

Adopted on March 26, 2002
Amended on March 13, 2013

**METROPOLITAN TRANSPORTATION AUTHORITY AND
TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
POLICY FOR ENTERING INTO PAYMENT AGREEMENTS**

A. GENERAL

Rules of Construction

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

Scope and Purpose

The purpose of this Policy for Entering into Payment Agreements (the Policy) is to set forth the guidelines and expectations of the Board of Directors (MTA Board) of the Metropolitan Transportation Authority (MTA) and the Board of Directors of the Triborough Bridge and Tunnel Authority (TBTA), respectively, as they relate to the use of Payment Agreements to hedge financial exposure incurred in the day to day operations of any Authority.

B. 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 Transportation Authority; the New York City Transit Authority; the Staten Island Rapid Transit Operating Authority; and the Triborough Bridge and Tunnel Authority.

“Authorized Officer” means the Chairman and Chief Executive Officer, the Vice Chairman, the Executive Director, the Chair of the Finance Committee, the Chief Financial Officer, or the Director of Finance of the MTA.

“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, commodity swap, commodity option, 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).

“Swap Advisor” means a third party professional registered with the SEC as a swap advisor that provides hedge advisory services, with demonstrated experience with municipal derivatives and which qualifies as a Qualified Independent Representative (“QIR”) in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) and makes necessary representations and agreements to comply with the Dodd-Frank Act.

“Total Potential Gross Negative Exposure” means an amount equal to the option adjusted dollar value of one basis point (“DV01”) of all outstanding interest rate hedge transactions multiplied by 300.

“Total Long Term Outstanding Debt” means the total par amount of debt outstanding as of December 31 of the just prior fiscal year, issued pursuant to the MTA General Resolution Authorizing Transportation Revenue Obligations, the MTA Dedicated Tax Fund Obligation Resolution, the TBTA General Resolution Authorizing General Revenue Obligations and the TBTA 2001 Subordinate Revenue Resolution Authorizing Subordinate Obligations.

C. FEATURES OF PAYMENT AGREEMENTS

Form of Agreements

Payment Agreements will be based on the terms and conditions set forth in the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement forms appropriate for the particular type of agreement. Any Payment Agreement need not conform to such form of agreement if the necessary terms and conditions set forth in such ISDA Master Agreement are the basis of the Payment Agreement.

Payment Agreements shall include terms specifying the amount and timing of payments, maturity, security, collateral, defaults, remedies, termination and such other terms, conditions, provisions and safeguards as the MTA and TBTA as appropriate, in consultation with legal counsel and a Swap Advisor, deems necessary or desirable.

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

Purpose of Payment Agreement

Any Authority may enter into a Payment Agreement if it is shown that such Agreement is reasonably expected to hedge or mitigate commercial risk and:

1. Result in an expected lower net cost of borrowing with respect to the related Obligations;
2. Reduce the volatility associated with projecting the cost of a particular debt transaction, either fixed or variable. i.e. interest rate hedging;
3. Reduce the volatility associated with projecting the cost of a particular commodity essential to the business operations or capital projects of the MTA, such as diesel or other fuel (i.e. fuel hedging) or steel; or,
4. Reduce the financial exposure of the Authority with respect to its current financial condition.

An Authority is prohibited from entering into a Payment Agreement when such agreement cannot be reasonably expected to achieve at least one of the objectives listed above.

An Authority will not use Payment Agreements that:

1. Are purely speculative in nature or create extraordinary leverage or risk or,
2. Lack sufficient price transparency to allow reasonably transparent valuation.

Term of Payment Agreement

Subject to limitations imposed pursuant to agreements with bondholders, the term of any Payment Agreement cannot exceed in the case of interest rate hedges the greater of the final maturity of related then outstanding Obligations of the Authority or the term of an approved financial plan of the Authority or with respect to commodity hedges the term of 24 months from the trade date.

D. COUNTER PARTY GUIDELINES

Credit Ratings of Counterparties

1. The minimum credit rating requirements of a counterparty entering into a Payment Agreement with the Authority are a long term senior, unsecured debt credit rating of at least “A3” or “A-” from two of the nationally recognized statistical rating organizations, as recognized by the Securities and Exchange Commission.
2. No Authority shall be authorized to enter into any agreement with a structured terminating counterparty or be subject to automatic termination in any circumstance without explicit approval of the Board.

Early Termination Process

In the event of an early termination of any hedge transaction, the Authority, by its Authorized Officers, may follow any stated termination provisions applicable to the event which gave rise to the early termination. In an early termination where no provisions explicitly determine the termination process, Authorized Officers of the MTA, in consultation with a Swap Advisor and legal counsel, may use whatever process is deemed in the best interest of the MTA or affected Authority.

Notwithstanding the previous paragraph, Authorized Officers may in all early termination situations, in consultation with a Swap Advisor and legal counsel, use whatever process is deemed in the best interest of the affected Authority.

All Payment Agreements must provide the Authority with the option to terminate the Payment Agreement or any transaction entered into pursuant to a Payment Agreement at its market value at any time.

Counterparty Collateralization

As part of a Payment Agreement, the Authority must require that the Counterparty enter into a credit support agreement to provide collateralization to secure any or all of its payment obligations. Such collateralization is subject to the following restrictions:

1. The mark-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, with an agent of the Authority, with a third party in trust for the Authority, or in a third party custodial account; 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 credit support agreement, and within the threshold limits of deposits to the collateral fund as described in paragraph 2 below;
and
2. Except for paragraph 3, 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 threshold levels may be based upon a sliding scale of ratings. The Authority and the Counterparty may agree to calculate and require the depositing or withdrawal of collateral at reasonable intervals, not less frequently than one month.
3. In the event the credit rating by at least one NRSRO of such Counterparty or its unconditional guarantor falls below the top three investment grades without regard to sub-categories, the credit

support agreement must provide for a zero threshold limit for the initial deposit and for increments or decrements of collateral thereafter by the Counterparty.

E. EXPOSURE LIMITS

Interest Rate Based Payment Agreements

Credit Exposure

1. Mark-to-Market exposure should be limited to prevent funding an extraordinary termination amount, assuming adverse changes in market conditions as they relate to the swap portfolio (i.e. lower interest rates for a synthetic fixed portfolio) and limited swap market liquidity.
 - a) Total Potential Gross Negative Exposure is not to exceed 5% of Total Outstanding Long Term Debt measured at the time new exposure is being evaluated.
 - b) No Potential Gross Negative Exposure per Counterparty should exceed 2% of Total Outstanding Long Term Debt measured at the time new exposure is being evaluated.
 - c) Mark to Market exposure per Counterparty should be evaluated and managed based on creditworthiness of counterparty.
2. MTA or TBTA, as appropriate, will evaluate the cost of exposure mitigating techniques and strategies including but not limited to the use of early termination features.

Basis Risk

The basis, or index, chosen as part of the payment agreement should be appropriate to the management of the related obligations relevant to the overall interest rate exposure of the Authority. Such selection should be reasonably expected to limit variations between the payments for the hedged Obligations against payments provided by a Payment Agreement employing the index. The Authority may enter into Payment Agreements containing known basis risk if such risk is reasonably expected to lower its cost.

Commodity Price Based Payment Agreements

Exposure Limits

Commodity hedges will be executed on a periodic basis for the sole purpose of hedging or mitigating commercial risk by reducing budgetary volatility related to the commodity being hedged.

Basis Risk

The basis, or index, chosen as part of the Payment Agreement should be appropriate to the management of the commodity. Such selection should be reasonably expected to limit variations between the hedging instrument and the hedged commodity. The Authority may enter into Payment Agreements containing known basis risk if such risk is reasonably expected to lower its cost.

F. SWAP ADVISOR

The MTA and TBTA must hire a third party Swap Advisor for all negotiations and transactions. Such Advisor should have a proven history of experience with municipal swap transactions. Swap Advisor must comply with requirements of the Dodd-Frank Act, including but not limited to, requirements for a Qualified Independent Representative. Swap Advisor will provide representations and enter into agreements consistent with the requirements of the Dodd-Frank Act, and Swap Advisor will comply with Dodd-Frank

Act ongoing requirements and provide prompt notice to MTA and swap counterparty of any representation that becomes incorrect or misleading in any material respect.

G. REPORTING REQUIREMENTS

Current Review of Existing Hedges

Payment Agreements will be reported quarterly in the MTA Consolidated Finance Statements with respect to the information required by generally accepted accounting principles, including the following:

1. The status of individual Payment Agreements in effect, including notional amount, rates, terms, basis employed, and rating of counterparties;
2. Mark-to-market levels of net credit exposures to the Authority by individual counterparties, and collateralization that has been provided, when deemed necessary;
3. Summary of the terms and conditions of any Payment Agreement that has been executed since the previous report.

MTA and TBTA will comply in good faith with policies and procedures reasonably designed to ensure that the QIR satisfies the Dodd-Frank Act requirements and the MTA and TBTA will monitor the QIR performance on an ongoing basis.

Performance of Hedges

Hedge performance will be reported annually to the Finance Committee of the MTA Board with respect to the following

1. Any material change in the hedge effectiveness as it relates to GASB or actual financial performance for the current fiscal year;
2. The hedged and un-hedged price volatility for the current fiscal year for any commodity hedge.