreement is to be negotiated, Authority staff shall retain the services of an independent, knowledgeable individual/firm to advise the Authority as to the fairness of the pricing of the payment agreement.

Competitive

In the event it is determined that the payment agreement will be competitively bid, the Authority staff reserves the right to limit the (a) number of qualified Counterparties that may participate in a single payment agreement bid and (b) notional amount of payment agreements with any Counterparty, either for any individual payment agreement or in the aggregate.

Authority staff shall, based upon the relevant circumstances, select the prospective Counterparties to be solicited and shall circulate a schedule setting forth the time for, and manner of, accepting bids.

Following the acceptance of bids, the Authority staff shall determine the winning bidder(s) based upon the most advantageous terms to the Authority, taking into consideration not only the rate(s) bid, but also other terms and conditions, including, without limitation, the amount of the upfront payment, if any, and the effect of indemnification, tax risk, and other similar terms.

The Authority may, prior to the solicitation of bids, select a prospective Counterparty to assist it in the preparation of documents relating to the solicitation of bids, and may give such Counterparty the opportunity to match the lowest winning bid on no more than 50% of the notional amount of such payment agreement.

Reporting Requirements

Payment agreements will be reported quarterly with respect to:

1. the current status of the interest rate exposure of the Authority, net of the effects of such payment agreements;
2. the status of individual payment agreements in effect, including notional amount, rates, terms, bases employed, and rating of counterparties;
3. marked-to-market evaluations of net credit exposures to the Authority by individual counterparties, and collateralization that has been provided, when deemed necessary; and
4. summary of the terms and conditions of any payment agreement that has been executed since the previous report.