

**CITY OF HASLET**

**RESOLUTION NO. 024-2017**

**A RESOLUTION APPROVING THE INVESTMENT POLICY FOR FUNDS FOR THE CITY OF HASLET AND PROVIDING AN EFFECTIVE DATE.**

**WHEREAS**, Chapter 2256 of the Texas Government Code, also known as the Public Funds Investment Act (“PFIA”), requires the governing body of an investing entity to adopt by rule, order, ordinance, or resolution, a written investment policy regarding the investments of its funds; and

**WHEREAS**, once an investment policy has been adopted, the PFIA also requires the governing body to review the investment policy and investment strategies annually; and

**WHEREAS**, the PFIA states that the governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies; and

**WHEREAS**, the City Council desires to approve the Investment Policy;

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF HASLET, TEXAS:**

**Section 1.**

That the City Council has reviewed the attached Investment Policy for the City of Haslet and the policies and strategies contained therein (Attachment “A”)

**Section 2.**

That the City Council hereby adopts the attached Investment Policy as the City’s Investment Policy,

**Section 3.**

That all resolutions, or parts of resolutions in force with provisions relating to this resolution, which are inconsistent or in conflict with the terms or provisions contained herein, are hereby repealed to the extent of any such conflict only. The non-conflicting sections, sentences, paragraphs, and phrases shall remain in full force and effect.

**Section 4.**

That this resolution shall become effective immediately upon its passage and approval.

**Approved and adopted** at a regular meeting of the Haslet City Council on the 18th day of December, 2017.

*Bob Golden*

**Bob Golden, Mayor**

**ATTEST:**

*Dianna Buchanan*

**Dianna Buchanan, City Secretary**



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**CITY OF HASLET  
INVESTMENT POLICY**

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**I. INTRODUCTION**

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of Haslet (City) in order to achieve the goals of safety of principal, liquidity, yield, diversity and public trust for all investment activity. The City shall invest its funds under its control in accordance with this policy. This policy serves to satisfy the statutory requirement (specifically the Public Funds Investment Act, Chapter 2256, Texas Government Code) to define, adopt and review a formal investment strategy and policy.

**II. SCOPE**

This investment policy applies to all financial assets and funds of the City. These funds are accounted for in the City's Comprehensive Annual Financial Report (CAFR) and include:

General Fund	Municipal Court Building Security Fund
Water & Sewer Fund	Municipal Court Technology Fund
Type B HCEDC Fund	Park Improvement Fund
Park Fund	2015 C.O. Capital Projects
Impact Fees Fund	Library Board Fund
General Interest and Sinking Fund	General Fund Capital Projects
Water and Sewer Interest and Sinking Fund	Certificates of Obligation Capital Projects
Repair and Replacement Fund	General Fixed Assets
General Long Term Debt	Consolidated Cash
Type A HEDC Fund	

**III. LEGAL REQUIREMENTS**

Legal requirements applicable to the investment of public funds in Texas are:

A. Public Funds Investment Act

Requirements covering the investment of public funds are found in the Public Funds Investment Act, Chapter 2256, Texas Government Code (the Act).

B. Public Funds Collateral Act

Collateral requirements for all public funds deposits are found in the Public Funds Collateral Act, Chapter 2257, Texas Government Code.

Requirements concerning depositories for municipal funds are found in Chapter 105, Texas Local Government Code.

#### **IV. INVESTMENT OBJECTIVES & STRATEGIES**

The City shall manage and invest the assets of all of its funds with the following objectives. The safety of the principal invested shall always remain the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with State and Local law.

A. Suitability of Investments. The City maintains portfolios, which utilize four specific investment strategy considerations, designed to address the unique characteristics of each fund group represented in the portfolios:

1. Operating Funds

Investment strategies for operating funds and commingled pools containing operating funds have as their primary objective the assurance that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure, which will experience minimal volatility during economic cycles. This may be accomplished by purchasing high quality, short-to-medium-term securities which will complement each other in a laddered or barbell maturity structure. For pooled fund groups, the maximum dollar weighted average maturity of 365 days or less will be calculated using the stated final maturity date of each security.

2. Debt Service Funds

Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date which exceeds the debt service payment date.

3. Debt Service Reserve Funds

Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. Securities should be of high quality and, except as may be required by the bond ordinance specific to an individual issue, of short to intermediate-term maturities. Volatility shall be further controlled through maturity and quality range, without paying premium, if at all possible. Such securities will tend to hold their value during economic cycles.

#### 4. Special Project or Special Purpose Funds

Investment strategies for special projects or special purpose fund portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include at least 10% in highly liquid securities to allow for flexibility and unanticipated project outlays. The stated final maturity dates of securities held should not exceed the estimated project completion date.

##### B. Safety

The primary objective of the City's investment activity in all funds is the preservation and safety of capital in the overall portfolio. Each investment transaction shall be conducted in a manner to avoid capital losses, whether they be from securities default or erosion of market value.

##### C. Liquidity

The City's investment portfolio for all funds shall be structured such that the City is able to meet all obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets.

##### D. Yield

The City's cash management portfolio of all funds shall be designed with the objective of regularly exceeding the average rate of return on three-month U.S. Treasury Bills. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment policies.

##### E. Risk and Diversification

The City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary liquidity. Risk is controlled through portfolio diversification, which shall be achieved by the following general guidelines:

Risk of issuer default is controlled by limiting investments to those instruments allowed by the Act, which are described herein.

Risk of market price changes shall be controlled by avoiding over-concentration of assets in a specific maturity sector, limitation of average maturity of operating funds investments to one year, and avoidance of over-concentration of assets in specific instruments other than U.S. treasury securities and insured or collateralized certificates of deposit.

Risk of liquidity due to technical complications shall be controlled by the selection of securities dealers as described in Section VIII.

F. Marketability

The Investment Officer shall strive to ensure that the market value of each investment exceeds the book value. The City shall pursue an active versus a passive portfolio management philosophy. That is, securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade. The Investment Officer will routinely monitor the contents of the portfolio, the available markets, and the relative value of competing instruments, and will adjust the portfolio accordingly.

G. Cash Management Program

The City shall conduct a comprehensive cash management program, which includes collection of accounts receivable, vendor payment in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the practice of maximizing the income on an organization's liquid resources. This is accomplished by maximizing cash availability through the acceleration of cash receipts and the disciplined control of cash disbursement. Cash managers shall seek to obtain safe market rates of return for their short-term investments.

H. Public Trust

All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction, which might impair public confidence in the City's ability to govern effectively.

## **V. RESPONSIBILITY AND CONTROL**

A. Delegation of Authority and Training

Authority to manage the City's investment program is derived from resolution of the City Council. The Finance Director is designated as Investment Officer of the City and is responsible for investment decisions and activities in accordance with this policy. In the absence of the Finance Director, the City Administrator will serve as the Investment Officer. Unless authorized by law, a person may not deposit, withdraw, transfer or manage in any other manner the funds of the City. The Investment Officer shall establish written procedures for the operation of the investment program, consistent with this investment policy. Investment Officers shall attend at least one training session containing at least 10 hours of instruction relating to the officer's responsibilities under the Act within 12 months after assuming his or her duties. Thereafter, the Investment Officers shall attend an investment training session not less than once in a two-year period and receive not less than 8 hours of instruction relating to investment responsibilities under the Act from an independent source approved by the City Council. Such education must include education in investment controls, security risks, strategy risks, market risks, diversification of

investment portfolio, and compliance with the Act. Authority granted to the Investment Officers is effective until rescinded by the City Council.

B. Internal Controls

The Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation costs and benefits require estimates and judgments by management.

Accordingly, the Investment Officer shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

1. Control of collusion.
2. Custodial safekeeping.
3. Avoidance of physical delivery securities.
4. Written confirmation for telephone (voice) transactions for investments and wire transfers.
5. Development of a wire transfer agreement with the depository bank or third party custodian.

C. Monitoring

The Investment Officer shall monitor the market price of investments by monitoring statements from financial institutions. The Investment Officer may seek a third party independent pricing source to determine the value of the portfolio.

D. Prudence

In the administration of the duties of the Investment Officer, the Investment Officer shall be governed by the prudent investor rule which states: Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital and the probable income to be derived. In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

1. The investment of all funds, or funds under the City's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment.
2. Whether the investment decision was consistent with the written investment policy of the City.

The Investment Officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, providing that these deviations are reported immediately and that appropriate action is taken to control adverse developments. The City Council retains ultimate responsibility as fiduciaries of the assets of the City. It should be noted that in a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the overall portfolio's return.

#### E. Ethics and Conflicts of Interest

City staff involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair the ability to make impartial investment decisions. City staff shall disclose to the Mayor and City Council any material financial interests in financial institutions that conduct business with the City and they shall further disclose positions that could be related to the performance of the City's portfolio. City staff shall subordinate their personal financial transactions to those of the City, particularly with regard to timing of purchases and sales.

An Investment Officer of the City who has a personal business relationship with an organization seeking to sell an investment to the City shall file a statement disclosing that personal business interest. The term personal business relationship is defined in Section 2256.005( i ) of the Act. An Investment Officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the City Council.

## **VI. REPORTING**

#### A. Quarterly Reporting

The Investment Officer shall submit a signed quarterly investment report that summarizes current market conditions, economic developments and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter, and describe the portfolio in terms of investment securities, maturities, risk characteristics, and shall explain the total investment return for the quarter.



B. Annual Report.

Within 120 days of the end of the fiscal year, the Investment Officer shall present an annual report on the investment program and investment activity. This report may be presented along with the Comprehensive Annual Financial Report to the Mayor and City Council.

C. Contents of Reports.

The quarterly and annual investment reports shall be signed by the Investment Officer and shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner, which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be provided to the Mayor and City Council. The report will meet the requirements of Texas Government Code 2256.023 (b) (4) and shall include the following:

1. A listing of investment transactions for all City funds for the reporting period.
2. A detailed description of the investment position of the City on the date of the report.
3. A summary statement, prepared in compliance with generally accepted accounting principles, of each pooled group that states the:
  - a. beginning market value for the reporting period;
  - b. additions and changes to the market value during the period;
  - c. ending market value for the period; and
  - d. fully accrued interest for the reporting period.
4. A statement of the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested.
5. A statement of the maturity date of each separately invested asset that has a maturity date.
6. A statement of the account or fund or pooled group fund for which each individual investment was acquired.
7. A statement of the percentage of the total portfolio represented by each type of investment.

8. A statement that the investment portfolio of the City complies with the investment policy and the relevant provisions of the Act.

D. Review by Auditor

The reports prepared by the Investment Officer shall be formally reviewed at least annually by an independent auditor, who shall report the results of the review to the City Council.

## **VII. AUTHORIZED INVESTMENTS**

A. Authorized Investments

Assets of the City may be invested in the following instruments; provided, however, that at no time shall assets of the City be invested in any instrument or security not authorized for investment under the Act, as the Act may from time to time be amended.

- 1 Obligations of the United States of America, or its agencies and instrumentalities.
- 2 Direct obligations of the State of Texas or its agencies and instrumentalities.
- 3 Other obligations, the principal of and interest on which are unconditionally guaranteed, or insured by, or backed by the full faith and credit of, the State of Texas or United States of America or their respective agencies or 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. Obligations of the State, agencies thereof, counties, cities, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm, and having received a rating of not less than AA@ or its equivalent.
5. Certificates of Deposit of state and national banks domiciled in Texas, guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or secured by obligations described in Sections A1 through A4 above, which are intended to include all direct agency or instrumentality issued mortgage backed securities rated AAA by a nationally recognized rating agency, or by Article 2529b-1, V.T.C.S., and that have a market value of not less than the principal amount of the certificates. Authorization for Certificates of Deposit may also include participation in the CDARs program or through a broker that has its main office or a branch office in the state of Texas and is selected from a list adopted by the City as required by Section 2256.025 of the Government Code.
6. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities pledged with a third party, selected by the Investment Office, other than an agency for the pledged obligation. Repurchase agreements must be purchased through a

primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas.

7. Government Investment pools, such as TexPool, which meet the requirements of Texas Government Code 2256.016, provided the City Council has approved the specific pool.
8. Money market accounts at City designated depositories under executed depository agreements.
9. Interest-bearing banking deposits that are guaranteed or insured by:
  - A. the Federal Deposit Insurance Corporation or its successor; or
  - B. the National Credit Union Share Insurance Fund or its successor.

B. Investments Not Authorized

The City's authorized investment options are more restrictive than those allowed by the Act. The Act specifically prohibits investment in the following investment securities:

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.
4. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

C. Holding Period

The City intends to match the holding periods of investment funds with liquidity needs of the City. In no case will the average maturity of investments of the City's operating funds exceed one year. The maximum final stated maturity of any investment shall not exceed five years.

Investments in all funds shall be managed in such a way that the market price losses resulting from interest rate volatility would be offset by coupon income and current income received from the volume of the portfolio during a twelve month period.

D. Effect of Loss of Required Rating

An investment that requires a minimum rating under this policy does not qualify as an authorized investment during the period the investment does not have the minimum rating. The City shall take all prudent measures that are consistent with this policy to liquidate an investment that does not have the minimum rating.

E. Competitive Bidding

When practical, securities, including certificates of deposit, will be purchased or sold after competitive offers or bids have been taken to verify that the City is receiving fair market value/price for the investment.

## VIII. SELECTION OF BANKS AND DEALERS

A Depository

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). In selecting a depository, the credit worthiness of institutions shall be considered, and the Investment Officer shall conduct a comprehensive review of the credit characteristics and financial history of the prospective depositories.

B. Certificates of Deposit

Banks seeking to establish eligibility for the City's competitive certificates of deposit purchase program shall submit annual financial statements for review, evidence of federal insurance and other information as required by the Investment Officer.

C Securities Dealers

For brokers and dealers of government securities, the City shall select only those dealers reporting to the Market Reports Division of the Federal Reserve Board of New York also known as the Primary Government Security Dealers, unless a comprehensive credit and capitalization analysis reveals that other firms are adequately financed to conduct public business. The Investment Officer shall not knowingly conduct business with any firm with whom public entities have sustained losses on investments. All securities dealers shall provide the City with references from public entities, which they are currently serving.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following information to the City as appropriate:

- audited financial statements
- proof of National Association of Securities Dealer (NASD) certification
- proof of state registration

- completed broker/dealer questionnaire
- certification of having read the City's investment policy signed by a registered principal of the organization
- acknowledgment 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.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Investment Officer.

D. Selection of Qualified Brokers

The City Council shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

E. Distribution of Copies of Investment Policy

1. The Investment Officer shall present a written copy of the investment policy to any person offering to engage in an investment transaction with the City.
2. The qualified representative of the business organization offering to engage in any investment transaction with the City shall sign a written instrument in a form acceptable to the City and the business organization substantially to the effect that the business organization has:
  - (a) received and reviewed the City's investment policy; and
  - (b) implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by the City's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires and interpretation of subjective investment standards.
3. The Investment Officer may not acquire or otherwise obtain any authorized investment from a person who has not delivered to the City the instrument required by the preceding paragraph.

**X. SAFEKEEPING AND CUSTODY**

A. Insurance or Collateral

All deposits and investments of City funds other than direct purchases obligations of the United States, its agencies and instrumentalities, shall be secured by pledged collateral to the extent and in the manner required by Chapter 2257, Texas Government Code. In order

to anticipate market changes and provide a level of security for all funds, the collateralization level will be 105% of market value of principal and accrued interest on the deposits or investments less any amount insured by the FDIC or FSLIC. Evidence of the pledged collateral shall be maintained by the Investment Officer or a third party financial institution. Repurchase agreements shall be documented by a specific agreement noting the collateral pledge in each agreement. Collateral shall be reviewed monthly to assure that the market value of the pledged securities is adequate.

B. Safekeeping Agreement

Collateral pledged to secure deposits of the City shall be held by a safekeeping institution in accordance with a Safekeeping Agreement which clearly defines the procedural steps for gaining access to the collateral should the City determine that the City's funds are in jeopardy. The safekeeping institution, or Trustee, shall be the Federal Reserve Bank or an institution not affiliated with the firm pledging the collateral. The safekeeping agreement shall include the signatures of authorized representatives of the City, the firm pledging the collateral, and the Trustee.

C. Collateral Defined

The City shall accept only the following as collateral:

1. FDIC and FSLIC insurance coverage.
2. A bond, certificate of indebtedness, or Treasury Note of the United States, or other evidence of indebtedness of the United States that in the opinion of the Attorney General of the United States is a general obligation of the United States and backed by its full faith and credit.
3. Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.
4. A bond of the State of Texas or of a county, city or other political subdivision of the State of Texas having been rated as investment grade (investment rating no less than A or its equivalent) by a nationally recognized rating agency with a remaining maturity of 10 years or less.

D. Subject to Audit

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

E. Delivery vs. Payment

Treasury Bills, Notes, Bonds and Government Agencies' securities and all investments except investment pool funds and mutual funds shall be purchased using the delivery vs.

payment method. That is, funds shall not be wired or paid until verification has been made that the correct security was received by the Trustee. The security shall be held in the name of the City or held on behalf of the City. The Trustee's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City listing each specific security, rate, description, maturity, cusip number, and other pertinent information.

## **X. INVESTMENT POLICY ADOPTION AND REVIEW**

### **A. Adoption of Policy**

The City's investment policy shall be adopted by resolution of the City Council. The Policy shall be reviewed for effectiveness on an annual basis by the Investment Officer and any modifications will be recommended for approval to the City Council.

### **B. Review of Policy**

The City's independent auditor annually will review the City's compliance with this policy and the internal investment controls. The City Council shall review the investment policy and strategies listed in this policy at least annually.

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## GLOSSARY OF COMMON TREASURY TERMINOLOGY

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**Agencies:** Federal agency securities.

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

**Bid:** A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

**CDARS:** The Certificate of Deposit Account Registry Service. A service that allows depositors to access FDIC insurance above \$250,000 with the convenience of working directly through one financial institution.

**Certificate of Deposit (CD):** A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD=s are typically negotiable.

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

**Comprehensive Annual Financial Report (CAFR):** The official annual report for the City of Haslet. It includes five combined statements and basic financial statements for such individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

**Coupon:** (a) The annual rate of interest that a bond=s issuer promises to pay the bond-holder on the bond=s face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

**Dealer:** A dealer, as opposed to a broker, acts as a principle in all transactions, buying and selling for his own account.

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

**Delivery versus Payment:** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). 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.

**Discount Securities:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills.

**Diversification:** Dividing investment funds among a variety of securities offering independent returns.



**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 cooperative, and exporters.

**Federal Deposit Insurance Corporation (FDIC):** A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

**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 Home Loan Banks (FHLB):** The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-à-vis member commercial banks.

**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 and Urban Development, H.U.D. 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 mortgage and second loans in addition to fixed-rate mortgages. FNMA=s securities are also highly liquid and are widely accepted. 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 President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. 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 State created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 57,000 commercial banks that are members of the system.

**Government National Mortgage Associations (GNMA or Ginnie Mae):** Securities guaranteed by GNMA and issued by mortgage bankers, commercial bank, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term pass-through is often used to describe Ginnie Maes.

**Liquidity:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

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

**Master Repurchase Agreement:** To protect investors, many public investors will request that repurchase agreements be preceded by a master repurchase agreement between the investor and the financial institution or dealer. The master agreement should define the nature of the transaction, identify the relationship between the parties, establish normal practices regarding ownership and custody of the collateral securities during the term of the investment, provide remedies in the case of

default by either party and clarify issues of ownership. The master repurchase agreement protects the investor by eliminating the uncertainty of ownership and hence, allowing investors to liquidate collateral if a bank or dealer defaults during the term of the agreement.

**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, bankers' 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. Purchases 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. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks and a few unregulated firms.

**Prudent Person Rule:** An investment standard. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

**Qualified Public Depositories:** A financial institution which does not claim exception from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

**Rate of Return:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

**Repurchase Agreement (RP or REPO):** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security buyer in effect lends the seller money for the period of the agreement, and their terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.