

## **EXHIBIT A**

### **INVESTMENT POLICY**

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## 1.0 Scope and Governing Authority

These investment policies apply to all cash-related assets included within the scope of Metro's audited financial statements and held directly by Metro.

Funds held and invested by trustees or fiscal agents are excluded from these policies; however, such funds are subject to the regulations established by the state of Oregon.

Funds of Metro will be invested in compliance with the provisions of ORS Chapter 294 and other applicable statutes. Investments will be in accordance with these policies and written administrative procedures. Investment of any tax-exempt borrowing proceeds and of any debt service funds will comply with the Internal Revenue Code of 1986 provisions and any subsequent amendments thereto.

## 2.0 General Objectives

Due to Metro's fiduciary responsibility, safety of capital and availability of funds to meet payment requirements are the overriding objectives of the investment program. Investment return targets are secondary.

- (a) Safety. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio and security of funds and investments. The objective will be to mitigate credit risk and interest rate risk.
- (b) Liquidity. The investment officer shall assure that funds are constantly available to meet immediate payment requirements, including payroll, accounts payable and debt service. Furthermore, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in the Oregon Short Term Fund which offers next-day liquidity. Where possible and prudent, the portfolio should be structured so that investments mature consistent with anticipated demands.
- (c) Return on Investment. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into consideration the safety and liquidity needs of the portfolio.

Although securities are purchased with the intent to hold to maturity, securities may be sold prior to their maturity in order to improve the quality, net yield, or maturity characteristic of the portfolio.

- (d) Legality. Funds will be deposited and invested in accordance with statutes, ordinances and policies governing Metro.

- (e) Responsibility. The intent of the investment program is to achieve long-term market returns to create added resources to advance Metro's strategic goals and objectives. Consideration of responsible investing practices, including, not limited to advancing racial equity and climate resilience, may be applied when aligned with the objectives of safety, liquidity and return.

### **3.0 Standards of Care**

- (a) Prudence. The standard of prudence to be applied by the investment officer shall be the "prudent person" rule: "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 prudent person rule shall be applied in the context of managing the overall portfolio.
- (b) Ethics and Conflicts of Interest. Officers and employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of Metro. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244.
- (c) Delegation of Authority. The Chief Operating Officer is the investment officer of Metro. The authority for investing Metro funds is vested with the investment officer, who, in turn, designates the investment manager to manage the day-to-day operations of Metro's investment portfolio, place purchase orders and sell orders with dealers and financial institutions, and prepare reports as required.
- (d) Investment Advisory Board (IAB). There shall be an investment advisory board composed of five (5) members.
  - (1) Terms of Service. The term of service for citizens appointed to the IAB shall be subject to the provisions of Metro Code 2.19.030.
  - (2) Appointment. The investment officer shall recommend to the Council for confirmation the names of persons for appointment to the IAB.

- (3) Duties. The IAB shall meet quarterly. The IAB will serve as a forum for discussion and act in an advisory capacity for investment strategies, banking relationships, the legality and probity of investment activities and the establishment of written procedures for the investment operations.
- (e) Monitoring the Portfolio. The investment manager will routinely monitor the contents of the portfolio comparing the holdings to the markets, relative values of competing instruments, changes in credit quality, responsible investing and benchmarks. If there are advantageous transactions, the portfolio may be adjusted accordingly.
- (f) Indemnity Clause. Metro shall indemnify the investment officer, chief financial officer, investment manager, staff and the IAB members from personal liability for losses that might occur pursuant to administering this investment policy. 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 to the council as soon as practicable.
- (g) Internal Controls. The investment officer shall maintain a system of written internal controls, which shall be reviewed annually by the IAB and the independent auditor. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation or imprudent actions. Metro's independent auditor at least annually shall audit investments according to generally accepted auditing standards and this ordinance.

The internal controls shall address the following points at a minimum:

- (1) Compliance with Investment Policy
- (2) Detection of collusion
- (3) Separation of transaction authority from accounting and record keeping
- (4) Custodial safekeeping
- (5) Avoidance of physical delivery of securities whenever possible and address control requirements for physical delivery where necessary
- (6) Clear delegation of and limits on authority given to subordinate staff members
- (7) Confirmation of transactions for investments and wire transfers in written or digitally verifiable electronic form
- (8) Dual authorizations of wire and automated clearing house (ACH) transfers
- (9) Staff training
- (10) Review, maintenance and monitoring of security procedures both manual and automated

#### **4.0 Transaction Counterparties, Investment Advisors and Depositories**

- (a) Broker Dealers. The Investment Officer shall determine which broker/dealer firms and registered representatives are authorized for the purposes of investing funds within the scope of this investment policy. A list will be maintained of approved broker/dealer firms and affiliated registered representatives.

The following minimum criteria must be met prior to authorizing investment transactions. The Investment Officer may impose more stringent criteria.

Broker dealers must meet the following minimum criteria

- (1) Be registered with the Securities and Exchange Commission (SEC);
- (2) Be registered with the Financial Industry Regulatory Authority (FINRA);
- (3) Provide most recent audited financials;
- (4) Provide FINRA Focus Report filings.

A periodic (at least annual) review of all authorized broker/dealers will be conducted by the Investment Officer.

If Metro's investment advisor is contracted to provide securities transactions on behalf of Metro, the advisor's broker dealer list must be provided to the Investment Officer for approval. The Investment Officer can assign the responsibility of the broker dealer due diligence process to the Advisor, and all licensing information on the counterparties will be maintained by the Advisor and available upon request.

The Advisors must provide Metro with any changes to the list prior to transacting on behalf of Metro.

- (b) Investment Advisors. The Investment Officer may engage the services of one or more external investment advisors to assist in the management of Metro's investment portfolio in a manner consistent with this investment policy. If Metro hires an investment advisor to provide investment management services, the advisor is authorized to transact with its direct dealer relationships on behalf of Metro.

Approved investment advisor firms must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon; (Note: Investment advisor firms with assets under management > \$100 million must be registered with the SEC, otherwise the firm must be licensed by the state of Oregon).

A periodic (at least annual) review of all authorized investment advisors under contract will be conducted by the Investment Officer to determine their continued eligibility within the portfolio guidelines. The Investment Advisor must notify Metro immediately if any of the following issues arise while serving under a Metro contract:

1. Pending investigations by securities regulators
2. Significant changes in net capital
3. Pending customer arbitration cases
4. Regulatory enforcement actions

- (c) Depositories. All financial institutions who desire to become depositories must be qualified Oregon Depositories pursuant to ORS Chapter 295.
- (d) Competitive Transactions. The Investment Officer shall obtain and document competitive bid information on all investments purchased or sold in the secondary market. Competitive bids or offers should be obtained, when possible, from at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform. In the instance of a security for which there is no readily available competitive bid or offering on the same specific issue, then the Investment Officer shall document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price. However, the Investment Officer is encouraged to document quotations on comparable securities. If an investment advisor provides investment management services, the advisor must retain documentation of competitive pricing execution on each transaction and provide upon request.

## **5.0 Safekeeping and Custody**

- (a) Delivery vs. Payment. All trades of marketable securities will be executed (cleared and settled) by delivery vs. payment (DVP) to ensure that securities are deposited in Metro's safekeeping institution prior to the release of funds. Metro will have online access through the safekeeping bank for verification of the account holdings and transactions. Delivery vs. payment will also be required for all repurchase transactions and with the collateral priced and limited in maturity in compliance with ORS 294.035(2)(j).

Notwithstanding the preceding, an exception to the delivery versus payment policy is made when purchasing State and Local Government Series Securities (SLGS) from the United States Treasury's Bureau of Public Debt to satisfy arbitrage yield restriction requirements of the Internal Revenue Code for tax-exempt bond issues.

- (b) Custody/Safekeeping. Securities purchased by Metro shall be held in a segregated account for Metro's benefit at a third-party trustee as safekeeping agent. All securities will be receipted and recorded based on the terms in the custodial contract. Upon request, the safekeeping institution shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16. The approved broker dealer or the investment advisor shall provide Metro with a confirmation ticket listing the specific instrument, issuer, coupon, maturity, CUSIP number, purchase or sale price, transaction date, and other pertinent information.

## **6.0 Suitable and Authorized Investments**

(Definitions of terms and applicable authorizing statutes are listed in the "Summary of Investments Available to Municipalities" provided by the State Treasurer).

- (a) Investment Types. The following investments are permitted by this policy and ORS 294.035 and 294.810.
- (1) Lawfully issued general obligations of the United States, the agencies and instrumentalities of the United States or enterprises sponsored by the United States Government and obligations whose payment is guaranteed by the United States, the agencies and instrumentalities of the United States or enterprises sponsored by the United States Government. Maximum percent of portfolio allocation is 100%. No more than 40% of the portfolio in any one agency, instrumentality, or sponsored enterprise.
  - (2) Certificates of Deposit (CD) from commercial banks in Oregon and insured by the Federal Deposit Insurance Corporation (FDIC). Maximum percent of portfolio allocation is 25%. Investments in Certificates of Deposit invested in any one institution shall not exceed 5% of the total available funds and 15% of the equity of the financial institution.
  - (3) Repurchase Agreements (Repo's) purchased from any qualified institution provided the master repurchase agreement is effective and the safekeeping requirements are met. The repurchase agreement must be in writing and executed in advance of the initial purchase of the securities that are the subject of the repurchase agreement.
    - (A) ORS 294.035 (3)(j) requires repurchase agreement collateral to be limited in maturity to three years and priced according to percentages prescribed by written policy of the Oregon Investment Council or the Oregon Short-Term Fund Board.

- (B) ORS 294.135 (2) limits the maximum term of any repurchase agreement to 90 days.
- (C) Acceptable collateral:
  - (i) US Treasury Securities: 102%
  - (ii) US Agency Discount and Coupon Securities: 102%

Maximum percent of portfolio allocation is 25% and issuer constraint is 10%. The investment officer shall not enter into any reverse repurchase agreements.

- (4) Banker's Acceptances (BA) that are (i) guaranteed by, and carried on the books of, a qualified financial institution, (ii) eligible for discount by the Federal Reserve System, and (iii) issued by a qualified financial institution whose short-term letter of credit rating is rated in the highest category (A-1, P-1, F-1) by one or more nationally recognized statistical rating organization.

Qualified institution means a financial institution that is located and licensed to do banking business in the state of Oregon; or a financial institution located in the states of California, Idaho, or Washington that is wholly owned by a bank holding company that owns a financial institution that is located and licensed to do banking business in the state of Oregon.

Maximum percent of portfolio allocation is 25%. Investments in Bankers' Acceptances invested in any one institution shall not exceed 5% of the total available funds and 15% of the equity of the financial institution.

- (5) Corporate indebtedness subject to a valid registration statement on file with the Securities and Exchange Commission or issued under the authority of section 3(a)(2) or 3(a)(3) of the Securities Act of 1933, as amended. Must be issued by a commercial, industrial or utility business enterprise, or by or on behalf of a financial institution, including a holding company owning a majority interest in a qualified financial institution. The combined total invested in corporate indebtedness may not exceed 35%. No more than 5% of the total portfolio with any one corporate entity.
  - (A) Commercial Paper (CP) rated on the trade date P-1 or better by Moody's Investors Service or A-1 or better by Standard & Poor's Corporation or equivalent rating by any nationally recognized statistical rating organization.
  - (B) Corporate indebtedness must be rated on trade date in a rating category of "Aa-" or better by Moody's Investors Service or a rating



category of “AA” or better by Standard & Poor’s Corporation or equivalent by any nationally recognized statistical rating organization.

(C) Notwithstanding subparagraph (a) and (b) of this paragraph, the corporate indebtedness must be rated on the trade date P-2 or in a rating category of “A” or better by Moody’s Investors Service or A-2 or in a rating category of “A” or better by Standard & Poor’s Corporation or equivalent rating by any nationally recognized statistical rating organization when the corporate indebtedness is:

(i) Issued by a business enterprise that has its headquarters in Oregon, employs more than 50 percent of its permanent workforce in Oregon or has more than 50 percent of its tangible assets in Oregon; or

(ii) Issued by a holding company owning not less than a majority interest in a qualified financial institution, as defined by ORS 294.035, located and licensed to do banking business in Oregon or by a holding company owning not less than a majority interest in a business enterprise described in subparagraph (i) of this subparagraph.

(6) Lawfully issued debt obligations of the agencies and instrumentalities of the State of Oregon or its political subdivisions with a long-term rating in a rating category of “A” or an equivalent rating or better or the highest category for short term municipal debt.

Lawfully issued debt obligations of the States of California, Idaho or Washington or their political subdivisions with a long-term rating in a rating category of “AA” or an equivalent rating or better or the highest category for short term municipal debt.

Maximum percent of portfolio allocation is 25%. No more than 5% of the total portfolio in any one issuing entity.

Such obligations may be purchased only if there has been no default in payment of either the principal of or the interest on the obligations of the issuing county, port, school district or city, for a period of five years next preceding the date of the investment, per ORS 294.040.

(7) State of Oregon Investment Pool. Maximum allowed per ORS 294.810, with the exception of pass-through funds (in and out within 10 days). A thorough

investigation of the pool/fund is required prior to investing, and on a continual basis. Metro shall perform a periodic review of:

- (A) Pool's investment policy and objectives
  - (B) Interest calculations and how it is distributed
  - (C) How the securities are safeguarded
  - (D) How often the securities are priced
- (8) Time Deposits, Market Interest Accounts and Checking Accounts. Metro shall maintain necessary allocation needed for daily cash management efficiency.

Any financial institutions that hold funds in excess of FDIC insurance must qualify and meet requirements under ORS chapter 295, Public Funds Collateralization Program. (PFCP).

Time Deposits and savings accounts in insured institutions as defined in ORS Section 706.008, in credit unions as defined in ORS Section 723.006, or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state [ORS Section 294.035(3)(d)].

Summary of Permitted Investments.

Investment Type	Maximum Maturity	Maximum Portfolio Allocation	Maximum Allocation Per Issuer	Minimum Rating
U.S. Treasuries	5.25 years	100%	100%	-
Federal Agencies	5.25 years	100%	40%	-
Time Certificates of Deposit	5.25 years	25%	5%	FDIC insured
Repurchase Agreements	90 days	25%	10%	Collateralized
Bankers Acceptances	180 days	25%	5%	A-1
Corporate notes	5.25 years	35%	5%	AA- A- if OR
Commercial Paper	270 days			A-1 A-2 if OR
OR munis	5.25 years	25%	5% (per issuing entity)	A-
ID, CA, WA munis	5.25 years		5% (per issuing entity)	AA-
OSTF	-	Amount established by ORS 294.810	-	-
Time Deposits Market interest and checking accounts	-	Amount necessary for daily cash mgmt	-	-

## 7.0 Investment Parameters

- (a) Credit Risk. Metro will minimize credit risk, the risk of loss due to the financial failure of the security issuer or backer, by:
- Limiting exposure to poor credits and concentrating the investments in the safest types of securities.
  - Pre-qualifying the financial institutions, broker/dealers, and advisors with which Metro will do business.
  - Diversifying the investment portfolio so that potential losses on individual securities will be minimized. For securities not backed by the full faith and credit of the federal government, diversification is required in order that potential losses on individual securities would not exceed the income generated from the remainder of the portfolio.
  - Actively monitoring the investment portfolio holdings for ratings changes, changing economic/market conditions, etc.
- (b) Diversification by Maturity. Only investments which can be held to maturity shall be purchased. Investments shall not be planned or made predicated upon selling the security prior to maturity. This restriction does not prohibit the use of repurchase agreements under ORS 294.135(2). Funds will be invested to coincide with projected cash needs or with the following serial maturity:

(c)

<b>Maturity Constraints</b>	<b>Minimum % of Total Portfolio</b>
Under 90 days	10%
Under 1.5 years	25%
Under 5.25 years	100%
<b>Maturity Constraints</b>	<b>Maximum of Total Portfolio</b>
Weighted Average Maturity	2.5 years
<b>Security Structure Constraint</b>	<b>Maximum % of Total Portfolio</b>
Callable Agency Securities	25%

At all times, Metro will maintain a minimum amount of funds to meet liquidity needs for the next three months, which can be through a combination of cash and investments. The weighted average maturity of Metro's portfolio shall not exceed 2.5 years.

Investments may not exceed five (5.25) years. Investment maturities beyond 18 months may be made when supported by cash flow projections which reasonably demonstrate that liquidity requirements will be met.

- (d) Diversification by Investment. The investment officer will diversify the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities.
- (e) Collateralization. Deposit-type securities (i.e., Certificates of Deposit) and all bank deposits for any amount exceeding FDIC coverage shall be collateralized through the Public Funds Collateralization Program as required by ORS Chapter 295. ORS Chapter 295 governs the collateralization of Oregon public funds and provides the statutory requirements for the Public Funds Collateralization Program. Bank depositories are required to pledge collateral against any public funds deposits in excess of deposit insurance amounts. ORS 295 sets the specific value of the collateral, as well as the types of collateral that are acceptable.
- (f) Adherence to Investment Diversification. Diversification requirements must be met on the day an investment transaction is executed. If due to unanticipated cash needs, investment maturities or marking the portfolio to market, the investment in any security type, financial issuer or maturity spectrum later exceeds the limitations in the policy, the investment officer is responsible for bringing the investment portfolio back into compliance as soon as is practical.

## **8.0 Prohibited Investments**

- (a) Private Placement or 144A Securities. Private placement or “144A” securities are not allowed. “144A” securities include commercial paper issued under section 4(2)144A (also known as “4(2)A”) of the Securities Act of 1933.
- (b) Mortgage-backed Securities are not allowed.
- (c) Securities Lending. Metro shall not lend securities nor directly participate in a securities lending program.
- (d) Fossil Fuel Companies - Metro shall not invest directly in fossil fuel securities.
- (e) Total Prohibitions. The investment officer may not make a commitment to invest funds or sell securities more than 14 business days prior to the anticipated date of settlement of the purchase or sale transaction and may not agree to invest funds or sell securities for a fee other than interest. Purchase of standby or forward commitments of any sort are specifically prohibited.

## **9.0 Investment of Proceeds from Debt Issuance**

Investments of bond proceeds are restricted under bond covenants that may be more restrictive than the investment parameters included in this policy. The investments will be made in a manner to match cash flow expectations based on managed disbursement schedules.

Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for resale and are maturity matched with outflows. Consequently, funds within the scope of ORS 294.052 are not subject to this policy's liquidity risk constraints.

Information will be maintained for arbitrage rebate calculations.

## **10.0 Investment of Reserve or Capital Improvements**

Pursuant to ORS 294.135(1)(b), reserve or capital improvement project monies may be invested in securities exceeding five and a quarter (5.25) years when the funds in question are being accumulated for an anticipated use that will occur more than 18 months after the funds are invested, then, upon the approval of Metro Council, the maturity of the investment or investments made with the funds may occur when the funds are expected to be used.

## **11.0 Reporting**

- (a) Methods. A transaction report shall be prepared by the investment manager not later than one business day after the transaction, unless a trustee, operating under a trust agreement, has executed the transaction. The trustee agreement shall provide for a report of transactions to be submitted by the trustee on a monthly basis.
- (b) Compliance. Quarterly reports shall be prepared for each regular meeting of the IAB to present historical information for the past 12-month period and that allows the IAB to ascertain whether investment activities during the reporting period have conformed to the investment policy. Copies shall be provided to the Chief Operating Officer and the Metro Council. At each quarterly meeting, a report reflecting the status of the portfolio will be submitted for review and comment by at least three (3) members of the IAB. Discussion and comment on the report will be noted in minutes of the meeting. If concurrence is not obtained, notification will be given to the investment officer, including comments by the IAB.
- (c) Performance Standards. The overall performance of Metro's investment program is evaluated quarterly by the IAB using the objectives outlined in this policy. The quarterly report which confirms adherence to this policy shall be provided to the Metro Council as soon as practicable.

The pooled investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. The primary benchmark of the portfolio will be either the ICE Bank of America Merrill Lynch 0-3 Year US Treasury Index or the ICE Bank of America Merrill Lynch 0-5 Year US Treasury Index. The Investment Officer may use other appropriate benchmarks including the Local Government Investment Pool's monthly average yield or a series of appropriate benchmarks consistent with Metro's investment objectives for additional analysis. Metro will use these benchmarks to determine the effectiveness of the investment strategy and return relative to market. The Investment Officer, IAB, and the Investment Advisor will review benchmarks annually for appropriateness and consistency with Metro's investment objectives.

- (d) Accounting Method. Metro shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles are those contained in the pronouncements of authoritative bodies, including, but not necessarily limited to, the American Institute of Certified Public Accountants (AICPA); the Financial Accounting Standards Board (FASB); and the Government Accounting Standards Board (GASB).

## **12.0 Policy Adoption and Re-adoption**

- (a) The investment policy must be reviewed by the IAB and the Oregon Short-Term Fund Board prior to adoption by the Metro Council. Adoption of this policy supersedes any other previous Council action or policy regarding Metro's investment management practices.
- (b) This policy shall be subject to review and re-adoption annually by the Metro Council in accordance with ORS 294.135.

## **13.0 List of Documents Used in Conjunction with this Policy**

The following documents are used in conjunction with this policy and are available from the investment manager upon request:

- List of Authorized Brokers and Dealers
- List of Primary Dealers
- Calendar of Federal Reserve System Holidays
- Calendar of Local Government Investment Pool Holidays
- Broker/Dealer Request for Information
- Oregon State Treasury's Summary of Liquid Investments Available to Local Governments for Short-Term Fund Investment

- Oregon State Treasury's U.S. Government and Agency Securities for Local Government Investment Under ORS 294.035 and 294.040
- Oregon State Treasury's List of Qualified Depositories for Public Funds
- Attorney General's letter of advice: Certificates of Deposit, ORS 294.035 and ORS Chapter 295
- Oregon Revised Statute Chapter 294 – County and Municipal Financial Administration
- Oregon Revised Statute Chapter 295 – Depositories of Public Funds and Securities
- Government Finance Officers Association Glossary of Cash Management Terms



## 14.0 Definitions

**Accrued Interest** means interest earned but which has not yet been paid or received.

**Benchmark Notes/Bonds** mean Benchmark Notes and Bonds are a series of FNMA “bullet” maturities (non-callable) issued according to a pre-announced calendar. Under its Benchmark Notes/Bonds program, 2, 3, 5, 10 and 30-year maturities are issued each quarter. Each Benchmark Notes new issue has a minimum size of \$4 billion, 30-year new issues having a minimum size of \$1 billion, with re-openings based on investor demand to further enhance liquidity. The amount of non-callable issuance has allowed FNMA to build a yield curve in Benchmark Notes and Bonds in maturities ranging from 2 to 30 years. The liquidity emanating from these large size issues has facilitated favorable financing opportunities through the development of a liquid overnight and term repo market. Issues under the Benchmark program constitute the same credit standing as other FNMA issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

**Book Value** means the value at which a debt security is reflected on the holder's records at any point in time. Book value is also called “amortized cost” as it represents the original cost of an investment adjusted for amortization of premium or accretion of discount. Also called “carrying value.” Book value can vary over time as an investment approaches maturity and differs from “market value” in that it is not affected by changes in market interest rates.

**Bullet Notes/Bonds** mean notes or bonds that have a single maturity date and are non-callable.

**Callable Bonds/Notes** mean securities which contain an imbedded call option giving the issuer the right to redeem the securities prior to maturity at a predetermined price and time.

**Certificate of Deposit Account Registry Service (CDARS)** means a private service that breaks up large deposits (from individuals, companies, nonprofits, public funds, etc.) and places them across a network of banks and savings associations around the United States. Allows depositors to deal with a single bank that participates in CDARS but avoid having funds above the FDIC deposit insurance limits in any one bank.

**Commercial Paper** means a short term unsecured promissory note issued by a company or financial institution. Issued at a discount and matures for par or face value. Usually a maximum maturity of 270 days, and given a short-term debt rating by one or more NRSROs.

**Coupon Rate** means the annual rate of interest on a debt security, expressed as a percentage of the bond's face value.

**Discount Notes** mean unsecured general obligations issued by Federal Agencies at a discount. Discount notes mature at par and can range in maturity from overnight to one year.

**Federal Agency Security** means a security issued by a federal agency or certain federally chartered entities (often referred to as government-sponsored enterprises or GSEs). Agency securities typically are not guaranteed by the federal government, particularly those of GSEs.

**Federal Farm Credit Banks Funding Corporation (FFCB)** means one of the large Federal Agencies. A Government Sponsored Enterprise (GS) system that is a network of cooperatively-owned lending institutions that provide credit services to farmers, agricultural cooperatives and rural utilities. The FFCBs act as financial intermediaries that borrow money in the capital markets and use the proceeds to make loans and provide other assistance to farmers and farm-affiliated businesses. Consists of the consolidated operations of the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks. Frequent issuer of discount notes, agency notes and callable agency securities. FFCB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and agricultural industry.

**Federal Home Loan Bank System (FHLB)** means one of the large Federal Agencies. A Government Sponsored Enterprise (GSE) system, consisting of wholesale banks (currently twelve district banks) owned by their member banks, which provides correspondent banking services and credit to various financial institutions, financed by the issuance of securities. The principal purpose of the FHLB is to add liquidity to the mortgage markets. Although FHLB does not directly fund mortgages, it provides a stable supply of credit to thrift institutions that make new mortgage loans. FHLB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its "global note" and "TAP" programs.

**Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")** means one of the large Federal Agencies. A government sponsored public corporation (GSE) that provides stability and assistance to the secondary market for home mortgages by purchasing first mortgages financed by the sale of debt and guaranteed mortgage backed securities. FHLMC debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S.

financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its “reference note” program.

**Federal National Mortgage Association (FNMA or "Fannie Mae")** means one of the large Federal Agencies. A government sponsored public corporation (GSE) that provides liquidity to the residential mortgage market by purchasing mortgage loans from lenders, financed by the issuance of debt securities and MBS (pools of mortgages packaged together as a security). FNMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its “benchmark note” program.

**Federal Reserve Bank** means one of the 12 distinct banks of the Federal Reserve System.

**Global Notes** means notes designed to qualify for immediate trading in both the domestic U.S. capital market and in foreign markets around the globe. Usually large issues that are sold to investors worldwide and therefore have excellent liquidity. Despite their global sales, global notes sold in the U.S. are typically denominated in U.S. dollars.

**Government National Mortgage Association (GNMA or "Ginnie Mae")** mean one of the large Federal Agencies. Government-owned Federal Agency that acquires, packages, and resells mortgages and mortgage purchase commitments in the form of mortgage-backed securities. Largest issuer of mortgage pass-through securities. GNMA debt is guaranteed by the full faith and credit of the U.S. government (one of the few agencies that is actually full faith and credit of the U.S.).

**Government Sponsored Enterprise (GSE)** means a privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over Treasuries. Examples of GSEs include: FHLB, FHLMC, and FNMA.

**Market Value** means the fair market value of a security or commodity. The price at which a willing buyer and seller would pay for a security.

**Mortgage Backed Security (MBS)** means a type of asset-backed security that is secured by a mortgage or collection of mortgages. These securities must also be grouped in one of the top two ratings as determined by an accredited credit rating agency, and usually pay periodic payments that are similar to coupon payments. Furthermore, the mortgage must have originated from a regulated and authorized financial institution.

**Nationally Recognized Statistical Rating Organization (NRSRO)** means a designated rating organization that the SEC has deemed a strong national presence in the U.S. NRSROs provide credit ratings on corporate and bank debt issues. Only ratings of a NRSRO may be used for the regulatory purposes of rating. Includes Moody's, Standard and Poor's, Fitch and Duff & Phelps.

**Par Value** means face value, stated value or maturity value of a security.

**Primary Dealer** means any of a group of designated government securities dealers designated by to the Federal Reserve Bank of New York. Primary dealers can buy and sell government securities directly with the Fed. Primary dealers also submit daily reports of market activity and security positions held to the Fed and are subject to its informal oversight. Primary dealers are considered the largest players in the U.S. Treasury securities market.

**Primary Market** means the market for new issues of securities, as distinguished from the Secondary Market, where previously issued securities are bought and sold. A market is primary if the proceeds of sales go to the issuer of the securities sold. The term also applies to government securities auctions.

**Secondary Market** means markets for the purchase and sale of any previously issued financial instrument.

**TAP program.** Launched in 6/99 as a refinement to the FHLB bullet bond auction process. In a break from the FHLB's traditional practice of bringing numerous small issues to market with similar maturities, the TAP Issue Program uses the four most common maturities and reopens them up regularly through a competitive auction. These maturities (2,3,5 and 10 year) will remain open for the calendar quarter, after which they will be closed and a new series of TAP issues will be opened to replace them. This reduces the number of separate bullet bonds issued, but generates enhanced awareness and liquidity in the marketplace through increased issue size and secondary market volume.

**Tennessee Valley Authority (TVA)** means a federally owned corporation in the United States created by congressional charter in May 1933 to provide navigation, flood control, electricity generation, fertilizer manufacturing, and economic development in the Tennessee Valley, a region particularly impacted by the Great Depression. The enterprise was a result of the efforts of Senator George W. Norris of Nebraska. TVA was envisioned not only as a provider, but also as a regional economic development agency that would use federal experts and electricity to rapidly modernize the region's economy and society.

**Treasury Bills (T-Bills)** mean short-term direct obligations of the United States Government issued with an original term of one year or less. Treasury bills are sold at a discount from face value and do not pay interest before maturity. The difference between the purchase price of the bill and the maturity value is the interest earned on the bill. Currently, the U.S. Treasury issues 4-week, 13-week and 26-week T-Bills

**Treasury Bonds** mean long-term interest-bearing debt securities backed by the U.S. Government and issued with maturities of ten years and longer by the U.S. Department of the Treasury.

**Treasury Notes** mean intermediate interest-bearing debt securities backed by the U.S. Government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury. The Treasury currently issues 2-year, 3-year, 5-year, 7-year and 10-year Treasury Notes.

**U.S. Government Backed Securities** mean FDIC-guaranteed corporate debt issued under the Temporary Liquidity Guarantee Program (TLGP) and backed by the full faith and credit of the United States Government with a maximum final maturity of five years.

**Yield to Maturity (YTM) at Cost** means the percentage rate of return paid if the security is held to its maturity date at the original time of purchase. The calculation is based on the coupon rate, length of time to maturity, and original price. It assumes that coupon interest paid over the life of the security is reinvested at the same rate. The Yield at Cost on a security remains the same while held as an investment.