CITY OF BEDFORD
INVESTMENT POLICY

August 22, 2023

It is the policy of the City of Bedford, Texas (the “City”), which includes the City of Bedford Street Improvement Economic Development Corporation (the “Corporation”), that after allowing for anticipated cash requirements and giving due consideration to safety, liquidity and yield, all available funds will be invested in conformance with the Investment Policy which has been developed to conform to the State of Texas Public Funds Investment Act as amended (the “PFIA” or the “Act”). Throughout this Investment Policy, the City and Corporation shall be referred to as “Bedford.”

In addition, applicable recommended practices published by the Government Finance Officers Association (GFOA) have been considered to ensure that Bedford’s investment activities are conducted within the framework of sound fiscal policy.

I. Scope

This Policy applies to all financial assets of Bedford and serves to satisfy the statutory requirements of the PFIA to define and approve a formal investment policy. These funds are accounted for in Bedford’s Annual Comprehensive Financial Report and include:

- General Fund
- Enterprise Funds
- Special Revenue Funds
- Debt Service Funds - including Interest & Sinking Funds & Reserve Funds
- Capital Improvement Funds
- City of Bedford Street Improvement Economic Development Corporation Fund
- Other funds established from time to time

Except for cash in certain restricted and special funds, Bedford may consolidate cash and investment balances to ease cash management operations and maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

II. General Objectives.

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. **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 capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk. Bedford will minimize credit risk, the risk of loss due to the failure of the investment issuer or backer, by:

1) Limiting investments to the safest types.

2) Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with whom Bedford will do business.

3) Diversifying the investment portfolio so that potential losses on individual investments will be minimized.

4) Establishment of procedures to monitor rating changes of investments and the liquidation of such investments as required by the PFIA.

b. Interest Rate Risk. Bedford will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:

1) Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

2) Investing operating funds primarily in shorter-term securities, financial institution deposits, money market mutual funds, or local government investment pools.

2. Liquidity. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments 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 investments with active secondary or resale markets (dynamic liquidity). All or a portion of the portfolio also may be placed in financial institution deposits, money market mutual funds, or local government investment pools which offer same-day liquidity for short-term funds.

3. Yield. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to safety and liquidity. Investments shall not be liquidated prior to maturity with the following exceptions:

a. An investment with declining credit may be sold early to minimize loss of principal.

b. An investment swap would improve the quality, yield, or target duration in the portfolio.

c. Liquidity needs of the portfolio require that the investment be sold or redeemed.

III. Standards of Care.

1. Prudence. The standard to be used by Investment Officers shall be the "prudent person" rule, which states, "investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." Investment Officers acting in accordance with written policies and procedures, and exercising due diligence, shall be relieved of personal responsibility for an individual investment's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion.

2. **Ethics and Conflicts of Interest**. Investment Officers shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Investment Officers shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Investment Officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of Bedford.

   An Investment Officer who has a personal business relationship, as defined by the PFIA, with a depository bank or with any entity seeking to sell an investment to Bedford shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree of affinity or consanguinity to an individual seeking to sell an investment to Bedford shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the City Council.

3. **Delegation of Authority**. Authority to manage and operate the investment program is granted to the Director of Finance. The Director of Finance shall establish written procedures and internal controls for the operation of the investment program consistent with this Investment Policy. Procedures should include, but not be limited to: account management procedures, cash flow estimation procedures, investment transaction procedures, authorized broker/dealer selection process, and investment portfolio reporting requirements. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Director of Finance. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of the Authorized Investment Officers and subordinate officials.

4. **Authorized Investment Officers.**

   Assistant City Manager
   Director of Finance
   Accounting Manager

5. **Investment Committee**. There is hereby created an Investment Committee, consisting of the City Manager, Assistant City Manager, Director of Finance, City Secretary, Accounting Manager, and one City Council member to be appointed by a majority of the City Council.
   The Investment Committee shall meet at least quarterly to review general strategies and to monitor portfolio performance. The Committee shall include in its deliberations such topics as:

   a. Economic outlook,
   b. Portfolio diversification,
   c. Maturity structure,
   d. Risk considerations,

e. Authorized broker/dealers,
f. Independent investment training sources, and
g. Target rate of return on the portfolio.

The Investment Committee shall provide for minutes of its meetings. Any two members of the Committee may request a special meeting, and three members shall constitute a quorum. The Committee shall establish its rules of procedure.

6. Investment Training. In order to ensure the quality and capability of Bedford's investment officers, Bedford shall provide periodic training in investments through courses and seminars offered by professional organizations and associations as required by the PFIA, including education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the PFIA. The Investment Officers shall attend at least one training session accumulating at least ten (10) hours relating to the Officer's responsibility under the Act within twelve (12) months after assuming duties, and thereafter, attend investment training session(s) not less than once every two years (aligned with the City's fiscal year end), receiving an additional eight (8) hours of training. The training shall be conducted by independent training sources approved by the Investment Committee.

7. Investment Policy Certification. Local government investment pools and discretionary investment management firms shall provide certification of having read Bedford's Investment Policy signed by a qualified representative of the organization, acknowledging that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization in accordance with the Act.

IV. Broker/Dealers, Internal Controls and Delivery Versus Payment.

1. Authorized Broker/Dealers. A list will be maintained of "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). All investment providers, financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

a. Audited financial statements
b. Proof of Financial Industry Regulatory Authority (FINRA) certification
c. Proof of state registration
d. Completed broker/dealer questionnaire

The Investment Committee shall review, revise, and adopt a list of authorized broker/dealers at least annually.

2. Internal Controls. The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of Bedford are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management.

Accordingly, within the scope of the annual audit, the Director of Finance shall establish a process for an independent review by an external auditor to assure compliance with policies and procedures. The results of this compliance audit must be reported annually to the City Council. The internal controls shall address the following points:

a. Avoidance of collusion
b. Separation of transaction authority from accounting and record keeping
c. Custodial safekeeping
d. Clear delegation of authority to subordinate staff members
e. Written confirmation of transactions for investments and wire transfers

3. Delivery Versus Payment. All trades, where applicable, will be executed by delivery versus payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by a third-party safekeeping agent as evidenced by safekeeping receipts.

V. Suitable and Authorized Investments.

1. Investment Types. The following investments will be permitted by this Policy as defined by state and local law where applicable. Bedford is not required to liquidate investments that were authorized at the time of purchase.

a. U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations (including obligations of the FDIC and the Federal Home Loan Banks), which have a liquid market with a readily determinable market value, and exclude those prohibited by the PFIA.

b. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality and have received a rating by a nationally recognized credit rating agency of at least AA or its equivalent.

c. Certificates of deposit and other evidences of deposit at a financial institution that, a) has its main office or a branch office in Texas and is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, b) is secured by obligations in a manner and amount provided by law for deposits of Bedford, or c) is placed in a manner that meets the requirements of the PFIA.

d. Repurchase and reverse repurchase agreements whose underlying purchased securities consist of instruments as defined in a. above and placed in compliance with the PFIA.

e. No load money market mutual funds regulated by the Securities and Exchange Commission that meet the requirements of the PFIA and seeks to maintain a stable net share value of $1.0000.

f. Local government investment pools, either state-administered or through joint powers statutes and other intergovernmental agreement legislation authorized in compliance with the PFIA.

2. Safekeeping and Custodial Agreements. Bedford shall contract with a safekeeping agent for the safekeeping of securities owned by Bedford as part of its investment portfolio. Securities owned by Bedford shall be held in Bedford's account as evidenced by safekeeping receipts of the institution holding the securities.

Bedford shall approve all third-party custodians for the holding of securities pledged to Bedford as collateral to secure financial institution deposits. The custodial agreement is to specify the acceptable pledged securities as collateral, including provisions relating to possession of the collateral, the substitution or release of pledged securities, ownership of securities, and the method of valuation of securities.

3. Collateral Policy. With the exception of deposits secured with irrevocable letters of credit at 100% of principal plus anticipated interest, all deposits of Bedford funds with financial institutions shall be secured by pledged collateral with a market value equal to or greater than 102% of the principal plus accrued interest of the deposits, less any amount insured by the FDIC. Repurchase agreements shall be documented by a specific agreement noting the "purchased securities" in each agreement; such securities shall comply with the PFIA. Collateral pledged and purchased securities shall be reviewed at least monthly to assure the market value equals or exceeds the related Bedford investment.

All financial institution deposits shall be insured or collateralized in compliance with applicable State law. Bedford reserves the right, in its sole discretion, to accept or reject any form of insurance or collateralization pledged towards financial institution deposits. Financial institutions serving as Bedford Depositories will be required to sign a depository agreement with Bedford. The collateralized deposit portion of the agreement shall define Bedford's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

a. The agreement must be in writing;
b. The agreement must be executed by the Depository and Bedford contemporaneously with the acquisition of the asset;
c. The agreement must be approved by the Board of Directors or designated committee of the Depository and a copy of the meeting minutes must be delivered to Bedford; and
d. The agreement must be part of the Depository's "official record" continuously since its execution.

a. Bedford shall accept Public Funds Collateral Act authorized forms of collateral.

All collateral shall be subject to inspection and audit by Bedford or Bedford's independent auditors.

4. Repurchase Agreements. Repurchase agreements shall be consistent with the PFIA and GFOA Recommended Practices on Repurchase Agreements.

VI. Investment Parameters.

1. Diversification. The investments shall be diversified by:

a. Limiting investments to avoid over concentration in securities from a specific issuer or business sector (where appropriate),

b. Limiting investment in securities that have higher credit risks,

c. Investing with varying maturities, and

d. Continuously investing a portion of the portfolio in readily available funds such as financial institution deposits, local government investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

e. The City will incorporate a diversified portfolio of investments. The City will use the following asset allocations as a guide for approximate percentages of the total portfolio. This guide allows for flexibility to take advantage of market conditions, without minimum or maximum allowances placed on the City. The guideline is as follows:

	% Guide
U.S. Treasury Bills and Notes	75
U.S. Agency or Instrumentality Obligations	75
Repurchase Agreements (excluding Bond Proceeds)	20
Municipal Securities	40
Certificates of Deposit	75
Money Market Mutual Fund ($1.000 Net Share Value)	40
Local Government Investment Pool (per pool)	40
Cash and Money Market Funds	35

2. Maximum Maturities. To the extent possible, Bedford shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, Bedford will not directly invest in instruments maturing more than three (3) years from the date of purchase or in accordance with state and local statutes and ordinances. Bedford shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in instruments exceeding three (3) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of funds. The intent to invest in instruments maturing greater than three (3) years shall be disclosed in writing to the City Council.

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 financial institution deposits, investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

3. Competitive Environment. Bedford strives for a competitive environment on all individual security purchases and sales, financial institution time deposit and transaction accounts, and money market mutual fund and local government investment pool selections. The Director of Finance shall develop and maintain procedures for ensuring a competitive environment in the investment of City funds.

VII. Reporting.

1. Methods. The Director of Finance shall prepare an investment report, at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner, which will allow Bedford to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report shall be provided to the City Council. The report will comply with the requirements of the PFIA.

In conjunction with the annual audit, the quarterly reports shall be formally reviewed by an independent auditor, and the result of the review shall be reported to the City Council by that auditor.

2. Performance Standards. The 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. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. "Weighted average yield to maturity" shall be the portfolio performance measurement standard.

3. Market Valuation. The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. The source of pricing used to calculate market value will be sources independent from the transaction.

4. Credit Rating. Not less than quarterly, the Investment Officers will monitor the credit rating for each held investment that has a PFIA required minimum rating. Any Authorized Investment that requires a minimum rating does not qualify during the period the investment does not have the minimum rating. Prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

VIII. Policy Considerations.

1. Exemption. Any investment currently held that does not meet the guidelines of this Policy shall be exempted from the requirements of this Policy. At maturity or liquidation, such monies shall be reinvested only as provided by this Policy.

2. Annual Review and Amendments. The City Council shall annually review this Policy and shall adopt a written instrument stating its review and recording any changes. Any changes must be approved by the Investment Committee prior to consideration by the City Council.

IX. Selection of Primary Depositories - Request for Application Process.

Primary Depositories shall be selected through Bedford's banking services procurement process, which shall include a formal Request for Application (RFA) issued in compliance with applicable State law (Chapter 105, State of Texas Local Government Code). This contract can be extended as per the RFA specifications. In selecting primary depositories, the credit worthiness of institutions shall be considered, and the Director of Finance shall conduct a comprehensive review of prospective primary depositories' credit characteristics and financial history.

X. Strategy.

The investment maturity schedule shall correspond with Bedford's projected cash flow needs. Remaining maturities on individual investments purchased shall be no longer than 3 years.

With tax-exempt bond or loan proceeds, Bedford shall seek to comply with the arbitrage regulations and to optimize yield while ensuring the safety of capital and liquidity. It is fiscally sound to earn and rebate excess earnings, if necessary.

X. Investment Strategies

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Investment guidelines by fund-type are as follows:

1. Pooled Investment Funds

Suitability - Any investment eligible in the Investment Policy is suitable for Pooled Investment Funds.

Safety of Principal - All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, managing the weighted average days to maturity of each fund's portfolio to less than 270 days and restricting the maximum allowable maturity to the shorter of the anticipated cash flow requirement or three years will manage the price volatility of the portfolio.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement.

Liquidity - Pooled Investment Funds require the greatest short-term liquidity of any of the fund-types. Financial institution deposits, short-term investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Diversification - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of Bedford. Diversifying the appropriate maturity structure up to the three-year maximum will reduce interest rate risk.

Yield - Attaining a competitive market yield for comparable investment -types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury Bill portfolio will be the minimum yield objective.

2. Capital Improvement Funds

Suitability - Any investment eligible in the Investment Policy is suitable for Capital Improvement Funds.

Safety of Principal - All investments will be of high quality with no perceived default risk.

Market price fluctuations will occur. However, by managing Capital Improvement Funds to not exceed the anticipated expenditure schedule, the market risk of the overall portfolio will be minimized. No stated final investment maturity shall exceed the shorter of the anticipated expenditure schedule or three years.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement.

Liquidity - Most capital improvements programs have reasonably predictable draw down schedules. Therefore, investment maturities should generally follow the anticipated cash flow requirements. Financial institution deposits, investment pools and money market mutual funds will provide readily available funds generally equal to one month's anticipated cash flow needs, or a competitive yield alternative for short-term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a flexible repurchase agreement.

Diversification - Market conditions and arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for bond proceeds. Generally, if investment rates exceed the applicable cost of borrowing, BEDFORD is best served by locking in most investments. If the cost of borrowing cannot be exceeded, then current market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger amounts. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.

Yield - Achieving a positive spread to the cost of borrowing is the desired objective, within the limits of the Investment Policy's risk constraints. The yield of an equally weighted, rolling six-month Treasury Bill portfolio will be the minimum yield objective for non-borrowed funds.

XVI. Glossary of Terms

AGENCIES: Investments offered through Federal Agencies.

ASKED: The price at which securities are offered.

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

BID: The price offered by a buyer of securities.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate.

COLLATERAL: Securities, letters of credit, or other properties pledged to secure deposits of public monies.

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

COUPON: The annual rate of interest that an issuer promises to pay the debtholder on the debt's face value. Usually paid semi-annually.

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

DEBENTURE: An unsecured bond or debt.

DELIVERY VERSUS PAYMENT: Delivery versus payment is delivery of purchased securities with a simultaneous exchange of money as payment for the securities executed through a third party safekeeping agent.

DISCOUNT: The difference between the purchase price of a security and its face value at maturity when purchase price is less than face value.

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

DIVERSIFICATION: Dividing funds among a variety of investments allowing the investor to spread risks to a broader issuer array.

FEDERAL FARM CREDIT BANKS (FFCB): A government-sponsored corporation that was created in 1916 and is a nationwide system of banks and associations providing mortgage loans, credit, and related services to farmers, rural homeowners, and agricultural and rural cooperatives. The banks and associations are cooperatively owned, directly or indirectly, by their respective borrowers. The Federal Farm Credit System is supervised by the Farm Credit Administration, an independent agency of the U.S. government.

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 bank, 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 HOME LOAN MORTAGE CORPORATION (FHLMC or Freddie Mac): A U.S. government-sponsored private corporation whose chief function is to supply funds for home mortgages through continuous purchases of mortgages from lending institutions. On September 7, 2008, the Federal Housing Finance Agency (FHFA), announced that Fannie Mae and Freddie Mac were being placed into conservatorship of the FHFA. The action was "one of the most sweeping government interventions in private financial markets in decades. FHFA stated that there are no plans to liquidate the company.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae): A U.S. government-sponsored private corporation whose chief function is to supply funds for home mortgages through continuous purchases of mortgages from lending institutions. On September 7, 2008, the Federal Housing Finance Agency (FHFA), announced that Fannie Mae and Freddie Mac were being placed into conservatorship of the FHFA. The action was "one of the most sweeping government interventions in private financial markets in decades". FHFA also dismissed the firms' chief executive officers and boards of directors, and caused the issuance to the Treasury new senior preferred stock and common stock warrants amounting to 79.9% of each GSE. FHFA stated that there are no plans to liquidate the company.

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 and monetary authority of the United States.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): GNMA is a federal government corporation that guarantees the timely payments of principal and interest on mortgage-backed securities (MBS) issued by approved lenders. GNMA connects the US housing market to capital markets, providing low-cost financing for federal housing programs through the Federal Housing Administration (FHA), Veterans Affairs (VA), HUD's Public and Indian Housing (PIH), and the Department of Agriculture (USDA)

LETTERS OF CREDIT: A financial instrument in which the issuing bank promises to pay a third party on behalf of a second party.

LIQUIDITY: (a) The ability to convert an asset easily and rapidly into cash without a substantial loss of value. (b) The availability of cash and liquid assets to the City.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): An entity created under the regulations and codes of the State of Texas to invest public funds jointly on behalf of the entities that participate in the pool.

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

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

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

OFFER: The price asked by a seller of securities.

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.

NATIONAL CREDIT UNION SHARE INSURANCE FUND: The federal fund to insure member's deposits in federally insured credit unions. Administered by the National Credit Union Administration, the Share Insurance Fund has the backing of the full faith and credit of the United States. Government.

PORTFOLIO: Collection of investments held by an investor.

PREMIUM: The difference between the purchase price of a security and its face value at maturity when purchase price is greater than face value.

PRIMARY DEALER: Trading counterparties of the New York Fed in its implementation of monetary policy. They are also expected to make markets for the New York Fed on behalf of its official accountholders as needed, and to bid on a pro-rata basis in all Treasury auctions at reasonably competitive prices.

PRUDENT PERSON RULE: An investment standard where Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority:
(1) preservation and safety of principal; (2) liquidity; and (3) yield.

RATE OF RETURN: The yield obtainable on an investment based on its purchase price. This may be the amortized yield to maturity on an investment.

REPURCHASE AGREEMENT (RP OR REPO): A written contract covering all future transactions between the parties to repurchase-reverse repurchase transactions that establishes each party's rights and obligations. An agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower. In a transaction, the holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held by the bank for protection.

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.

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: A medium-term coupon bearing U.S. Treasury securities issued as direct obligation of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE (Rule 15c3-1): Requires that firms must at all times have and maintain net capital at specific levels to protect customers and creditors from monetary losses that can occur when firms fail.

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