Investment Policy

City of North Bend
Investment Policy

Adopted by Resolution 1499 on February 1, 2011

1.0 PURPOSE

It is the policy of the City of North Bend to invest its funds in a manner which will provide the highest investment return consistent with a high degree of security while meeting the daily cash flow demands of the City and conforming to all state statutes and local ordinances governing the investment of public funds. Cash may, at the discretion of the Finance Director, be invested separately by fund or be commingled into a common investment portfolio and earnings from such portfolio distributed monthly.

2.0 OBJECTIVE

The primary objectives, in order of priority, for the City of North Bend's investment activities are as follows:

- Legality: The City's investments will be in compliance with all statutes governing the investment of public funds in the State of Washington.
- Liquidity: The City's investments will remain sufficiently liquid to enable the city to meet all operating requirements which might be reasonably anticipated.
- Safety: Investments of the City will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from other investments.
- Yield: The City's investments will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment constraints and cash flow characteristics.

All participants in the City's investment process shall act responsibly as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

3.0 SCOPE

This investment policy applies to the investment of available financial assets of the City, except for assets held in escrow in order to defease refunded debt, and retirement funds managed by others. The City's financial assets are accounted for in the City's Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Trust and Agency Funds

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4.0 PRUDENCE

The Finance Director and authorized employees will perform their duties in a manner consistent with the standard of a “prudent person” as defined by RCW 43.250.040:

“In investing and reinvesting moneys… and in acquiring, retaining, managing and disposing of investments, there shall be exercised the judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of the funds, considering the probable income as well as the probable safety of the capital.

5.0 DELEGATION OF AUTHORITY

The Finance Director is the Government Finance Official for purposes of RCW 42.250.020(5) for the City of North Bend. The Finance Director shall establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedure established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Subject to required procurement procedures, the City may engage the support services of outside professionals in regard to its financial program, so long as it can be determined or anticipated that these services produce a net financial advantage or necessary financial protection of the City’s resources. External service providers shall be subject to the Revised Codes of Washington and the provisions of this Investment Policy.

6.0 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 program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Mayor any material financial interests in financial institutions that conduct business within this jurisdiction and they shall further disclose any large personal financial/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.

7.0 AUTHORIZED FINANCIAL INSTITUTIONS

The City will only make deposits with qualified public depositories that have been approved by the State of Washington as provided in Chapter 39.58 RCW.

At the end of each fiscal year, the Finance Director, acting in the capacity as the treasurer of the City, shall designate one or more financial institutions which are qualified public depositaries for the moneys required to be kept by the treasurer.

8.0 BROKER/DEALERS

The City will maintain a list of approved security broker/dealers.

The process for approval of a broker/dealer will require the review of appropriate documents to evaluate both the brokerage firm and the individual broker. Firm information will include financial information, State of Washington registration under RCW 21.20.040, Securities and Exchange Commission Rule 15C3-1 compliance, and authorization under the Uniform Net Capital Rules.

The City prefers to use broker/dealers that have experience with municipal investing; exceptions to this preference may be made in the reasonable judgment of the Finance Director.

All review documentation will be maintained in file. On an annual basis broker/dealers must provide updated documentation for review and reauthorization.

If an investment advisor is authorized to transact buys and sells on behalf of the City, the advisor's approved dealer list will be provided to the City annually and maintained in file. Buys and sells may be transacted with any dealer on the advisor's approved list.

9.0 INVESTMENT ADVISORS

Should the Finance Director feel it is in the best interest of the City to engage an investment adviser for assistance in managing the investment portfolio, selection of the investment adviser will follow a clear and defined process.

The selection process will incorporate a Request for Proposal to gather information for the decision-making process. Information that might be part of the RFP include but is not limited to: State of Washington registration under RCW 21.20.040, SEC licenses, quantitative information for financial review, organizational information about the firm, reporting standards, process, and experience.

The City will only enter into a non-discretionary agreement, wherein the adviser must obtain approval before executing any trade.

The Finance Director and the Finance Committee will utilize the Best Practice document issued by GFOA to inform appropriate risk controls, selection criteria, on-going review, and advisory agreement components.

10.0 AUTHORIZED INVESTMENTS

The City of North Bend is empowered to invest in certain types of securities as detailed in state law, including RCW 35A.40.050 and RCW 43.84.080. Among the authorized investments are:

- U.S. Treasury Obligations (Bills, Notes, Bonds)
- Obligations of U.S. government agencies, corporations wholly owned by the U.S. government or any Government Sponsored Enterprise (GSE's) with the exception of mortgage backed securities (MBS), which are prohibited. The list includes: Federal Instrumentality Securities which include the Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), Federal Farm Credit Bureau (FFCB), Government National Mortgage Association (GNMA), Federal Agricultural Mortgage Corporation (FAMC) and Tennessee Valley Authority (TVA). Other issuers may qualify if they meet the above criteria.

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- Nonnegotiable certificates of deposit and other collateralized evidence of deposits with qualified public depositories.
- Bankers' Acceptances purchased on the secondary market.
- Mutual funds and money market funds are inappropriate investments except as authorized in Chapter 39.50 RCW and are intended to provide a safe harbor from the Internal Revenue Services (IRS) arbitrage rules and tax. The money market and mutual funds options in RCW 39.59.030 are allowable investments only for monies subject to the IRS's arbitrage rules. No other monies, unless specifically authorized elsewhere, may be invested in a money market or mutual fund.
- State of Washington Local Government Investment Pool.
- Bonds of the State of Washington and any local government in the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.
- Any investments authorized by law for the Treasurer of the State of Washington or any local government of the State of Washington other than a metropolitan municipal corporation but except as provided in RCW 39.58, such investments shall not include certificates of deposits of bank branches not located in the State of Washington.

11.0 COLLATERALIZATION

Collateralization is required on repurchase agreements to anticipate market changes and provide a level of security for all funds. For purposes of this policy document, the collateralization level will be 102% of market value of principal and accrued interest.

- The City chooses to limit collateral to the obligations of the United States Government and its agencies.
- Collateral will always be held by an independent third party with whom the entity has a current custodial agreement (except certificates of deposits). A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained.
- Certificates of deposit are delivered to and held by the Finance Director until they mature.

12.0 SAFEKEEPING AND CUSTODY

To protect against potential fraud, embezzlement, or loss caused by collapse of individual securities dealers, securities purchased by the City shall be held in a segregated account for the City's benefit at a third party trustee authorized to act as safekeeping agent. The approved investment advisor, broker/dealer or bank from which a security is purchased shall issue a confirmation ticket to the City listing the specific instrument, issuer, coupon, maturity, CUSIP number, purchase or sale price, transaction date, and other pertinent information.

The investment advisor, broker/dealer or bank which executes the transaction on the City's behalf shall deliver all securities on a deliver versus payment (DVP) method to the designated third party trustee at the direction of the investment officer.

Investment officials shall be bonded to protect the City against loss due to possible embezzlement and malfeasance.

Certificates of Deposit issued by banks do not need to be held by a safekeeping agent. Original certificate documents may be held in the City's safe deposit box.

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13.0 INVESTMENT ALLOCATION

Diversification: The City will diversify its investments by security type and institution in a manner that reduces overall portfolio risks while attaining market average rates of return. The City's policy is to assure that no single institution or security is invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency. With the exception of U.S. Treasury securities and authorized pools, no more than 30% of total investments will be invested in a single security type or with a single financial institution. The following chart specifies the allowable percentage ranges for each security type. Investments may be made up to, but may not exceed, the allowable range.

Security	Range	Target
US Treasury bills & bonds	1 – 100%	10%
US Government Agencies	0 – 25%	20%
Cash and LGIP	0 – 100%	50%
Certificates of Deposit	0 – 50%	20%
Banker's Acceptances	0 – 10%	
State and local Government Securities	0 – 15%	

14.0 MAXIMUM MATURITIES

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, or estimated to cash flow needs, the City will not directly invest in securities maturing more than five (5) years from the date of settlement.

The maximum weighted average maturity (WAM) of the total portfolio, less the amount invested in the LGIP, shall not exceed 2 years. This maximum is established to limit the portfolio to excessive market exposure.

Reserve or Capital Improvement Project monies may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practical with the expected use of the funds.

15.0 COMPETITIVE TRANSACTIONS

The Finance Director will obtain telephone, faxed or emailed quotes before purchasing or selling an investment. The Investment Officer will select the quote which best satisfies the investment objectives of the investment portfolio within the parameters of this policy. The Finance Director will maintain a written record of each bidding process including the name and prices offered by each participating financial institution.

If the City hires an investment advisor to provide investment management services, the advisor must provide documentation of competitive pricing execution on each transaction, retain the documentation, and provide the documentation upon request.

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16.0 INTERNAL CONTROLS

The City will maintain processes of internal controls to protect against the loss of public funds arising from negligence, theft or misuse. These controls will include, but not be limited to:

- The use of third party custody and safekeeping;
- The execution of all securities transactions on a delivery-versus-payment basis;
- The clear delegation of investment authority;
- The separation of transaction authority from record keeping;
- The use of objective criteria in selecting financial institutions and dealers authorized to provide investment services to the state;
- The use of objective criteria in awarding investment purchases and sales to authorized financial institutions and dealers.

On an annual basis, the State Auditor's Office, will evaluate conformance with the Investment Policy and audit internal controls. The purpose of these examinations shall be to audit the accountability of the City's Investment Portfolio and to verify that Investment Officials have acted in accordance with the investment policies and procedures. Should the Investment Procedures be in conflict with the Investment Policy, the Investment Policy is the final authority.

17.0 PERFORMANCE STANDARDS

The City's investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow needs.

- Investment Strategy: The City's Investment strategy is passive. Securities are purchased and sold as it best meets the needs of the City as determined by the Finance Director. The Finance Director will be authorized to trade before maturity if it is in the best interest of the City to do so.
- Market Yield Benchmark for Long term Portfolio: Given this strategy, the basis used by the City to determine whether market yields are being achieved shall be the Average US Treasury Note rate which corresponds with the average life of the investments in the portfolio.
- Market Yield Benchmark for Short term Portfolio: The weighted average yield of liquid portfolio, defined as securities with original maturity of less than 30 days, will be compared quarterly to the LGIP average yield.

18.0 REPORTING

The Finance Director, or designee, shall provide the Finance Committee consistent periodic reporting. These reports shall provide an accurate and meaningful representation of the investment portfolio, its performance versus the established benchmark, and proof of compliance with the investment policy. Quarterly reports will include:

- A listing of individual securities held at the end of the reporting period.
- Average life and final maturity of all investments listed.
- Coupon, discount or earning rate.
- Par value, amortized book value and market value.
- Percentage of the portfolio in each investment category.

- Performance Standard Reporting
- A list of transactions for the period.

19.0 INVESTMENT POLICY ADOPTION

The City's policy shall be adopted by resolution of the City Council. The policy shall be reviewed annually. The Finance Committee will review the policy with the Finance Director and recommend to Council any appropriate changes.

GLOSSARY

ACCRUED INTEREST: Interest accumulated on an investment since its dated date or the most recent date to which interest has been paid.

AMORTIZATION: The reduction of principal (of debt) at regular intervals.

ASKED: The price at which securities are offered.

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

BASIS POINT: A measurement of prices or yields for fixed income securities. One basis point equals 1/100 of 1 percent.

BID: The price at which a buyer is willing to buy a security.

BOND: A long-term debt security, (IOU) issued by a government, a government agency, or a corporation. Generally a bond pays a stated rate of interest, and returns the face value at maturity.

BOND ANTICIPATION NOTE: Short-term interest bearing notes issued in anticipation of bonds to be issued at a later date. The notes are retired from the proceeds of the bond issue to which they are related.

BOOK-ENTRY TRANSFER: A method of transferring securities through computerized entries, which may eliminate the need for physical certificates.

BOOK VALUE: The amount at which an asset is carried on the books of the owner. The book value of an asset does not necessarily have a significant relationship to market value.

BROKER: A licensed individual or firm that brings buyers and sellers together for a commission.

CALL OPTION: The right to prepay or redeem a security at a predetermined price on or after a specified future date that is earlier than its scheduled maturity date.

CASH FLOW BUDGET: A projection of cash receipts and disbursements anticipated during a given time period. Typically, this projection covers a year and is broken down into separate projections for each month, week and/or day during the year.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity earning a specified rate of return evidenced by a certificate.

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: Corporate promissory notes issued to provide short-term financing, sold at a discount and redeemed at face value with maturities up to 270 days.

CONFIRMATION: A document used to state and supplement in writing the terms of a transaction, which have previously been agreed to verbally.

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.

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CURRENT FACE: Also known as the outstanding balance. The current monthly remaining principal of an instrument is computed by multiplying the original face of the instrument by the current principal balance factor.

CUSIP NUMBER (Committee on Uniform Securities Identification Procedures): An identifying number assigned to a publicly traded security. A nine-digit code is permanently assigned to each issue and is generally printed on the face of the security if it is in physical form.

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

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

DELIVERY VERSUS PAYMENT: The delivery of securities with an exchange of money for the securities.

DELIVERY VERSUS RECEIPT: (Also called Free): The delivery of securities with an exchange of a signed receipt for the securities.

DEPOSITORY: An entity which accepts securities for deposit. A depository facilitates delivery and transfer between dealers by making account entries reflecting ownership instead of physically moving securities.

DISCOUNT: Refers to either "original issue discount" or "market discount". Original issue discount is the difference between the cost price of a security when first offered for sale to the general public and its face value at maturity when quoted at a lower than face value. Original issue discount is treated as interest. Market discount is the difference between principal amount of an outstanding security (reduced by any original issue discount) and the value of that security in the then current market (if lower than its principal amount). 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, e.g., US Treasury bills.

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

DURATION: The number of years required to receive the present value of future payments, both of interest and principal, of a bond. Often used as an indicator of a bond's price volatility resulting from changes in interest rates.

FACE VALUE: The par value of a security. Face value is not an indication of market value.

FACTOR: The proportion of the outstanding principal balance of a security to its original principal balance expressed as a decimal. The *Bond Buyer* publishes the Monthly Factor Report that contains a list of factors for GNMA, FNMA, and FHLMN securities.

FARM CREDIT DISCOUNT NOTES AND BONDS: Secured joint obligations of Farm Credit Banks that are issued with a minimum face value of $50,000 with maturities ranging from 5 to 360 days.

FEDERAL CREDIT AGENCIES: Agencies of the Federal Government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

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FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insurers bank deposits.

FEDERAL FUNDS RATE: The rate of interest at which funds are traded between banks. This rate is pegged by the Federal Reserve through open market operations.

FEDERAL HOME LOAN BANKS (FHLB): The Federal Home Loan Bank consists of twelve Federal Home Loan Banks that issue long-term bonds and coupon notes with maturities of up to one year. FHLB branches lend to banks and Savings and Loans for purposes of home mortgage products.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, a government sponsored agency, is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL 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 and money.

FEDERAL RESERVE SYSTEM: The central bank of the United Stated created by Congress and consisting of a seven member Board of Governors in Washington D.C., 12 Regional Banks and about 5,700 commercial banks that are members of the system.

FLAT: A security trades flat when it is traded with no accrued interest.

FORWARD TRADE: A transaction where the settlement will occur on a specified date in the future at a price agreed upon on the trade date.

GOVERMNENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR GINNIE MAE): A wholly-owned government corporation within the Department of Housing and Urban Development (HUD), whose mission is to expand affordable housing in the U.S. by channeling global capital into the nation's housing finance markets. The Ginnie Mae guarantee allows mortgage lenders to obtain a better price for their loans in the capital markets. Lenders then can use the proceeds to make new mortgage loans available to consumers. This helps to lower financing costs and create opportunities for sustainable, affordable housing for families seeking home ownership.

GNMA Is: Pass-through mortgage-backed securities issued by GNMA where registered holders receive separate principal and interest payments on each of their certificates. Investors may expect to receive principal and interest payments on the 15th day of each month.

GNMA IIs: Pass-through Mortgage-backed securities issued by GNMA where registered holders receive an aggregate principal and interest payment from a central paying agent on all of their GNMA II certifies. Principal and interest payments are disbursed on the 20th day of each month. GNMA II securities are collateralized by multiple-issuer pools or custom pools (one issuer but different interest rates that may vary within one percentage point). Multiple-issuer pools are known as Jumbos. Jumbo pools are generally larger and often contain mortgages that are more geographically diverse than single-issuer pools. Jumbo pool mortgages have interest rates that may vary within one percentage.

INTEREST: Compensation paid or to be paid for the use of money. Interest is generally expressed as an annual percentage rate and/or an annual percentage yield

INTEREST RATE: The face coupon rate of a security.

ISSUER: An entity, which issues and is obligated to pay amounts due on securities.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

MATURITIY DATE: The date on which the principle or stated value of an investment becomes due and payable to the registered owner of the security.

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

MORTGAGE: A legal instrument that creates a lien upon real estate, securing the payment of a specified debt, such as a mortgage note.

MORTGAGE-BACKED: An entity that originates mortgage loans, sells them to other investors and services the loans.

MORTGAGE-BACKED BOND: A mortgage-backed bond is a general obligation of the issuer, secured by mortgage collateral, where the issuer retains ownership of the mortgages. The bond is secured by the market value of the underlying mortgages. Since the value of the mortgages will decrease over time as a result of principal amortization and prepayments, the market value of the collateral must exceed the value of the bonds issued. Unlike pass-through securities, the cash flow in a mortgage-backed bond is not directly related to the cash flow of the underlying mortgage collateral. Interest on the bond is paid semiannually at a predetermined rate and principal is paid at maturity.

MORTGAGE-BACKED SECURITIES: The term mortgage-backed securities is a generic term that refers to securities backed by mortgages, including pass-through securities, mortgage-backed bonds, mortgage pay-through securities and CMOs.

ODD LOT: A quantity of securities, which is less than the accepted unit of trading.

OFFER: The price at which a seller will sell a security.

ORIGINAL FACE: The face value (original principal amount) of a security as of its issue date.

PAR: The face amount of a security.

PAYMENT DATE: Also known as the payable date. The date that actual principal and interest payments are made to the registered holder of a security. For GNMA Is, the payment date is the 15th day of the second month following the record date. For GNMA IIs, the payment date is the 20th day of the month following the record date. For FHLMC PCs, the payment date is the 15th day of the second month following the record date. For FNMA MBSs, the payment date is the 25th day of the month following the record date.

P&I (PRINCIPAL AND INTEREST): In the case of mortgage-backed securities and other asset-backed securities, P&I includes regularly scheduled payments as well as prepayments, if any.

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POOL: A collection of mortgages assembled by an originator or master servicer as the basis for a security. Pools are identified by a number.

PORTFOLIO: A collection of securities held by an investor.

PREPAYMENT: The unscheduled partial or complete payment of the principal amount outstanding on a debt obligation before it is due.

PRICE: The dollar amount to be paid for a security expressed as a percentage of its current face value.

PRINCIPAL: The stated face amount of an instrument, exclusive of accrued interest.

PRUDENT PERSON RULE: "Prudent Person" as defined by RCW 43.250.040: "In investing and reinvesting moneys …and in acquiring, retaining, managing and disposing of investments there shall be exercised the judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the managements of their own affairs, not in regard to speculation but in regard to the permanent disposition of the funds, considering the probable income as well as the probable safety of the capital."

PUT OPTION: The right to sell a security at a predetermined price on or before a specified future date.

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 Public Deposit Protection 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.

RATING: Designations used by investors services to give relative indications of credit quality.

RECORD DATE: The date for determining who is entitled to payment of principal and interest (and prepayment) on a security. The record date for most mortgage-backed securities is the last calendar day of the month (however, the last day on which they can be presented for transfer is the last business day of the month). The record date for CMOs and ABSs varies with each issue.

REGISTERED HOLDER: The name in which a security is registered as stated on the certificate itself or on the books of the paying agent. All principal and interest payments are made to the registered holder regardless of beneficial ownership or the record date.

REPURCHASE AGREEMENT (RP or REPO): A 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. Exception: when the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified later date.

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

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

SEC RULE 15C3-1: A SEC rule that sets minimum net capital requirements for broker-dealers. Firms are expected to have liquid assets equal to or greater than a certain percentage of total liabilities. If the ratio falls below this minimum, the broker-dealer may face restriction on soliciting new business or on keeping existing business. See UNIFORM NET CAPITAL RULE.

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

SERVICING: The duties of the servicer for which a fee is received. Servicing consists of collecting and pooling principal, interest and escrow payments as well as certain operational procedures covering accounting, bookkeeping, insurance, tax records, loan payment follow-up, delinquency loan follow-up, and loan analysis.

SERVICING FEE: The amount withheld from the monthly interest payments made by a mortgagor and retained by the mortgage servicer.

SETTLEMENT DATE: The date agreed upon by the parties to a transaction for the payment of funds and the delivery of securities.

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

TREASURY BOND: Long-term US Treasury securities having initial maturities of one than ten years.

TREASURY NOTES: Intermediate term coupons bearing US Treasury securities having initial maturities of from one to ten years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net commitments to purchase securities. Liquid capital includes cash and assets easily converted into cash.

WEIGHTED AVERAGE MATURITY (WAM): The weighted average number of months to the final payment of each security, weighted by the size of the principal investment balance. Also known as weighted average remaining maturity (WARM) and weighted average remaining term (WART).

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