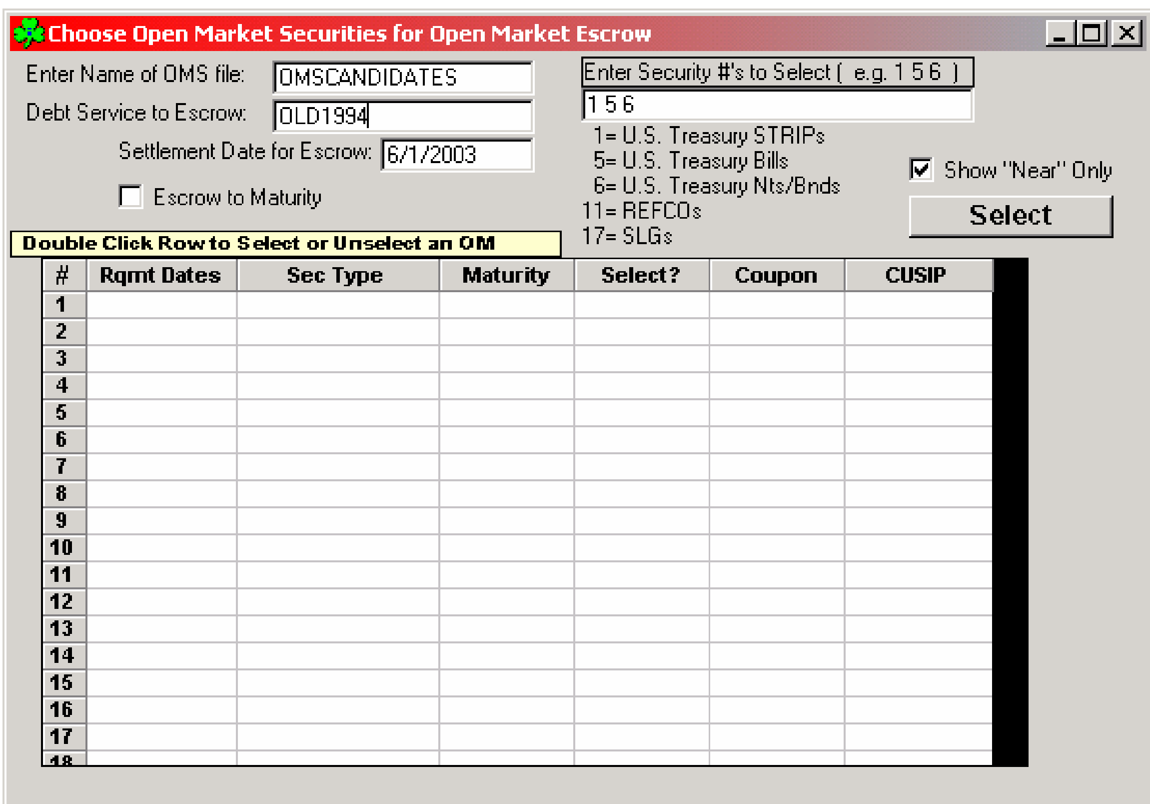
Open Market Escrow Defeasance

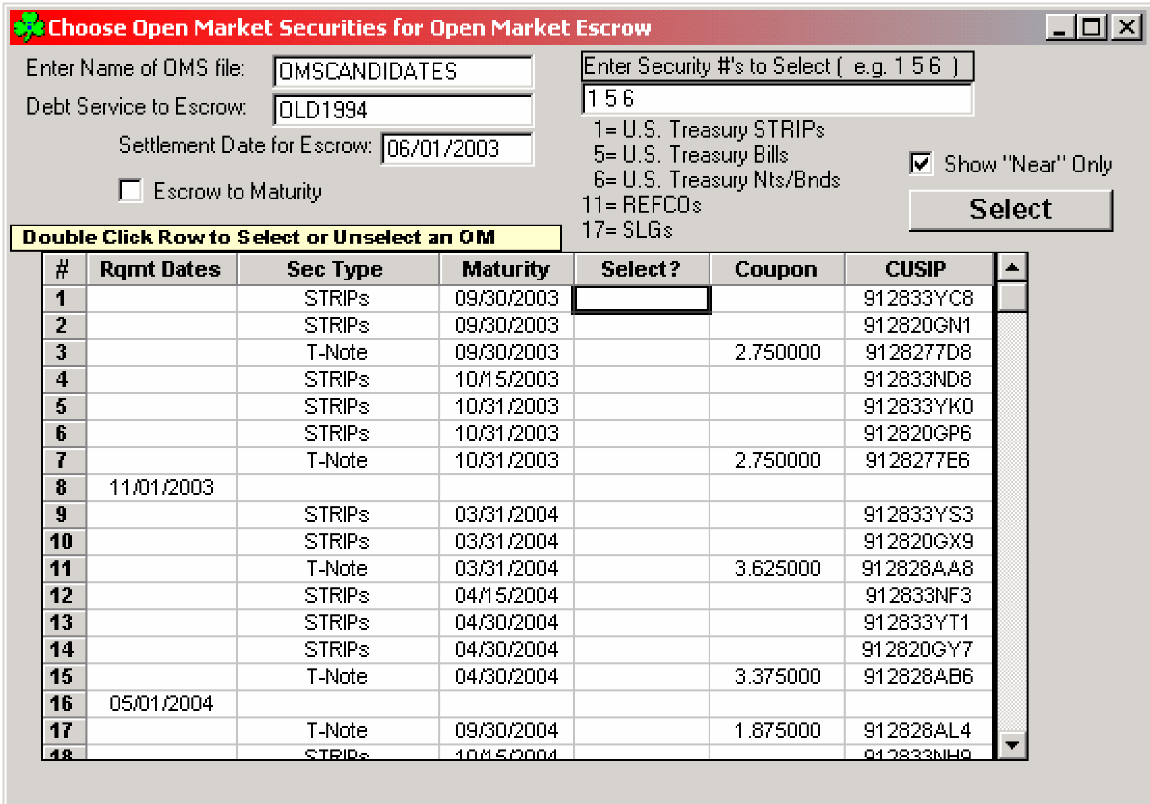
An open market escrow to retire (defease) debt can be sized and structured in the ERIN/muni software in three steps:

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.



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: OMSCANDIDATES

Debt Service to Escrow: OLD1994

Settlement Date for Escrow: 06/01/2003

Escrow to Maturity

Enter Security #'s to Select (e.g. 1 5 6)

1 5 6

1= U.S. Treasury STRIPs
5= U.S. Treasury Bills
6= U.S. Treasury Nts/Bnds
11= REFCOs
17= SLGs

Show "Near" Only

Select

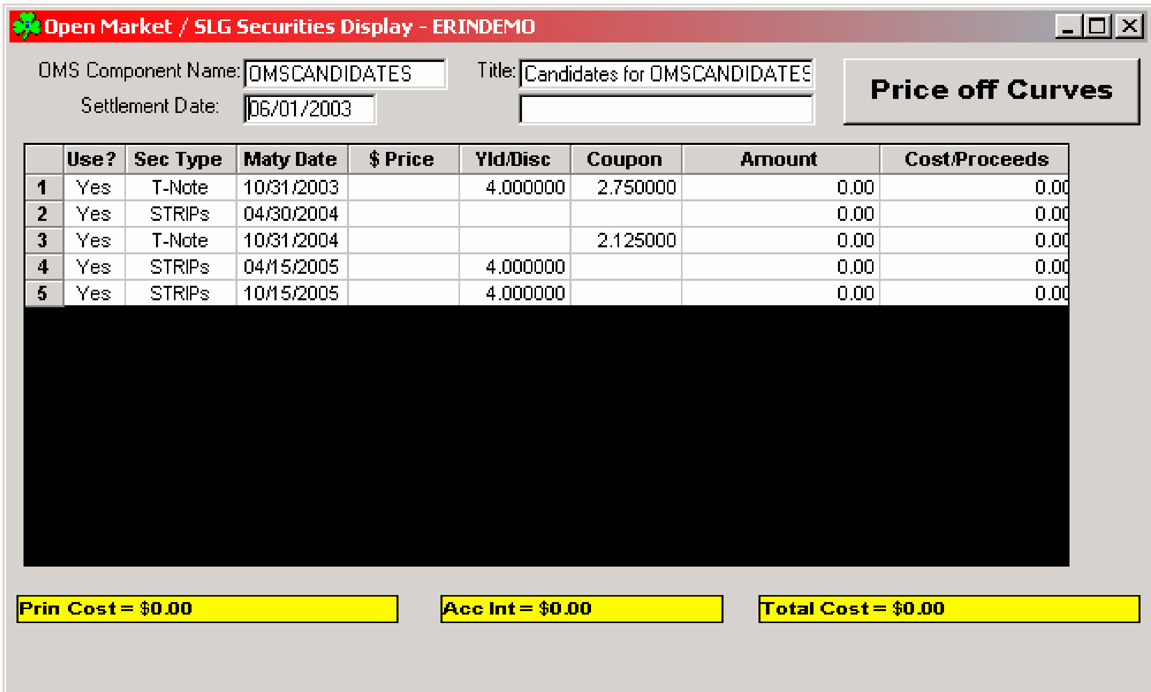
Double Click Row to Select or Unselect an OM

#	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.


Open Market / SLG Securities Display - ERINDEMO

OMS Component Name: OMSCANDIDATES Title: Candidates for OMSCANDIDATES

Settlement Date: 06/01/2003

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

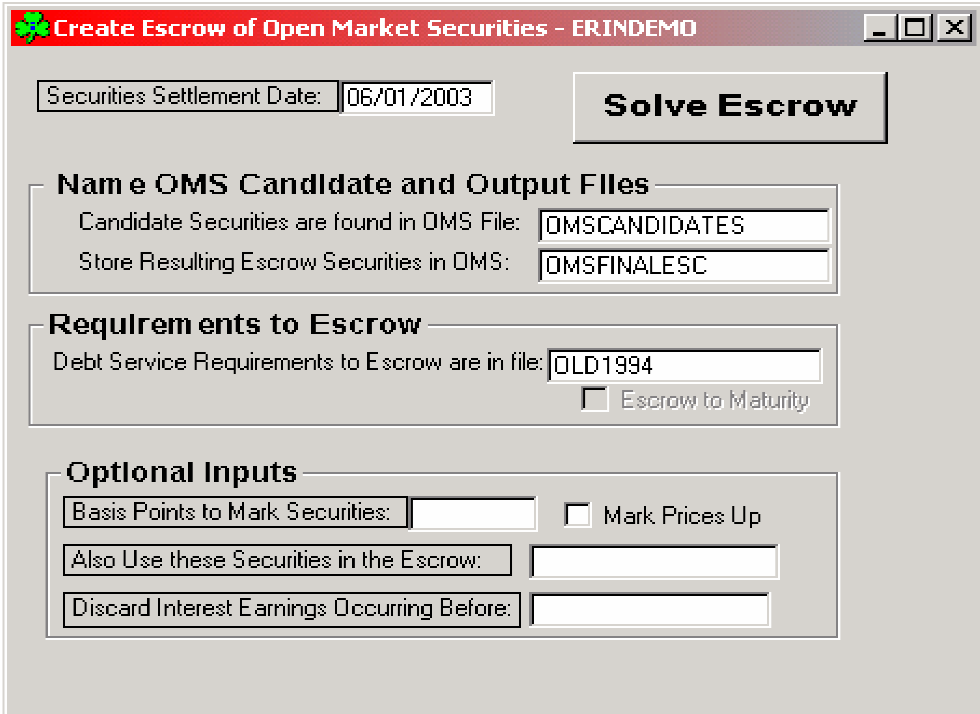
Now obtain prices or yields from a reliable pricing source and enter them into the proper column. Alternatively the "Price off Curves" feature may be used. For precision pricing, however, prices and/or yields should be explicitly entered. When the prices have been entered hit the Esc key or click X in 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.

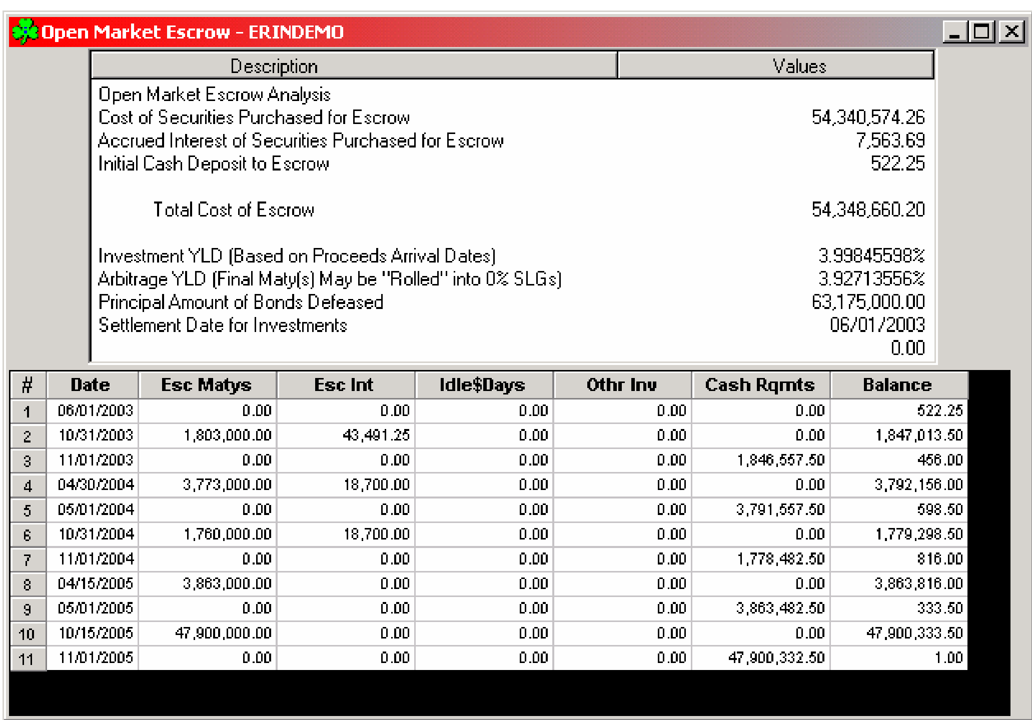
If you wish to exclude a selected candidate from the final escrow solution simply type "No" in the "Use?" column.

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.



Open Market Escrow - ERINDEMO

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	456.00
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