

Consider approval of Order No. 2022-0045 for the Annual Victoria County Investment Policy and take appropriate action.

(15-32:17)

15. May 16, 2022. County Treasurer Sean Kennedy provided information to the Court and answered Commissioner Janak's question regarding interest rates. Moved by Kevin Janak and seconded by Clint Ives, the Commissioners Court approved Order No. 2022-0045 for the Annual Victoria County Investment Policy. Motion adopted.

Order ~~NO~~ 2022-0045

THE STATE OF TEXAS§
COUNTY OF VICTORIA§

IN THE COMMISSIONERS' COURT
REGULAR TERM- SPECIAL SESSION
MAY 2022

ON THIS, the 16th day of May 2022 the Commissioners' Court of Victoria County, Texas, being in special session at a regular term of said Court, the following members thereof being present, namely:

Ben Zeller, County Judge,
Danny Garcia, Commissioner Precinct No. 1,
Kevin M. Janak, Commissioner Precinct No. 2,
Gary Burns, Commissioner Precinct No. 3, and
Clint C. Ives, Commissioner Precinct No. 4,

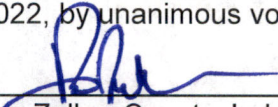
The following proceedings, among others, were had, to wit:

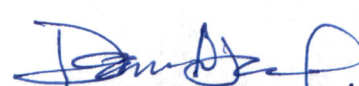
WHEREAS, the Victoria County Commissioners' Court desires to update its investment policy originally adopted January 22, 1988 (Order #3, Vol. 89, page 832); and last updated December 20, 2021; and

WHEREAS, the Court has reviewed the following investment policy, in accordance with Section 2256.005 (e), Texas Government Code, and finds its enactment to be to the financial benefit of Victoria County, Texas:

NOW, THEREFORE, BE IT ADJUDGED, ORDERED AND DECREED THAT THE FOLLOWING AMENDED POLICY BE APPROVED, AND SUPERSEDE ANY AND ALL AMENDMENTS AND POLICIES HERETOFORE ADOPTED.


Adopted on this the 16th day of May 2022, by unanimous vote of this Court.

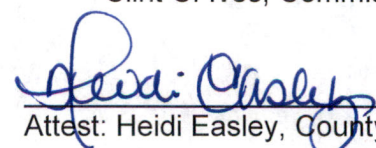

Ben Zeller, County Judge

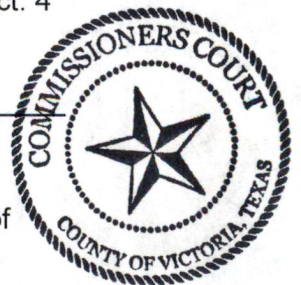

Danny Garcia, Commissioner Pct. 1


Kevin M. Janak, Commissioner Pct. 2


Gary Burns, Commissioner Pct. 3

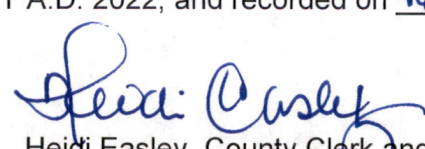

Clint C. Ives, Commissioner Pct. 4


Attest: Heidi Easley, County Clerk



FILED FOR RECORD THIS 16 DAY OF MAY A.D. 2022, and recorded on 16 day of

May, A.D. 2022.


Heidi Easley, County Clerk and
Ex-Officio Clerk of the Commissioners
Court in and for Victoria County, Texas.

VICTORIA COUNTY INVESTMENT POLICY
MAY 16, 2022

Policy Statement

It is the policy of Victoria County, Texas (County) to invest cash of all funds under the control and custody of the county treasurer in a manner maintaining the safety of principal and liquidity of invested funds while providing a reasonable rate of return.

Investment Scope

This policy serves to satisfy the statutory requirements of *Texas Local Government Code §116.112* and *Title 10, Chapter §2256, Texas Government Code*, Public Funds Investment Act, as amended, to define and adopt a formal investment policy.

This investment policy applies to all funds of the County, Citizens Medical Center and Victoria County Navigation District under the control of the county treasurer, which Commissioners Court has authority to invest, unless expressly prohibited by law or is in contravention of any depository contract between the County and its depository bank.

This policy does not apply to funds held in trust by court order from County and District Courts *TGC §2256.004(5)*.

Investment Objectives

The investment objectives for all funds in the custody of the county treasurer are to:

1. Ensure safety of principal;
2. Maintain liquidity so that sufficient funds are available throughout the budgetary cycle of the fund;
3. Achieve the best yield or rate of return allowed through the prudent and legal investment of County funds while providing necessary protection of the principal;
4. Pursue an active portfolio management philosophy. All investments will be held until maturity and not purchased with the intent of speculative trading. Securities may be sold or exchanged before maturity if market conditions present an opportunity for the County to benefit from the trade;
5. Provide diversification within each of the funds where permissible to avoid an over concentration in a single investment type.
6. Investments must comply with State law and Victoria County Investment Policy.

Investment Strategies (TGC§ 2256.005)

Operating Fund

Victoria County operating funds shall be invested with an emphasis on safety of principal and liquidity, matching maturities with expected cash flow. All investments of operating funds shall have a stated final maturity of three years or less.

Citizens Medical Center operating funds shall be invested with an emphasis on safety of principal and liquidity, matching maturities with expected cash flow as directed by the Chief Financial Officer of the hospital. All investments of operating funds shall have a stated final maturity of four years or less.

Victoria County Navigation District (Port of Victoria) operating funds shall be invested with an emphasis on safety of principal and liquidity, matching maturities with expected cash flow as directed by the Board of Navigation District Directors. All investments of operating funds shall have a stated final maturity of four years or less.

Debt Service Fund

All investments of debt service funds approved by Commissioners Court shall not have a stated final maturity which exceeds the next debt service payment date. Excess balances of debt service funds invested will have a maximum stated maturity of less than 365 days.

Capital Projects Fund

Bond funds of Victoria County, Citizens Medical Center and Victoria County Navigation District shall be invested in marketable, short-term investments whose maturities match the projected draw down schedule for each project. If no draw down schedule is available or the project has exceeded the draw down schedule, all investments must be in the shortest-term possible to maintain liquidity.

Unreserved – Unassigned Fund

Unreserved- Unassigned funds of Victoria County, Citizens Medical Center and Victoria County Navigation District shall be invested with an emphasis on safety of principal and may be invested in securities exceeding four (4) years only if the maturity of such investments is made to coincide with the expected use of the funds.

Other Funds

Other funds including; Special Revenue, Agency, Enterprise and Internal Service funds will be invested to meet projected cash flow needs of the individual accounts and are suitable for these funds.

Prudence and Ethical Standards

The standard of prudence to be applied by the investment officer is the “prudent investor” rule as stated in *Texas Government Code §2256.006(a)*, “Investments shall be made with the 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 delivered.”

As stated in *Texas Government Code §2256.006(b)*, in determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration;

1. The investment of all funds, or funds under the entity’s control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
2. Whether the investment decision was consistent with the written investment policy of the entity.

The investment officer, acting in accordance with written procedures and exercising due diligence, shall not be personally responsible for a specific investment’s credit risks or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

Quality and Capability of Investment Management

Victoria County insures the quality and capability of the county’s investment personnel by providing periodic training in investments for all personnel involved in the investing process through courses and seminars offered by professional organizations and associations, in accordance with *Texas Government Code §2256.008(a)*.

Disclosure of Personal Business

An investment officer for Victoria County who has a personal business relationship with a business organization offering to engage in an investment transaction with the County shall file a statement disclosing that personal interest with the Texas Ethics Commission and the Commissioners Court, in accordance with *Texas Government Code §2256.005(i)*. An investment officer has a personal business relationship with a business if:

1. The investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
2. Funds received by the investment officer from the business organization exceed 10 percent of the investment officer’s gross income for the previous year; or

Disclosure of Personal Business (continued)

3. The investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.
4. An investment officer who is related within the second degree of affinity or consanguinity, as determined under *Texas Government Code §573*, to an individual seeking to sell an investment to the county shall file a statement disclosing that relationship with the Texas Ethics Commission and Commissioners Court.

Methods of Investing

In order to facilitate investing funds, the county treasurer is authorized to utilize electronic banking for the investing of such funds with the depository bank, investment firm or investment pool (*TGC §2256.051*).

It is the policy of Victoria County that all securities shall be purchased using the "Delivery vs. Payment" (DVP) method through the Federal Reserve System. County funds will not be released until the county has received the purchased securities. *TGC §2256.005(E)*

A minimum of three bidders will be contacted in all investment transactions. Bids may be solicited in any manner by law and must be documented and filed for auditing purposes.

Authority to Invest Funds

Texas Local Government Code §116.112, authorizes Commissioners Court to invest county funds in accordance with *Texas Government Code §2256.003(a)*.

Delegation of Authority

According to *Texas Government Code §2256.005(f)*, the Commissioners Court, by order expressly designates the county treasurer as investment officer to be responsible for the investment of county funds consistent with its investment policy.

In order to allow the maximum flexibility for the investment of county funds, the Commissioners Court extends to the county treasurer full authority for the investment of county funds between meetings. Official approval shall be made in the form of a court order at the next official meeting of Commissioners Court.

Authorized Investments

As provided in the *Public Funds Investment Act*, except those specifically not authorized in *Texas Government Code § 2256.009(b)*, the following investments may be made:

- Obligations of, or guaranteed by, governmental entities, (*TGC § 2256.009*)
- Certificates of Deposit and Share Certificates, guaranteed by FDIC (Federal Deposit Insurance Corporation) or fully collateralized (*TGC § 2256.010*)
- Repurchase agreements, fully collateralized, not to exceed 90 days (*TGC § 2256.011*)
- Commercial Paper, with a stated maturity of 270 days or fewer (*TGC § 2256.013*)
- No load Money Market Mutual Fund, not to exceed 90 days (*TGC § 2256.014*)
- Local Government Investment Pools as approved by Commissioners Court (*TGC § 2256.016*) and (*TGC § 2256.019*) rated no lower than AAA.

The county investment officer may invest the County's idle funds in:

- United States Treasury bills, notes and bonds
- Fully insured and/or collateralized Certificates of Deposit
- Authorized Local Government Investment Pools (LGIP)
- Securities from the United States Agencies that are backed by the full faith and credit of the United States of America;

Government National Mortgage Association (GNMA)
Small Business Administration (SBA)
Farmers Home Administration (FmHA)
General Services Administration (GSA)

- Securities from the United States that are backed by the full faith and credit of the of the instrumentality and have an "implied" backing of the United States of America;

Federal National Mortgage Association (FNMA)
Federal Home Loan Bank (FHLB)
Federal Home Loan Mortgage Corporation (FHLMC)
Federal Farm Credit Bank (FFCB)

- Commercial paper through an authorized investment pool.
- State and Local Government bonds issued by the State of Texas or a local government entity within the State of Texas with a bond rating of AA or better. This type of investment may not exceed 10 percent of the unreserved-unassigned fund balance of the general fund and the maximum maturity of an individual bond is not to exceed 3 years.

Safety of Principal

Safety of principal is the primary objective of the County's Investment Policy. To achieve this objective the County seeks to mitigate its exposure to credit and interest rate risk.

Credit Risk – the county minimizes credit risk, the risk that an issuer or other counterparty to an investment will not fulfill its obligation, by;

1. Limiting investment to the safest types of investments allowed under PFIA and approved by Commissioners' Court.
2. Pre-qualifying the financial institutions and Broker/dealers with which the County will do business.
3. Diversifying and/or collateralizing the investment portfolio to minimize potential losses on individual issuers.
4. All security investments are executed on a Delivery-Versus-Payment basis (TGC §2256.005(E) and held by the County's custodial agent, in the County's name and evidenced by receipts. The only exception is investments made into an investment pool(s) approved by Commissioners' Court.

Interest Rate Risk – the risk that changes in interest rates will adversely affect the County's investments is minimized, by;

1. Structuring the investment portfolio so that investment maturities match cash flow needs.
2. Investing in the highest yield and maturity that will meet the County's cash flow needs.
3. Diversifying maturities and purchase dates to minimize the impact of markets over time.

Ineligible Investments

The following investments are not authorized investments for Victoria County;

- Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage backed security collateral and pay no principal.
- Obligations whose payment represents the principal stream of cash flow from the underlying mortgage backed security collateral and bears on interest.
- Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
- Collateralized mortgage obligations which the interest rate is determined by an index that adjusts opposite to the changes in a market index.

Diversification of the Investment Portfolio

Diversifying the Investment Portfolio by Type

The county investment officer minimizes the risk of loss of principal in the investment portfolio by diversifying investments by type and maturity. Diversity of in the types of eligible investments is maintained by limiting the maximum percentage that may be invested in each type of eligible investment to the percentages listed as follows;

Type of Investment

Obligations of the U.S. Treasury; Bills, Bonds and Notes..... 100%

Obligations of U.S. Agencies and Instrumentalities..... 100%

Certificates of Deposit issued by a state or national bank domiciled in Texas or a savings and loan association domiciled in Texas..... 100%

State or local government bonds issued by the State of Texas or a local government within the State of Texas, limited to 10% of the unreserved fund balance of the general fund as reported in the prior years' CAFR..... 10%

Local Government Investment Pools (LGIP)..... 100%

Diversifying the Investment Portfolio by Maturity

The county investment officer monitors the maturity of all investments in the portfolio to minimize the risk of loss from interest rate fluctuations and to ensure that the maturities do not exceed the projected cash flow requirements within the portfolio. The maximum allowable stated maturity of any individual investment in the portfolio is provided for in the Investment Strategy Section.

Competitive Selection of Investment Instruments

The County requires competitive bids on all securities purchases, except for transactions in LGIP's, Government securities purchased at a favorable rate that requires quick action in order to secure the rate at the discretion of the county investment officer or government securities purchased through an approved broker/dealer at the auction price. The county accepts the bid, which provides the highest rate of return within the maturity, required and is submitted within the deadline specified on the bid sheet and within the parameters of this policy. Bids that do not meet the County's time deadline will not be considered.

Broker/Dealer

A copy of this investment policy will be presented to any person offering to engage in an investment transaction with Victoria County. The investment officer may not purchase securities from any person who has not filed a written Broker/Dealer Certification signed by a qualified representative of the organization offering to engage in an investment transaction with Victoria County. The Broker/Dealer certification must include that the policy has been received and reviewed and acknowledge that Victoria County implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by Victoria County, in accordance with *TGC § 2256.005 (k)*.

A list of financial institutions authorized to provide investment services to Victoria County will be maintained by the county treasurer. In addition, a list will be maintained of approved broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Texas. These may include "Primary" Dealers or secondary dealers that qualify under the Securities and Exchange Commission.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions with Victoria County must supply the county treasurer with a current audited financial statement.

Commissioners Court or the designated investment committee of the county shall, at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the county, in accordance with *TGC § 2256.025*.

Removal from Broker/Dealer List.

The treasurer may review and reevaluate the broker/dealers currently on the approved list at any time when there is good cause. The broker/dealer may be immediately removed from the approved list for the following reasons;

1. Placing the County's funds at risk;
2. Failure to maintain the requirements of this investment policy;
3. Failure to comply with the Texas Public Funds Investment Act;
4. Consistently causing an administrative burden by inaccurate documentation, attempting to submit oral bids, or late verification of trade.

Loss of Required Rating

If an investment becomes ineligible because of loss of the minimum required rating or possible default, then it no longer qualifies as an authorized investment. The investment officer shall take all prudent measures consistent with this policy to liquidate that investment (*TGC §2256.021*).

Investment Committee

There may be a Victoria County Investment Committee, which may consist of the county treasurer as Chairperson, along with the County Judge, and County Auditor. The County Financial Advisor may serve as an Ex-Officio member of the committee.

Safekeeping and Custody

All purchased securities, certificates of deposit, insured by FDIC, and all pledged securities shall be held in safekeeping by the County or a county account in a third party financial institution, primarily the Federal Reserve Bank under the direction of the Victoria County Commissioners Court, through the county treasurer and subject to the review of the county auditor.

Reporting

Not less than quarterly, the investment officer shall prepare and submit to the Commissioners Court a written report detailing the investment position of Victoria County in compliance with *TGC § 2256.023*.

**Texas Public Funds Investment Act
Certification by Business Organization**

This certification is executed on behalf of the County of Victoria, Texas (County) and _____ (the Business Organization) pursuant to the Public Funds Investment Act, Chapter 2256, Texas Government Code (the Act) in connection with investment transactions conducted between the County and the Business Organization.

The undersigned Qualified Representative of the Business Organization hereby certifies on behalf of the Business Organization that:

1. The undersigned is a Qualified Representative of the Business Organization offering to enter an investment transaction with the County as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code,
2. The Qualified Representative of the Business Organization has received and reviewed the investment policy of the County, and
3. The Qualified Representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization and the County that are not authorized by the County's investment policy except to the extent that this authorization is dependent on an analysis of the makeup of the County's entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative of the Business Organization

Firm _____

Firm Representative _____

Representative's Title _____

Signature _____

Date _____

**County of Victoria, Texas
Broker/Dealer Questionnaire**

Name of Firm:

Name of Parent Company (*if applicable*):

Local Address:

National

Address:

Phone: (____) ____ - ____ (800) ____ -

Fax: (____) ____ - ____ E-Mail

Registered principal:

Title:

Account Representative:

Title: _____ CRD# _____

Backup Representative:

Title: _____ CRD# _____

Do you have an office of the firm for brokerage or other services located within our area?

Address of office

Has/have the representative(s) listed above been authorized by the firm to be the account representative(s) for the County of Victoria, Texas?

Authorized

By: _____

If you are a broker/dealer or subsidiary of a national bank, is your firm licensed to do business in Texas?

Yes ☐ No ☐

If you are a broker/dealer or subsidiary of a national bank, is your firm a member of Financial Industry Regulatory Authority (FINRA) in good standing?

Yes ☐ No ☐

Please provide your firm's CRD (Central Registration Depository) number _____

Which instruments are offered regularly by your local desk?

☐ Treasury Bills

☐ Treasury notes/bonds

☐ Agencies-specify

☐ Commercial paper

☐ Other-specify

Has your firm or any of your employees ever been investigated by a regulatory or state agency for alleged improper, fraudulent, disreputable, or unfair business practices in the sale of securities or money market instruments? If yes, please explain:

Please provide the most recent AUDITED financial statements for your firm.
Is your firm a subsidiary of another firm? ☐ yes ☐ no. if yes please provide the most recent audited financial statements for your parent corporation.

How long has the direct representative been an institutional governmental securities broker? _____

How long has the direct representative been an institutional fixed-income broker? _____

Is your firm a member of NASD (National Association of Securities Dealers)?

If not, why?

Place an X by each regulatory agency that your firm is examined by and/or subject to its rules and regulations or list any other regulatory agency.

FDIC _____ SEC _____ NYSE _____ Federal Reserve System _____

Comptroller of Currency _____ Other _____

Do you have full SIPC (Securities Investor Protection Corporation) insurance coverage?

SIPC policy number _____

Please provide information on a separate sheet regarding additional coverage for your customers in case of default or failures.

Does the firm have primary dealer status with the Federal Reserve Bank of New York?

How long has the firm had primary dealer status?

Are the firm and the account representative(s) registered with the Texas State Securities Commissioner? _____

Since? _____

Please provide references from at least four comparable public sector clients. We would prefer public sector clients located in the State of Texas, if possible.

Client Name

Address

Person to contact

Telephone Number _____ Length of relationship _____

Client Name

Address

Person to contact

Telephone Number _____ Length of relationship _____

Client Name

Address

Person to contact

Telephone Number _____ Length of relationship _____

Client Name

Address

Person to contact

Telephone Number _____ Length of relationship _____

The following section is to be completed by any firm that does not currently hold primary dealer status.

In which market sectors does the local firm/desk specialize, if any?

Please identify your most directly comparable public sector clients.

How long has your firm been in business? _____

Are you a subsidiary of another firm? _____

If yes, which firm? _____

How long have the two firms been associated? _____

Is your firm an inventory dealer? _____

Do you take a position in securities that you sell or buy? _____

Does your firm comply with the SEC (Securities Exchange Commission) net capital guidelines on a continuous basis? _____

How much excess capital do you maintain? _____

Through which firm do you clear? _____

Do you clear on a fully disclosed basis, i.e., will the clearing firm be acting as principal on the transaction? _____

Please attach a separate sheet with your full delivery instructions.

Please return to:

Sean Kennedy
Victoria County Treasurer
205 N. Bridge St., Room 110
Victoria, Texas 77901-3564

Appendix A

United States Treasury Securities

U.S. Treasury – Bill (T-Bill) A treasury bill is an obligation of the United States Government to pay the bearer a fixed sum on a specific date. T-Bills are sold at a discount from their par (face) value. The return on investment is the difference between the discounted purchase price and the selling price or face value at maturity. T-Bills are short-term securities with fixed maturity of one year or less. T-Bills are backed by the full faith and credit of the United States Government.

U.S. Treasury – Notes and Bonds (T-Notes, T-Bonds) T-Notes and T-Bonds are coupon Securities paying interest every six months. T-Notes have a fixed maturity of not less than one year or more than ten years. T-Bonds are securities with maturities of more than ten years. T-Notes and T-Bonds are sold at a premium or discount depending on the coupon rate of the security. Interest is accrued for those T-Bonds purchased between interest periods. T-Notes and T-Bonds are backed by the full faith and credit of the United States Government.

United States Government Agency and Instrumentality Securities Agencies

Government National Mortgage Association (GNMA) (Ginnie Mae) GNMA exists to provide a secondary market for real estate mortgages and therefore spur private housing in the economy. The most attractive securities offered by the GNMA and available to government investors are “fully modified pass-through mortgages”. The mortgages are pooled into mortgage-backed pools by GNMA. The pools are structured to provide good diversification and value. The securities have stated maturities equal to the underlying mortgages, which range from 12 to 40 years. The GNMA guarantee of timely principal and interest payments is backed by the full faith and credit of the United States Government.

Export-Import Bank (EXIMBANK) The Export-Import Bank was founded in 1934 and operates under an authority granting broad powers to finance and facilitate exports of U.S. products by extending loans, guarantees and export credit insurance. All contractual liabilities of EXIMBANK constitute general obligations of the United States Government and are backed by its full faith and credit. This is a program designed for economic development purposes and not for investment purposes. Such loans are not liquid and are bought simply as a buy-and-hold proposition.

Small Business Administration (SBA) Credited in 1953, the Small Business Administration, provided loans to small business through the issuance of Debentures under the Small Business Investment Company Program, Regular Business Loan Program, Single Loan Sales, SBA Loan Pools, and Certified Development Company Program. Although these debentures are backed by the full faith and credit of the United States Government, they are long-term investments and lack liquidity.

Appendix A continued....

Tennessee Valley Authority (TVA), Established by an act of congress in 1933 to develop the resources of the Tennessee Valley region. TVA bonds are not obligations of, nor are they guaranteed by the United States.

General Services Administration (GSA), established by the Federal Property and Administration Services Act of 1949. The GSA issues participation certificates to fund the construction and purchase of public buildings. These certificates are backed by the full faith and credit of the United States Government. These certificates are long term and have no ready market.

Maritime Administration Merchant Marine Obligations are issued and guaranteed in accordance with the provisions of the merchant Marine Act of 1936 as amended by the Ship Financing Act of 1972. The obligations are guaranteed by the full faith and credit of the United States Government. These obligations are long term investments and lack marketability.

Instrumentalities

Federal National Mortgage Association (FNMA) (Fannie Mae) Fannie Mae was incorporated in 1938 as a corporation wholly owned by the government. In 1968, congress enacted legislation to privatize Fannie Mae. By 1970, Fannie Mae completed the transition and officially became a private corporation. The obligations of Fannie Mae are not guaranteed by United States Government and do not constitute a debt or obligation of the United States government or any agency thereof.

Federal Farm Credit Bank (FFCB) Federal Farm Credit Bank bonds are not backed by the full faith and credit of the United States government. The bonds are secured by collateralized obligations of the banks operating under federal charter with governmental supervision.

Federal Home Loan bank (FHLB) system was organized in 1932, under the Federal Home Loan Bank Act and restructured under the Financial Institutions Reform Recovery, and Enforcement Act of 1989 (FIRREA). Twelve District Banks comprise the system and are distributed geographically around the country. The obligations of the system are not backed by the full faith and credit of the United States Government. However, the banks are required to maintain secured advances, guaranteed mortgages, US. Government securities or cash in an account at least equal in size to its outstanding obligations.

Federal Home Loan Mortgage Corporation (FHLMC) also known as Freddie Mac is a government-sponsored enterprise chartered under Title III of the Emergency Home Finance Act of 1970. Freddie Mac purchases residential mortgages from individual lenders, groups the mortgages onto pools and subsequently sells mortgage-backed pass-through securities backed by such mortgages. Freddie Mac guarantees timely payment of principal and interest. These securities are not backed by the full faith and credit of the United States Government.

Appendix A continued...

Student Loan Marketing Association (SLMA) also, known as Sallie Mae was established in 1972, by congress, as a private not-for-profit Corporation. Sallie Mae obtains funds from the sale of its debt obligations. These obligations are not backed by the full faith and credit of the United States government.

Financing Corporation (FICO) - the Federal Home Loan Bank board chartered FICO in 1987. FICO's sole purpose was to provide a financing vehicle for recapitalizing the reserves of the Federal Savings and Loan Insurance Corporation (FSLIC). FICO's are secured by United States Treasury obligations, which are held in a separate account. Obligations of FICO are not backed by the full faith and credit of the United States Government. All FICO obligations are long-term obligations (30 years) and are therefore not suitable for short-term investment.