

2006 CEFA Bond
and
Swap Transaction

Transaction Overview

Board wanted us to move quickly to capture favorable long-term rates

Two options (Board Meeting 1/06)

- Issue traditional fixed rate bonds – 4.3%
- Issue “synthetic fixed rate” bonds – 3.6%
 - variable rate bonds
 - swap into fixed rate

Caltech issued \$165 million in variable rate bonds

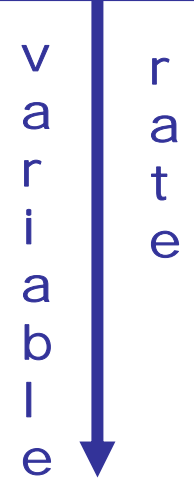
- \$76 million to refund 2003 bonds
- \$88 million to fund construction projects
- \$1 million fees and expenses

Swap (3/06)

- \$165 million notional amount
- 30-year tenor
- BNY winning bidder as counterparty
- 3.549% fixed rate

Current fixed rate 4.6% (7/06)

Caltech



Bondholders

Caltech

fixed rate (3.549%)



BNY

variable rate (67% LIBOR)



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Bondholders

SWAP TRANSACTION

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Caltech

fixed rate (3.549%)



variable rate (67% LIBOR)

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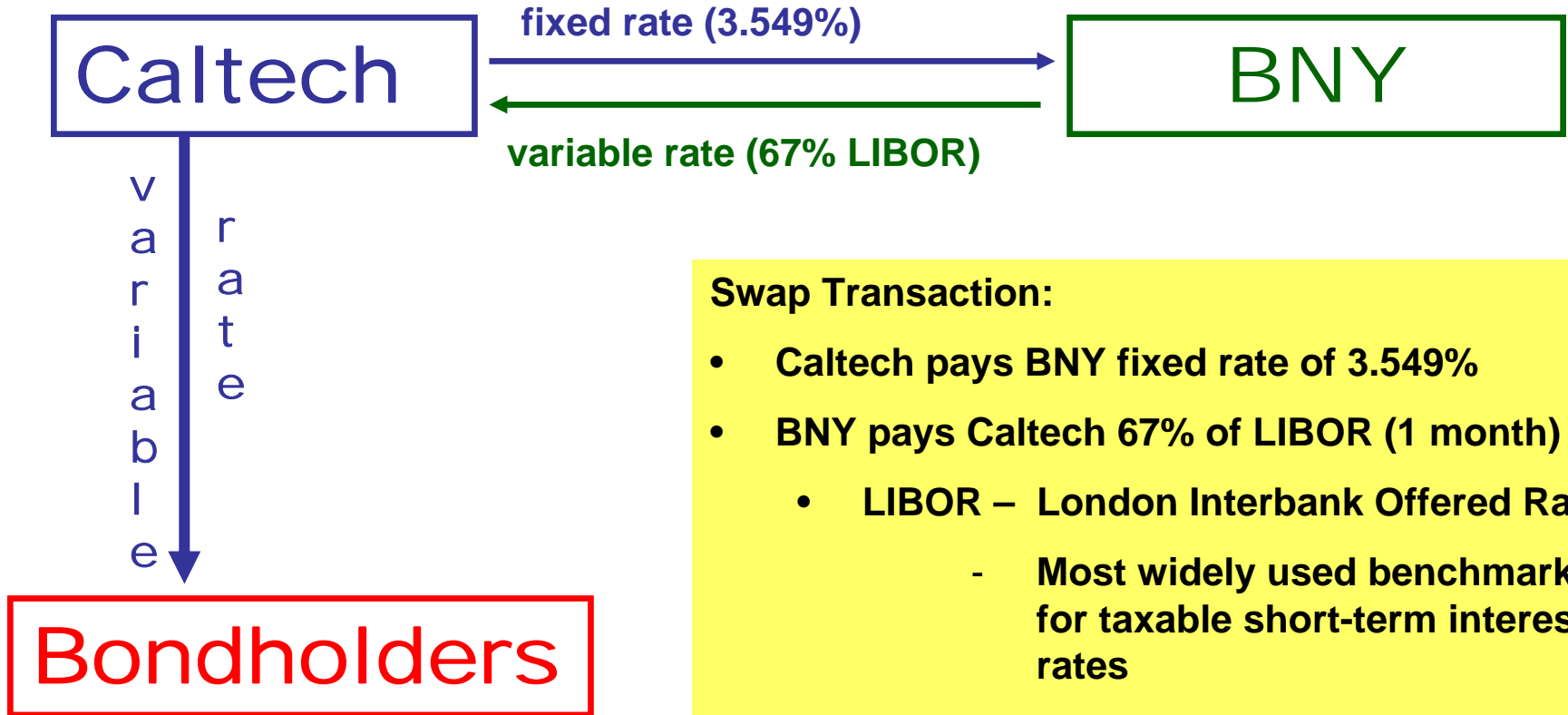
Bondholders

Variable rate paid to bondholders:

- Reset weekly by remarketing agents (Prager & Morgan Stanley); fee = 7.5 bps
- Rates determined by supply and demand in tax exempt market
- Caltech's rates are typically less than the index (BMA)
- Invoice sent monthly by US Bank due first business day of the following month

SWAP TRANSACTION

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Swap Transaction:

- Caltech pays BNY fixed rate of 3.549%
- BNY pays Caltech 67% of LIBOR (1 month)
 - LIBOR – London Interbank Offered Rate
 - Most widely used benchmark for taxable short-term interest rates
 - Calculated daily by the British Bankers' Association
- BNY calculates both sides and the net monthly
- Net paid by either BNY or Caltech

Example

Caltech pays to bondholders	3.490%
Caltech receives from BNY (67% LIBOR)	-3.620%
Caltech pays BNY (fixed rate)	3.549%
Remarketing Fee	<u>0.075%</u>
Net Borrowing Rate	3.496%

Swap Valuation

- Swap is also a financial asset or liability
- Caltech pays 3.549%, receives 67% LIBOR
- Basically, when LIBOR is **HIGHER** than projected when swap priced (3/06), swap is an **ASSET**
- Conversely, when LIBOR is **LOWER** than projected when swap priced, swap is a **LIABILITY**
- BNY sends valuation (AKA mark-to-market) monthly
- Change to the valuation booked as unrealized gain or loss