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DEALS

'Swaption' Helps Dade County, Fla.

By Peter Heap

Dade County, Fla. has cut its debt service costs by more than \$750,000 in less than a year by adding a forward "swaption" to an innovative step-up swap already in place, according to derivatives dealer GBR Financial Products Co.

Don Rice, GBR's president and chief executive officer, said his firm made an upfront cash payment to Dade County in exchange for receiving the right to terminate the step-up, or "StairStep," swap two years early.

"The client had a view as to what was an attractive level of savings to achieve on a per annum basis in those later years," Rice said.

"We were able to give them today an amount of money that was greater than their view of what an acceptable savings level would be.

"We are accepting the risk that at some point it will be possible to terminate the swap and interest rates will be low enough that we will be able to recover the value that we are giving away today."

GBR's vice president and senior trader Michael Murray said the municipality had in mind a dollar amount they thought the last two years of interest rate savings would approximate.

"As long as they are able to get from us the present value they would do the structure," Murray said.

The forward swaption, signed in late August, follows the StairStep swap arranged by GBR for Dade County in mid September 1994.

Under this deal, which runs for seven years on a \$40 million notional amount, the municipality pays a floating rate based on the Public securities Association index. In return it receives from GBR a fixed rate that increases each year, starting at approximately 3.5% in the first year. At the end it will be above 7%.

The forward swaption gives the derivatives firm the right to terminate the swap at the end of five years, eliminating the final steps.

"We moved the landing down the staircase," commented Rice.

He declined to reveal the upfront payment made to Dade County. However he said that the combined debt service savings from the step-up swap and the swaption came to more than \$750,000 since the first deal was signed.

- Peter Heap

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