

Interest Rate Basis Swap Term Sheet

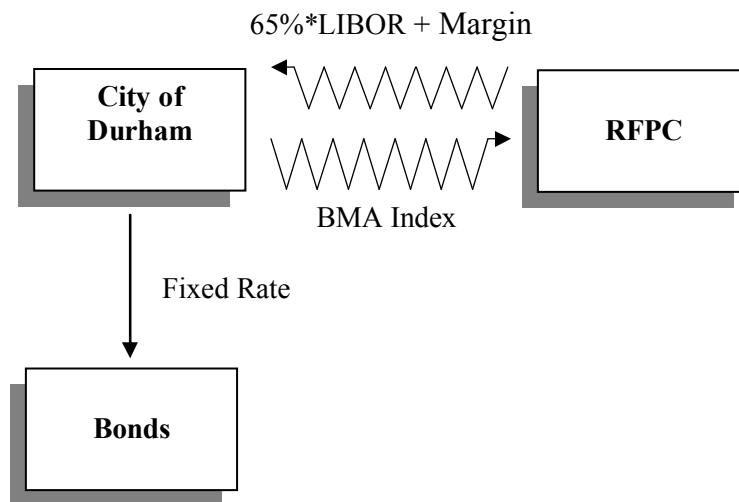
City of Durham 5/5/2006

Overview of the Transaction

Purpose of the Transaction: To reduce expected debt service costs on certain maturities of the City of Durham's (the "City") outstanding General Obligation fixed-rate bonds (the "Bonds").

Expected Savings: minimum of 4% of notional amount assuming the BMA Index equals 67% of LIBOR over swap term

City Pays on Swap: BMA Index
City Receives on Swap: $(65\%)*\text{LIBOR} + \text{Margin TBD}^1$
Ongoing costs: N/A (no LOC fee, remarketing fee, Trustee/Paying Agent Fees)



Summary of General Swap Provisions

Counterparty: Rice Financial Products Company, LLC ("RFPC")
Ratings: N/A

Counterparty Risk: All payments to the City will be guaranteed by RFPC's Credit Support Provider, Bank of New York, N.A. (Aa2/AA-)

¹ Indicative Margin was 58 bps on 3/24/06 at 65% of LIBOR

City Risk: All payments from the City will be a contractual obligation subject to the limitations set forth in Section 160A-209(c)(10) of the General Statutes of North Carolina, but not subject to annual appropriation.

Notional Amount: \$TBD, subject to 4% minimum expected savings threshold, amortizing in accordance with principal reduction on the related General Obligation Bonds shown in the Appendix

Swap Execution Date: TBD (May 2006 expected)

Swap Effective (start) Date: TBD (May 2006 expected)

Final Maturity: February 1, 2021

Payment Dates: net on March 1 and September 1 to match payment dates on Bonds (net on an individual transaction basis only)

Floating Rate 1 Payer: City

Floating Rate 1 Index: BMA Index

Floating Rate 2 Payer: RFPC

Floating Rate 2 Index: 65%*1-Month LIBOR + Margin (TBD)

Index Conversion Option: N/A

Swap Termination Provisions

Optional Termination:

City's Option to Terminate the Swap: at any time upon two days notice, at-market (no consent or approval just justified ability to pay)

Counterparty's Option to Terminate the Swap: Credit Event only (subject to Credit Support Provider approval)

Events of Default and Termination Events under the Swap Agreement:

(1) With respect to the City:

A. Events of Default

- Failure to Pay or Deliver (ISDA Standard)
- Breach of Agreement (ISDA Standard)
- Credit Support Default (ISDA Standard)
- Misrepresentation (ISDA Standard)
- Default Under Specified Transaction (ISDA Standard)
- Cross Default (ISDA Standard) with \$10,000,000 Threshold Amount
- Bankruptcy (ISDA Standard) with the following addition:
in the case of the Government Entity, any Credit Support Provider of such Government Entity or any applicable Specified Entity of such Government Entity, there shall be appointed or designated with respect to it, an entity such as an organization, board, commission, authority, agency or body to monitor, review, oversee, recommend or declare a financial emergency or similar state of financial distress with respect to it
- Merger Without Assumption (ISDA Standard as modified by provisions of Schedule)

B. Termination Events

- Illegality (ISDA Standard)
- Credit Event Upon Merger (ISDA Standard as modified by provisions of Schedule) (materially weaker)
- Additional Termination Event:
City has either (1) no issues of rated senior debt or (2) one or more outstanding issues of rated senior debt, but it fails to have at least one of such issues with an unenhanced rating (disregarding any insurance or other support with respect to such debt) of at least (i) Baa2 as determined by Moody's, (ii) BBB as determined by S&P or (iii) an equivalent investment grade rating determined by a nationally-recognized ratings service acceptable to both parties. (any rating below can not cure by collateral)

(2) With respect to the Counterparty (provider):

A. Events of Default

- Failure to Pay or Deliver (ISDA Standard)
- Breach of Agreement (ISDA Standard)
- Credit Support Default (ISDA Standard)
- Misrepresentation (ISDA Standard)
- Default Under Specified Transaction (ISDA Standard)
- Cross Default (ISDA Standard) with \$10,000,000 Threshold Amount
- Bankruptcy (ISDA Standard as modified by provisions of Schedule)
- Merger Without Assumption (ISDA Standard as modified by provisions of Schedule)

B. Termination Events

- Illegality (ISDA Standard)
- Credit Event Upon Merger (ISDA Standard as modified by provisions of Schedule)
- Additional Termination Event:
*RFPC's Credit Support Provider has either (1) no issues of rated senior debt or (2) one or more outstanding issues of rated senior debt, but it fails to have **any** such issues with an unenhanced rating (disregarding any insurance or other support with respect to such debt) of at least (i) Aa3 as determined by Moody's, (ii) AA- as determined by S&P or (iii) an equivalent investment grade rating determined by a nationally-recognized ratings service acceptable to both parties, provided, however, any such event will not be an Additional Termination Event if, within 60 days of such event RFPC furnishes City with a financial guaranty comparable to that provided by the Credit Support Provider with a rating of at least Aa2 from Moody's or a rating of at least AA- from S&P or RFPC delivers collateral to City under the terms and conditions of the Credit Support Annex (CSA)*
- *RFPC fails to post collateral in accordance with the terms of the CSA*
- *Credit Support Agreement between RFPC, City and Bank of N.Y. terminates*

Additional Credit Support Terms – Novation Agreement: The City or RFPC’s Credit Support Provider (assuming no Event of Default or Early Termination Event has occurred) can designate an Early Termination Date as a result of an Event of Default or Termination Event in respect of which RFPC is the Defaulting or Affected Party. In such case the terminated Transactions for all purposes thereof shall be treated in accordance with the terms of the Swap Credit Support Agreement as if the City and RFPC’s Credit Support Provider had entered into the New Agreement and the New Transactions, each as defined in the Swap Credit Support Agreement (the “Novation”) the terms of which shall be identical to this Agreement and all Transactions hereunder.

Method of Calculating Termination

Amount as a Result Of an Event of

Default or Termination Event: Market Quotation and Second Method

Requirement to post Collateral: RFPC only required to post collateral (1-way CSA)

Risks

Counterparty Risk: The City bears the risk of a payment default by RFPC/Credit Support Provider (Bank of New York) under the swap

Tax Risk: The City bears the risk that due to a change in U.S. tax law that eliminates or reduces the value of the tax-exemption of municipal bonds, it could incur negative cashflow under the swap.

Basis Risk: The City bears the risk that due to a temporary distortion in the relationship between short-term tax-exempt and taxable securities (e.g. a supply/demand imbalance) it could incur negative cashflow under the swap

Liquidity Risk: N/A

Termination Payment Risk: The City bears the risk that, in certain remote circumstances, it could be forced to make an involuntary early termination payment to RFPC under the swap, e.g. if the City suffered a severe credit ratings downgrade *and* the swap has a negative termination value.

Appendix

Notional Principal Amortization Schedule

Start Date	End Date	Notional
Effective	2/1/2011	106,760,000
2/1/2011	2/1/2012	98,660,000
2/1/2012	2/1/2013	8,435,000
2/1/2013	2/1/2014	75,375,000
2/1/2014	2/1/2015	62,895,000
2/1/2015	2/1/2016	52,510,000
2/1/2016	2/1/2017	43,435,000
2/1/2017	2/1/2018	35,050,000
2/1/2018	2/1/2019	27,565,000
2/1/2019	2/1/2020	20,710,000
2/1/2020	2/1/2021	15,460,000

NOTES

Please see draft ISDA Agreement for contract terms. Please consult City bond/swap counsel for questions on specific legal/contractual provisions.

Specified Indebtedness--- G.O. only

Specified Entity ---City only

Calculation Agent: RFPC/Bank of New York, as long as it is not a Defaulting Party.

180 days annual report

Confirm the City's ability to terminate swap without consent of anyone

Covered Indenture--- Credit Support provider pulled in thru Credit Support Documents

Security--- Continuing Obligation (Swap and termination payments at the same level)

Calculation Agent=== HSBC Bank USA

180 days annual report

Novation---credit support provider cancels existing swap and has identical swap with City thereafter with it and without Rice being a party (RFPC Termination Event under Credit Support Provider Agreement). Event of Default or Termination Event where RFPC defaults.

Credit Support Annex - one way collateral (only RFPC/Bank of New York required to post) City cannot cure ATE by collateral

Term---- 15 years

RFPC or PFM will provide periodic mark-to-market valuations

Jurisdiction---NY or NC

Expenses to extent permitted by law

Netting on an individual transaction basis only

Thereshold amount for default \$10,000,000 City; lesser of \$100,000,000 or 3% for Conterparty

Credit Support Annex will be executed

In credit support annex—collateral limited to 95% valuation (nothing allowed requiring a lower valuation)

Swap Credit Support Agreement between City of Durham, RFPC Capital Services, LLC and The Bank of New York