The College of New Jersey
Board of Trustees
March 3, 2008
8:30 a.m.
201 Loser Hall
Minutes

Present (via telephone): Susanne Svizeny, Vice Chair; Christopher Gibson, Secretary; Poonam Alaigh; Robert Altman; Brad Brewster; Jorge Caballero; Robert Kaye; Anne McHugh; Barbara Pelson; Miles Powell; Jenna Klubnick

Not Present: Hazel Gluck; Stacy Holland; Jimmy McAndrew; Tricia Mueller

I. Announcement of Compliance

Mr. Gibson announced that the requirements of the Open Public Meetings Act concerning public notice of this meeting had been met.

II. Motion to go into closed session

It is moved by Mr. Gibson, seconded by Mrs. Pelson, that the Board go into closed session to discuss issues related to investments, items exempt under the Open Public Meetings Act.

III. Closed Session

IV. Resumption of Open Session

V. New Business

A. Report of the Executive Committee

1. Resolution of the board of Trustees of The College of New Jersey Approving and Authorizing the Restructuring of New Jersey Educational Facilities Authority Revenue Bonds, The College of New Jersey Issue, Series 1999 A and of New Jersey Educational Facilities Revenue Bonds, The College of New Jersey Issue, Series 2002 D and of Certain Officers of The College of New Jersey to Take Any and All Actions Deemed Necessary or Desirable in Connection with Such Restructurings – Attachment A

President Gitenstein reported that to avoid any appearance of a possible conflict of interest Ms. Gluck was not on the phone and would not participate in the vote on this matter. The President also indicated that after participating in a general discussion of market conditions, but prior to discussion of letters of credit and any deliberations on the matter, Ms. Svizeny left the teleconference during the closed session and recused herself from the vote on this matter scheduled to occur during the public session.

It was moved by Dr. Altman, seconded by Mrs. Pelson, that the minutes be approved. The motion carried unanimously.

VI. Adjournment

The following resolution was moved by Ms. McHugh, seconded by Dr. Altman. The motion carried unanimously.

Be It
Resolved: That the next public meeting of The College of New Jersey Board of Trustees will be held on Tuesday, April 22, 2008 at a time and location to be announced.

Be It
Further
Resolved: That this meeting be adjourned.

Respectfully submitted,

Chris Gibson,
Secretary

Resolution of the Board of Trustees of The College of New Jersey Approving and Authorizing the Restructuring of New Jersey Educational Facilities Authority Revenue Bonds, The College of New Jersey Issue, Series 1999 A and of New Jersey Educational Facilities Revenue Bonds, The College of New Jersey Issue, Series 2002 D and of Interest Rate Swaps Related Thereto; Authorizing Certain Officers of The College of New Jersey to Take Any and All Actions Deemed Necessary or Desirable in Connection with Such Restructurings

Whereas: the New Jersey Educational Facilities Authority (the "Authority") was created pursuant to the New Jersey Educational Facilities Authority Law, P.L. 1967, c. 271, N.J.S.A. 18A:72A-1 et seq., as amended and supplemented (the "Act") and authorized to issue its obligations to provide a means for New Jersey public and private colleges and universities to obtain financing to construct educational facilities as defined in the Act; and

Whereas: pursuant to the Act, the Authority has issued its Revenue Bonds, The College of New Jersey Issue, Series 1999 A in the original aggregate principal amount of $146,455,000 (the "1999 A Bonds") and its Revenue Bonds, The College of New Jersey Issue, Series 2002 D in the original aggregate principal amount of $138,550,000 (the "2002 D Bonds'); and

Whereas: the 1999 A Bonds are variable rate demand obligations which are insured by Ambac Assurance Corporation ("Ambac") for which liquidity is provided through a standby bond purchase agreement; and

Whereas: the 2002 D Bonds bear variable rate interest at an R-Floats ® Rate for which no liquidity is provided (i.e., similar to auction rate bonds) and which are insured by Financial Guaranty Insurance Company ("FGIC"); and

Whereas: in connection with the 1999 A Bonds, on behalf of The College of New Jersey (the "College"), the Authority has entered into an interest rate swap agreement with Ambac Financial Services, LP (the "1999 A Swap") relating to the 1999 A Bonds; and

Whereas: In connection with the 2002 D Bonds, on behalf of the College, the Authority has entered into a fixed to floating interest rate swap with Merrill Lynch Capital Services, Inc. (the "2002 D Fixed Rate Swap") and into a constant maturity swap with Merrill

Lynch Capital Services (the "2002 D CMS Swap") each relating to the 2002 D Bonds; and

Whereas: A result of the sub-prime mortgage crisis, one or more of S & P, Moody's and Fitch (the "Rating Agencies") have downgraded or are indicating intention to downgrade the financial and/or claims paying strength of certain bond insurers (including Ambac and FGIC) and/or of certain brokers and swap providers; and

Whereas: the sub-prime mortgage crisis and such downgrades and potential downgrades have had a widespread effect on the market for short-term tax-exempt obligations such as the 1999 A Bonds and the 2002 D Bonds and have adversely affected the borrowing costs of the College; and

Whereas: The College, in conjunction with the Authority, has investigated various restructuring alternatives for the 1999 A Bonds and 2002 D Bonds and the related 1999 A Swap, the 2002 D Fixed Rate Swap and the 2002 D CMS Swap, including, inter alia, (a) the current refunding of the 1999 A Bonds with variable rate demand refunding bonds issued by the Authority with a letter of credit provided by The Bank of Nova Scotia, Lloyds TSB Bank plc and Wachovia Bank N.A., termination of the 1999 A Swap pursuant to an offer from Ambac Financial Services, LP for termination with a discounted termination fee and entry into a new fixed to variable swap with Morgan Stanley Capital Services Inc. having substantially the terms set forth in Exhibit A hereto (the "New 1999 A Swap") and contribution by the College of $19,000,000 to reduce the principal amount of the variable rate demand refunding bonds and/or to pay all or a portion of the termination fee in respect of the 1999 A Swap (collectively, the "1999 A Variable Rate Restructuring"); (b) the current refunding of the 1999 A Bonds with fixed rate refunding bonds issued by the Authority and insured by an insurer with a AAA rating which is not under consideration for downgrade by the rating agencies and termination of the 1999 A Swap pursuant to an offer from Ambac Financial Services, LP for termination with a discounted termination fee and contribution by the College of $19,000,000 to reduce the principal amount of the fixed rate refunding bonds and/or to pay all or a portion of the termination fee in respect of the 1999 A Swap (collectively, the "1999 A Fixed Rate Restructuring"); (c) the current refunding of the 2002 D Bonds with variable rate demand refunding bonds issued by the Authority with a letter of credit provided by The Bank of Nova Scotia, Lloyds TSB Bank plc and Wachovia Bank N.A. and continuation of the 2002 D Fixed Rate Swap (collectively, the "2002 D Variable Rate Restructuring"); and (d) modification of the 2002 D CMS Swap as described in Exhibit B hereto (the "2002 D CMS Swap Modification"); and

Whereas: Officers of the College and representatives of the Authority and Swap Financial Group, the Financial Advisor to the College, have described all of the foregoing alternatives, including the benefits and risk associated with, and the costs of, each of these alternatives; and

Whereas: In reviewing said alternatives the Board of Trustees (the "Board") of the College has given due consideration to the Debt Policy and the Interest Rate Swap Policy heretofore adopted by the Board, and to the recommendations of the officers of the College and representatives of the Authority and the College's Financial Advisor; and

Whereas: After consideration of applicable alternatives, the Board has determined that it is advisable and beneficial to implement the 1999 A Variable Rate Restructuring, the 2002 D Variable Rate Restructuring and the 2002 D CMS Swap Modification (such restructurings and modification being referred to herein collectively, as the "Restructuring"); and

Whereas: The bonds issued by the Authority to currently refund the 1999 A Bonds and the 2002 D Bonds (collectively, the "Refunding Bonds") will be secured by one or more lease and agreements and/or amendments or modifications to existing lease and agreements (collectively, the "Lease and Agreement") and the Board desires to authorize certain officers of the Board and the College to approve the form of and execute and deliver the Lease and Agreement; and

Whereas: It is anticipated that The Bank of Nova Scotia, as agent for the banks providing the letter of credit for the variable rate demand refunding bonds (the "Letter of Credit"), will require the Authority (on behalf of the College) and/or the College to enter into a Reimbursement Agreement or Reimbursement Agreements (the "Reimbursement Agreement"), and the Board desires to authorize certain officers of the College to approve the form of and execute and deliver the Reimbursement Agreement; and

Whereas: The Board wishes to authorize certain officers of the College to approve the form of all other necessary documents for the Restructuring and to take any and all action necessary to implement the Restructuring and the financing thereof and all costs related thereto including without limitation paying a termination fee for the termination of the 1999 A Swap and paying costs of the Restructuring; and

Therefore, Be It Resolved: That the Board of Trustees of The College of New Jersey as follows:

Section 1. The Board hereby approves and authorizes the undertaking and implementation of the Restructuring provided that the principal amount of converted or refunding bonds issued through the Restructuring shall not exceed $300,000,000 in the aggregate (including costs of issuance) and the termination fee payable in connection with the termination of the 1999 A Swap shall not exceed $10,000,000.

Section 2. The President, the Treasurer and the Associate Treasurer (the "Authorized Officers") are hereby authorized and directed to approve the form of and execute and deliver the Lease and Agreement, the Letter of Credit, the Reimbursement Agreement, the Termination Agreement (as such term is defined in Section 4 hereof), a contract of purchase and any other agreement, document or instrument necessary in connection with the Restructurings in the name of and on behalf of the Board of the College, in the form approved by the Authorized Officer executing the same, in as many counterparts as may be necessary, and the Board Secretary or any other Authorized Officer is hereby authorized to affix or impress the official seal of the College thereon and to attest the same such execution and attestation being conclusive evidence of the approval thereof.

Section 3. The Authorized Officers are hereby authorized and directed to execute, deliver and approve any and all such other documents, certificates, directions and notices and to do and perform such acts and to take such other actions as may be necessary or required or which the Authority may deem to be appropriate to implement the Restructuring and the purposes of this Resolution including payment of the costs thereof and to effectuate the issuance of the Refunding Bonds and to execute and deliver the Reimbursement Agreement and any other documentation necessary to effectuate the Restructurings and purposes of this Resolution including any necessary amendments to existing documents. The Board Secretary or any other Authorized Officer is hereby authorized and directed, for and on behalf of and in the name of the College, to attest and deliver said documentation and to affix the seal of the College to said documentation.

Section 4. The Board hereby acknowledges that it has reviewed each of the materials distributed at or prior to this meeting and included as <u>Exhibit B</u> hereto, which materials (i) summarize certain of the risks associated with the transactions authorized by this Resolution (including specifically the proposed termination of the 1999 A Swap). The Board understands that interest rate swap agreements such as the proposed New 1999 A Swap contain certain inherent risks (including, but not limited to, those described in Annex A) and may require the payment of substantial monetary sums upon the occurrence of certain events (some of which may be outside the control of the College). The Board further understands that, notwithstanding the stated fixed rate payment obligation under the New 1999 A Swap, the actual payment obligation of the College under certain circumstances may be higher than either the variable bond rate or the stated fixed swap rate. The Board further understands that the obligation to pay amounts due under the New 1999 A Swap, whether on a regular basis, in connection with any termination thereof, or otherwise, will constitute additional rent under the Lease and Agreement, dated as of April 1, 1999, between the College and the Authority (the "1999 A Lease"), and that a default in making any such payment would constitute (x) an event of default in respect of the 1999 A Bonds (and any bonds hereafter issued to refund same), which may result in the acceleration of such bonds, and (y) an event of default under the 1999 A Lease, which may result in the loss of use by the College of the properties and facilities leased thereunder. In addition to the other authorizations provided for in this Resolution, the Board hereby specifically approves, and hereby authorizes the Authority to effectuate, (A) the termination of the 1999 A Swap, at a termination cost not to exceed $10,000,000, and the termination of the Liquidity Assurance Agreement which was entered into by the Authority and Ambac Financial Services, LP in connection therewith, and the execution and delivery of a Termination of Interest Rate Swap Agreement and Liquidity Assurance Agreement (the "Termination Agreement") in order to effectuate same, (B) the payment of the termination fee payable in respect of said termination of the 1999 A Swap from amounts currently on deposit in the Construction Fund established under the Indenture of Trust, dated as of April 1, 1999, between the Authority and the Trustee named therein (the "1999 A Indenture"), such payment hereby being declared to be a "cost" of the "Series 1996 A Project" and/or the "Series 1999 A Project" within the meaning of Section 2.04 of the 1999 A Lease, and (C) if necessary, the execution of an amendment to the 1999 A Lease and/or such other documents or certificates as may be necessary, convenient or useful in connection with the actions described in clauses (A) and (B). The Board acknowledges that the Authority will take the actions described in clauses (A) and (B) above at the direction and instruction of the College, and for the benefit of the College, and hereby consents thereto. The Board further acknowledges and agrees that, after giving effect to the withdrawal contemplated by this paragraph 4, the balance remaining in the Construction Fund established under the 1999 A Indenture shall be sufficient to provide for the completion of, and the payment of all remaining costs incurred or to be incurred in connection with, the "Series 1996 A Project" and the "Series 1999 A Project", as said projects are currently contemplated by the Board, and hereby reaffirms the College's obligation under Section 2.04 of the Lease to provide the difference, if any, between the amount required for the completion of such projects and the amounts remaining on deposit in the Construction Fund for such purpose.

Section 5. Any and all prior actions of any Authorized Officer in furtherance of the Restructuring are hereby ratified and confirmed.

Section 6. This resolution will take effect immediately.

ATTACHMENTS:

Exhibit A: Term Sheet
Exhibit B: Materials Referenced in Section 4 – Memo dated 2/28/08

March 3, 2008

NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY
REVENUE BONDS
THE COLLEGE OF NEW JERSEY ISSUE
SERIES 1999A

Spot-Starting SIFMA Interest Rate Swap
Term Sheet

I. GENERAL

Counterparty:	New Jersey Educational Facilities Authority ("Party B")
Documentation:	Documentation will be in the form of an ISDA Master Agreement (Local currency-Single Jurisdiction) in accordance with and giving effect to the Term Sheet with the appropriate Confirmation Schedule and Credit Support Annex.
Definitions and Inconsistency:	Capitalized terms not otherwise defined herein shall have the meanings specified in the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc.).
Swap Provider:	Morgan Stanley Capital Services Inc. ("MSCS")
Swap Trade Date:	**To be determined**
Effective Date:	**To be determined**
Documentation Closing Date:	**To be determined**
Swap Termination Date:	Final maturity on the Bonds as set forth on the accompanying amortization schedules.

*Preliminary, subject to change

Notional Principal Amount:	Initially: An amount not to exceed $130,555,000*. The Notional Principal Amount will amortize to coincide with the Bonds.

II. FLOATING PAYMENTS

Floating Rate Payor:	MSCS ("Party A")
Floating Rate Index:	USD-SIFMA Municipal Swap Index
Floating Rate Reset Dates:	The Effective Date and thereafter weekly, every Thursday (or any other day specified by the Securities Industry and Financial Markets Association), or if any Thursday is not a U.S. Government Securities Business Day, the next succeeding U.S. Government Securities Business Day.
Floating Rate Period End Dates:	The first calendar day of each month, commencing on April 1, 2008, up to and including the Termination Date, subject to adjustment in accordance with the Following Business Day Convention.
Floating Rate Payment Dates:	The first calendar day of each month, commencing on April 1, 2008, up to and including the Termination Date, subject to adjustment in accordance with the Following Business Day Convention.
Floating Rate Day Count Fraction:	Actual / Actual
Floating Rate Compounding:	Not Applicable
Floating Rate Method of Averaging:	Weighted

III. FIXED PAYMENTS

Fixed Rate Payer:	New Jersey Educational Facility Authority ("Party B")
Fixed Rate:	[To be determined at pricing]
Fixed Rate Date Count Fraction:	30/360
Fixed Rate Period End Dates:	The first calendar day of each month, commencing on April 1, 2008, up to and including the Termination Date, subject to adjustment in accordance with the Following Business Day Convention.

*Preliminary, subject to change

Fixed Rate Payment Dates:	The first calendar day of each month, commencing on April 1, 2008, up to and including the Termination Date, subject to adjustment in accordance with the Following Business Day Convention.

IV. OPTIONALTERMINATION

Party B Optional Termination:	Party B has the option to terminate this Transaction, in whole or in part (provided that no Event of Default, Potential Event of Default or Termination Event has occurred), by providing (i) at least two (2) Business Days' prior written notice to Party A of its election to terminate this Transaction and (ii) evidence reasonably satisfactory to Party A that any and all amounts owed to Party A in connection with such early termination shall be paid on the due date thereof (the effective date of such optional early termination, hereinafter the "Optional Early Termination Date"); provided, however, that the option to designate an Optional Early Termination Date under this Paragraph 4 shall not prevent either party from designating an Early Termination Date in accordance with the provisions of Section 6 of this Agreement (as a result of the occurrence of an Event of Default or Termination Event), to be effective on any date prior to the Optional Early Termination Date designated hereunder. Such termination shall constitute an Additional Termination Event under Section 6(e) of the Agreement with Party B as the sole Affected Party and this Transaction as the sole Affected Transaction. In the event of such termination, Party A shall determine the amount owed in connection with such termination using its commercially reasonable judgment. If Party B disagrees with such calculation, Party A shall seek actionable bids from Reference Market makers consistent with the provisions of Section 6 of the Agreement. If Party A disagrees with such calculation, this Transaction shall not be unwound; but, Party B may assign this Transaction to any of the Reference Market-makers who provided a quote.
MSCS Optional Termination:	None.
Method of Calculating Settlement Amounts:	All payments shall be net, one way, on the respective Payment Dates, or upon termination.

V. CREDIT TERMS

Credit Support Annex:	The parties will implement a Credit Support Annex as described herein.

Swap Lien Position:

All regularly scheduled payments required to be made by the Authority pursuant to the Swap will be Swap Payment Obligations under the Indenture and will be payable on parity with the Authority's Bond Payment Obligations. The EFA has no taxing power. Pursuant to the requirements of N.J.S.A. 18A: 72A-6, all obligations of the Authority for payment or delivery whatsoever arising under this Agreement shall constitute special, limited obligations of the Authority, payable solely from amounts or property, if any, paid or delivered by the College pursuant to the Lease Agreement. Any Swap Provider and any other person or entity claiming an interest in or entitlement to any amounts payable by the Authority hereunder acknowledges the special, limited nature of the Authority's obligations.

Credit Support Annex:

Collateralization will be required in the event Party A or Party B (or their credit support provider, if applicable) fails to maintain a financial program/senior unsecured unenhanced debt rating of A3 (Moody's) or A- minus (S&P).

Swap value and collateral will be subject to daily mark to market with monthly statements sent to the EFA and the value will be collateralized with cash valued at 100% and US Treasury and Agency Securities at a minimum of 99% and a maximum of 94% of their market valuation.

Minimum Threshold Amounts:

S&P Rating	Moody's Rating	Threshold	Minimum Transfer Amount
A- and above	A3 and above	Infinity	Zero
BBB+	Baa1	$30,000,000	$1,000,000
BBB	Baa2	$10,000,000	$1,000,000
BBB- and below or unrated (if previously rated)	Baa3 and below or unrated (if previously rated)	Zero	$100,000

Threshold Amount regarding Specified Indebtedness:

(i) with respect to Party A, U.S. $100,000,000; and (ii) with respect to Party B, (A) in connection with any Specified Indebtedness payable from the source of funds specified in 4(e) of the Schedule prior to or on a parity with payments under this Agreement, $1.00 and (B) in connection with any other Specified Indebtedness, $10,000,000.

Additional Termination Events:

With respect to Party A, if Party A's Credit Support

*Preliminary, subject to change

Provider's senior, unsecured, unenhanced debt rating is withdrawn, suspended or reduced below "BBB-" in the case of S&P or below "Baa3" in the case of Moody's; and

For the purposes of the foregoing Additional Termination Event, the sole Affected Party will be Party A.

With respect to Party B, if the senior, unsecured, unenhanced debt rating for the indebtedness issued by Party B for the benefit of the The College of New Jersey, or the senior, unsecured, unenhanced debt rating for any indebtedness issued by or for benefit of The College of New Jersey, is withdrawn, suspended or reduced below "BBB-" in the case of Fitch or below "Baa3" in the case of Moody's.

For the purposes of the foregoing Additional Termination Event, the sole Affected Party will be Party B.

Full Two-Way Termination Payments: If the Swap is terminated due to an Event of Default or Termination Event, Non-Affected Party determines the market value of the Swap. If positive (in favor of Dealer), the Authority will pay Dealer; if negative, Dealer will pay the Authority.

Governing Law: New Jersey

Jurisdiction: New Jersey

Nationally Recognized Rating Agency: Moody's, Standard & Poor's and Fitch

Legal Documentation: The Swap will be supported by the following primary legal documents:

- An ISDA Master Agreement and attached Schedule (the "Swap Agreement") between the EFA and MSCS outlining the provisions governing the Swap in accordance with the Term Sheet.
- Guarantee or Credit Support Document (if any)
- A Confirmation which outlines the details of the transaction.
- Credit Support Annex
- Opinions of counsel to the Dealer and Guarantor (if any) and EFA as to the enforceability of their respective obligations under the Agreement.

*Preliminary, subject to change

Continuing Disclosure and Reporting Summary: Audited annual financial statements of The College of New Jersey

VI. OTHER

Fees and Expenses: [To Be Determined]

*Preliminary, subject to change

MEMORANDUM

To:	Board of Directors; Barbara Wineberg The College of New Jersey
From:	Roger Anderson New Jersey Educational Facilities Authority Peter Shapiro Swap Financial Group
Concerning:	2008 Restructuring of Swaps and Bonds
Date:	February 28, 2008

At your request, we have analyzed the potential benefits and risks of a proposed restructuring plan for certain of the College's swaps and bonds. Given the special circumstances surrounding the effects of the credit crunch on the fixed income markets, we believe that taking the following steps would be to the College's benefit:

1. **Replace the existing 1999A and 2002D floating rate bonds.** Both sets of bonds are trading poorly. The 1999A bonds are Variable Rate Demand Bonds (VRDB's) backed by Ambac, which has been downgraded by Fitch and remains on review for possible near-term downgrade by Moody's and Standard & Poor's. As a result, the bonds are at risk of continuing to trade poorly for the foreseeable future. The 2002D bonds are Auction Rate Securities (ARS) insured by FGIC. The entire ARS market has seized up, and the worst performing part of this market is those bonds insured by the weakest insurers, including FGIC. FGIC has now been downgraded by all three rating agencies.

    a. **First option—Replace the existing bonds with VRDB's backed by a letter of credit.** EFA has arranged for a Letter of Credit (LC) provided by a bank group including Scotia Bank, Wachovia and Lloyds Bank. This LC will replace both bond insurance policies and allow the old bonds to be replaced by new VRDB's. We believe it is reasonable to anticipate the new bonds will trade at much lower rates, roughly equivalent to or slightly better than the national benchmark SIFMA Index for tax-exempt VRDB's. Pages 1 and 2 of the attached Morgan Stanley presentation illustrate two versions of such a transaction. The differences involve the Ambac swap and are discussed below. All scenarios assume using $19 million of unspent 1999A bond proceeds to reduce the size of the 2008 restructuring.

b. **Second option—Replace the 1999A bonds with fixed rate bonds and the 2002D bonds with VRDBs.** As an alternative, we have examined the idea of converting the 1999A bonds from floating to fixed rate. This would have the advantage of simplicity, as the College would have fewer floating rate bonds outstanding, with their inherent variability. It would also diversify the College's debt portfolio. But it is important to note that the bonds are already swapped to a fixed rate. If the bonds are converted to fixed rate, the swap will need to be unwound While the credit crunch has driven Treasury yields and swap rates down to very low levels, ironically, rates on municipal fixed rate bonds have not benefited similarly. In fact, muni fixed rates have gone up sharply. Thus, if the College were to convert to fixed rate bonds, it would suffer higher bond costs. Page 3 of the attached presentation illustrates the potential costs of a fixed rate refunding of the 1999A bonds.

c. **Recommendation.** The decision which option to pursue is up to the Board, of course. Whichever option the Board chooses, we believe the College should proceed on an urgent basis. So many issuers are currently searching for LC's to replace bond insurers and convert out of ARS that there is a risk that pricing will increase and/or availability will become limited. On balance, we recommend the first option: remaining in floating rate bond form (with the important improvements recommended above) and retaining the existing framework of a fixed rate swap, with the key modifications described in items 2 and 3 below.

2. **Remove Ambac as swap provider on the 1999A bonds.** Because of its credit problems, Ambac is currently in the midst of a large capital raising program. Along with this program, Ambac is highly motivated to unwind many of its existing swaps, including its swap with the College. Ambac has offered to unwind the swap at a significant discount to its actual market value. As a result, the College can replace Ambac as the swap provider and realize a financial gain. The financial gain should be large enough to more than offset the higher costs that the College has suffered because of the elevated cost of its floating rate bonds in the current period. Based on indicative levels today, we believe the College should be able to realize nearly $5 million, which is slightly more than what is shown in the attached presentation.

   If the College chooses the first option above, the EFA and the College would enter into a replacement swap, which is also illustrated in pages 1 and 2 of the presentation. Page 1 shows that, if the replacement swap has the same fixed rate as the Ambac swap, the College could receive an upfront payment of $3-5 million more than would be necessary to terminate the Ambac swap, which payment could be used to reduce the size of the 2008 restructuring bonds. Page 2 shows that, if the

College receives only enough of an upfront payment to terminate the Ambac swap, the replacement swap would have a significantly lower fixed rate.

If the College chooses the second option, the College would make the termination payment, which could be financed or paid out of cash on hand, illustrated on page 3. The first column shows the costs if the College were to make the termination payment from cash on hand, and the second column shows the costs of financing the termination payment.

In addition to the direct financial benefit, removing Ambac would achieve two other important objectives. First, it would eliminate the College's credit exposure to Ambac. Although Ambac still retains triple-A ratings from Moody's and S&P (subject to downgrade as mentioned above) and is rated double-A by Fitch, it is a non-diversified monoline insurance company, with an unknown degree of exposure to subprime mortgage debt guarantees. Replacing Ambac with a swap provider that is a diversified financial entity would be a risk improvement. Second, the Ambac swap documentation is highly non-standard, and contains several troublesome provisions that pose added risks to the College. Key provisions include the ability to lower the basis of the floating rate that the College would receive on the swap if certain events were to occur, including a further downgrading of Ambac. For these reasons, in addition to the opportunity to realize a significant financial gain, we recommend proceeding with the Ambac unwind and replacement quickly. We believe there is some risk that Ambac may withdraw its offer if it is not acted on soon, given the fluidity of Ambac's own financial situation.

3. **Restructure the 2002D CMS swap.** Last spring, the College entered into a CMS swap, based on the 10-year LIBOR Constant Maturity Swap (CMS) to take advantage of an expected increase in the difference between short-term and long-term interest rates (referred to as a "yield curve steepening"). This steepening has now occurred, and it is possible to terminate the CMS swap or suspend it for the next few years and receive a significant financial benefit. By terminating the swap today, the College could receive an amount of approximately $2.01 million, based on today's indicative levels. Alternatively, the College could suspend the CMS swap for the next three years (known as an "interim reversal" because the swap is reversed for an interim period) and receive an amount of approximately $1.95 million. We recommend the latter course. The three-year reversal provides nearly the same financial benefit today, but leaves the swap in place for its remaining life as the College intended when it entered into it last year. We believe the economic opportunity is a compelling one today, and that there are certain efficiencies in doing this transaction alongside the transactions recommend in items 1 and 2 above. The unwind is illustrated on page 4 of the Morgan Stanley presentation. The first column shows the effects of terminating the CMS, while the second column shows the interim reversal. Page 5, as a comparison, shows the refunding of just the 2002D bonds with VRDB's, with no change to the CMS. Because the Fed is generally expected to lower interest rates again, the College may consider waiting to restructure the CMS. If the College

were to decide to unwind the CMS entirely, waiting might well be of advantage. It is unlikely that waiting would benefit an interim reversal, however. Because we recommend the interim reversal, we do not recommend waiting.

Please let us know if you have questions or comments. We stand ready to assist the College in making sure these transactions are executed appropriately, based on your policy determinations.