Approved by the Executive Committee
November 17, 2008

Executive Committee Meeting
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ROLL CALL

APPROVE NOVATION AGREEMENT LEHMAN BROTHERS INTEREST RATE SWAP

Action: Approve Novation Agreement Transferring the Lehman Brothers Interest Rate Swap to a New Counterparty and Delegate Authority to the Vice President/CFO and Comptroller to approve the Final Terms of the Agreement

Funding: Proceeds from the Replacement Interest Rate Swap and Institutional Funds

The Board, at its meeting on March 13, 2007, approved the issuance of a forward starting variable-to-fixed interest rate swap (the "Swap") in anticipation of the issuance of the Variable Rate Demand Health Services Facilities System Revenue Refunding Bonds, Series 2007 (the "Series 2007 Bonds"). The Swap agreement was entered into with Lehman Brothers Commercial Bank (the "LBCB") on April 2, 2007. The Series 2007 Bonds were redeemed with the proceeds of the issuance of the Variable Rate Demand Health Services Facilities System Revenue Refunding Bonds, Series 2008. The Swap agreement remained in effect as amended pursuant to an Amendment dated June 17, 2008. The Board receives payments from the LBCB equal to 68 percent of the one-month London Interbank Offered Rate ("LIBOR") multiplied by an amount equal to the scheduled original par amount of the Series 2007 Bonds (the "Notional Amount"). The Board pays the LBCB a payment equal to 3.534 percent times the Notional Amount.

Due to the credit crisis, LBCB's parent, Lehman Brothers Holdings, Inc. ("LBHI") declared bankruptcy on September 15, 2008. The bankruptcy of LBHI caused LBCB to be downgraded, which constituted a Termination Event under the Swap. Currently, the University is the net payer on the Swap. The value of the Swap is approximately $2.8 million in favor of LBCB. If money market and capital market conditions change, two events could occur. First, the value of the Swap could swing in favor of the University, in which case LBCB would have to post collateral to secure the University. It is highly unlikely that LBCB would post collateral. As a result, the University would become an unsecured creditor of LBCB. Second, LBCB could become the net payer on the Swap. It is unlikely that LBCB would make its payments to the University.

Because of these risks, the staff has been looking for alternatives to transfer the Swap to a stronger counterparty. Kevin Hoecker, Scott Balice Strategies (the "Financial Advisor"), Lewis Greenbaum, Katten Muchin Rosenman LLP (the "Bond Counsel") and Amory Cummings, Freeborn & Peters LLP (the "Special Counsel to the University") have been advising the University.

LBHI has hired Alvarez and Marsal to run the Market Quotation process to terminate in-the-money swaps and transfer the swaps to new counterparties. The Financial Advisor estimates that the winning bid for a replacement swap (with the same terms as the existing Swap) will be approximately $1.8 million plus costs capped at

5 percent of the bid. The Financial Advisor is negotiating to increase the cap to cover the estimated $125,000 in costs. Should actual costs exceed the cap, the excess would be paid from Institutional Funds. This variation of the Market Quotation process reduces risk to the University. LBCB, the University and the new counterparty will sign a tri-party International Swaps and Derivatives Association ("ISDA") Novation Agreement (the "Novation"). The Novation releases and discharges the obligations by and between LBCB and the University.

All legal matters incidental to the authorization and approval of the ISDA Novation Agreement and replacement swap will be approved by Katten Muchin Rosenman LLP, Chicago, Illinois, Bond Counsel; and Freeborn & Peters LLP, Chicago, Illinois, Special Counsel to the University.

The Vice President/Chief Financial Officer and Comptroller recommends that the Executive Committee of the Board:

1. Authorize and approve the form of the ISDA Novation Agreement.[1]

2. Approve the form of the replacement ISDA Master Agreement, Schedule, Credit Support Annex, and Confirmation with substantially the same economic terms as the Lehman Brothers

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[1]A copy is filed with the Secretary of the Board for record and the appropriate officers of the Board are hereby authorized and directed to execute the same in the name of and on behalf of the Board in substantially the form presented to this meeting, or with such changes as may be approved by the officer or officers of the Board executing the same, his/her or their execution thereof to constitute conclusive evidence of the Executive Committee's approval of all changes from the form thereof presented to this meeting; provided, however, that if any such changes constitute a substantial change in the form thereof presented to this meeting they shall first be approved by Board of Trustees or by the Executive Committee of the Board to which authority for such approval is delegated by the Board.

interest rate Swap (including, if the new counterparty is a foreign financial institution, the Multicurrency- Cross Border ISDA Master Agreement).[1]

3. Delegate to the Vice President/Chief Financial Officer and Comptroller the authority to determine final terms of the ISDA Novation Agreement and replacement Swap within the limits expressed in this action.

4. Authorize and empower the Vice President/Chief Financial Officer and Comptroller and other officers of the Board to do and perform such other acts and things; and to make, execute, and deliver all such other instruments and documents on behalf of the Board as may be by them deemed necessary or appropriate in connection with the ISDA Novation Agreement and replacement swap; and all acts and things whether heretofore or hereafter done or performed by and of the officers of the Board which are in conformity with the intents and purposes of these resolutions shall be and the same are hereby in all respects, ratified, confirmed, and approved.

The Board action recommended in this item complies in all material respects with applicable State and federal laws, University of Illinois *Statutes*, *The General Rules Concerning University Organization and Procedure*, and Board of Trustees policies and directives.

Funding will be available from the proceeds of the replacement Swap or Institutional Funds.

The President of the University concurs.