RESOLUTION NO. 3228

A Resolution amending Appendix A, Exhibit 1 of Resolution No. 2783 to re-adopt and amend the City's Investment Policy.

<u>Findings</u>

A. Resolution No. 2783 was adopted by the City Council on May 19, 2010. This resolution adopted a process for establishing and a mechanism for maintaining Council Policies.

B. The Investment Policy was included as Appendix A, Exhibit 1 to Resolution No. 2783.

C. The Investment Policy was later amended as follows:
   a. Resolution No. 2830 adopted on June 15, 2011
   b. Resolution No. 2889 adopted on June 20, 2012
   c. Resolution No. 2919 adopted on June 19, 2013
   d. Resolution No. 2966 adopted on December 3, 2014
   e. Resolution No. 3017 adopted on December 16, 2015
   f. Resolution No. 3056 adopted on December 7, 2016
   g. Resolution No. 3092 adopted on December 6, 2017
   h. Resolution No. 3139 adopted on December 5, 2018
   i. Resolution No. 3182 adopted on December 4, 2019

D. Oregon Revised Statues (ORS) 294.135(a) requires local governments investing in securities with maturities longer than 18 months to annually re-adopt their investment policies. The City has investments with maturities beyond 18 months.

Based on these findings,

THE CITY COUNCIL OF THE CITY OF BEND RESOLVES AS FOLLOWS:

1. The City readopts the Investment Policy, with changes as shown on the attached Exhibit A.

2. Resolution No. 2783 is amended by amending Appendix A, Exhibit 1 to read as shown in the attached Exhibit A.

Adopted by the Bend City Council the 2nd day of December, 2020.

YES: Sally Russell, Mayor
Bruce Abernethy
Barb Campbell
Bill Moseley
Justin Livingston
Gena Goodman-Campbell
Chris Piper

NO: none

Sally Russell, Mayor

Attest:

Robyn Christie, City Recorder

Approved as to form:

Mary A. Winters, City Attorney

Resolution No. 2783
Appendix A, Exhibit 1

Investment Policy

CITY OF BEND

Revised by City Council December 2, 2020

Section 1: Purpose

The City of Bend, Oregon (hereinafter referred to as the City) was incorporated in 1905 and operates under the council-manager form of government. Policymaking and legislative authority are vested in the governing council, which consists of a mayor and six-member council. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring the City Manager.

The average monthly balance of funds invested in the City's general portfolio, excluding proceeds from bond issues, is approximately $100 - $200 million. The highest balances in the portfolio occur between November and January after property taxes are collected.

The purpose of this Investment Policy is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, and safekeeping and custodial procedures necessary for the prudent management and investment of the funds of the City of Bend.

This Policy has been adopted by the City Council of Bend, Oregon on December 2, 2020 and replaces the City's previous Investment Policies.

Section 2: Scope

This policy applies to activities of the City of Bend (the City) with regard to investing the financial assets of all funds except for funds held in trust for the Pension Portfolio; the Cemetery Permanent Maintenance funds held in trust and deferred compensation funds for the Employees of the City which have separate rules. In addition, funds held by trustees or fiscal agents not subject to the City's investment control are excluded from these rules; however, all funds are subject to regulations established by the State of Oregon. Specifically, this investment policy is written in conformance with ORS 294.035; 294.040; 294.052; 294.135; 294.145 and 294.810. The City will conform to Federal, State and other legal requirements.

Section 3: Objectives

The City's principal investment objectives, in order of priority, are:

3.1 Preservation of capital and protection of investment principal.

3.2 Maintenance of sufficient liquidity to meet operating requirements that are reasonably anticipated.

3.3 Diversification to avoid incurring unreasonable risks regarding specific security types or individual financial institutions.

3.4 Attainment of a market value rate of return throughout budgetary and economic cycles. Securities shall not be sold prior to maturity with the following exceptions:

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

Section 4: Standards of Care

4.1 Prudence and Indemnification: The standard of prudence to be used, by the Investment Officer, in the context of managing the overall portfolio is the prudent person rule which states: *Investments will be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.*

The City's Investment Officer (ORS 294.004 (2)) and staff acting in accordance with this Investment Policy, written procedures, and Oregon Revised Statutes 294.035, 294.040, and 294.052 and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price change or other loss in accordance with ORS 294.047.

4.2 Ethics and Conflicts of Interest: Officers and employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244.

4.3 Delegation of Authority: The ultimate responsibility and authority for the investment of City funds resides with the City Council. The City hereby designates the Chief Financial Officer as the Investment Officer for the City's funds. The Investment Officer shall invest City funds in accordance with ORS Chapter 294, Public Financial Administration, and with this Investment Policy. This Policy shall constitute a "written order" from City Council per ORS 294.035. The Investment Officer, with the consent of the City Manager, may further delegate the authority to invest City funds to additional City Finance personnel.

Subject to required procurement procedures, the City may engage the support services of one or more external Investment Advisors or other outside professionals in regard to its financial program and management of the City's investment portfolio. External service providers shall be subject to Oregon Revised Statutes and the provisions of this Investment Policy.

4.4 In order to optimize total return through active portfolio management, resources shall be allocated to the cash management program. This commitment of resources shall include financial and staffing considerations.

Section 5: Transaction Counterparties, Investment Advisors and Depositories

5.1 The Chief Financial Officer as the Investment Officer, will maintain and review annually a list of financial institutions authorized to provide the City with investment and safekeeping services, as well as a list of approved broker/dealers. The following minimum criteria must be met prior to authorizing investment transactions. The Investment Officer may impose more stringent criteria.

a. Broker/Dealer firms must meet the following minimum criteria:
   i. Be registered with the Securities and Exchange Commission (SEC);
   ii. Be registered with the Financial Industry Regulatory Authority (FINRA).
   iii. Provide most recent audited financials.
   iv. Provide FINRA Focus Report filings.

b. Approved broker/dealer employees who execute transactions with the City must meet the following minimum criteria:
   i. Be a registered representative with the Financial Industry Regulatory Authority (FINRA);
   ii. Be licensed by the state of Oregon;

iii. Provide certification (in writing) of having read; understood; and agreed to comply with the most current version of this investment policy.

The Chief Financial Officer as the Investment Officer may utilize the Investment Advisor's approved broker/dealer list in lieu of the City's approved list. The advisor must submit the approved list to the City annually and provide updates as they occur. The Chief Financial Officer can assign the responsibility of the broker/dealer due diligence process to the advisor, and all licensing information on the counterparties will be maintained by the advisor and available upon request. The annual Investment Advisor broker/dealer review procedures include:

i. Financial Industry Regulatory Authority (FINRA) Certification Check
ii. Firm Profile
iii. Firm History
iv. Firm Operations
v. Disclosures of Arbitration Awards, Disciplinary and Regulatory Events
vi. State Registration Verification
vii. Financial review of acceptable FINRA capital requirements or letter of credit for clearing settlements.

The advisor must provide the City with any changes to the list prior to transacting on behalf of the City.

For each investment transaction, the Investment Advisor shall provide the City with a confirmation ticket listing the specific instrument, issuer, coupon, maturity, CUSIP number, par amount, purchase or sale price, transaction date, and other pertinent information.

5.2 <u>Investment Advisors:</u> An Investment Advisor may be utilized to manage funds and will be selected through a competitive RFP process. Investment Advisors may be hired in either a discretionary or non-discretionary role. The Advisor must meet the following criteria.

a. The Investment Advisor firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the State of Oregon; (Note: Investment Advisor firms with assets under management > $100 million must be registered with the SEC, otherwise the firm must be licensed by the State of Oregon);
b. All Investment Advisor firm representatives conducting investment transactions on behalf of City must be registered representatives with FINRA;

c. All Investment Advisor firm representatives conducting investment transactions on behalf of the City must be licensed by the State of Oregon;
d. Contract terms will include that the Investment Advisor comply with the City's Investment Policy.

The advisor is authorized to transact with its broker/dealer relationships on behalf of the City. A periodic (at least annual) review of all authorized Investment Advisors under contract will be conducted by the Investment Officer to determine their continued eligibility within the portfolio guidelines.

The Investment Advisor must notify the City immediately if any of the following issues arise while serving under a City Contract:

a. Pending investigations by securities regulators.
b. Significant changes in net capital.
c. Pending customer arbitration cases.
d. Regulatory enforcement actions.

5.3 <u>Depositories:</u> All financial institutions who desire to become depositories must be qualified Oregon Depositories pursuant to ORS Chapter 295.

5.4 <u>Competitive Transactions:</u> The Investment Officer shall obtain and document competitive bid information on all investments purchased or sold in the secondary market. Competitive bids or offers should be obtained, when possible, from at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform. In the instance of a security for which there is no readily available competitive bid or offering on the same specific issue, the Investment Officer shall document quotations for comparable or alternative securities. If the City utilizes an Investment Advisor to provide investment management services, the Investment Advisor must keep documentation on competitive transactions and provide to the City upon request.

Section 6: Administration and Operations

6.1 <u>Third Party Safekeeping</u>: Securities purchased by the City shall be held in a segregated account for the City's benefit by a third party financial institution serving as safekeeping and custody agent. Upon request, the safekeeping institution shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16. The safekeeping agent shall issue a monthly statement to the City listing the specific investments held, issuer, coupon, maturity, CUSIP number, and other pertinent information. For each transaction, the broker or securities dealer shall issue a confirmation ticket to the City listing the specific instrument, issue, rating, coupon, maturity, CUSIP number, purchase or sale price, yield, transaction date, and other pertinent information. The City will have online access through the safekeeping bank for verification of the account holdings and transactions.

6.2 Delivery vs. Payment: All trades of marketable securities will be executed on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the City of Bend's safekeeping institution prior to the release of funds. The City will have online access through the safekeeping bank for verification of the account holdings and transactions.

6.3 Internal Controls: The Investment Officer shall maintain a system of written internal controls which shall be reviewed and tested by the independent auditor at least annually or upon any extraordinary event, i.e., turnover of key personnel, the discovery of any inappropriate activity.

The written internal controls shall address the following areas of concern:

- Compliance with investment policy constraints and requirements
- Clear delegation of authority
- Segregation of duties and separation of responsibilities for trade execution, accounting, and record keeping
- Written confirmation of transactions and funds transfers
- Timely reconcilement of custodial reports
- Appropriate security for online transactions and access to bank accounts and bank data
- Custodial safekeeping
- Control of collusion
- Review, maintenance and monitoring of security procedures both manual and automated
- Avoidance of physical delivery of securities wherever possible and address control requirements for physical delivery where necessary

Section 7: Suitable and Authorized Investments:

7.1 List of Authorized Investments: All investments of the City shall be made in accordance with Oregon Revised statutes: ORS 294.035 (Investment of surplus funds of political subdivisions; approved investments), ORS 294.040 (Restriction on investments under ORS 294.035), ORS 294.052 (Definitions-investment by municipality of proceeds of bonds), ORS 294.135 (Investment maturity dates), ORS 294.145 (Prohibited conduct for Investment Officer including not committing to invest funds or sell securities more than 14 business days prior to the anticipated date of settlement), ORS 294.805 to 294.895 (Local Government Investment Pool). Any revisions or extensions of these sections of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted. If additional types of securities are considered for investment, per Oregon state statute they will not be eligible for investment until this Policy has been amended and the amended version adopted by the City Council.

Minimum credit ratings and percentage limitations apply to the time of purchase.

a. U.S. Treasury Obligations: Direct obligations of the United States Treasury whose payment is guaranteed by the United States. Maturities may not exceed seven years from the date of purchase.

b. U.S. Agency Obligations - Primary: Senior debenture obligations of U.S. federal agencies and instrumentalities or U.S. government sponsored enterprises (GSE) that have actively traded markets and provide a higher level of liquidity. These include: Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and the Federal Farm Credit Banks Funding Corporation (FFCB).

c. U.S. Agency Obligations - Secondary: Other U.S. government sponsored enterprises that are less marketable are considered secondary GSEs. They include but are not limited to: Private Export Funding Corporation (PEFCO), Tennessee Valley Authority (TVA), Financing Corporation (FICO), and Federal Agricultural Mortgage Corporation (Farmer Mac). Specific issues must be rated by S&P or Moody's or any nationally recognized statistical rating organization.

d. Obligations of the States of Oregon, California, Idaho, and Washington: Lawfully issued debt obligations of the states of Oregon, California, Idaho and Washington and political subdivisions of those states that have a long-term rating on the settlement date of AA- or Better by S&P or Aa3 or better by Moody's or equivalent rating by any nationally recognized statistical rating organization.

   Such obligations are authorized only if there has been no default in payment of either the principal or the interest of obligations of the issuing entity within five years preceding investment, ORS 294.040. Ownership of such obligations shall be limited to twenty-five percent of the portfolio, with no more than five percent of the portfolio held in any one issuer. Maturities for these obligations shall not exceed seven years.

e. Corporate Indebtedness subject to a valid registration statement on file with the Securities and Exchange Commission or issued under the authority of section 3(a)(2) or 3(a)(3) of the Securities Act of 1933, as amended. Corporate indebtedness described in this paragraph does not include bankers acceptances. The corporate indebtedness must be issued by a commercial, industrial or utility business or issued by or on behalf of a financial institution, including a holding company owning a majority interest in a qualified financial institution. Ownership of corporate indebtedness shall be limited to a combined total of thirty-five percent of the portfolio, with no more than five percent of the portfolio held in any one issuer or its affiliates or subsidiaries.

   - *Corporate Bonds:* Maturities may not exceed seven years from the date of purchase. Corporate indebtedness must be rated on the settlement date Aa3 or better by Moody's Investors Service or AA- or better by S&P or equivalent rating by any nationally recognized statistical rating organization.

   - *Commercial Paper:* Maturities may not exceed 270 days from the date of purchase. Commercial paper must be rated at least A-1 by Standard and Poor's, or P-1 by Moody's or equivalent rating by any nationally recognized statistical rating organization.

f. Time Deposit Open Accounts and Savings Accounts in insured institutions as defined in ORS 706.008, in credit unions as defined in ORS 723.006 or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state.

g. Certificates of Deposit that are purchased by the City shall be FDIC insured or collateralized through the state collateral pool in accordance with ORS 295.015 and ORS 295.018. Ownership of time certificates of deposit shall be limited to twenty-five percent of the portfolio, with no more than five percent with any one financial institution at the time of purchase, and maturities shall not exceed 18 months.

h. Bankers Acceptances which are (a) guaranteed by and carried on the books of a financial institution, (b) eligible for discount by the Federal Reserve System; and (c) issued by a qualified financial institution whose short-term letter of credit rating is rated in the highest category by one or more nationally recognized statistical rating organizations. For the purposes of this paragraph, qualified financial institution means: (i) a financial institution that is located and licensed to do banking business in the State of Oregon; or (ii) a financial institution that is wholly owned by a financial holding company or a bank holding company that owns a financial institution that is located and licensed to do banking business in the State of Oregon. Maturities shall be limited to 180 days from the date of purchase and ownership of bankers acceptances shall not exceed twenty-five percent of the portfolio, with no more than five percent of the portfolio held in any one issuer.

i. <u>Repurchase Agreements</u> purchased under the terms of the City approved Master Repurchase Agreement. The repurchase agreement must be in writing and executed in advance of the initial purchase of the securities that are the subject of the repurchase agreement. Repurchase agreement collateral is limited in maturity to three years and priced according to percentages prescribed by written policy of the Oregon Investment Council or the Oregon Short-Term Fund Board. Acceptable collateral includes: (i) US Treasury Securities: 102% and (ii) US Agency Discount and Coupon Securities: 102%. The maximum term of any repurchase agreement to 90 days. Maximum percent of portfolio allocation is 25%.

j. <u>Oregon Short Term Fund / State of Oregon Local Government Investment Pool</u> organized pursuant to ORS 294.805 through 294.895. Participation in the Pool shall not exceed the maximum limit annually set by ORS 294.810. This limit may temporarily be exceeded by local governments for 10 business days due to pass-through funds.

7.2 As of the date of this Policy, all of the above securities, deposits and transactions are permitted under Oregon Revised Statutes. Any deviation from this list must be pre-approved in writing by the City Manager.

Diversification Constraints on Total Holdings:

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P	Ratings Moody's	Maximum Maturity
US Treasury Obligations	100%	None	N/A	N/A	7 years
US Agency Primary Securities FHLB, FNMA, FHLMC, FFCB	100%	35%	N/A	N/A	7 years
US Agency Secondary Securities FICO, FARMER MAC etc.	10%	5%	Security must be rated	Security must be rated	7 years
Municipal Bonds (OR, CA, ID, WA)	25%	5%	AA-	Aa3	7 years
Corporate Bonds	35% *	5% **	AA-	Aa3	7 years
Commercial Paper			A1	P1	270 days
Bank Time Deposits/Savings Accounts	20%	10%	Oregon Public Depository	Oregon Public Depository	-
Certificates of Deposit	10%	5%	Oregon Public Depository	Oregon Public Depository	18 months
Banker's Acceptance	25%	5%	A1	P1	180 days
Repurchase Agreements	25%	None	N/A	N/A	90 days
Oregon Short Term Fund	Maximum allowed per ORS 294.810	None	N/A	N/A	-

* 35% maximum combined corporate and commercial paper per ORS
** Issuer constraints apply to the combined issues in corporate and commercial paper holdings

7.3 The maximum percent of callable securities in the portfolio shall be 35%.

7.4 <u>Prohibited Investments:</u>

a. Private Placement or "144A" Securities:
Private placement or "144A" securities are not allowed. For purposes of the policy, SEC Rule 144A securities are defined to include commercial paper privately placed under section 4(a)(2) of the Securities Act of 1933.

b. Securities Lending:
The City shall not lend securities nor directly participate in a securities lending program.

c. Mortgage-Backed Securities:
The City shall not purchase mortgage-backed securities.

d. The City will not purchase, per ORS 294.040, any bonds of issuers listed in ORS 294.035(3)(a) to (c) that have a prior default history.

Section 8: Investment Parameters

8.1 Liquidity Requirements and Maturity Limits: At all times, the City will maintain a minimum amount of funds to meet liquidity needs for the next three months. Unless matched to a specific cash flow requirement, the City shall not invest in securities maturing more than seven years from the date of settlement. The average maturity of the City's portfolio shall not exceed 2.5 years.

Maturity Constraints	Minimum % of Total Portfolio
Under 30 days	10%
Under 1 year	25%
Under 5 years	80%
Under 7 years	100%
WAM (Weighted Average Maturity)	2.5 years
Maximum Callable Securities	35%

8.2 Diversification: The City will diversify the investment portfolio to avoid incurring unreasonable risks, both credit and interest rate risk, inherent in overinvesting in specific instruments, individual financial institutions or maturities.

8.3 Investment of Proceeds from Debt Issuance: Investments of bond proceeds are restricted further and will not include corporate bonds in the dedicated bond proceed portfolio. All other allowable investments including: US Treasury, US Agency and Commercial Paper may be utilized. The investments will be made in a manner to match cash flow expectations based on managed disbursement schedules.

Liquidity for bond proceeds will be managed through the Oregon Short Term Fund (OSTF) Pool or Bank deposit balances.

Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for resale and maturities are intended to be matched with expected outflows.

Information will be maintained for arbitrage rebate calculations.

8.4 Investment of Bond Reserve or Capital Improvement Project Funds: Pursuant to ORS 294.135(1)(b), reserve or capital Improvement project monies may be invested in securities exceeding three years when the funds in question are being accumulated for an anticipated use that will occur more than 18 months after the funds are invested, then, upon the approval of the governing body of the county, municipality, school district or other political subdivision, the maturity of the investment or investments made with the funds may occur when the funds are expected to be used.

Section 9: Reporting Requirements

9.1 The Investment Officer will provide periodic reports to upper management and City Council (or designated sub-committee) showing the make-up of the investment portfolio and average interest rate as well as the monthly interest rate earned by the Local Government Investment Pool. The reports will be used to ensure adequate portfolio diversification, both by type and maturity dates. A monthly cash flow projection will be used to ensure portfolio maturities coincide with projected cash flow needs. The report will include any violations of portfolio guidelines or non-compliance issues that occurred during the prior period or that are outstanding, and will note actions taken, or planned, to bring the portfolio back into compliance.

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

Section 10: Performance Measurement

10.1 The liquidity component yield will be compared quarterly to the State of Oregon Local Government Investment Pool rates.

10.2 The core portfolio will be invested into a predetermined structure that will be measured against a selected benchmark portfolio. The structure will be based upon a chosen minimum and maximum effective duration and will have the objective to achieve market rates of returns over long investment horizons. The purpose of the benchmark is to appropriately manage the risk in the portfolio given interest rate cycles. The core portfolio is expected to provide similar returns to the benchmark over interest rate cycles, but may underperform or out perform in certain periods. The portfolio will be positioned to first protect principal and then achieve market rates of return. The benchmark used will be a 0-3 year or 0-5 year standard market index and comparisons will be calculated monthly and reported quarterly.

10.3 When comparing the performance of the City's portfolio, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.

10.4 The mark to market pricing will be calculated monthly and be provided in a monthly report.

Section 11: Investment Policy Adoption

This Investment Policy will be reviewed annually. It will be formally adopted by the City Council on December 4, 2019 and will be readopted when changes are made. The policy will also be submitted to the Oregon Short Term Fund (OSTF) Board for review if this policy allows maturities beyond 18 months unless the funds are being accumulated for a specific purpose or if material changes have been made since the last review by the OSTF Board.

Section 12: Glossary of Terms

Accrued Interest: The interest accumulated on a security since the issue date or since the last coupon payment. The buyer of the security pays the market price plus accrued interest.

Arbitrage: Effecting sales and purchases simultaneously in the same or related securities to take advantage of a market inefficiency.
Basis Point: One-hundredth of 1 percent. One hundred basis points equals 1 percent.

Bond: An interest-bearing security issued by a corporation, government, governmental agency, or other body. It is a form of debt with an interest rate, maturity, and face value, and it is usually secured by specific assets. Most bonds have a maturity of greater than one year and generally pay interest semiannually. See Debenture.

Bond Discount: The difference between a bond's face value and a selling price, when the selling price is lower than the face value.

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

Broker: An intermediary who brings buyers and sellers together and handles their orders, generally charging a commission for this service. In contrast to a principal or a dealer, the broker does not own or take a position in securities.

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

Call: An option to buy a specific asset at a certain price within a certain period of time.

Callable Notes/Bonds: Securities that may be redeemed by the issuer before maturity for a call price specified at the time of issuance.

Call Date: The date before maturity on which a bond may be redeemed at the option of the issuer.
Collateral: Securities or other property that a borrower pledges as security for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

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

Coupon Rate: The annual rate of interest that the issuer of a bond promises to pay to the holder of the bond.

Coupon Yield: The annual interest rate of a bond, divided by the bond's face value and stated as a percentage. This usually is not equal to the bond's current yield or its yield to maturity.

Current Maturity: The amount of time left until an obligation matures. For example, a one-year bill issued nine months ago has a current maturity of three months.

Current Yield: The coupon payments on a security as a percentage of the security's market price. In many instances the price should be gross of accrued interest, particularly on instruments where no coupon is left to be paid until maturity.

CUSIP: The Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities.

Dealer: An individual or firm that ordinarily acts as a principal in security transactions. Typically, dealers buy for their own account and sell to a customer from their inventory. The dealer's profit is determined by the difference between the price paid and the price received.

Delivery: Either of two methods of delivering securities: delivery vs. payment and delivery vs. receipt (also called "free"). Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for the securities.

Discount: The reduction in the price of a security; the difference between its selling price and its face value at maturity. A security may sell below face value in return of such things as prompt payment and quantity purchase. "At a discount" refers to a security selling at less than the face value, as opposed to "at a premium, "when it sells for more than the face value.

Fannie Mae: Trade name for Federal National Mortgage Association (FNMA). One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides liquidity to the residential mortgage market by purchasing mortgage loans from lenders, financed by the issuance of debt securities and MBS (pools of mortgages packaged together as a security). FNMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market.

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

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

Finance Committee. Subcommittee of the City Council appointed by the Mayor on an annual basis.

Financial Industry Regulatory Authority: the Financial Industry Regulatory Authority, Inc. (FINRA) is a private corporation that acts as a self-regulatory organization for all securities firms doing business in the United States. FINRA is the successor to the National Association of Securities Dealers, Inc.

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

Full Faith and Credit: Indicator that the unconditional guarantee of the United States government backs the repayment of a debt.

General Obligation Bonds (GOs): Bonds secured by the pledge of the municipal issuer's full faith and credit, which usually includes unlimited taxing power.

Ginnie Mae: Trade name for the Government National Mortgage Association (GNMA). One of the large Federal Agencies. Government-owned Federal Agency that acquires, packages, and resells mortgages and mortgage purchase commitments in the form of mortgage backed securities. Largest issuer of mortgage pass-through securities. GNMA debt is guaranteed by the full faith and credit of the U.S. government.

Government Bonds: Securities issued by the federal government; they are obligations of the U.S. Treasury. Also known as "governments."

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

Interest: Compensation paid or to be paid for the use of money. The rate of interest is generally expressed as an annual percentage.

Interest Rate: The interest payable each year on borrowed funds, expressed as a percentage of the principal.

Investment Portfolio: A collection of securities held by a bank, individual, institution, or government agency for investment purposes.

Investment Securities: Securities purchased for an investment portfolio, as opposed to those purchased for resale to customers.

Investor: A person who purchases securities with the intention of holding them to make a profit.

Liquidity: The ease at which a security can be bought or sold (converted to cash) in the market. A large number of buyers and sellers and a high volume of trading activity are important components of liquidity.

Mark to Market. Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation.

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

Municipals: Securities, usually bonds, issued by a state, its agencies, or its political subdivisions. The interest on "munis" is usually exempt from federal income taxes and state and local income taxes in the state of issuance. Municipal securities may or may not be backed by the issuing agency's taxing powers, if any.

National Association of Securities Dealers (NASD): A self-regulatory organization that regulates the over-the-counter market.

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

Par Value: The value of a security expressed as a specific dollar amount marked on the face of the security, or the amount of money due at maturity. Par value should not be confused with market value.

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

Prudent Investor Rule: A long-standing common-law rule that requires a trustee who is investing for another to behave in the same way as a prudent individual of reasonable discretion and intelligence who is seeking a reasonable income and preservation of capital.

Quotation, or Quote: The highest bid to buy or the lowest offer to sell a security in any market at a particular time. See Bid and Asked.

Sallie Mae: Trade name for the Student Loan Marketing Association (SLMA).

Secondary Market. Markets for the purchase and sale of any previously issued financial instrument.

Spread: The difference between two figures or percentages. For example, the difference between the bid and asked prices of a quote or between the amount paid when a security is bought and the amount received when it is sold.

Trade Date: The date when a security transaction is executed.

Trader: Someone who buys and sells securities for a personal account or a firm's account for the purpose of short-term profit.

Trading Market: The secondary market for bonds that have already been issued. See Secondary Market.

Treasury Bill (T-Bill): An obligation of the U.S. government with a maturity of one year or less. T-bills bear no interest but are sold at a discount.

Treasury Bonds and Notes: Obligations of the U.S. government that bear interest. Notes have maturities of one to ten years; bonds have longer maturities.

Yield: The annual rate of return on an investment, expressed as a percentage of the investment. 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 par or plus any discount from par in the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Yield to Maturity: The average annual yield on a security, assuming it is held to maturity; equals to the rate at which all principal and interest payments would be discounted to produce a present value equal to the purchase price of the bond. Also called net yield.