

RESOLUTION NO. 2024-26

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF WEST COVINA, CALIFORNIA, APPROVING THE CITY OF WEST COVINA STATEMENT OF INVESTMENT POLICY

The City Council of the City of West Covina hereby finds and declares as follows:

WHEREAS, California Government Code Section 53646 requires the City Treasurer or the Chief Fiscal Officer to annually render to the City Council a statement of investment policy, which must be considered at a public meeting; and

WHEREAS, California Government Code Section 53600 et seq. provides guidelines and regulations pertaining to investment of temporary idle funds; and

WHEREAS, on May 17, 2022, the City Council reviewed and approved the amended City of West Covina Statement of Investment Policy through the adoption of Resolution No. 2022-48; and

WHEREAS, pursuant to Section XX of the Statement of Investment Policy, the Investment Policy must be reviewed and approved on an annual basis; and

WHEREAS, the City Council has reviewed the Statement of Investment Policy, as approved on May 17, 2022, and desires to approve the Statement of Investment Policy as required by Section XX of the Policy.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF WEST COVINA, CALIFORNIA, DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1. The City Council hereby approves the Statement of Investment Policy as approved by the City Council on May 17, 2022 through the adoption of Resolution No. 2022-48.

SECTION 2. The City Clerk shall certify to the adoption of this resolution and shall enter the same in the book of original resolutions and it shall become effective immediately.

APPROVED AND ADOPTED this 21st day of May, 2024.



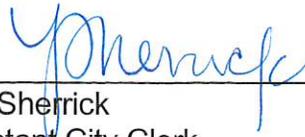
Brian Calderón Tabatabai
Mayor

APPROVED AS TO FORM



Thomas P. Duarte
City Attorney

ATTEST



Lisa Sherrick
Assistant City Clerk

I, LISA SHERRICK, ASSISTANT CITY CLERK of the City of West Covina, California, do hereby certify that the foregoing Resolution No. 2024-26 was duly adopted by the City Council of the City of West Covina, California, at a regular meeting thereof held on the 21st day of May, 2024, by the following vote of the City Council:

AYES: Calderón Tabatabai, Cantos, Diaz, Lopez-Viado, Wu
NOES:
ABSENT:
ABSTAIN:



Lisa Sherrick
Assistant City Clerk

CITY OF WEST COVINA STATEMENT OF INVESTMENT POLICY

I. POLICY

The purpose of this Policy is to establish prudent investment cash management guidelines for the City of West Covina, the Successor Agency to the Redevelopment Agency of the City of West Covina, and the West Covina Community Facilities District, collectively (City). The investment goals of the City are safety, liquidity and yield. The State of California authority governing investments for local agencies is set forth in the California Government Code, Section 53600 et seq. The City's portfolio is designed and managed in a manner responsive to the public trust and consistent with State and local law.

II. SCOPE

This investment policy governs the pooled investment of funds in the treasury which are not required for the immediate needs of the City. These funds are accounted for in the City's general ledger and reported in the City's Comprehensive Annual Financial Report (CAFR). This policy is applicable, but not limited to all funds listed below:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Proprietary Funds

This policy does not apply where superseded by specific bond documents.

III. PRUDENCE

The standard to be used by the investment officials shall be that of a "prudent investor" and shall be applied in the context of managing all aspects of the overall portfolio. Government Code Section 53600.3 provides that those persons to whom investment decisions have been delegated are trustees with a fiduciary duty to act as a prudent investor. This standard of care directs that a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

IV. OBJECTIVE

The objectives, in order of priority, for the City's investment activities are:

(A) Safeguard principal: Preservation of principal is the primary objective of the investment program. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker/dealer default or erosion of market value. The City shall seek to preserve principal by mitigating the two types of risk, credit risk and interest rate risk.

Credit risk, defined as the risk of loss due to issuer's failure to fulfill obligations, shall be mitigated by investing in high grade securities that conform to California Code and by diversifying the investment portfolio.

Interest rate risk, defined as the risk that market interest rates will adversely affect the fair value of an investment, shall be mitigated by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

(B) Meet liquidity needs: Historical cash flow trends are compared to current cash flow requirements on an ongoing basis in an effort to ensure that the City's investment portfolio will remain sufficiently flexible to enable the City to meet reasonably anticipated operating requirements.

(C) Achieve a return on funds: The City's investment portfolio is designed with the objective of attaining a market rate of return, while safeguarding principal and meeting the City's liquidity needs.

V. DELEGATION OF AUTHORITY

The City Council or its delegate is a fiduciary for investments of City funds.

Authority to manage the City's investment program is specified in West Covina Municipal Code Section 2-182(i); "The chief financial officer also shall be responsible for the investment of surplus funds subject to the restrictions and requirements of applicable law." Daily management responsibility of the investment program may be delegated to responsible members of the Finance Department staff who, under direction of the Finance Director, shall establish Investment Policy Guidelines for the operation of the investment program consistent with this Investment Policy. Under the direction of the Finance Director, the Finance Department staff is responsible for investment cash management functions, is authorized to conduct transactions involving pooled cash accounts, as necessary, and is required to adhere to the requirements set forth in this Investment Policy.

The City may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

VI. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the Investment Policy, or which could impair their ability to make impartial investment decisions. Investment officials shall disclose to the City Manager, and as otherwise required by law, any material financial interests (as defined by the Political Reform Act and the regulations thereunder) in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial or investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City, particularly with regard to the time of purchases and sales.

VII. DIVERSIFICATION AND RISK MANAGEMENT

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The City recognizes that over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The City will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

The City further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. Therefore, the City adopts the following strategies to control and mitigate its exposure to market risk:

- The City will maintain a minimum of six (6) months of budgeted operating expenditures in short-term investments to provide sufficient liquidity for expected disbursements.
- The maximum percent of callable securities (does not include "make whole call" securities as defined in the Glossary) in the portfolio will be 20%.
- The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.
- The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the City based on the City's investment objectives, constraints and risk tolerances.

If securities owned by the City are downgraded to a level below the credit quality required by this Investment Policy, it shall be the City's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio. If a security is downgraded, the City will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors. If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the City Council.

The following percentage limits, maturity matrix, and quality requirements, by individual investment type, are established for the City's total pooled funds portfolio:

Investment Type	Maximum Maturity	Maximum Specified % of Portfolio	Minimum Quality Requirements
Local Agency Investment Fund (LAIF) (not to exceed legal maximum)	N/A	None	None
Los Angeles County Investment Pool (LACIP)	N/A	None	None
Mutual Funds and Money Market Mutual Funds	N/A	20% - no more than 10% in any one mutual fund	Multiple
U.S. Treasury bonds/notes/bills	5 years	None	None
U.S. Government Agency obligations	5 years	None	None
Bankers' acceptances	180 days	40%	None
Commercial paper	270 days	25%	A1/P1 rating
Negotiable certificates of deposit	5 years	30%	None
Certificates of Deposit	5 years	25%	None
Medium term corporate notes	5 years	30%	"A" rating
Repurchase agreements	100 days	20%	None
Municipal Securities	5 years	30%	"A" Rating
Asset Backed Securities	5 Years	20%	"AA" Rating
Supranational	5 years	30%	"AA" Rating

VIII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Finance Director or his/her authorized designee will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security brokers/dealers selected by credit worthiness, who maintain an office in the State of California. These may include primary or secondary dealers or brokers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state law.

All financial institutions and brokers/dealers who desire to become qualified bidders for investment transactions must supply the following:

- A. Audited financial statements of all financial institutions
- B. Proof of Financial Industry Regulatory Authority certification
- C. Proof of State registration
- D. Certification of having read Investment Policy
- E. Depository contracts of all financial institutions
- F. *Broker/Dealer questionnaire, as applicable*

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Finance Director or his/her authorized designee.

IX. AUTHORIZED AND SUITABLE INVESTMENTS

The City is empowered by California Government Code Section 53601 to invest in the following types of securities; and is subject to the limitations set out in that section as well as the remainder of this policy.

Any investment structure, which has an effect on the City borrowing money, is prohibited.

- A. TREASURY ISSUES:** Treasury Bills, Treasury Notes, and Treasury Bonds. The maximum maturity shall not be greater than five (5) years.
- B. FEDERAL AGENCIES:** Federal National Mortgage Association (FNMA) securities, Federal Home Loan Bank (FHLB) securities, Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Bureau (FFCB) securities, Government National Mortgage Association (GNMA) securities, Small Business Administration (SBA) securities, Student Loan Marketing Association (SLMA) securities, etc. The City restricts the maximum percentage of investment in Federal Agencies to 25%, per issuer. The maximum maturity shall not be greater than five (5) years.
- C. BANKERS' ACCEPTANCES:** The City may not purchase bankers' acceptances exceeding one hundred and eighty (180) days maturity or forty percent (40%) of the City's surplus money, (Government Code 53601(f).) Furthermore, no more than thirty percent (30%) of the City's surplus funds may be invested in bankers' acceptances of any one commercial bank.
- D. CERTIFICATES OF DEPOSIT:** A type of collateralized bank deposit with a specific maturity evidenced by a certificate. The City restricts the maximum percentage of investment in Certificates of Deposit to 25% of the City's total portfolio. The maximum maturity shall not be greater than five (5) years.

- E. REPURCHASE AGREEMENTS:** A Public Securities Association (PSA) Master Repurchase Agreement is required between the City and the broker/dealer or financial institution for all repurchase agreements transacted. The maturity of repurchase agreements shall not exceed 100 days. The counterparty must be a primary dealer of the Federal Reserve Bank of New York. The market value of securities used as collateral for repurchase agreements shall be monitored daily and will not be allowed to fall below 102% of the value of the repurchase agreement. In order to conform with provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be eligible negotiable certificates of deposit, eligible bankers' acceptances, or securities that are direct obligations of, or that are fully guaranteed as to principal and interest by, the United States or any agency of the United States.
- F. COMMERCIAL PAPER:** Must be of prime quality of the highest rating by both Moody's and Standard and Poor's (P-1 by Moody's and A-1 by Standard and Poor's). Eligible paper is limited to corporations organized and operating within the U.S. and having total assets of at least \$500,000,000. Purchases of commercial paper shall not exceed two hundred and seventy (270) days to maturity and no more than 25% of the City's surplus funds should be invested in commercial paper. No more than 5% of the amount invested shall be in any one issuer.
- G. MEDIUM TERM NOTES:** Issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by a NRSRO. Purchases of medium-term notes may not exceed 30% of the City's surplus money which may be invested pursuant to this section. The maximum maturity shall not be greater than five (5) years.
- H. NEGOTIABLE CERTIFICATES OF DEPOSIT (NCD):** To be eligible for purchase by the City, the NCD must be issued by a Nationally or State-Chartered bank, State or Federal savings and loan association, or State-licensed branch of a foreign bank, and must meet one of the following criteria:
- Be a California Bank rated "A" or better by a nationally recognized statistical rating organization (NRSRO);
 - Be a major national or regional bank outside California rated "A" or better by a NRSRO;
 - Be a domestic branch of a foreign bank ("Yankee" C.D.) rated "I" for

country rating, "II" or better for peer-group rating, and "II" or better for dollar access by a NRSRO;

- Be a savings and loan association operating in California rated "A" or better by a NRSRO;
- Purchases of negotiable certificates of deposits may not exceed 30% of the total portfolio.

The maximum maturity shall not be greater than five (5) years.

- I. **LOCAL AGENCY INVESTMENT FUND (LAIF):** The aggregate of all funds from political subdivisions that are placed in the custody of the State of California Treasurer for the benefit of local agencies. State law (California Government Code Section 16429.1) establishes the maximum deposits for each local agency.
- J. **LOS ANGELES COUNTY INVESTMENT POOL (LACIP):** Similar to LAIF, this pool is established by the Los Angeles County Treasurer for the benefit of local agencies under California Government Code Section 53684.
- K. **MUTUAL FUNDS AND MONEY MARKET MUTUAL FUNDS:** To be eligible for purchase by the City, the investment instruments must meet multiple minimum requirements. Instruments must receive the highest ranking, or the highest letter and numerical rating as provided for by a NRSRO, must comply with all investment restrictions and regulations that apply to public agencies in California Code 53601 (a-k, m-o), and must follow regulations specified by the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1, et seq.).
- L. **MUNICIPAL SECURITIES:** Include obligations of the City, the State of California, any of the other 49 states, and any local city within the State of California, provided that the securities are rated "A" or higher by at least one NRSRO. No more than 5% of the portfolio may be invested in any single issuer. No more than 30% of the portfolio may be in Municipal Securities. The maximum maturity does not exceed five years.
- M. **SUPRANATIONALS:** Securities that are unsubordinated obligations issued by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB). The securities must be rated "AA" or higher by a NRSRO. No more than 30% of the total portfolio may be invested in these securities. No more than 10% of the total portfolio shall be invested in any single issuer. The maximum maturity of any security of this type shall not exceed five years.

- N. ASSET BACKED SECURITIES:** Including mortgage pass through, collateralized mortgage obligation, mortgage backed or other pay through bond, equipment lease backed certificate, consumer receivable pass through certificate, or consumer receivable backed bond with a maximum maturity of five years. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a NRSRO and rated in a rating category of "AA" or its equivalent or better by a NRSRO. Purchase of securities authorized by this subdivision may not exceed 20% of the City's surplus money that may be invested pursuant to this section.

X. PROHIBITED INVESTMENTS

California Government Code Section 53601.6 prohibits the following list of investment types.

- A. INVERSE FLOATERS**
- B. RANGE NOTES**
- C. INTEREST-ONLY MORTGAGE STRIPS, OR ANY SECURITY THAT COULD RESULT IN ZERO INTEREST ACCRUAL IF HELD TO MATURITY.**

The City further restricts investment activities by prohibiting investments in reverse repurchase agreements.

XI. COLLATERALIZATION

Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the market value of securities used as collateral for repurchase agreements shall be monitored daily and will not be allowed to fall below 102% of the value of the repurchase agreement. In order to conform with provisions of the Federal Bankruptcy Code, which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be eligible negotiable certificates of deposit, eligible banker's acceptances, or securities that are direct obligations, or that are fully guaranteed as to principal and interest by, the United States or any agency of the United States.

A third-party custodian with whom the City has a current custodial agreement will always hold collateral. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

XII. INVESTMENT POOLS/MUTUAL FUNDS

The City shall conduct a thorough investigation of any pool or mutual fund prior to making an investment, and on a continual basis thereafter. The Finance Director or his/her authorized designee shall develop a questionnaire which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced, and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc. utilized by the pool/fund?
- A fee schedule, and when and how is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

XIII. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Finance Director or his/her authorized designee and evidenced by safekeeping records.

XIV. MAXIMUM MATURITIES

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. However, the City may collateralize its repurchase agreements using longer-dated investments not to exceed five (5) years to maturity.

XV. INTERNAL CONTROL

The Finance Director will establish internal controls covering investing procedures designed to protect the City's investments from unauthorized use or disposition and ensure compliance with the Investment Policy.

The Finance Director or his/her authorized designee shall establish an annual process of independent review of internal control by an external auditor. This review will ensure compliance with policies and procedures. Specific areas of review are investment authorizations, proper safekeeping methods, and comparison of broker/dealer with safekeeping confirmations.

XVI. MINIMUM PERFORMANCE STANDARDS

The City Treasurer shall monitor and evaluate the portfolio's performance relative to the chosen market benchmark(s), which will be included in the monthly Investment Report. The Finance Director or his/her authorized designee shall select an appropriate, readily available index to use as a market benchmark.

XVII. REPORTING

- A. MONTHLY REPORTS:** The Finance Director will submit a monthly investment report to the City Council which provides full disclosure of the City's investment activities within 30 days after the end of the month in accordance with California Government Code Section 53607. These reports will disclose, at a minimum, the following information about the City's portfolio:
- An asset listing showing par value, cost and independent third-party fair market value of each security as of the date of the report, the source of the valuation, type of investment, issuer, maturity date, and interest rate.
 - Transactions for the period.
 - A description of the funds, investments and programs (including lending programs) managed by contracted parties (i.e. LAIF, investment pools, outside money managers and securities lending agents).
 - A one-page summary report that shows:
 - i. Average maturity of the portfolio and modified duration of the portfolio;
 - ii. Maturity distribution of the portfolio;
 - iii. Percentage of the portfolio represented by each investment category;
 - iv. Average portfolio credit quality; and,
 - v. Time-weighted total rate of return for the portfolio for the prior one month, three months, twelve months and since inception compared to the City's market benchmark returns for the same periods.
 - A statement of compliance with investment policy, including a schedule of any transactions or holdings which do not comply with this policy or with the California Government Code, including a justification for their

presence in the portfolio and a timetable for resolution.

- A statement that the City has adequate funds to meet its cash flow requirements for the next six (6) months.

XVIII. LEGISLATIVE CHANGES

Any State of California legislative action, that further restricts allowable maturities, investment type or percentage allocations, will be incorporated into the City's Investment Policy and supersede any and all previous applicable language.

XIX. INTEREST EARNINGS

All monies earned and collected from investments authorized in this policy shall be allocated monthly based on cash balances in each fund as a percentage of the entire pooled portfolio.

XX. INVESTMENT POLICY ADOPTION

The City's Investment Policy shall be reviewed and approved on an annual basis. Any modifications made thereto must be approved by the City Council.

GLOSSARY

AGENCIES: Shorthand market terminology for any obligation issued by a *government-sponsored entity (GSE)*, or a *federally related institution*. Most obligations of GSE's are not guaranteed by the full faith and credit of the US government.

ASKED: The price at which a seller offers to sell a security.

ASSET BACKED SECURITIES: Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

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

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. Brokers are active in markets, where banks buy and sell money, as well as in inter-dealer markets.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

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

COMMERCIAL PAPER (CP): Short-term, unsecured, promissory notes issued by corporations to finance short-term credit needs.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual financial report of the City. It includes combined statements for each individual fund in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a). The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b). A certificate attached to a bond evidencing interest due on a payment date.

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

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

DELIVERY VERSUS PAYMENT (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 a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

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

DISCOUNT SECURITIES: Non-interest-bearing money market instruments that are issued at a discount and redeemed at maturity for full face value i.e., U.S. Treasury Bills.

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

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, such as savings and loan associates, small business firms, students, farmers, farm cooperatives, and exporters.

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

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

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 United States 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 rate mortgages and second loans in addition to fixed rate mortgages. FNMA's securities are highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven-member Board of Governors and 12 regional banks. About 5,700 commercial banks are members of the system.

FFCB: The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB: The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC: Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called "FreddieMac" issues discount notes, bonds and mortgage pass-through securities.

FNMA: Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as "FannieMae," issues discount notes, bonds and mortgage pass-through securities.

GNMA: The Government National Mortgage Association, known as "GinnieMae," issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. The full faith and credit of the U.S. Government protect the security holder. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term "pass-throughs" is often used to describe Ginnie Mae Securities.

LIQUID ASSET: 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.

LIQUIDITY: The ability to convert investments to cash.

LOCAL AGENCY INVESTMENT FUND (LAIF): The aggregate of all funds from political subdivisions that are placed in the custody of the State of California Treasurer for the benefit of local agencies. State law (California Government Code Section 16429.1) establishes the maximum deposits for each local agency.

LOS ANGELES COUNTY INVESTMENT POOL (LACIP): Similar to LAIF, this pool is established by the Los Angeles County Treasurer for the benefit of local agencies under California Government Code Section 53684.

MAKE WHOLE CALL: A type of call provision on a bond allowing the issuer to pay off remaining debt early. The issuer typically has to make a lump sum payment to the investor derived from a formula based on the net present value (NPV) of future coupon payments that will not be paid incrementally because of the call combined with the principal payment the investor would have received at maturity.

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

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties related to repurchase or reverse repurchase agreements. The contract establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default of the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MEDIUM TERM NOTES: Notes with a maximum of five years maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

MUNICIPAL SECURITIES: Securities issued by state and local agencies to finance capital and operating expenses.

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

NEGOTIABLE CERTIFICATES OF DEPOSIT (NCD): Although technically a deposit, it is similar to a short-term note, which earns the depositor a competitive rate of return. Negotiable certificates of deposit were developed so that large deposits could be made at a competitive interest rate with some liquidity.

OFFER: The price asked by the seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

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.

PEFCO: The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

PORTFOLIO: A collection of securities held by an individual organization or institution.

PRIMARY DEALER: A group of government securities dealers who 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 INVESTOR RULE: This rule is an investment standard. In some states, the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state. The securities are commonly referred to as the legal list. In other states the trustee may invest in a security if it is one, which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

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 Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

REPURCHASE AGREEMENT (REPO): Agreements with banks and dealers under which the City has entered into a master repurchase agreement that specifies terms and conditions of individual repurchase agreements. The agreement requires the seller of a security to repurchase an investment on a specific date for an agreed-upon price.

SAFEKEEPING: A service to customers rendered by banks and other security custodians for a fee. For the fee, the customer's securities and valuables of all types and descriptions are held in the service provider's vaults for protection. Securities are commonly held electronically in lieu of physical custody in a vault.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (i.e., call features,

step-up coupons, floating rate coupons, and derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

SUPRANATIONAL: A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

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

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

TVA: The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

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

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) Income yield is obtained by dividing the current dollar income by the current market price for the security. (b) Net yield or yield to maturity (YTM) is the current income yield minus any premium above par or plus any discount from purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.