

Open Market Escrow Defeasance

An open market escrow to retire (defease) debt can be sized and structured in the ERIN/muni software in three steps:

1. **Selecting** the set of open market candidate securities. These are the securities from which the final escrow set of securities will be constructed.
2. **Pricing** the set of candidate securities.
3. **Solving** the final escrow.

1. Selecting the set of open market candidate securities:

From the main menu click on Define and then click “Select Open Markets for Escrow”. At this point the following screen is displayed. Enter the name (e.g. OMSCANDIDATE) of the OMS component file that is to contain the selected candidate securities. Then enter the name (e.g. OLD1994, CSHRQMTS, AGGREFUND) of the debt component that contains the debt service payments (the “requirements”) to be escrowed. The final escrow that will ultimately be sized and structured (in step #3) will retire the debt entered here. Note the settlement date must be entered and finally the “codes” of the securities that are to be selected. In this example the selection is to be made from Treasury STRIPS, Bills and Notes/Bonds (codes 1, 5 and 6). Click on the Select button when the required entries have been made.

Choose Open Market Securities for Open Market Escrow

Enter Name of OMS file: Enter Security #'s to Select (e.g. 1 5 6)
Debt Service to Escrow:
Settlement Date for Escrow:
 Escrow to Maturity
1= U.S. Treasury STRIPs
5= U.S. Treasury Bills
6= U.S. Treasury Nts/Bnds
11= REFCOs
17= SLGs
 Show "Near" Only

Double Click Row to Select or Unselect an OM

| # | Rqmt Dates | Sec Type | Maturity | Select? | Coupon | CUSIP |
|----|------------|----------|----------|---------|--------|-------|
| 1 | | | | | | |
| 2 | | | | | | |
| 3 | | | | | | |
| 4 | | | | | | |
| 5 | | | | | | |
| 6 | | | | | | |
| 7 | | | | | | |
| 8 | | | | | | |
| 9 | | | | | | |
| 10 | | | | | | |
| 11 | | | | | | |
| 12 | | | | | | |
| 13 | | | | | | |
| 14 | | | | | | |
| 15 | | | | | | |
| 16 | | | | | | |
| 17 | | | | | | |
| 18 | | | | | | |

The body of the screen (the “grid”) is then filled with the first of the candidate securities read from the open market database (the ERINOMS.sf file supplied by ERIN Analytics). Column 1 displays the requirement dates to help in the selection of the candidate securities. In the following observe that the first escrow requirement date is 11/1/2003 and the securities that may be selected for this date are identified in columns 2, 3, 4 and 5 (the CUSIP number field). To select a security for inclusion into the OMSCANDIDATE

component file simply double left click the “Select?” column on the row adjacent to the desired security. A “Yes” notation will appear indicating a selected security. Un-select a security by double left clicking the cell with the “Yes” notation.

Choose Open Market Securities for Open Market Escrow

Enter Name of OMS file: Enter Security #'s to Select (e.g. 1 5 6)
 Debt Service to Escrow:
 Settlement Date for Escrow: Show "Near" Only
 Escrow to Maturity

Double Click Row to Select or Unselect an OM

| # | Rqmt Dates | Sec Type | Maturity | Select? | Coupon | CUSIP |
|----|------------|----------|------------|---------|----------|-----------|
| 1 | | STRIPs | 09/30/2003 | | | 912833YC8 |
| 2 | | STRIPs | 09/30/2003 | | | 912820GN1 |
| 3 | | T-Note | 09/30/2003 | | 2.750000 | 9128277D8 |
| 4 | | STRIPs | 10/15/2003 | | | 912833ND8 |
| 5 | | STRIPs | 10/31/2003 | | | 912833YK0 |
| 6 | | STRIPs | 10/31/2003 | | | 912820GP6 |
| 7 | | T-Note | 10/31/2003 | | 2.750000 | 9128277E6 |
| 8 | 11/01/2003 | | | | | |
| 9 | | STRIPs | 03/31/2004 | | | 912833YS3 |
| 10 | | STRIPs | 03/31/2004 | | | 912820GX9 |
| 11 | | T-Note | 03/31/2004 | | 3.625000 | 912828AA8 |
| 12 | | STRIPs | 04/15/2004 | | | 912833NF3 |
| 13 | | STRIPs | 04/30/2004 | | | 912833YT1 |
| 14 | | STRIPs | 04/30/2004 | | | 912820GY7 |
| 15 | | T-Note | 04/30/2004 | | 3.375000 | 912828AB6 |
| 16 | 05/01/2004 | | | | | |
| 17 | | T-Note | 09/30/2004 | | 1.875000 | 912828AL4 |
| 18 | | STRIPs | 10/15/2004 | | | 912833NH9 |

Continue selecting securities and when selection is completed hit the Esc key or click the X in the upper right corner of the screen. At this point the OMSCANDIDATE component file contains the candidate escrow securities. Depending on the escrow solution not all candidate securities may appear in the final escrow.

2. Pricing the Open Market Candidate Securities:

Return to the main menu screen and click the Define drop down menu. Then click the “Price Open Markets” menu item. This presents the following screen. Enter OMSCANDIDATES in the name field and depress the Tab key to display the candidate securities from the selection step.

DMS Component Name: Title:
 Settlement Date:

Price off Curves

| | Use? | Sec Type | Maty Date | \$ Price | Yld/Disc | Coupon | Amount | Cost/Proceeds |
|---|------|----------|------------|----------|----------|----------|--------|---------------|
| 1 | Yes | T-Note | 10/31/2003 | | 4.000000 | 2.750000 | 0.00 | 0.00 |
| 2 | Yes | STRIPs | 04/30/2004 | | | | 0.00 | 0.00 |
| 3 | Yes | T-Note | 10/31/2004 | | | 2.125000 | 0.00 | 0.00 |
| 4 | Yes | STRIPs | 04/15/2005 | | 4.000000 | | 0.00 | 0.00 |
| 5 | Yes | STRIPs | 10/15/2005 | | 4.000000 | | 0.00 | 0.00 |

Prin Cost = \$0.00 **Acc Int = \$0.00** **Total Cost = \$0.00**

Now obtain prices or yields from a reliable pricing source and enter them into the proper column. Alternatively the “Price off Curves” feature may be used. For precision pricing, however, prices and/or yields should be explicitly entered. When the prices have been entered hit the Esc key or click X in the upper right corner of the screen to return to the main menu.

Do not enter any amounts into the “Amounts” column if you want the final escrow solution to have a free hand in sizing and structuring the final escrow. If, however, you wish to “force” an amount of a specific security number of bonds to be included in the final escrow enter the amount of these bonds into the “Amount” column. The final escrow portfolio of securities will include the bonds explicitly entered plus the required number of other securities to completely fill out the escrow.

If you wish to exclude a selected candidate from the final escrow solution simply type “No” in the “Use?” column.

3. Solving the final escrow:

From the main menu click the Solutions drop down menu and click the “Solve OMS Escrow” menu item. This presents the following screen.

Enter the settlement date, the name of the “candidates” component file (e.g. OMSCANDIDATES), the name of the OMS file (e.g. OMSFINALESC) that is to contain the calculated, final escrow, and the name of the debt service requirements component file (e.g. OLD1994). When the entries are complete click the Solve Escrow button to solve and display the escrow solution. The following is the escrow solution screen. The results of the escrow solution may be printed from the Reports menu.

| Description | | Values | | | | | |
|--|--|---------------|--|--|--|--|--|
| Open Market Escrow Analysis | | | | | | | |
| Cost of Securities Purchased for Escrow | | 54,340,574.26 | | | | | |
| Accrued Interest of Securities Purchased for Escrow | | 7,563.69 | | | | | |
| Initial Cash Deposit to Escrow | | 522.25 | | | | | |
| Total Cost of Escrow | | 54,348,660.20 | | | | | |
| Investment YLD (Based on Proceeds Arrival Dates) | | 3.99845598% | | | | | |
| Arbitrage YLD (Final Maty(s) May be "Rolled" into 0% SLGs) | | 3.92713556% | | | | | |
| Principal Amount of Bonds Defeased | | 63,175,000.00 | | | | | |
| Settlement Date for Investments | | 06/01/2003 | | | | | |
| | | 0.00 | | | | | |

| # | Date | Esc Matys | Esc Int | Idle\$Days | Othr Inv | Cash Rqmts | Balance |
|----|------------|---------------|-----------|------------|----------|---------------|---------------|
| 1 | 06/01/2003 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 522.25 |
| 2 | 10/31/2003 | 1,803,000.00 | 43,491.25 | 0.00 | 0.00 | 0.00 | 1,847,013.50 |
| 3 | 11/01/2003 | 0.00 | 0.00 | 0.00 | 0.00 | 1,846,557.50 | 466.00 |
| 4 | 04/30/2004 | 3,773,000.00 | 18,700.00 | 0.00 | 0.00 | 0.00 | 3,792,156.00 |
| 5 | 05/01/2004 | 0.00 | 0.00 | 0.00 | 0.00 | 3,791,557.50 | 598.50 |
| 6 | 10/31/2004 | 1,760,000.00 | 18,700.00 | 0.00 | 0.00 | 0.00 | 1,779,298.50 |
| 7 | 11/01/2004 | 0.00 | 0.00 | 0.00 | 0.00 | 1,778,482.50 | 816.00 |
| 8 | 04/15/2005 | 3,863,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 3,863,816.00 |
| 9 | 05/01/2005 | 0.00 | 0.00 | 0.00 | 0.00 | 3,863,482.50 | 333.50 |
| 10 | 10/15/2005 | 47,900,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 47,900,333.50 |
| 11 | 11/01/2005 | 0.00 | 0.00 | 0.00 | 0.00 | 47,900,332.50 | 1.00 |