

**CITY OF SEGUIN**  
**INVESTMENT POLICY**

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## I. POLICY STATEMENT

It is the policy of the City of Seguin to invest public funds in a manner which will provide the maximum security of principal invested with secondary emphasis on providing the highest yield while meeting the daily cash flow needs of the City and conforming to the Public Funds Investment Act, Tex. Gov't. Code Ann., Chapter 2256.

## II. SCOPE

This Investment Policy applies to all of the investment activities of the City of Seguin. This policy establishes guidelines for those who can invest authorized funds, how City funds will be invested, and when and how a periodic review of investments will be made. In addition to this Policy, bond funds (as defined by the Internal Revenue Service) shall be managed by their governing resolution and all applicable State and Federal Law.

All the listed funds will be pooled for investment purposes. The strategy developed for this pooled fund group will address the varying needs, goals and objectives of each fund. These funds are accounted for in the **City of Seguin's Comprehensive Annual Financial Report** and include:

- a. General Fund
- b. Special Revenue Funds
- c. Debt Service Funds
- d. Capital Projects Funds
- e. Enterprise Funds
- f. Internal Service Funds
- g. Trust and Agency Funds
- h. *(Any new fund created, unless specifically exempted)*

This investment policy shall apply to all transactions involving the financial assets and related activity for all foregoing funds. However, this policy does not apply to the assets administered for the benefit of the City by outside agencies under deferred compensation programs.

## III. INVESTMENT OBJECTIVES

### Objectives and Investment Strategy

The City of Seguin shall manage and invest its cash with the primary objectives of, listed in order of priority:

- **Safety** and preservation of principal
- Maintenance of sufficient **liquidity** to meet operating needs
- **Public trust** from prudent investment activities
- Optimization of **interest earnings** on the portfolio
- Diversification of investments

The safety of the principal invested always remains the primary objective.

## **PRESERVATION and SAFETY of Principal**

The primary objective of all investment activity is the preservation of capital and the safety of principal in the overall portfolio. Each investment transaction shall seek to ensure first that capital losses are avoided. The objective will be to mitigate credit and interest rate risk.

- ❑ Credit risk – The City will minimize credit risk, the risk of loss due to failure of the issuer, by:
  - Limiting investments to the safest types of investments
  - Pre-qualifying the financial institutions and brokers/dealers with which the City will do business
  - Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.
- ❑ Interest Rate Risk – the City will minimize the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates, by:
  - Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity
  - Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

## **Maintenance of Adequate LIQUIDITY**

The investment portfolio will remain sufficiently liquid to meet the cash flow requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements; investing in securities with active secondary markets; investing in local government investment pools; and maintaining appropriate portfolio diversification.

## **PUBLIC TRUST**

All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local laws. All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. Investment officers shall avoid any transaction that might impair public confidence in the City's ability to govern effectively.

## **Return on Investment YIELD**

The City shall invest local funds in investments that yield the highest possible rate of return while providing necessary protection of the principal consistent with the operating requirements as determined by the City.

## **DIVERSIFICATION**

The City's portfolio shall be diversified by market sector and maturity in order to avoid market risk.

### **Investment Strategy**

The City's investment program uses a "pooled" investment strategy where all moneys of all funds covered by this policy are combined and invested in a portfolio, which is stratified by various levels of maturities to meet the requirements of all working capital, construction and debt service funds. In some cases, one or more separate pools of funds may be established to meet specific requirements or yield restrictions for certain funds. By combining the net cash flows of all funds, the pooled investment strategy maximizes return on investment without sacrificing safety and liquidity because economies of scale can be taken advantage of to obtain better prices and reduce transaction and administrative costs. The dollar weighted average maturity for the pooled fund group will not exceed 18 months.

## **IV. RESPONSIBILITY AND CONTROL**

### **Authority to Invest**

The City Manager and Director of Finance are designated as the "Investment Officers" of the City. As Investment Officers they are authorized to invest, transfer, execute documentation, and otherwise manage City funds according to the Policy.

The Investment Officers shall attend investment training to include a total of ten hours of training in a two-year period, that begins on the City's first day of the fiscal year (October 1) and ending two consecutive fiscal years after that date (September 30). A newly appointed Investment Officer must attend a training session of at least 10 hours of instruction within twelve months of the date the officer took office or assumed the officer's duties. Training must include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act. The investment training session shall be provided by an independent source approved by the City Council. For purposes of this policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institution of higher education or any other sponsor other than a business organization with whom the City may engage in an investment transaction. These include, but are not limited to, Texas Municipal League, Government Finance Officers' Association, Government Finance Officers' Association of Texas, Government Treasurers' Organization of Texas, Texas City Managers' Association, International City Managers' Association, or University of North Texas.

### **Standard of Care**

The standard of care used by City of Seguin shall be the "prudent person rule" and shall be applied in the context of managing the overall portfolio within the applicable legal constraints. The Public Funds Investment Act states:

"Investments shall be made with judgment and care, under prevailing circumstances, that a person of

prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." (Sec.2256.006 H.B. No 2459)

All participants in the investment process shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the City.

### **Indemnification**

The Investment Officers, acting in accordance with written procedures and this policy, shall not be held personally liable for a specific security's credit risk or market price change, provided that any unexpected deviations are reported in a timely manner and that appropriate action is taken to control adverse developments.

### **Standards of Operation**

The City Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program consistent with this investment

### **Conflict of Interest**

An investment officer of an entity who has a personal business relationship with an entity seeking to sell an investment to the entity shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the Investment Officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity.

### **Compliance Audit**

In conjunction with the annual financial audit, the City's independent auditors will perform a compliance audit of management controls on investments and adherence to the City's established investment policies.

### **Monitoring**

Investment performance will be monitored and evaluated by the Investment Officers. Rating changes on investments acquired with public funds will be done on a weekly basis. Investment Pools will be monitored through the pool's website. All other investments will be monitored through an independent source. The investment officers will take all prudent measures that are consistent with its investment policy to liquidate an investment that does not meet the minimum rating.

## **V. SUITABLE AND AUTHORIZED INVESMENTS**

### **Authorized Investments**

Investments described below are authorized by the Public Funds Investment Act as eligible securities for the City. City funds governed by the Policy may be invested in:

1. Obligations of the United States, its agencies and instrumentalities; (excluding mortgage backed securities).
2. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by two nationally recognized investment rating firms not less than A or its equivalent.
3. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.
4. Certificates of deposit:
  - A. the funds are invested by the City through:
    - 1) a broker that has its main office or a branch office in Texas and is selected from a list adopted by the City, or
    - 2) a depository institution that has its main office or a branch office in Texas and is selected by the City.
  - B. the broker or depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City.
  - C. the full amount of the principal and accrued interest of each of the certificates of deposit is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor, the United States or an instrumentality of the United States; and
  - D. the City appoints the depository institution of the City, an entity described by Section 2257.041(d), Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City.
  - E. If the certificate of deposit is purchased from the City's depository, depository must insure there is sufficient FDIC coverage or collateralization for the CD and the rest of the City's funds.
5. Local government investment pools, which 1) meet the requirement of Chapter 2256.016 of the Public Funds Investment Act, 2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, 3) seek to

maintain a \$1.00 net asset value, 4) are authorized by resolution or ordinance by the City Council, 5) may invest its funds in money market mutual funds to the extent permitted by and consistent with Section 2256.016, Government Code and the investment policies and objective adopted by the investment pool, 6) must furnish the investment officer a statement regarding how yield is calculated, 7) when created to function as a money market mutual fund shall report yield to its investors in accordance with regulations of the federal Securities and Exchange Commission applicable to money market funds, 8) provide information in a disclosure instrument or report described in Section 2256.016 (b), (c) (2) and (f), Government Code must be posted on its internet website, 9) must make available annual audited financial statements, and 10) if the investment pool offers fee breakpoints based on fund balances invested, the investment pool in advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested

6. Money Market Mutual funds that are 1) registered and regulated by the Securities and Exchange Commission, 2) have a dollar weighted average stated maturity of 90 days or less, 3) rated AAA by at least one nationally recognized rating service, and 4) seek to maintain a net asset value of \$1.00 per share.
7. FDIC insured, brokered certificates of deposit securities from a bank in any US state, delivered versus payment to the City's safekeeping agent, not to exceed one year maturity.

### **Prohibited Investments**

The City of Seguin has no authority to use any of the following investment instruments, which are strictly prohibited:

- (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- (3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and
- (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.



## **VI. INVESTMENT PARAMETERS**

### **Diversification and Maturity Limitations**

It is the policy of the City of Seguin to diversify its investment portfolio. Invested funds shall be diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

U. S. Treasuries and securities having principal and interest guaranteed by the U. S. Government.....	no more than 95%..max. 3 yrs.
U. S. Government agencies, instrumentalities and government sponsored enterprises .....	no more than 80%..max 3 yrs .
Fully insured or collateralized CD's.....	no more than 75%..max 3 yrs.
Local Government Investment Pool.....	up to 100%, but no more than 75% in one pool
Money Market Mutual Funds insured by the U.S. Treasury.....	no more than 80%
Brokered CD Securities .....	no more than 75%, max 3 year

The Investment Officers shall be required to diversify maturities. The Investment Officers, to the extent possible, will attempt to match investments with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the Investment Officers will manage the portfolio to have an average maturity of no more than 18 months. Unless matched to a specific requirement, the Investment Officers may not invest any portion of the portfolio for a period greater than 3 years.

#### **Maximum Maturities:**

a.     **Operating Fund**

The weighted average days to maturity for the operating fund portfolio shall be less than 365 days.

b.     **Bond Proceeds**

The investment maturity of bond proceeds (excluding reserve and debt service funds) shall generally be limited to the anticipated cash flow requirement.

c.     **Debt Service Funds**

Debt Service Funds shall be invested to ensure adequate funding for each consecutive debt service payment. The Investment Officers shall invest in such a manner as not to exceed the "unfunded" debt service date with the maturity of any investment. An unfunded debt service date is defined as a coupon or principal payment date that does not have cash or investment securities available to satisfy said payment.

d. Bond Reserve Funds

Market conditions, Bond Resolution constraints and, if applicable, Arbitrage regulation compliance will be considered when formulating Reserve Fund strategy. Maturity limitation shall generally not exceed the call provisions of the Bond Resolution and shall not exceed the final maturity of the bond issue.

e. Other Funds

The anticipated cash requirements of other City funds will govern the appropriate maturity mix. Appropriate portfolio strategy shall be determined based on market conditions, Policy compliance, City financial condition and risk/return constraints. Maximum maturity shall not exceed three years.

## **VII. SELECTION OF BANKS AND DEALERS**

### **Qualified Institutions**

The City of Seguin shall invest City funds with any or all of the following institutions or groups consistent with federal and state law and the current Depository Bank contract:

- (1) Depository bank (CD's only);
- (2) Other state or national banks domiciled in Texas that are insured by FDIC;
- (3) Public funds investment pools;
- (4) Primary or secondary government securities brokers and dealers.
- (5) Eligible Money Market Mutual Funds

### **Depository (Chapter 105, Local Government Code)**

At least every five years, a Depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP). The selection of a depository will be determined by competitive bid and evaluation of bids will be based on the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state law.
- The ability to provide requested information or financial statements for the periods specified.
- The ability to meet all requirements in the banking RFP.
- Complete response to all required items on the bid form.
- Lowest net banking service cost, consistent with the ability to provide an appropriate level of service.

- The credit worthiness and financial stability of the bank.

### **Qualified Brokers/Dealers**

In accordance with the Public Funds Investment Act, Section 2256.005(k), a written copy of this investment policy shall be presented to any person seeking to sell to the City an authorized investment. The registered principal of the business organization seeking to sell an authorized investment shall complete the *Broker/Dealer Questionnaire* as provided in Appendix A of this investment policy and execute a written instrument substantially to the effect that the registered principal has:

- (1) received and thoroughly reviewed the investment policy of the City; and
- (2) acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization.

The City shall, at least annually, review, revise, and adopt a list of qualified brokers/dealers and financial institutions authorized to engage in securities transactions with the City.

The City shall not purchase investments from nor invest funds with a depository, institution, or broker/dealer who either currently boycotts Israel or will boycott Israel during the term of the investment or contract.

### **General Investment Practices**

All investment transactions shall be documented by the Investment Officers. The Investment Officers may make investments orally, but shall follow promptly with a written confirmation to the financial institution or broker/dealer, with a copy of such confirmation retained in the City's files.

On investments, which do not fall under provisions of the City's depository agreement, the Investment Officers may take competitive bids or negotiate with approved broker/dealers. At least three (3) quotations shall be taken for each competitive bid investment made. All broker/dealers must complete a broker/dealer questionnaire (Appendix A), be approved by the Investment Officers, and have a Certification (Appendix B) on file before any transactions transpire.

### **Delivery vs. Payment**

All security transactions done with the City will be held by the City's depository or the depositories corresponding bank on DVP (delivery versus payment) basis, with the exception of investment pools and mutual funds. Funds will be released after notification that the purchased security has been received.

## **VIII. SAFEKEEPING OF SECURITIES AND COLLATERAL**

### **Safekeeping**

The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure demand or time deposits. Securities owned by the City shall be held in the City's name as evidenced by safekeeping receipts of the institution holding the securities.

Securities pledged as collateral must be retained in an independent third party bank that is chartered in the State of Texas, and the City shall be provided the original safekeeping receipt on each pledged security. The City, financial institution, and the safekeeping bank(s) shall operate in accordance with a master safekeeping agreement signed by all three parties. Collateral may be held by the depository bank's trust department, a Federal Reserve bank or branch of a Federal Reserve bank, a Federal Home Loan Bank, or a third party bank approved by the City.

### **Collateralization**

Consistent with the requirements of the Public Funds Collateral Act, the City requires all banks and savings and loan association deposits to be federally insured or fully collateralized with eligible securities. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC. Financial institutions serving as City Depositories will be required to sign a Depository Agreement with the City and the City's safekeeping agent. The safekeeping portion of the Agreement shall define the City's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- the Agreement must be in writing.
- the Agreement has to be executed by the Depository and the City contemporaneously with the acquisition of the asset;
- the Agreement must be approved by the Board of Directors or the loan committee of the Depository and a copy of the meeting minutes must be delivered to the City;
- the Agreement must be part of the Depository's "official record" continuously since its execution.

#### **a. Allowable Collateral**

The City shall accept only the following types of collateral:

- Obligations of the United States or its agencies and instrumentalities

- Direct obligations of the state of Texas or its agencies and instrumentalities
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm not less than A or its equivalent with a remaining maturity of twenty (20) years or less

b. Collateral Substitution

Collateralized investments often require substitution of collateral. Any depository institution requesting substitution must contact the Investment Officers for approval and settlement. The Investment Officers, must provide written notification of the decision to the bank or the safekeeping agent holding the security prior to any security release.

The financial institutions with which the City invests and/or maintains other deposits shall provide monthly, and as requested by the City, a listing of the collateral pledged to the City marked to current market prices. The listing shall include total pledged securities itemized by:

name, type and description of the security;  
safekeeping receipt number;  
par value;  
current market value;  
maturity date; and  
Moody's or Standard & Poor's rating (both if available) .

### **Subject to Audit**

All collateral shall be subject to inspection and audit by the City or the City's independent auditors.

## **IX. PERFORMANCE**

### **Performance Standards**

The City's investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the City.

### **Performance Benchmark**

It is the policy of the City to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, the City shall seek to optimize interest earnings utilizing allowable investments available on the market at that time. Market value will be calculated on a quarterly basis on all securities owned and compared to current book value. The City's portfolio shall be designed

with the objective of regularly meeting or exceeding the average rate of return on U.S. Treasury Bills at a maturity level comparable to the City's weighted average maturity in days.

## **X. REPORTING**

### **Methods**

Internal management reports will be provided quarterly to the City Council. The internal management report will include but is not limited to.

- (1) A detailed description of the investment position for the City.
- (2) Contain a summary statement of each investment including:
  - (a) the beginning market value, additions and changes to the market value during the reporting period, the ending market value as of the reporting date, and fully accrued interest for the reporting period.
  - (b) book value and market value of each separately invested asset.
  - (c) state the compliance of the investment portfolio to the investment strategy and investment policy.
  - (d) state the maturity date of each separately invested asset that has a maturity date.
- (3) Be prepared jointly by all Investment Officers and contain all Investment Officers signatures.
- (4) State the pooled fund group for which each individual investment was acquired.

## **XI. INVESTMENT POLICY ADOPTION**

### **Policy Revisions**

The Investment Policy of The City of Seguin may be amended by recommendation of the Investment Officers and action of the City Council. Investment Policy revisions may become necessary with changes in state law, economy, and investment opportunities.

The Investment Policy of the City of Seguin shall be reviewed annually by the City Council. Any modifications made thereto must be approved formally by the City Council.

**APPENDIX A**

**BROKER/DEALER QUESTIONNAIRE**

**CITY OF SEGUIN**

- 1) Name of Firm:
- 2) Local Address: National Address:
- 3) Telephone:
- 4) PRIMARY REPRESENTATIVE / MANAGER / PARTNER-IN-CHARGE  
  
Secondary representative / manager / partner-in-charge
- 5) Are you a Primary Dealer in U.S. Government Securities?
- 6) What is the date of your firm's fiscal year end?
- 7) Attach certified documentation of your capital adequacy and financial solvency. In addition, an audited financial statement must be provided within 120 days of your fiscal year-end.
- 8) Is your firm owned by a holding company? If so, what is its name and net capitalization?
- 9) Identify all personnel who will be trading with or quoting securities to our employees (attach current resumes of all persons listed).
- 10) Please identify your most directly comparable clients geographical area.

BROKER/DEALER QUESTIONNAIRE  
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- 11) Have any of your public-sector clients ever sustained or claimed a loss on a securities transaction or loss of principal arising from a misunderstanding or misrepresentation of the risk characteristics of a recommended instrument purchased through your firm?
- 12) Has your firm ever been subject to a regulatory or state or federal agency investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of government securities of securities or money market instruments? If yes, please explain.
- 13) Please provide your wiring and delivery instructions.
- 14) Which instruments are offered regularly by your local desk?
- 15) Which of the above does your firm specialize in marketing?
- 16) What reports, transactions, confirmations and paper trail will we receive?
- 17) What precautions are taken by your firm to protect the interest of the public when dealing with government agencies as investors?



BROKER/DEALER QUESTIONNAIRE  
PAGE 3

- 18) What training would you provide for the employees and investment officers?
- 19) Do you participate in the SIPC Insurance Program? If not, please explain.
- 20) What portfolio information do you prefer from your clients?
- 21) Please include samples of research reports or market information that your firm regularly provides to clients.
- 22) Do you or your company currently boycott Israel?
- 23) Do you or does your company intend on boycotting Israel while doing business with the City of Seguin?

I do hereby certify that to the best of my knowledge, all of the foregoing statements and answers are true and correct and I am a qualified representative of my firm as defined in Section 2256.002(10) of the Government Code and Section II H above.

BROKER/DEALER

\_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

## **APPENDIX B**

### **Certification by Dealer**

This certification is executed on behalf of the City of Seguin and \_\_\_\_\_ (the Dealer) pursuant to the Public Funds Investment Act, Chapter 2256, Government Code, Texas Codes Annotated (the Act) in connection with investment transactions conducted between the City of Seguin and Dealer.

The undersigned Qualified Representative of the Dealer hereby certifies on behalf of the Dealer that:

1. The Dealer Qualified Representative is duly authorized to execute this Certification on behalf of the Dealer, and
2. The Dealer Qualified Representative has received and reviewed the Investment Policy furnished by the City of Seguin, and
3. The Dealer has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Dealer and the City of Seguin that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

**Dealer Qualified Representative**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name (Printed)

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

## **GLOSSARY OF INVESTMENT TERMINOLOGY**

**AGENCIES:** Federal agency securities.

**ASKED:** The price at which securities are offered.

**BASIS POINT:** A basis point equals one one-hundredth of 1% (.01%) .

**BID:** The price offered for securities.

**BOOK ENTRY SECURITIES:** All U.S. Treasury and Federal Agencies are maintained on computerized records at the Federal Reserve now known as “wireable” securities.

**BROKER:** A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.

**COLLATERAL:** Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**CERTIFICATE OF DEPOSIT:** A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for the dealer's own account.

**DELIVERY VERSUS PAYMENT:** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**DEBENTURE:** A bond secured only by the general credit of the issuer.

**DISCOUNT:** The difference between the cost price of security and its value at maturity when quoted at lower than face value.

**DISCOUNT SECURITIES:** Securities that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills. Interest is received at maturity.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities and financial institutions offering.

**FEDERAL CREDIT AGENCIES:** Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S & L's, small business firms, students, farmers, farm cooperatives, and exporters.

**FEDERAL FUNDS:** Non-interest bearing deposits held by member banks at the Federal Reserve.

**FEDERAL FUNDS RATE:** The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL DEPOSIT INSURANCE CORPORATION:** A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

**FEDERAL HOME LOAN BANKS:** The institutions that regulate and lend to savings and loan associations.

**FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC) :** A U. S. corporation and instrumentality of the U. S. Government. Through its purchases of conventional mortgages, it provides liquidity to the mortgage markets, much like FNMA. FHLMC's securities are highly liquid and widely accepted. FHLMC assumes and guarantees that all security holders will receive timely payment of principal and interest .

**FEDERAL NATIONAL MORTGAGE ASSOCIATION ( FNMA) :** FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing & Urban Development. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**FEDERAL OPEN MARKET COMMITTEE (FOMC) :** Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D. C. , 12 Regional Banks and about 5,700 commercial banks that are members of the system.

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae):** Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loans associations and other institutions. Security holder are protected by full faith and credit of the U.S. Government.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

**LOCAL AGENCY INVESTMENT FUND (LAIF):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurers for investment.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.

**MONEY MARKET:** The market in which short-term debt instruments (bills, commercial paper, banker's acceptances, etc.) are issued and traded.

**OPEN MARKET OPERATIONS:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank, as directed by the FOMC, in order to influence the volume of money and credit in the economy. Purchasers inject reserves into the bank system and stimulate growth of money and credit. Sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**PORTFOLIO:** Collection of securities held by an investor.

**PRIMARY DEALER:** A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight.

**PRIME RATE:** The rate at which banks lend to their best or "prime" customers.

**QUALIFIED REPRESENTATIVE:** a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

1. for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;
2. for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;
3. for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or
4. for an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that

Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price.

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held for protection.

**SECONDARY MARKET:** A market for the purchase and sale of outstanding issues following the initial distribution.

**SECURITIES & EXCHANGE COMMISSION:** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SETTLEMENT DATE:** The date on which a trade is cleared by delivery of securities against funds. This date may be the same as the trade date or later.

**TRADE DATE:** The date on which a transaction is initiated or entered into by the buyer or seller.

**TREASURY BILL:** A discount security issued by the U.S. Treasury to finance the national debt that matures from three months to one year.

**TREASURY BONDS:** Long-term U.S. Treasury securities having initial maturities of more than ten years.

**TREASURY NOTES:** Intermediate term U.S. Treasury securities having initial maturities from one to ten years.

**WHEN-ISSUED TRADES:** Typically, there is a delay between the time a new bond is announced and sold, and the time when it is actually issued. During this interval, the security trades "wi", "when, as, and if issued".

**YIELD:** The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD OR YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the security.