Snohomish County

SNOHOMISH COUNTY

INVESTMENT POLICY

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County Finance Committee - 2016

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SNOHOMISH COUNTY INVESTMENT POLICY

I. POLICY

It is the policy of the Snohomish County Treasurer's Office (hereinafter referred to as the "Treasurer") to invest public funds in a manner which will provide maximum security with the highest investment return while meeting daily cash flow demands and conforming to all state and local statues governing the investment of public funds.

II. SCOPE

This investment policy applies to all financial assets of Snohomish County and its' junior taxing districts. These funds are accounted for in the Snohomish County Comprehensive Annual Financial Report and include

General Fund
Special Revenue Funds
Capital Projects Funds
Enterprise Funds
Trust and Agency Funds
Debt Service Funds (Unless prohibited by Bond indentures)
Any new fund created by County ordinance, unless specifically exempted

Should bond covenants be more restrictive than this policy, funds shall be invested in full compliance with those restrictions.

Pooling of funds

Fund Managers can either request the Treasurer to pool their jurisdictions' money in the Snohomish County Investment Pool (SCIP), or request that the Treasurer purchase a security with a specific term and amount that is held outside the Snohomish County Investment Pool (SCIP). Investment income from funds that have been pooled in the SCIP, will be allocated to the various funds based on their respective participation and in accordance with the generally accepted accounting principles.

III. 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 under prevailing economic conditions at the moment of investment commitments. 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 from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

In determining whether an Investment official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the official had responsibility rather than a consideration as to the prudence of a single investment, and, whether the investment decision was consistent with the written investment policy of the entity.

IV. OBJECTIVES

The primary objectives, in priority order, of Snohomish County investment activities shall be:

Safety: Safety of principal is the foremost objective of the Treasurer's investment program. Investments of Snohomish County and the junior taxing districts will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity: The portfolio will remain sufficiently liquid to enable the County to meet all cash requirements that might reasonably be anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

Return on Investment: The Investment portfolio shall be designed with the objective of attaining a market rate of return through budgetary and economic cycles, taking into account the County's investment risk constraints and liquidity needs. Return on investments is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair rate of return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize the loss of principal.
- A security swap would improve the quality, yield, or target duration of the portfolio.
- Liquidity needs of the portfolio require that the security be sold early.

Portfolios: The County Treasurer manages two portfolios;

1) The liquidity portfolio – The main objective of this portfolio are to meet the daily liquidity needs of the county funds as well as the junior taxing districts. Investments

in this portfolio primarily consist of money that is invested in the State Investment Pool as well as money market accounts that provide immediate liquidity.

2) The Snohomish County Investment Pool (SCIP) – This portfolio is comprised of cash that is not reasonably expected to be necessary to meet the short term liquidity needs of the pool participants. Accordingly, this cash may be invested further out the yield curve where, over a Markey cycle, it is expected to provide a higher return. Return will be paid on an accrual basis. The SCIP portfolio may have a maximum modified duration of no longer than 3 years.

V. DELEGATION OF AUTHORITY

County code 2.110.010 empowers the County Finance Committee to approve investment policy and make rules and regulations. Authority to manage the Snohomish County investment program is derived from RCW 36.29.020.

A. The Treasurer will appoint an Investment Officer whose responsibilities will include initiating daily transactions in the investment portfolio based on liquidity and cash flow requirements of the county, junior and special taxing districts and their respective funds. In addition, the Investment Officer shall establish written procedures for the operation of the investment program consistent with the investment policy.

B. No person may initiate investment transactions on behalf of the Treasurer without the express written consent of the Treasurer or the Investment Officer after consultation with the Treasurer.

VI. ETHICS AND CONFLICTS OF INTEREST

A. Investment officials will recognize that the investment portfolio is subject to public review and evaluation. The overall program will be designed and managed with a degree of professionalism that is worthy of the public trust.

B. Officers and employees involved in the investment process shall refrain from personal business activity that may conflict with the proper execution of the investment program, or may impair their ability to make impartial investment decisions. Investment officials shall disclose to the Treasurer any material financial interests in financial institutions that conduct business with the County, and they will further disclose any personal financial or investment positions that could be related to the performance of the County portfolio, particularly with regard to the timing of purchases and sales.

VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

A. Selection of a primary bank for Snohomish County general banking services will be made by the Treasurer.

B. The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

As required by state law, (RCW 39.58), certificates of deposit will be purchased only from those institutions approved by the Washington Public Deposit Protection Commission (PDPC) as eligible for deposit of public funds. The Treasurer will annually adopt the eligibility list provided by the PDPC as the approved depositary list.

The maximum amount placed with any one depositary will not exceed the net worth of the institution as determined by the PDPC.

Qualified broker/dealers and financial institutions will be reviewed and selected by the Treasurer on a routine basis. All brokers/dealers and financial institutions who desire to do business with Snohomish County must supply the Treasurer with the following:

1. Annual audited financial statements.
2. Proof of FINRA (Financial Industry Regulatory Authority) certification.
3. Proof of registration with the State of Washington.
4. A completed Broker/Dealer questionnaire and a certification of having read the Snohomish County Investment Policy.

The Treasurer will conduct an annual review of the financial condition of the firms. A current audited financial statement is required to be on file for each financial institution and broker/dealer with whom the County invests.

VIII. AUTHORIZED INVESTMENTS

Snohomish County is empowered by statute (RCW 36.29, 39.58, 39.59, 39.60, 43.25 and 43.84.080) to invest in the following types of securities:

- U.S. Treasury Obligations

- U.S. Government Agency obligations and U.S. Government Sponsored Enterprises (GSE's) which may include, but are not limited to the following: Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (Fannie Mae), Student Loan Marketing Corporation (SLMA), Tennessee Valley Authority (TVA),

- Banker's Acceptances (BA's) purchased through State of Washington Financial

Institutions and authorized broker/dealers. Banker's Acceptances shall not be longer than six months duration. Investments in Banker's Acceptances must be in the top thirty banks in the United States, including all banks in the State of Washington as authorized by the Public Deposit Protection Commission. Further, within these limitations, investments may be made only in those banks whose other negotiable obligations are rated at least A-1, P-1 or F-1 (at the time of purchase) by at least two or more internationally recognized agencies such as Moody's or Standard and Poors.

- Commercial Paper, purchased in the secondary market, and complying with the State Investment Board requirements. These requirements include commercial paper rated at least A-1, P-1 or F-1 (at the time of purchase) by at least two or more internationally recognized agencies such as Moody's or Standard and Poors and have a maturity not exceeding 180 days. Maturities in excess of 100 days must also have a long-term rating of Aa or better by at least one recognized rating agency.

- Non-negotiable Certificates of Deposit of financial institutions which are qualified public depositories as defined by RCW 39.58.010(2) and in accordance with the restrictions therein.

- Repurchase Agreements provided that a signed Master Repurchase Agreement shall be on file in the Snohomish County Treasurer's Office for all financial institutions that enter into a repurchase agreement with Snohomish County. All repurchase agreements will be collateralized at a minimum of 102% of market value of principal and interest. The only eligible collateral for repurchase agreements will be direct obligations of the U.S. Treasury, U.S. Government Agency and/or U.S. Government instrumentality obligations. All securities shall be held in third party safekeeping. Third party safekeeping agreements must be entered into with a signed agreement between the safekeeping financial institution and the Snohomish County Treasurer. All securities in a repurchase agreement shall be priced daily to reflect current market conditions for both principal and accrued interest. Securities shall be purchased from either primary dealers or from institutions that are members of the Washington Public Depository. Credit worthiness of the institution will also be considered.

- Bonds of the State of Washington and any local government in the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.

- General obligation bonds of a state other than the State of Washington and general obligation bonds of a local government of a state other than the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.

- Washington State Local Government Investment Pool (LGIP). The Snohomish County Treasurer will keep on file the most recent LGIP Investment Policy and

operations manual. This policy will be assessed for safety of funds on deposit with the LGIP and risks associated with investment strategies. In addition, the LGIP will complete a questionnaire for the Snohomish County Treasurer which will include the following: a description of eligible securities; how interest and fees are calculated; how gains and losses are calculated; a description of how the securities are safeguarded, how often the securities are priced, and how often the program is audited; deposit and withdrawal restrictions; and information regarding how bond proceeds are accounted for in the LGIP.

- In other investments authorized by law

- A signed master repurchase agreement in conformance with the Public Securities Association (PSA) model agreement and supplemented with the Treasurer's policy on repurchase agreements must be executed prior to entering into a repurchase agreement transaction.

- Securities Lending. The Treasurer may select one or more firms to provide Securities lending management services. Securities lending services will include, but are not limited to, the following:

  a) The Treasurer may lend securities only to primary dealers who have a long-term credit rating of "A" or better by two NRSROs. The third-party custodian must also maintain an "A" long-term credit rating.

  b) The Treasurer must enter into a written agreement with the lending agent, and must enter into the industry standard agreement with any borrower. The Treasurer must receive indemnification from the lending agent for borrower default and any losses resulting from agent's negligence or failure to comply with written instructions from the County.

  c) All loans of securities must be supported by collateral valued at not less than 102% of market value of the securities, including accrued interest.

  d) Procedures will detail the restrictions permitted on "mismatch" of the loan and the reinvestment of cash collateral.

  e) Provide next-day liquidity for all securities on loan as required.

  f) Provide monthly accounting, performance, compliance, management reports, and other reports as required by the Treasurer.

  g) Reinvestment of proceeds of securities lending for cash collateral must be done as an investment according to the restrictions of this policy but only count against the limit on reverse repurchase agreements at fiscal year end.

h) Collateral accepted by a securities lending agent must conform to the collateral requirements of this policy and must be equal to no less than 102%.

i) Collateral must be held by an independent third-party custodian with whom the Treasurer has entered into a custodial agreement.

j) All securities transactions are to be conducted on a delivery-versus- payment (DVP) basis only, and trades must have confirmation/safekeeping receipt provided to the Treasurer.

IX. COLLATERALIZATION

A. Repurchase Agreements:

1. The collateral for repurchase agreements shall be U.S. Treasury or Agency securities with a term of maturity not to exceed ten years.

2. Mortgage-backed securities of any maturity will not be accepted as collateral.

3. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be at 102% of market value of principal and accrued interest.

4. Collateral is to be delivered to and held by the trust department of the bank with whom the Treasurer is currently using as the County's safekeeping custodian. Collateral held for repurchase agreements will be evidenced by safekeeping receipts provided to the Treasurer.

5. At a minimum, the value of the securities must be marked market on a weekly basis. Prevailing market conditions may dictate more frequent repricing at the discretion of the Treasurer.

X. SAFEKEEPING AND CUSTODY

A. Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited with a third party custodian prior to the release of funds.

B. Safekeeping

Securities will be held by an independent third-party custodian selected by the Treasurer. Safekeeping receipts will evidence all transactions.

C. Certificates of deposit will be held by the Treasurer.

XI. DIVERSIFICATION

It is the policy of Snohomish County to diversify its investment portfolios. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer or class of securities, all cash and cash equivalent assets in all funds shall be diversified by maturity, issuer and by the class of security. Diversification strategies shall be determined and revised periodically by the investment committee/investment officer for all funds. In establishing specific diversification strategies, the following constraints shall apply:

	Max. % of Portfolio
Washington State Local Government Investment Pool	100%
U.S. Treasury Obligations	100%
Federal Agency securities	90%
Municipal Investment Accounts	40%
Certificates of Deposit (CDs)	40%
Repurchase Agreements (Repos)	40%
Bonds of State of Washington or any local government in the State of Washington	20%
Bonds of other states or local governments of a state other than the State of Washington	15%

XII. SALE OF PORTFOLIO

Any major changes in Investment Strategy including the liquidation of the portfolio shall require a majority vote by the County Finance Committee.

XIII. MATURITIES

To the extent possible and to preclude sales of securities that could result in a loss, investments will be made to coincide with anticipated cash flow requirements. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as the Local Government Investment Pool, money market funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.

A. To this extent, a total of 20% of all the county portfolio(s) investments will be comprised of securities maturing within a year.

B. 15% of the County Pool (SCIP) portfolio will comprise of investments maturing within one year.

C. Satisfying this requirement, remaining funds may be invested in authorized securities not to exceed five years in maturity, except when compatible with a specific fund's investment needs. Maturities longer than five years must have the prior written approval of the Treasurer.

D. To ensure additional liquidity and provide for ongoing market opportunity the weighted average maturity and modified duration of the overall portfolio shall not exceed three years without the prior written approval of the Treasurer.

XIV. INTERNAL CONTROL

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets are protected from loss, theft or misuse. The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial Safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

XV. PERFORMANCE STANDARDS/BENCHMARK

The investment portfolio will be managed in accordance with the parameters specified within this policy. The investment portfolio will be designed to obtain an average rate of return during budgetary and economic cycles, consistent with the investment objectives and cash flow needs. A series of appropriate benchmarks shall be established against which performance shall be compared on a regular basis. The benchmark will be reflective of the actual securities being purchased and the risks undertaken. The benchmarks will have a similar weighted average maturity as the portfolio.

XVI. PROCEDURES

Day-to-day procedures concerning investment management and accounting are outside the scope of this policy. As deemed necessary, the Treasurer will establish written procedures for the operation of the investment program consistent with this policy.

XVII. REPORTING

At least quarterly, a report will be submitted to the Snohomish County Finance Committee for their review, summarizing the current position of the portfolio for Snohomish County. The Treasurer and Investment Officer shall report to the committee current investment strategy being followed and recent economic conditions and market developments which have a bearing on this strategy. This management report will be prepared in a manner which will allow the Finance Committee to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include:

- A listing of individual securities held at the end of the reporting period by authorized investment category
- Asset allocation of types of securities
- Performance of portfolio and its appropriate benchmark(s)

XVIII. INVESTMENT FEES

RCW 36.29.020 allows the charging of an investment fee for providing service of investing funds. Five percent of the interest or earnings, with an annual maximum of fifty dollars, on each transaction authorized by each resolution of the governing body shall be paid as an investment service fee. If the fee amounts to five dollars or less, the County Treasurer may waive such fee.
RCW 28A.58.440 allows the charging of an investment fee for school districts. Five percent of the interest or earnings, with an annual minimum of ten dollars or annual maximum of fifty dollars, on any transactions authorized by each resolution of the board.
RCW 36.29.024 allows the charging of investment fees which reimburse the Treasurer's Office for the actual expenses incurred in administering the investment function under a local pooling program. This fee is allocated to pool participants in a manner which equitably reflects the differing amounts and differing periods of time the amounts were placed in the

county pool. Any investment fees collected in excess of actual expenses will be rebated to the pool participants on an annual basis.

XIX. INVESTMENT POLICY ADOPTION

Snohomish County's investment policy shall be adopted by a majority vote of the County Finance Committee. The policy shall be reviewed every two years by the committee and must approve any modifications.

Pursuant to Chapter 2.110 of the Snohomish County Code this investment policy has been adopted by majority vote of the County Finance Committee at its meeting on December 3rd, 2014.

DEFINITIONS

ACCRUED INTEREST - The interest accumulated on a bond since issue date or the last coupon payment. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.
AGENCY - A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally Sponsored Agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. (Also see FEDERAL AGENCY SECURITIES and GOVERNMENT SECURITY)
AMORTIZATION - In portfolio accounting, periodic charges made against interest income on premium bonds in anticipation of receipt of the call price at call or of par value at maturity.
ASSET - Available property, as for payment of debts
AVERAGE MATURITY - A weighted average of the expiration dates for a portfolio of debt securities. An income fund's volatility can be managed by shortening or lengthening the average maturity of its portfolio.
BANK WIRE - A virtually instantaneous electronic transfer of funds between two financial institutions.
BANKERS ACCEPTANCES (BAs) - Bankers Acceptances generally are created based on a letter of credit issued in a foreign trade transaction. They are used to finance the shipment of commodities between countries as well as the shipment of some specific goods within the United States. BAs are short-term, non-interest bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value. These notes trade at a rate equal to or slightly higher than Certificates of Deposit (CDs), depending on market supply and demand.
Bankers Acceptances are sold in amounts that vary from $100,000 to $5,000,000, or more, with maturities ranging from 30 - 270 days. They offer liquidity to the investor as it is possible to sell BAs prior to maturity at the current market price.
BASIS POINT - A measure of an interest rate, i.e., 1/100 of 1 percent, or .0001.
BID - The indicated price at which a buyer is willing to purchase a security or commodity. When selling a security a bid is obtained. (See Offer)
BOND - A long-term debt security, or IOU, issued by a government or corporation that generally pays a stated rate of interest and returns the face value on the maturity date.
BOOK ENTRY SECURITIES - U.S. government and federal agency securities that do not exist in definitive (paper) form; they exist only in computerized files maintained by the Federal Reserve Bank.
BOOK VALUE - The amount at which an asset is carried on the books of the owner. The book value of an asset does not necessarily have a significant relationship to market value.
BROKER - A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.
CERTIFICATES OF DEPOSIT - Certificates of Deposit, familiarly known as CDs, are certificates issued against funds deposited in a bank for a definite period of time and earning a specified rate of return. Certificates of Deposit bear rates of interest in line with money market rates current at the time of issuance.
COLLATERAL: Property (as securities) pledged by a borrower to protect the interest of the lender.

COMPETITIVE BID PROCESS - A process by which three or more institutions are contacted via the telephone to obtain interest rates for specific securities.

CREDIT QUALITY - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

CREDIT RISK - The risk that another party to an investment transaction will not fulfill its obligations. Credit risk can be associated with the issuer of a security, a financial institution holding the entity's deposit, or a third party holding securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any one investment type or with any one party.

CUSTODIAN - An independent third party (usually bank or trust company) that holds securities in safekeeping as an agent for the county.

DEALER - A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEFEASE - To discharge the lien of an ordinance, resolution, or indenture relating to a bond issue, and in the process, render inoperative restrictions under which the issuer has been obliged to operate. Comment: Ordinarily an issuer may defease an indenture requirement by depositing with a trustee an amount sufficient to fully pay all amounts under a bond contract as they become due.

DELIVERY - The providing of a security in an acceptable form to the County or to an agent acting on behalf of the County and independent of the seller. Acceptable forms can be physical securities or the transfer of book entry securities. The important distinction is that the transfer accomplishes absolute ownership control by the County

DELIVERY VS PAYMENT - There are two methods of delivery of securities: Delivery vs. payment and delivery vs. receipt (also called free). Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for the securities.

DEPOSITARY - A person to whom something is entrusted, a depository.

DEPOSITORY BANK - A local bank used as the point of deposit for cash receipts.

DEPOSITORY INSURANCE - Insurance on deposits with financial institutions. For purposes of this policy statement, depository insurance includes: a) Federal depository insurance funds, such as those maintained by the Federal Deposit Insurance Corporation (FDIC) AND Federal Savings and Loan Insurance Corporation (FSLIC); and b) Public Deposit Protection Commission.

DISCOUNT - 1. (n.) selling below par; e.g., a $1000 bond selling for $900. 2. (v.) anticipating the effects of news on a security's value; e.g., "The market had already discounted the effect of the labor strike by bidding the company's stock down."

DIVERSIFICATION - Dividing available funds among a variety of securities and institutions so as to minimize market risk.

EFFECTIVE RATE - The yield you would receive on a debt security over a period of time taking into account any compounding effect.

FACE VALUE - The value of a bond stated on the bond certificate; thus, the redemption value at maturity. Most bonds have a face value, or par, of $1,000.

FEDERAL AGENCY SECURITIES - Several government-sponsored agencies, in recent years, have issued short and long-term notes. Such notes typically are issued through dealers, mostly investment banking houses. These Federal government-sponsored agencies were established by the U.S. Congress to undertake various types of financing without tapping the public treasury. In order to do so, the agencies

have been given the power to borrow money by issuing securities, generally under the authority of an act of Congress. These securities are highly acceptable and marketable for several reasons, mainly because they are exempt from state, municipal and local income taxes. Furthermore, agency securities must offer a higher yield than direct Treasury debt of the same maturity to find investors, partly because these securities are not direct obligations of the Treasury.

The main agency borrowing institutions are the Federal National Mortgage Association (FNMA), the Federal Home Loan Bank System (FHLB), and the Federal Farm Credit System (FFCS).

FNMA - FEDERAL NATIONAL MORTGAGE ASSOCIATION - issues notes tailored to the maturity needs of the investor. Maturities range from 30 days up to 10 years. These notes are made attractive by their denominations from $5,000 to $1 million.

FHLB - FEDERAL HOME LOAN BANK SYSTEM - consists of twelve Federal Home Loan Banks, issues, in addition to long-term bonds, coupon notes with maturities of up to one year. Their attractiveness stems from their investment denominations of $10,000 to $1 million.

FEDERAL DEPOSIT INSURANCE (FDIC) - A Federal institution that insures bank deposits. The current limit is up to $100,000 per depository account.

FEDERAL FUNDS RATE - The rate of interest at which Fed Funds are traded between banks. Fed Funds are excess reserves held by banks that desire to invest or lend them to banks needing reserves. The particular rate is heavily influenced through the open market operations of the Federal Reserve Board. Also referred to as the "Fed Funds rate."

FEDERAL HOME LOAN BANKS (FHLB) - The institutions that regulate and lend to savings and loan associations.

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, HUD. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA'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 RESERVE SYSTEM - The central bank of the United States which has regulated credit in the economy since its inception in 1913. Includes the Federal Reserve Bank, 14 district banks and the member banks of the Federal Reserve, and is governed by the Federal Board.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION (FSLIC) - A federal institution that insures savings and loan deposits. The current limit is up to $100,000 per depository account.

FINANCIAL INSTITUTIONS - Establishments that include the circulation of money, the granting of credit, the making of investments, and the provision of banking facilities.

FISCAL AGENCY - A financial institution that handles certain bond and coupon redemptions on behalf of Whatcom County.

FLEXIBLE REPURCHASE AGREEMENTS (Flex Repos) - Similar to a term repurchase agreement, a flex repo is a contractual transfer of U.S. government securities during the investment period, whereby the Seller agrees to repurchase the collateral securities from the Buyer on the Buyer's demand, subject to provisions of the agreement. The Seller is generally a financial institution such as a securities dealer or a bank. As buyers, most issuers require over collateralization, marking-to-market of collateral and delivery-vs.-payment of collateral.

GINNIE MAES (GNMAs) - Mortgage securities issued and guarantied, as to timely interest and principal payments, by the Government National Mortgage, an agency within the Department of Housing and Urban Development (HUD).

GOVERNMENT SECURITY - Any debt obligation issued by the U.S. government, its agencies or instrumentalities. Certain securities, such as Treasury bonds and Ginnie Maes, are backed by the government as to both principal and interest payments. Other securities, such as those issued by the Federal Home Loan Mortgage Corporation, or Freddie Mac, are backed by the issuing agency.

HAIRCUT - This term describes the way brokers and clients protect themselves from market risk in doing repos. An entity wanting to finance the purchase of $100 million in Treasury bonds may borrow just $98 million of the money. The two percent difference between the amount of securities purchased and the amount of money borrowed is the haircut. Similarly, an entity looking to borrow $100 million may need to provide, as collateral, Treasury securities with a market price equal to $102 million.

LIQUIDATION - Conversion into cash.

LIQUIDITY - Refers to the ease and speed with which an asset can be converted into cash without a substantial loss in value.

LOSS - The excess of the cost or book value of an asset over selling price.

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.

MARK-TO-MARKET - An adjustment in the valuation of a securities portfolio to reflect the current market values of the respective securities in the portfolio. This process is also used to ensure that margin accounts are in compliance with maintenance.

MARKETABILITY - Ability to sell large blocks of money market instruments quickly and at competitive prices.

MARKET RISK - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value. The risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline.

MARKET VALUE - The price at which a security is trading and could presumably be sold.

MASTER REPURCHASE AGREEMENT - An agreement between the investor and the dealer or financial institute. This agreement defines the nature of the transactions, identifies the relationship between the parties, establishes normal practices regarding ownership and custody of the collateral securities during the term of the investment, provides for remedies in the event of a default by either party and otherwise clarifies issues of ownership.

MATURITY - The time when a security becomes due and at which time the principal and interest or final coupon payment is paid to the investor.

NET WORTH - A financial institutions available funds after their total liabilities have been deducted from their total assets.

OFFER - The indicated price at which a seller is willing to sell a security or commodity. (See BID) When buying a security an offer is obtained.

PAR VALUE - The nominal or face value of a debt security; that is, the value at maturity.

PORTFOLIO - Collection of securities held by an investor.

PREMIUM - The amount by which a bond sells above its par value.

PRIMARY DEALERS - 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.

PRIME RATE - The interest rate a bank charges on loans to its most credit worthy customers. Frequently cited as a standard for general interest rate levels in the economy.
PRINCIPAL - An invested amount on which interest is charged or earned.
PRUDENCE - The ability to govern and discipline oneself by the use of reason. Shrewdness in the management of affairs. Able to use skill and good judgment in the use of resources.
QUALIFIED PUBLIC DEPOSITORY - 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 Deposit Protection Commission to hold public deposits.
REGISTERED SECURITY - A security that has the name of the owner written on its face. A registered security cannot be negotiated except by the endorsement of the owner.
REPURCHASE AGREEMENT (REPO) - The Repo is a contractual transaction between an investor and an issuing financial institution (not a secured loan). The investor exchanges cash for temporary ownership of specific securities, with an agreement between the parties that on a future date, the financial institution will repurchase the securities at a prearranged price. An "Open Repo" does not have a specified repurchase date and the repurchase price is established by a formula computation.
REPRICING - The revaluation of the market value of securities.
REVERSE REPOs - The opposite of the transaction undertaken through a regular repurchase agreement. In a "reverse" the County initially owns securities and the bank or dealer temporarily exchanges cash for this collateral. This is, in effect, temporarily borrowing cash at a high interest rate and is also known as securities lending. Most typically, a Repo is initiated by the lender of funds. Reverses are used by dealers to borrow securities they have shorted.
SAFEKEEPING - A service to customers rendered by banks for a fee whereby all securities and valuables of all types and descriptions are held in the bank's vaults for protection, or in the case of book entry securities, are held and recorded in the customer's name and are inaccessible to anyone else.
SALLIE MAES - Pooling of student loans guaranteed by the Student Loan Mortgage Association (SLMA) to increase the availability of education loans. The SLMA purchases the loans after buying them on the secondary market from lenders. SLMA stock is publicly traded.
SECURITIES - Bonds, notes, mortgages, or other forms of negotiable or non-negotiable instruments.
SETTLEMENT DATES - The day on which payment is due for a securities purchase. For stocks and mutual funds bought through an investment dealer, settlement is normally five business days after the trade date. Bonds and options normally settle one business day after the trade date mutual fund shares purchased directly by mail or wire settle on the day payment is received.
SPREAD - (a) Difference between the best buying price and the best selling price for any given security. (b) Difference between yields on or prices of two securities of differing quality or differing maturities. (c) In underwriting, difference between price realized by the issuer and price paid by the investor.
STRIPPED TREASURIES - U.S. Treasury debt obligations in which coupons are removed by brokerage houses, creating zero-coupon bonds.
TRIPARTITE CUSTODIAN AGREEMENT - An agreement that occurs when a third party or custodian becomes a direct participant in a repurchase transaction. The custodian ensures that the exchange occurs simultaneously and that appropriate safeguards are in place to protect the investor's interest in the underlying collateral.
THIRD-PARTY SAFEKEEPING - A safekeeping arrangement whereby the investor has full control over the securities being held and the dealer or bank investment department has no access to the securities being held.

TIME DEPOSIT - Interest-bearing deposit at a savings institution that has a specific maturity.
TREASURY BILLS - Treasury bills are short-term debt obligations of the U.S. Government. They offer maximum safety of principal since they are backed by the full faith and credit of the United States Government. Treasury bills, commonly called "T-Bills," account for the bulk of government financing, and are the major vehicle used by the Federal Reserve System in the money market to implement national monetary policy. T-Bills are sold in three, six, nine, and twelve-month bills. Because treasury bills are considered "risk-free," these instruments generally yield the lowest returns in the major money market instruments.
TREASURY NOTES AND BONDS - While T-Bills are sold at a discount rate that establishes the yield to maturity, all other marketable treasury obligations are coupon issued. These include Treasury Notes with maturities from one to ten years and Treasury Bonds with maturities of 10-30 years. The instruments are typically held by banks and savings and loan associations. Since Bills, Notes and Bonds are general obligations of the U.S. Government, and since the Federal Government has the lowest credit risk of all participants in the money market, its obligations generally offer a lower yield to the investor than do other securities of comparable maturities.
UNDERLYING SECURITIES - Securities transferred in accordance with a repurchase agreement.
VENDOR - A business or individual who provides a service or product at a cost.
WHEN-ISSUED TRADES - Typically, there is a lag between the time a new bond is announced and sold and the time it is actually issued. During this interval, the security trades "wi," "when, as, and if issued."
Wi - When, as, and if issued. See When-issued trades.
YIELD - The rate at which an investment pays out interest or dividend income, expressed in percentage terms and calculated by dividing the amount paid by the price of the security and annualizing the result.
YIELD BASIS - Stated in terms of yield as opposed to price. As yield increases for a traded issue, price decreases and vice versa. Charts prepared on a yield basis appear exactly opposite of those prepared on a price basis.
YIELD SPREAD - The variation between yields on different types of debt securities; generally a function of supply and demand, credit quality and expected interest rate fluctuations. Treasury bonds, for example, because they are so safe, will normally yield less than corporate bonds. Yields may also differ on similar securities with different maturities. Long-term debt, for example, carries more risk of market changes and issuer defaults than short-term debt and thus usually yields more.
ZERO-COUPON BONDS - Securities that do not pay interest but are instead sold at a deep discount from face value. They rise in price as the maturity date nears and are redeemed at face value upon maturity.