
New Jersey Completes $720 Million Exit From Derivative Contracts.

New Jersey has ended its experiment with derivative contracts.

Some of the proceeds for a $2.2 billion bond sale scheduled for next week from the state's Economic Development Authority will go toward termination fees for the final contracts ended in June. The state has paid $720 million to exit interest-rate swaps on about $4.2 billion in debt, according to Steven Petrecca, assistant state treasurer.

The administration of Governor Chris Christie decided to unwind the transactions after he assumed office in 2010. Bond documents for the sale said New Jersey officials began to enter into swaps in the 1990s and "more prevalently" in the early to mid-2000s.

"Truthfully, I don't think people really understood the risks that were there," Petrecca said in a telephone interview Friday. "Our view is that a plain vanilla portfolio is sometimes the best."

Derivatives known as swaps, in which two parties agree to exchange payments based on underlying assets or indexes, were sold to states and local governments as a way of saving taxpayers money. Since the 2008 financial crisis, municipalities have paid at least $9 billion to cancel the swaps, according to data compiled by Bloomberg. The contracts were supposed to reduce borrowing costs and protect them against rising payments.

Christie, who took office in 2010 and is a 2016 Republican presidential contender, inherited the swaps portfolio, which was connected to a "heck of a lot" of outstanding debt, Petrecca said.

In June, the Economic Development Authority terminated the contracts with eight counterparties on $1.15 billion in debt, the last such agreements backed by the state, bond documents show.

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Romy Varghese

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