



**FARMERS  
BRANCH**

## Investment Policy

City of Farmers Branch, Texas

MAY 2025

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## INVESTMENT POLICY

### I. INTRODUCTION

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of Farmers Branch, Texas, in order to achieve the goals of safety, liquidity, and yield for all investment activity. The City Council of the City of Farmers Branch shall review its investment strategies and policy not less than annually. This policy serves to satisfy the statutory requirement, specifically the Public Funds Investment Act, Chapter 2256 of the Government Code (the "Act"), to define, adopt, and review a formal investment strategy and policy.

### II. INVESTMENT STRATEGY

The City of Farmers Branch maintains portfolios which utilize four specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolios:

- a. Investment strategies for operating funds and commingled pools shall assure safety of principal, diversification, and that anticipated cash flows are matched with adequate investment liquidity. A portfolio structure of suitable investments shall be selected that experiences minimal volatility during economic cycles. This may be accomplished by purchasing high-quality, short- to medium-term securities with an active secondary market. The dollar weighted-average maturity of 365 days or less will be calculated using the stated final maturity of each security.
- b. In addition to the strategy objectives outlined above, the debt service fund portfolio shall seek to assure 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*.
- c. In addition to the strategy objectives outlined above, the debt service reserve fund portfolio shall assure there is 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 may be required by the bond ordinance specific to an individual issue. Securities purchased *shall not have a stated final maturity date which exceeds the debt service payment date*.
- d. In addition to the strategy objectives outlined above, special projects or special purpose fund portfolios shall seek 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. Securities purchased *shall not have a stated final maturity date which exceeds the estimated project completion date*.

### III. SCOPE

This Investment Policy applies to activities of the City of Farmers Branch with regard to investing the financial assets of all funds, including the following:

<b>General Fund</b>	<b>Debt Service Funds</b>
<b>Special Revenue Funds</b>	<b>Internal Service Funds</b>
<b>Capital Projects Funds</b>	<b>Enterprise Funds</b>
<b>Proprietary Funds</b>	<b>All Other Funds</b>

Funds (Grant Activities) expressly exempt from investment activities may not be subject to this policy.

### IV. OBJECTIVES

The City of Farmers Branch shall manage and invest its cash with three objectives, listed in order of priority: Preservation and Safety of Principal, Liquidity, and Yield and Public Trust. All investments shall be designed and managed in a manner using judgment and care responsive to the public trust and consistent with State and Local Law.

The City shall maintain 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 process of managing monies in order to ensure maximum cash availability and maximum yield on short-term investment of idle cash.

#### 1) Preservation and Safety of Principal

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

#### 2) Liquidity

The City's investment portfolio 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, by investing in securities with active secondary markets and by retaining ample liquidity in the City's depository bank, and local government investment pools and money market funds.

#### 3) Yield

The City's cash management portfolio 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.

#### 4) 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 that might impair public confidence in the City's ability to govern effectively.

### **V. RESPONSIBILITY AND CONTROL**

#### Investment Committee

In order to ensure well qualified and capable investment management, an investment committee, consisting of the City Manager, Deputy City Manager, Director of Finance, Finance Manager shall meet at least semi-annually to determine operational strategies and to monitor results. The investment committee shall include in its deliberation such topics as: economic outlook, portfolio diversification, maturity structure, potential risk to the City's funds, authorized brokers and dealers, and the performance of the investment portfolio relative to the established benchmarks.

#### 1) Delegation of Authority and Training

Authority to manage the City's investment program is derived from a resolution of the City Council. The management responsibility for the investment program is hereby delegated to the Director of Finance, who shall establish written procedures for the operation of the investment program, consistent with this investment policy. Both the Director of Finance and their designee are designated as investment officers. Accordingly, the investment officers shall attend at least 10 hours of training relating to their responsibilities under the Act within 12 months after assuming duties. Going forward, investment officers shall attend investment training not less than once in every two-year period, which begins on the first day of the fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than eight (8) hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the State of Texas.

Sources of authorized independent training are those sponsored by:

- Government Finance Officers Association (GFOA)
- Government Finance Officers Association of Texas (GFOAT)
- Government Treasurers Officers Association of Texas (GTOT)
- North Central Texas Council of Governments (NCTCOG)
- Texas Municipal League (TML)
- TEXPO – Alliance of Texas Treasury Associations
- Hilltop Securities

## 2) Internal Controls

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that the 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 of costs and benefits requires estimates and judgments by management.

Accordingly, the Director of Finance 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:

- a. Control of collusion.
- b. Separation of transaction authority from accounting and record keeping.
- c. Custodial safekeeping.
- d. Clear delegation of authority to subordinate staff members.
- e. Avoidance of physical delivery securities.
- f. Written confirmation for telephone (voice) transactions for investments and wire transfers.
- g. Development of a wire transfer agreement with the depository bank or third-party custodian.

## 3) Prudence

The standard of prudence to be applied by the investment officer shall be 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 as well as 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:

- a. The investment of all funds, or funds under the City's control, over which the officer had responsibility, rather than consideration as to the prudence of a single investment.
- b. 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, provided that these deviations are reported in a timely manner to the City Council.

#### 4) 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 City Manager any material 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.

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. For purposes of this subsection, an investment officer has a personal business relationship with a business organization if:

- a. The investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
- b. Funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or
- c. The investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

An investment officer who is related within the first 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 file with the Texas Ethics Council and the governing body of the entity.

## **VI. REPORTING**

### 1) Quarterly Reporting

The Director of Finance shall submit a signed quarterly, at minimum, investment report in compliance with requirements of the Public Funds Investment Act that shall, at a minimum, describe the portfolio in terms of investment securities, maturities, risk characteristics, and also shall provide a benchmark total investment return for the quarter. In addition, a separate report shall be included which summarizes current market conditions, economic developments and anticipated investment conditions.

The quarterly investment report 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 City Manager and City Council. The report shall include the following:

- a. A detailed listing of individual securities held at the end of the reporting period with updated market prices provided by City's safekeeping bank or investment advisor.
- b. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period.
- c. Average weighted yield to maturity of portfolio on City investments as compared to applicable benchmarks.
- d. Listing of investments by maturity date.
- e. The percentage of the total portfolio which each type investment represents.
- f. Statement of compliance of the City's investment portfolio with Public Funds Investment Act the City's investment strategy and policy approved by the City Council.
- g. Fully accrued interest for the reporting period.

## 2) Annual Report

Within 60 days of the end of the fiscal year, the Director of Finance shall present an annual report on the investment program and investment activity. This report may be presented as a component of the fourth quarter report to the City Manager and City Council.

If the City invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers shall be reviewed annually by an independent auditor, and the results of the review shall be reported to the city Council by that auditor.

## **VII. INVESTMENT PORTFOLIO**

Assets of the City of Farmers Branch 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.

### Portfolio Management

The City currently has a "buy and hold" portfolio strategy. Maturity dates are matched with cash flow requirements, and investments are purchased with the intent to be held until maturity. However, 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 regularly review the portfolio's



composition, assess market conditions, and evaluate the relative value of various investment instruments. Based on these assessments, the officer will make necessary adjustments to optimize the portfolio's performance.

### 1) Authorized Investments

- a. Obligations of the United States of America, its agencies and instrumentalities.
- b. Direct obligations of the State of Texas and agencies and instrumentalities thereof.
- c. Other obligations, the principal of and interest on which are unconditionally guaranteed by the State of Texas or United States of America and any security fully insured by the Federal Deposit Insurance Corporation (FDIC).
- d. Obligations of the States, 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.
- e. Certificates of Deposit of state and national banks doing business in Texas, guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or secured by an Federal Home Loan bank (FHLB) letter of credit, or obligations described in A through D above, which are intended to include all direct agency or instrumentality issued mortgage-back 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.
- f. Joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law. (Prior approval from the City Council is required before investing funds in joint pools.)
- g. Fully collateralized direct repurchase agreements with a defined termination date secured by cash and obligations of the United States or its agencies and instrumentalities pledged with a third party. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a bank doing business in Texas with a signed Master Repurchase Agreement. (Prior approval from the City Council is required before the investment officers can begin investing in repurchase agreements. Repurchase agreements can be used by the depository bank for investment of overnight funds.)
- h. A no-load money market mutual fund that is regulated by the Securities and Exchange Council, has a dollar-weighted average stated maturity of 60 days or fewer

and includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share; or a no-load mutual fund that 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 in Section 2256.014 of the Texas Local Government Code*, 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) of the Texas Local Government Code.

An Investment that requires a minimum rating 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 its Investment Policy to liquidate an investment that does not have the minimum rating. The City is not required to liquidate an investment that was authorized at the time of purchase.

## 2) Unauthorized Investments

- a. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pay no principal.
- b. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- c. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
- d. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

## 3) Maturities

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

## 4) Risk and Diversification

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

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

- b. 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 Deposits.

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

### 1) Depository Bank Selection

On an annual basis the City shall review the services provided by its depository bank and no less than every five (5) years, shall conduct a competitive bid through the City's banking services procurement process, which shall include a formal request for applications (RFA) in consideration of provisions as outlined in Texas Local Government Code 105, Depositories for Municipal Funds, Subchapter B In selecting a depository, the credit worthiness of institutions shall be considered along with the cost of services and proposed interest rates. The Director of Finance, or designee in the finance department, shall then conduct a comprehensive review of prospective depository bank credit characteristics and financial history.

### 2) Certificates of Deposit

Banks seeking to establish eligibility for the City's competitive certificate of deposit purchase program shall submit for review annual financial statements, evidence of federal insurance and other information as required by the Director of Finance. An independent source for bank financial information can be found at <https://www.bankrate.com/rates/safe-sound/bank-ratings-search.aspx>

### 3) Securities Dealers

For brokers and dealers of government securities, the City shall select dealers reporting to the Market Reports Division of the Federal Reserve Bank of New York, also known as the "Primary Government Security Dealers", and regional institutional dealers which are adequately capitalized to conduct public business. 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 as appropriate:

- Audited financial statements
- Proof of Financial Industry Regulatory Authority (FINRA) 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

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

All business organizations eligible to transact investment business with the City shall be presented a written copy of this Policy. The qualified representative of the business organization seeking to transact investment business with the City shall acknowledge receipt of policy in writing.

The City may contract for investment advisor services. Selection of an investment advisor will be through a competitive proposal process. The investment advisory must:

- Be registered with the Securities and Exchange Commission
- Be registered with the State of Texas
- Manage at least \$1,000,000,000 in investments
- Have experience providing investment advisory service to other Texas cities

If the City has contracted with a Registered Investment Advisor for the management of its funds, the advisor shall be responsible for performing due diligence on and maintaining a list of broker/dealers with which it shall transact business on behalf of the City. The advisor shall determine selection criteria and shall annually present a list of its authorized broker/dealers to the City for review and likewise shall execute the aforementioned written instrument stating that the advisor has reviewed the City's investment policy and has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the City. The advisor shall obtain and document competitive bids and offers on all transactions and present these to the City as part of its standard trade documentation.

In addition, all *business organizations* (public funds investment pool or discretionary investment manager) eligible to transact investment business with the City shall be presented a written copy of this Investment Policy and shall execute a written instrument substantially to the effect it has reviewed the policy and acknowledged it has implemented reasonable procedures and controls in an effort to preclude investment transactions not authorized by policy. The City shall not enter into an investment transaction prior to receiving the written instrument described above.

## **IX. SAFEKEEPING AND CUSTODY**

### 1) Insurance or Collateral

All deposits and investments of City funds other than direct purchases of U.S. Treasuries or Agencies shall be secured by an FHLB letter of credit or pledged collateral. In order to anticipate market changes and provide a level of security for all funds, the collateralization level for securities will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC. Evidence of the pledged collateral shall be maintained by the Director of Finance or a third-party financial institution. Repurchase agreements shall be documented by a specific agreement noting the collateral pledged in each agreement. Collateral shall be reviewed weekly to assure that the market value of the pledged securities is adequate.

## 2) Safekeeping Agreement

Collateral pledged to secure deposits of the City shall be held in the City's name by a third-party safekeeping institution in accordance with a Safekeeping Agreement which clearly defines the procedural steps for gaining access to the collateral should the City of Farmers Branch 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 of Farmers Branch, the firm pledging the collateral, and the Trustee.

## 3) Collateral Defined

The City of Farmers Branch shall accept only the following securities as collateral:

- a. FDIC insurance coverage.
- b. A Treasury bill, note, bond or other evidence of indebtedness of the United States that is guaranteed as to principal and interest by the United States.
- c. Other obligations, *including letters of credit*, of the United States or its agencies or instrumentalities.
- d. Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.
- e. A bond of the State of Texas or of a county, city or other political subdivision of the State of Texas having been rated no less than "AA" or its equivalent by a national recognized rating agency with a remaining maturity of ten (10) years or less.
- f. Cash

## 4) Subject to Audit

All collateral shall be subject to inspection by the Director of Finance, Internal Auditor or the City's independent auditors.

## 5) Delivery vs. Payment

Treasury Bills, Notes, Bonds and Government Agency securities shall be purchase 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 or safekeeping agent. The security shall be held in the name of the City or held on behalf of the City. The agent's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of the safekeeping receipts shall be delivered to the City.

## **X. INVESTMENT POLICY ADOPTION**

The City of Farmers Branch investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed for effectiveness on an annual basis by the Finance Director and any modification will be recommended for approval to the City Council.

## **XI. GLOSSARY of COMMON TREASURY TERMINOLOGY**

**Agencies:** Federal agency securities.

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

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

**Broker:** A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

**Book Value:** The original acquisition cost of an investment plus or minus the accrued amortization or accretion.

**Certificate of Deposit (CD):** A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs 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 deposit of public monies.

**Comprehensive Annual Financial Report (CAFR):** The official annual report for the City of Farmers Branch. It includes combined statements and basic financial statements for each individual fund and account group prepared in conformity with GAAP.

**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.

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

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

**Delivery-Versus-Payment (DVP):** 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 securities. Delivery-versus-receipt is delivery of securities with an exchange of a signed receipt for the securities.

**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 price shortly after sale also is considered to be at a discount.

**Discount Securities:** Non-interest-bearing money market instruments 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 Deposit Insurance Corporation (FDIC):** A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

**Federal Funds Rate:** The rate of interest at which overnight Fed funds are traded between banks. This rate is currently pegged by the Federal Reserve through open-market operations as is used as a proxy for the overnight rate.

**Federal Farm Credit Bank (FFCB):** The Federal Farm Credit Bank System is the oldest of the government sponsored enterprises, created by an act of Congress in 1916. Its mission is to provide a reliable and low-cost source of funds to support agriculture in the United States. FFCB debt obligations are highly liquid and its senior debt is rated AA+.

**Federal Home Loan Banks:** The Federal Home Loan Bank was created by an act of Congress in 1932 as a system of 12 regional banks that provide funds to its member banks. FHLB's primary mission is to support residential and community lending. Its membership of more than 8,000 financial institutions includes savings banks, commercial banks, credit unions and insurance companies active in housing finance. FHLB debt obligations are highly liquid and its senior debt is rated AA+.

**Federal Home Loan Mortgage Company (FHLMC or "Freddie Mac"):** Freddie Mac was created by an act of Congress in 1970 as a shareholder-owned company to further expand the secondary market for mortgage loans in the United States. Freddie Mac buys existing mortgages and pools them together to create mortgage-backed securities that can then be sold to investors, thereby providing liquidity to lenders who can then make additional loans. Along with Fannie Mae, Freddie Mac was placed into government conservatorship in September 2008, but continues full operations under government control and has been instrumental in the government's attempts to revive the housing sector. Freddie Mac securities are highly liquid and its senior debt is rated AA+.

**Federal National Mortgage Association (FNMA or "Fannie Mae"):** Fannie Mae was created by an act of Congress in 1938 under the Federal National Mortgage Association Act to provide a secondary market for mortgage loans in the United States. It does this by purchasing existing home loans and pooling them together to create mortgage-backed securities that can then be sold to investors, along with a guaranty of the timely payment of principal and interest on the underlying loans. Fannie Mae was privatized in 1968, and operated as a private stockholder-owned company for 40 years before the housing market collapse forced them into federal government conservatorship in September 2008. Fannie Mae debt obligations are highly liquid and its senior debt is rated AA+.

**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 is a permanent member while the other presidents serve on a rotating basis. The committee meets eight times per year to set monetary policy.

**Government National Mortgage Association (GNMA or "Ginnie Mae"):** Securities guaranteed by GNMA are issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by the 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 Mae.



**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 the State Treasurer for investment and reinvestment.

**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.

**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 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, banker's acceptances, etc.) are issued and traded. May also refer to a type of mutual fund whose underlying portfolio contains these security types.

**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 brokers-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 exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Depository Protection Commission to hold public deposits.

**Rate of Return:** The yield obtained 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 (repo or RP)** - An agreement by one party to sell securities at a specified price to a second party, along with a simultaneous agreement by the first party to repurchase the same securities at a specified price and a specified date.

**Safekeeping:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

**Secondary Market:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**Securities & Exchange Commission (SEC):** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**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 and one year.

**Treasury Bonds:** 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 from two to ten years.

**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 of 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 bond.