City of Plano
Public Funds Investment Policy

08/27/07

Purpose And Need For Policy

The City is required under the Public Funds Investment Act Chapter 2256, Texas Government Code, to adopt a written investment policy. The City is required to comply with the investment policy as approved by the governing body, in accordance with the standard of care, as set forth in Chapter 2256.006, Texas Government Code.

Statement Of Intent

It is the policy of the City of Plano to invest public funds in a manner which will insure maximum security and provide the highest investment return, while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds.

Scope

This investment policy applies to all financial assets of the City of Plano, except certain reserve, trust, and pension funds contractually invested by outside managers, e.g. Retirement/Pension, Employee Deferred Compensation, and Revenue Bond Reserve Funds.

All funds are accounted for in the City of Plano’s Comprehensive Annual Financial Report.

Prudence

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.

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. The investment officers, acting in accordance with written procedures and the investment policy, and exercising due diligence, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Objectives

The primary objectives of the City of Plano’s investment activities shall be as follows:

1. Safety of principal is the foremost objective of the City’s investment program. Investment transactions of the City of Plano shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that actual losses on individual securities do not exceed the income generated from the remainder of the portfolio.

2. The City of Plano’s investment portfolio will remain sufficiently liquid to enable the City of Plano to meet all operating requirements which can be reasonably anticipated.

3. The City of Plano’s investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City of Plano’s investment risk constraints and the cash flow characteristics of the portfolio.

Delegation Of Authority

City employees authorized to engage in investment transactions are the City Manager, and/or his designee. Management responsibility for the investment program is delegated from the City Manager to the Treasurer who shall serve as Investment Officer, or the City Manager’s designee, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Investment procedures should include reference to the following transactions and agreements: safekeeping, repurchase agreements, wire transfer agreements, collateral agreements, depository service contracts and agreements, broker/dealer selection criteria, and security bidding and purchase processes. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer. The Investment Officer shall be responsible for routine authorization of investments and the Controller shall be responsible for proper accounting of investments in order to maintain appropriate internal controls. The Director of Finance or his designee, shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Ethics And Conflict Of Interest

Officers and employees involved in the investment process who have a personal business relationship with a business organization offering to engage in an investment transaction with the City of Plano shall submit a statement disclosing that personal business interest to the City Council and the Texas Ethics Commission. An investment officer who is related within the second degree of affinity or consanguinity to an individual seeking to sell an investment to the City of Plano shall submit a statement disclosing that relationship to the City Council and the Texas Ethics Commission. A personal business relationship with a business organization is defined as 1) owning 10 percent or more of the voting stock or shares of the business organization or owning $5,000 or more of the fair market value of the business organization; 2) receiving funds from the business organization exceeding 10 percent of gross income for the previous year; or 3) acquiring from the business organization during the previous year investments with a book value of $2,500 or more for a personal account.

Depository Selection

A qualified depository shall be selected through the City’s professional services contract process in compliance with state bidding requirements, and shall include a formal request for proposal. The centralization of depository services is designed to maximize investment capabilities while minimizing service costs as well as staff time spent on activities such as reconciliation.

The selection of a depository shall be based on the financial institution offering the most favorable terms and conditions at the least cost, while adhering to the guidelines and provisions within the request for proposal. In selecting a depository, City shall give consideration to the financial institution's credit characteristics, financial history, service capabilities, and costs for required services.

The City's depository contract shall be for three years with an option to extend for an additional two years upon mutual agreement of the depository and the City. Specialized services may be contracted for by the City with another financial institution or company if the depository cannot provide such service or charges more for the same service with little or no appreciable benefit.

Authorized Securities Dealers

The Investment Committee will review and adopt annually a list of qualified brokers authorized to engage in investment transactions with the City. The City of Plano will provide any person offering to engage in an investment transaction with the City, including investment pools, with a copy of the City's Public Funds Investment Policy.

A qualified representative of the business organization offering to engage in an investment transaction must execute a written statement acknowledging receipt and review of the policy and a statement acknowledging that reasonable procedures and controls have been implemented to preclude investment transactions that are unauthorized by this 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 an interpretation of subjective investment standards. All approved broker/dealer firms must have a completed City of Plano broker/dealer questionnaire, written acknowledgment per above guidelines, executed master repurchase agreement, if applicable, and current audited financial statements on file.

Authorized Investments

The City of Plano is authorized to invest in the following types of securities, as specified in the Public Funds Investment Act, (Chapter 2256, Sections 9 through 16, Texas Government Code). Examples of eligible securities include the following:

1. obligations, including letters of credit, of the United States 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 the United States or their respective agencies and instrumentalities;

4. obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent;

5. collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; with the following restrictions:
   a) 10 year or less stated final maturity date
   b) cannot be either an Interest-Only or Principle-Only CMO
   c) cannot be an inverse floater
6. certificates of deposit, issued by a depository institution that has its main office or a branch office in this state, that are:
   a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or the National Credit Union Share Insurance Fund, or its successor;
   b) secured by obligations that are described by Section 2256.009, which are intended to include all direct federal agency or instrumentality issued mortgage backed securities that have a market value of not less than the principal amount of the certificates or in any other manner and amount provided by law for deposits of the investing entities;
   c) issued by a depository institution that arranges for the deposit of funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, with the full amount of principal and accrued interest of each of the certificates of deposit insured by the United States or an instrumentality of the United States; the depository institution selected by the City for the purchase of the certificates of deposit acts as custodian for the City with respect to the certificates of deposit issued for the City; and, at the same time that the funds are deposited and the certificates of deposit are issued for the account of the City, the issuing depository institution receives, from other federally insured depository institutions, wherever located, an amount equal to or greater than the amount of funds invested by the City through the depository institution issuing the certificates of deposit to the City;
7. commercial paper with a stated maturity of 270 days or fewer from the date of its issuance and:
   a) is rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies; or
   b) is rated at least A-1, P-1, or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof;
8. fully collateralized repurchase agreements having a defined termination date, secured by obligations described by Section 2256.009(a) (1), pledged to the political entity held in the entity's name, and deposited at the time the investment is made with the entity or with a third party selected and approved by the entity, and is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state;
9. mutual funds
   a) a no-load money market mutual fund that is registered with and regulated by the Securities and Exchange Commission; has a dollar-weighted average stated maturity of 90 days or fewer; provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of

1940; and in its investment objectives the maintenance of a stable net asset value of $1.00 for each share; and investing entity owns 10% or less of the fund's total assets; or

b) a no-load mutual fund that it is registered with the Securities and Exchange Commission; has an average weighted maturity of less than two years; is invested exclusively in obligations approved by 2256. sections 9 through 16; is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and conforms to the requirements set forth in Sections 2256.016 (b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities; with the following restrictions:

1) amount is limited to 15% of investing entity's monthly average fund balance, excluding bond proceeds, reserves, and debt service funds

2) ineligible for investment of bond proceeds, reserves, and debt service funds

3) investing entity may not own more than 10% of the fund's total assets.

10. any other type of securities as allowed under Section 2256, Sections 9 through 16, Texas Government Code.

Investment Strategy

The City of Plano maintains one portfolio in which all funds under the City's control, as specified in this policy, are pooled for investment purposes. One of the fund's primary objectives is to insure that maturities are matched with anticipated cash flows. Both short and longer-term maturities are laddered to meet general operating, capital project and debt service expenditures, based on known and projected cash flows. Five years is the maximum maturity for securities purchased after the effective date of this investment policy.

Another primary objective of the fund is the preservation and safety of principal by insuring that all securities are of a sufficiently high quality and duration so as to limit exposure to credit and market risks. Securities of all types are purchased with the intention of holding until maturity. The portfolio should therefore experience minimal volatility during varying economic cycles.

Other objectives include maintaining liquidity, including the ability to reasonably meet unanticipated needs by purchasing securities with an active secondary/resale market. Diversification is maintained in order to minimize possible credit risk in a specific security type.

The final objective of obtaining a market rate of return while considering risk constraints and cash flow needs, is much less important than safety of principal and liquidity. The majority of investments are limited to low risk securities earning an equitable rate of return relative to the amount of risk.

Collateralization

Collateralization is required for all City funds held in the depository as available funds, in certificates of deposit, and for repurchase agreements. 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.

Acceptable collateral includes securities as specified in the Public Funds Collateral Act, Chapter 2257, Texas Government Code.

Collateral will be held by an independent third party with whom the entity will sign a custodial agreement. Safekeeping receipts must be supplied to the entity and must be retained.

Additional collateral may be purchased as required, released when it is not needed, and substituted, if necessary, with the written consent of the Director of Finance, or his designee.

Safekeeping And Custody

All security transactions entered into by the City of Plano, with the exception of investment pools and mutual funds shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Investment Officer and Director of Finance. Safekeeping receipts and clearance documents will be required for all securities purchased by the City of Plano and held in safekeeping by an authorized third party.

Diversification

The City of Plano will diversify the portfolio at all times to ensure the reduction of risk while still maintaining average rates of return, and to ensure a certain degree of liquidity. The City of Plano will diversify its investments by security type in the following manner:

With the exception of United States Treasury securities and authorized pools, no more than 50% of the total investment portfolio will be invested in a single security type. (Such as FNMA, FHLB, FHLMC, CD’s at one institution, etc.)

Maximum Maturities

To the extent possible, the City of Plano will attempt to match its investments with anticipated cash flow requirements. The City will not directly invest in securities maturing more than five years from the date of purchase. The portfolio’s maximum average dollar-weighted maturity will be two and one half years based on the stated maturity date of the investment. The City is not required to liquidate investments that were authorized investments at the time of purchase.

Performance Standards

The investment portfolio will be designed to obtain a market average rate of return during unpredictable budgetary and economic cycles at the local and federal levels, taking into account the City of Plano’s investment risk constraints and cash flow needs.

The City’s investment strategy is primarily passive. Given this strategy, the basis, or benchmark, used by the Investment Officer to determine whether market yields are being achieved shall be the 3 month or 6 month Treasury Bill or 1 or 2 year Treasury Note, whichever is closest to the weighted average maturity of the portfolio.

Reporting

The Investment Officer is responsible for providing monthly information on investment activity in the Comprehensive Monthly Finance Report, to include the size of the portfolio, the distribution by maturity, the distribution by market sector, interest income earned during the current month and fiscal year to date, and the current portfolio yield.

The Investment Officer will provide all additional reporting information as required by Section 2256.023 of the Texas Government Code.

Market Pricing

The investment portfolio will be marked to market monthly. Pricing information will come from Bloomberg, IDC, or any other source deemed reliable by the Treasurer. If the price of a particular security is not available from any of these sources, the price may be estimated by analyzing similar securities' market values.

Training

The Finance Director, Treasurer and Treasury Analyst must receive not less than 10 hours of instruction every two years relating to investment responsibilities from an independent source approved by the Investment Committee. In addition, each must attend at least one training session relative to their responsibilities under the Public Funds Investment Act of the State of Texas within twelve months after taking office or assuming duties.

Internal Controls

The Director of Finance is responsible for establishing appropriate internal controls. The Investment Officer is responsible for executing investment transactions and the Accounting division is responsible for preparation of general ledger journal entries based on documentation prepared by the Investment Officer.

Public Funds Investment Policy Review And Adoption

The City's Public Funds Investment Policy shall be reviewed periodically by the City Manager, Director of Finance, and Investment Officer and revised when necessary. In addition the policy must be reviewed not less than annually by the City Council. This review will include adoption of a written resolution stating that the Council has reviewed the Public Funds Investment Policy and investment strategies and include any changes made to the policy or strategies.

Investment Committee

An investment committee comprised of the City Manager, Director of Finance, and the Investment Officer, will meet on a quarterly basis. In addition to monthly and quarterly reporting to City Council, the Investment Officer will present a brief report of pertinent investment activities to the Investment Committee.

The primary objective of the Committee will be to review general strategies and policies and monitor investment program results.

GLOSSARY

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BID: The price offered for securities.

BOOK VALUE: Original acquisition cost of an investment plus or minus the accrued amortization or accretion

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; in contrast to a “principal” or a “dealer,” he does not own or take a position in the security. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

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 a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATION (CMO): Mortgage-backed security that separates mortgage pools into short, medium, and long-term portions. Depending on individual needs, an investor can select a CMO of an appropriate duration.

COMMERCIAL PAPER: Short-term, unsecured promissory notes issued by corporations to finance short-term credit needs. Commercial paper is usually sold on a discount basis and has a maturity at the time of issuance not exceeding nine months.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official report for the City of Plano. It includes five combined statements and basic financial statements for each 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 bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

CUSIP: A unique security identification number assigned to securities maintained and transferred on the Federal Reserve book-entry system.

DEALER: A dealer, as opposed to a broker, acts as a principal 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: Delivery of securities with an exchange of money for the securities.

DEPOSITORY: The bank, credit union, or savings association selected by a municipality to provide depository services. Under Texas State statute, "bank" means a state bank or a national bank domiciled in this state; "credit union" means a state credit union or federal credit union domiciled in this state; and "depository services" means the receipt and disbursement of funds by a depository in accordance with the terms of a depository services contract.

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.

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DIVERSIFICATION: Investment in a number of different security issues for the purpose of spreading and reducing the risks inherent in all investing.

FARM CREDIT SYSTEM: Created by Congress in 1916, this nationwide system of banks and associations provides mortgage loans, credit and related services to farmers, rural homeowners and agricultural and rural cooperatives.

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 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 Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANK SYSTEM: Created in 1932, this system consists of 12 regional banks, which are owned by private member institutions and regulated by the Federal Housing Finance Board. Functioning as a credit reserve system, the system facilitates extension of credit through its owner-members in order to provide access to housing and to improve the quality of communities. Federal Home Loan Bank issues are joint and several obligations of the 12 Federal Home Loan Banks.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC) OR FREDDIE MAC: A stockholder-owned corporation established by Congress in 1970 to provide a continuous flow of funds to mortgage lenders, primarily through developing and maintaining an active nationwide secondary market in conventional residential mortgages, Freddie Mac purchases a large volume of conventional residential mortgages and uses them to collateralize mortgage-backed securities. Freddie Mac is a publicly held corporation whose stock trades on the New York Stock Exchange.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA) OR FANNIE MAE: 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, HUD. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae 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'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 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 AGENCY ISSUES: Debt securities issued by government-sponsored enterprises, federal agencies, and international institutions. Such securities are not direct obligations of the Treasury and involve government sponsorship or guarantees.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR GINNIE MAE): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, 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.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of a state managed pool, or other qualifying pool(s) that meet state statute criteria, for investment and reinvestment.

MARK-TO-MARKET: The practice of valuing a portfolio or security on a regular scheduled basis (e.g. daily, weekly, monthly, quarterly), according to market value.

MARKET VALUE: The current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.

MATURITY: The date upon which the bond principal or stated value of an investment becomes due and payable in full to the bondholder.

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

MUTUAL FUNDS: Mutual fund providers are investment companies that sell shares to investors, offering investors diversification and professional portfolio management. Prices fluctuate with the performance of the fund. Money market mutual funds invest in short-term securities such as treasury bills, bank CD's and commercial paper.

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.

PAC BANDS OR RANGES: A range of constant PSA (Public Securities Association) prepayment speeds defined by a minimum and maximum under which the PAC scheduled prepayment will remain unchanged. There can be multiple levels of PACs in a REMIC, each having successively narrower PAC bands. The widest band PACs are primary PACs, the next are secondary or tertiary PACs.

PAC: Planned Amortization Class (PAC) tranches provide investors with scheduled payments (PAC Schedule) over a range of prepayment speeds (PAC band or range). PAC tranches typically are combined with companion tranches that reduce the risk of prepayments varying from a constant speed or range.

PAR: The value of a security as expressed on its face ("face value") without consideration of a discount or premium.

PORTFOLIO: Collection of securities held by an investor.

POSITIVE YIELD CURVE: A condition where interest rates are higher on long-term debt securities than on short-term debt securities of the same quality.

PREMIUM: The price that a security demands over its PAR. This is the difference between the price of a bond and its value at maturity (PAR) when the price is higher than the maturity. It is the opposite of discount.

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. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state, (the-so-called legal list). In other states, the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PSA PREPAYMENT SPEEDS: Prepayments on mortgage loans commonly are expressed relative to a prepayment standard or model. The model used for REMICs generally is the Public Securities Association's standard prepayment model (PSA). This model represents an assumed rate of prepayment each month of the then outstanding principal balance of a pool of new mortgage loans.

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: A) 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; B) for a state or federal bank, savings bank, or 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; or C) 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.

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.

RATING: A formal opinion by an outside professional service on the credit reputation of an issuer and the investment quality of its securities. This opinion is expressed in letter values (e.g. AAA, Baa-1).

REMIC: A real estate mortgage investment conduit is a multiple-class security backed by MBS (Mortgage-Backed Securities) and formed as a trust, corporation, partnership, or segregated pool of assets, that elects to be treated as a REMIC for federal tax purposes. Fannie Mae REMICs are formed as trusts.

REPURCHASE AGREEMENT (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 the terms of the agreement are structured to compensate him for this. Dealers use REPOs extensively to finance their positions.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities owned by the City are safekept. Securities are recorded in the customer’s name and are inaccessible to anyone else. Collateral to secure repurchase agreements is also safekept, usually at the same financial institution.

SEC RULE 15C3-1: See uniform net capital rule.

SECONDARY MARKET: A market made 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.

STUDENT LOAN MARKETING ASSOCIATION (SALLIE MAE): A government-sponsored entity created by the Higher Education Act of 1965 to provide liquidity for private lenders (banks, savings and loan associations, educational institutions, state agencies and other lenders), Sallie Mae participates in the Federal Guaranteed Student Loan Program, and is owned by its stockholders and its shares trade on the New York Stock Exchange.

TENNESSEE VALLEY AUTHORITY: A wholly owned corporation of the United States government, the TVA was established in 1933 to develop the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. TVA securities represent obligations of TVA, payable solely from TVA’s net power proceeds, and are neither obligations of nor guaranteed by the United States. TVA is currently authorized to issue debt up to $30 billion. Under this authorization, TVA also may obtain advances from the Treasury of up to $150 million.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

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

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

U.S. GOVERNMENT SECURITIES: Various types of marketable securities issued by the U.S. Treasury, including bills, notes, and bonds. Such securities are direct obligations of the U.S. government and differ mainly in the length of their maturity. Treasury bills, the most frequently issued marketable government security, have a maturity of up to one year and are issued on a discount basis.

WEIGHTED-AVERAGE LIFE: The weighted-average life refers to the average amount of time that will elapse from the date of a security's issuance until each dollar of principal is repaid to the investor. The weighted-average life of each class of REMIC is influenced by, among other factors, the rate at which principal, both scheduled and unscheduled, is paid on the mortgage loans underlying the MBS (Mortgage-Backed Securities) that back the REMIC.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as non-member broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. Income yield is obtained by dividing the current dollar income by the current market price for the security. 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 bond.

ZERO-COUPON SECURITY: A security that makes no periodic interest payments but instead is sold at a deep discount from its face value. Because zero-coupon bondholders do not receive interest payments, these bonds are the most volatile of all fixed-income securities.