University of Amsterdam

Fact sheet

Swaps

The University of Amsterdam (UvA) has used simple swaps since 2008 to hedge the risk of interest rate fluctuations. Out of the total of nine swaps, four have been converted into a fixed-interest loan on 3 December 2018.

Why does the UvA have swaps?
When the UvA wanted to attract financing in 2008 in order to realise its real estate plans, fixed-rate loans were hardly available. In order to cover fluctuations in the interest rate and gain greater certainty, it was decided to purchase swaps. In this way, the UvA never paid more than 5 per cent interest, and usually less.

Did the UvA suffer any losses on the swaps?
No, the UvA uses only the simplest swaps – in which short-term interest rates are swapped against long-term interest rates, without any obligation to make additional payments.

If that is the case, why convert the swaps into loans?
One of the Finance Committee's recommendations was to simplify financing methods. In 2016, the Executive Board agreed with the representative advisory bodies to examine whether this was possible, by consulting with the banks on the matter. This conversion makes the financing structure simpler and more transparent.

Did the UvA have to pay any penalties or make additional payments?
No. The settlement does not involve any costs. No transaction costs will be charged and the UvA will not be paying more interest.

How is that possible, given that the swaps are recorded at an amount of minus €57.4 million in the most recent annual report?
That is the difference between the variable day interest rate and the future amount of interest liabilities over the entire term – but does not represent the amount of costs payable upon conversion. In this conversion, the interest liabilities are converted into ordinary loans, and the obligation to pay interest continues to exist. The amount of the interest in the loan contract is equal to the amount of the swap contract. As a result, the conversion was cost neutral.

Will all swaps be converted?
No, the UvA is converting some of the swaps. The UvA does not want to incur extra costs or abandon its protection against interest rate risks. This has been thoroughly discussed with both financing partners. It wasn't possible to immediately convert all swaps. The UvA is still in talks about converting the remaining swaps.

How many swaps will be converted?
The UvA has seven loans and nine swaps (i.e. prior to the conversion). The conversion involves four loans with four swaps, which will be replaced with fixed-interest contracts. Accordingly, after the conversion, three variable-interest loans will remain, which are protected against interest rate risks by five swaps.

Does this have any consequences for the UvA, for instance for its liquidity and solvency?
This conversion has no effect on the UvA's ratios. That’s because the amount of funds borrowed is not changing, there are no payments putting pressure on the result and the future interest liabilities are unchanged.