Whatcom County Treasurer's Office
Investment Policy

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Whatcom County Treasurer
Steven N. Oliver

1. GENERAL POLICY STATEMENT

It is the policy of the Whatcom County Treasurer to invest public funds in accordance with all federal, state and local governing statutes. The Whatcom County Treasurer will invest public funds in a manner which will provide maximum safety of principal, ensure adequate liquidity, and achieve the highest investment return within these parameters.

2. SCOPE

This investment policy applies to all financial assets of Whatcom County. These funds are accounted for in Whatcom County's Annual Financial Report and include, but are not limited to, the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds and Agency Funds. In addition, the Whatcom County Treasurer provides investment services for all County governmental agencies, except cities, including school districts, fire districts, port districts, transit authorities, water and irrigation districts, cemetery districts, library districts as well as any new fund created by the legislative body, unless specifically exempted. Funds covered by this policy include all funds created by County ordinance or otherwise established by State Legislation.

3. PRUDENCE

Investments shall be made with judgement 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. (RCW 43.33A.140)

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

In determining whether an investment official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the official had responsibility rather than a consideration as to the prudence of a single investment, and, whether the investment decision was consistent with the written investment policy of the entity.

4. OBJECTIVES

The primary objectives of Whatcom County's investment activities, shown in order of priority shall be (RCW 39.58.020):

- **Safety:** Safety of the principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective, diversification of credit risk and interest rate risk is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

- **Liquidity:** The investment portfolio will remain sufficiently liquid to enable Whatcom County and its junior taxing districts to meet all operating requirements which might be reasonably anticipated.

- **Return on Investment:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair rate of return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize the loss of principal.

- A security swap would improve the quality, yield, or target duration of the portfolio.

- Liquidity needs of the portfolio require that the security be sold early.

An investment in the Whatcom County Investment Pool ("WCIP") is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

Although the WCIP seeks to preserve the value of investments, pool participants could lose money by investing in the WCIP. There is no assurance that the WCIP will achieve its investment objective.

5. AUTHORITY

Per RCW 36.48.070, an Administrative Finance Committee (consisting of the Treasurer as Chairman, the Auditor as Secretary and the Chair of the County Legislative Authority) has been established. It shall be the duty of this committee to approve the County investment policy and to make appropriate rules and regulations for the carrying out of the provisions of RCW 36.48.010 through 36.48.060 not inconsistent with the law. RCW 36.29.020 specifically delegates investment authority, in part, as follows:

- The Treasurer may invest funds in qualifying investments when authorized by the governing bodies of the relevant municipal corporations or by the Administrative Finance Committee.
- When not already authorized by statute or the governing bodies of the relevant municipal organizations, the Administrative Finance Committee authorizes the Treasurer to invest any remaining funds in accordance with this investment policy.

The Whatcom County Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls and procedures to regulate the activities of all staff members involved in investment matters to ensure consistency with this investment policy. The Treasurer shall delegate to appropriately skilled staff such as the Cash Management Administrator and the Investment Officer, within this system of controls and procedures, the day to day responsibilities of managing the investment activities. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Whatcom County Treasurer.

6. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the 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 Prosecuting Attorney any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of Whatcom County's investment portfolio. Employees and officers shall subordinate (or refrain) their personal investment transactions to those of Whatcom County particularly with regard to the timing of purchases and sales.

7. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Whatcom County Treasurer will maintain a list of approved security broker/dealers. New brokers/dealers who wish to handle investments for the County must apply for certification prior to approval by the County Treasurer. The certification process will require the following be submitted to the Treasurer in writing: detailed information, as outlined in the Whatcom County Request for Information, including annual audited financial statements, quarterly financial statements, proof of Financial Industry Regulation Authority (FINRA) certification, certification of having read the entity's investment policy, and any other information requested by the Treasurer. Recommendation for approval or non-approval will be determined by the County Treasurer upon review of the application. Approved broker/dealers will be evaluated by the Treasurer annually to assess overall performance for the preceding year, including, but not limited to, trade execution, responsiveness, quality of market information and analysis and overall contribution to the investment processes of the County.

In addition, the County shall maintain a list of financial institutions as required by the Public Deposit Commission, authorized as approved depositaries (RCW 39.58.080). No public deposit shall be made except in a qualified public depositary in the State of Washington. A current list of approved depositaries is available on the State of Washington Treasurer's website.

8. AUTHORIZED AND SUITABLE INVESTMENTS

Whatcom County is empowered by RCW 39.59 to invest in the following types of securities:

- **U.S. Treasury Obligations**

- **U.S. Government Agency obligations and U.S. Government Sponsored Enterprises (GSE's)** which may include, but are not limited to the following:

  Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Tennessee Valley Authority

(TVA), Agency for International Development (AID), Private Export Funding Corporation (PEFCO), and the Export/Import Bank.
In addition, any federal agency-issued collateralized mortgage obligation must qualify under the Federal Financial Institution Examinations Council (FFIEC) tests at the time of purchase as an eligible investment for financial institutions.

- **U.S. Dollar Denominated Bonds, Notes, or other Obligations that are issued or guaranteed by supranational institutions**, provided that, at the time of investment, the institution has the United States government as its largest shareholder and is rated AAA by at least one internationally recognized rating agency such as Moody's or Standard and Poor's.

- **Banker's Acceptances (BA's)** purchased through State of Washington Financial Institutions and authorized broker/dealers. Investments in banker's acceptances must be in the top fifty banks in the world and the top thirty banks in the United States, including all banks in the State of Washington as authorized by the Public Deposit Protection Commission. Further, within these limitations, investments may be made only in those banks whose other negotiable obligations are rated at least "A" and A2/P2 or better by at least two internationally recognized agencies such as Moody's or Standard and Poor's.

  Commercial Paper purchased on the secondary market and complying with the State Investment Board policy. These requirements currently include being rated with the highest short-term credit rating category of any two major Nationally Recognized Statistical Ratings Organizations (NRSROs) at the time of purchase. If the commercial paper is rated by more than two major NRSROs, it must have the highest rating from all of them. Maturities in excess of 100 days must also have an underlying long-term senior unsecured credit rating at the time of purchase in one of the three highest rating categories of an NRSRO.
- **Non-negotiable Certificates of Deposit** of financial institutions which are qualified public depositories as defined by RCW 39.58.010(2) and in accordance with the restrictions therein.

- **Corporate Notes, (debt securities issued by corporations),** purchased on the secondary market, and complying with the latest State Investment Board policy. These requirements currently include being rated at least weak single-A or better by all of the major rating agencies that rate the note at time of purchase. Securities rated in the broad single-A category with a negative outlook may not be purchased. Portfolio holdings downgraded to below single A and securities rated single A with their outlooks changed to negative may continue to be held, with no additional purchases permitted.

- **Repurchase Agreements** provided that a signed Master Repurchase Agreement shall be on file in the Whatcom County Treasurer's Office for all financial institutions that enter into a repurchase agreement with Whatcom County. All repurchase agreements will be collateralized at a minimum of 102% of market value of principal and interest. The only eligible collateral for repurchase agreements will be direct obligations of the U.S. Treasury, U.S. Government Agency and/or U.S. Government instrumentality obligations. All securities shall be held in third party safekeeping. Third party safekeeping agreements must be entered into with a signed agreement between the safekeeping financial institution and the Whatcom County Treasurer. All securities in a repurchase agreement shall be priced daily to reflect current market conditions for both principal and accrued interest. Securities shall be purchased from either primary dealers or from institutions that are members of the Washington Public Depository. Credit worthiness of the institution will also be considered.

- The Treasurer may, from time to time, enter into agreements to lend, for compensation, certain investments to other parties against a pledge of collateral (**a reverse repurchase agreement**). At a minimum, the following criteria will apply to such activity: Collateral securities shall conform fully with all aspects of this policy and shall be deemed to be otherwise acceptable investments for public funds; Collateralization requirements shall comply with the requirements stated herein for repurchase agreements; Collateral offered shall be received and verified for policy compliance prior to release of security or securities to be lent; Collateral shall be returned to the borrower only after the securities originally lent are returned; Lending agreements entered into shall conform with the Public Securities Association Master Securities Loan Agreement, except where the provisions of this policy provide greater protection for County investments.

- **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.

- **General obligation bonds of a state other than the State of Washington and general obligation bonds of a local government of a state other than 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.

- Subject to compliance with RCW 39.56.030, **registered warrants and notes for Whatcom County and those districts in Whatcom County for which the Treasurer is the exofficial Treasurer.** Such notes will be for short-term financing for use in meeting cash flow and operational needs only. There must be sufficient expected receipts and revenues to repay the lending.

- **Washington State Local Government Investment Pool (LGIP**). The Whatcom County Treasurer will keep on file the most recent LGIP Prospectus, Investment Policy and operations manual. This policy will be assessed for safety of funds on deposit with the LGIP and risks associated with investment strategies. In addition, the LGIP will complete a questionnaire for the Whatcom County Treasurer which will include the following: a description of eligible securities; how interest and fees are calculated; how gains and losses are calculated; a description of how the securities are safeguarded, how often the securities are priced, and how often the program is audited; deposit and withdrawal restrictions; and information regarding how bond proceeds are accounted for in the LGIP.

9. SAFEKEEPING REQUIREMENTS

All deliverable securities will be settled Delivery versus Payment (DVP), which ensures that securities are deposited at a third party, such as a safekeeping and custodian bank acting as an agent for the Treasurer, before payment is released. A signed safekeeping and custodial agreement(s) shall be entered into with a federally-regulated financial institution. The custodian institution shall hold the securities as evidenced by a safekeeping receipt. Non-negotiable CD's and investments in the LGIP are not handled on a DVP basis, and therefore are exempt from this process. In addition, BA's and repurchase agreements (provided a signed master repurchase agreement is on file) shall be held in the Trust safekeeping department of the financial institution in the name of Whatcom County. Certificates of Deposit in the Treasurer's name, or a copy thereof, will be delivered to and held by the Treasurer's Office.

10. LIMITATIONS ON CERTAIN INVESTMENTS

The purpose of diversification is to reduce the overall risk of the portfolio while attaining a market rate of return. Whatcom County will diversify its investments by investment type and institution as follows:

	Max. % of Portfolio at purchase	Max % per Issuer Restrictions	Max Maturity 5 years or:
U.S. Treasuries or full faith and credit of US gov.	100%		
U.S. agencies, instrumentalities, or government sponsored enterprises	90%	35%	
Supranationals	40%	15%	
Bankers Acceptances (BAs)	25%	10%	180 days
Commercial Paper (CP)	25% when combined w/ CN	3%	270 days
Certificates of Deposit (CDs) from PDPC approved financial institutions	40%	10% or WA proportional net worth	
Corporate Notes (CN)	25% when combined with CP	3% AA or better 2% broad single A	3 yr max duration
Repurchase Agreements (Repos) Reverse Repurchase Agreements (Reverse Repo)	40% 10%	10% 10%	60 days 180 days
Bonds of State of Washington or any local government in the State of Washington	20%	10%	

Bonds of other states or local governments of a state other than the State of Washington	15%	5%	
Registered warrants and notes of Whatcom County and Whatcom County Districts	15%	5%	
Washington State Local Government Investment pool	100%		

The credit portion of the portfolio must be diversified by sector and industry. The ratings and credit quality of the issuers must be monitored at least quarterly. The Treasurer shall be notified immediately of any credit rating downgrades of issuers of any commercial paper and corporate notes held in the portfolio.
No more than 5% of the portfolio may be invested in collateralized mortgage obligations (CMO's) or other mortgage backed security product. Average expected life characteristics at time of purchase must be under 5 years. In addition, any mortgage backed security with a stated final maturity (as opposed to expected final maturity) longer than five years must be approved by the Treasurer.

Maturities should be staggered to avoid concentrations in any one maturity sector and at least 10% of the portfolio shall be invested in overnight investments or in marketable securities which can be sold to raise cash in one day's notice.

Any security with known characteristics which could impair our ability to sell such security without incurring substantial loss of principal are not permitted investments under this policy. Certain securities or types of securities which otherwise comply with the provisions of this investment policy and with RCW provisions related to investment of public funds may have risk characteristics which make them unsuitable as investments. These include certain mortgage-backed or mortgage-related securities such as interest only (IO) or principal only (PO) securities and CMO classes typically described as "companion" classes.

11. MAXIMUM MATURITIES

To the extent possible, Whatcom County will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, Whatcom County will not directly invest in securities maturing more than approximately five years from the date of purchase. Reserve funds may be invested in securities that exceed five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

The average days to expected maturity of the portfolio will not exceed two years. In the case of callable securities, expected maturity is the next call date if the bond's market value is at a premium and final maturity if the price is par or at a discount. Note that this calculation excludes the maturities of the underlying securities (collateral) of any repurchase agreements.

12. INTERNAL CONTROL

The Whatcom County Treasurer shall establish a set of written internal procedures and controls. These controls shall be designed to protect against loss of public funds due to fraud, error, misrepresentation or imprudent actions. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial Safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

Both procedures and internal controls are subject to audit by Whatcom County's Internal Auditor and by the State Auditor to assure compliance with policies and procedures. The State Auditor's Office conducts an examination of W h at co m County's financial affairs at reasonable, periodic intervals as the state auditor shall determine in accordance with RCW 43.09.260. This review helps to ensure compliance with applicable laws, regulations and Generally Accepted Accounting Principles (GAAP). In the past, this examination has occurred annually.

13. IMPAIRED INVESTMENTS

In the event an investment in the WCIP is deemed to be impaired (an investment is deemed to be "impaired" when: (a) its credit quality is rated below investment grade by Standard & Poor's, Moody's and/or Fitch; (b) a default has occurred on payment at maturity; or (c) an enforcement event, as defined in the investment's program documents, has occurred), the WCIP will seek options to recover principal by first seeking options that allow for the recovery of the principal value of the impaired investment over time, thereby avoiding a realized loss. Any selected option must be justified in terms of risk, cost/benefit, and legal soundness.

If a loss must be realized, the loss will be distributed in a manner that is fair and equitable to current pool members, as well as protecting new monies entering the pool. The realized loss will be apportioned based on each pool members' average cash balance from the time the impaired investment was acquired through the date the investment was deemed impaired.

14. PERFORMANCE STANDARDS/BENCHMARK

The investment portfolio shall be managed in accordance with the parameters specified within this policy. The investment portfolio shall be designed to obtain an average rate of return during budgetary and economic cycles, consistent with investment objectives and cash flow needs. A series of appropriate benchmarks shall be established against which performance shall be compared on a regular basis. The benchmark will be reflective of the actual securities being purchased and the risks undertaken. The benchmarks will have a similar weighted average maturity as the portfolio.

15. COMPETITIVE BIDDING

- Selecting investments is usually a matter of selecting the highest yielding security. Exceptions are: safety and liquidity.
- Bids may not be disclosed until after investment closes. Investment personnel disclose only the bids but never the dealer showing those levels.
- Providing that there are no material yield differences, broker/dealers with the best overall evaluations will receive a proportionately greater share of the County's investment activity.

16. REPORTING

At least quarterly, a report will be submitted to the Whatcom County Administrative Finance Committee for their review, summarizing the current position of the portfolio for Whatcom County. The Treasurer and investment staff shall report to the committee current investment strategy being followed and recent economic conditions and market developments which have a bearing on this strategy.

This management report will be prepared in a manner which will allow the Finance Committee to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include:

- Schedules that reflect a listing of individual securities held including average (or expected) and final maturity, coupon/discount or earnings rate, par value, amortized book and market value.
- Asset allocation of types of securities.
- Portfolio activity, including distribution of trades among brokers.
- Performance of portfolio and its appropriate benchmark(s).

17. INVESTMENT POLICY ADOPTION

The Whatcom County Treasurer's investment policy will be formally adopted by the Administrative Finance Committee and reviewed for appropriate modifications at least annually. Any amendments to this policy must be approved by the committee.

18. ACCOUNTING METHODS

Pooled Investments will be carried at amortized cost. Premiums or discounts on investments purchased at a price other than par will be accreted monthly over the expected life of the investment. Interest earnings will be accrued and credited monthly. Investments not part of the Whatcom County Investment Pool will also be carried at amortized cost. Realized gains or losses from investments will be credited or charged to investment income at the time of the sale. Accrued interest earnings are recognized only in the Whatcom County Annual Financial Report.

Returns on non-pooled investments: Interest earned will be withdrawn and credited back to the originating fund as often as is done by the financial institution or as often as transactions occur. Interest earnings on investments in either the State Local Government Investment Pool or the Whatcom County Investment Pool will be automatically reinvested in the pool.

19. RESIDUAL CASH INVESTMENT

Because it is extremely difficult for the members to meet daily to approve each residual cash investment, a resolution shall be passed by the committee each year, to encompass the following year, granting authority for the Treasurer to invest all such monies on a daily basis.

20. DEPARTMENTS AND DISTRICTS AUTHORIZATIONS

Each department and district authorized to invest monies through the Whatcom County Treasurer is required to provide to the Treasurer a current, approved resolution appointing a District investment officer/cash manager. These documents will be kept on file in the Treasurer's office.

21. INVESTMENT FEES

RCW 36.29.020 allows the charging of an investment fee for providing service of investing funds. Five percent of the interest or earnings, with an annual maximum of fifty dollars, on each transaction authorized by each resolution of the governing body shall be paid as an investment service fee. If the fee amounts to five dollars or less, the County Treasurer may waive such fee. RCW 28A.58.440 allows the charging of an investment fee for school districts. Five percent of the interest or earnings, with an annual minimum of ten dollars or annual maximum of fifty dollars, on any transactions authorized by each resolution of the board.

RCW 36.29.024 allows the charging of investment fees which reimburse the Treasurer’s Office for the actual expenses incurred in administering the investment function under a local pooling program. This fee is allocated to pool participants in a manner which equitably reflects the differing amounts and differing periods of time the amounts were placed in the county pool. Any investment fees collected in excess of actual expenses will be rebated to the pool participants on an annual basis.

22. LIST OF QUALIFIED PUBLIC DEPOSITARIES/TOP U.S. AND WORLD BANKS

RCW 39.58.130 authorizes the investment of municipal funds in deposits in qualified public depositaries provided that the total in public deposits does not exceed the total net worth of that depositary. A current list of qualified public depositaries and their equity amounts is available on the Washington State Treasurer’s website under the For Financial Institutions section.
RCW 36.29.020 authorizes municipalities to purchase banker’s acceptances issued in the secondary market. This policy limits us to purchasing BA’s issued by the top fifty banks in the world, top 30 banks in the U.S., and qualified public depositaries in the state of Washington. A current list of the top U.S. and world banks is available upon request at the Treasurer’s office.

23. CONTINUING EDUCATION:

It is Whatcom County’s policy to require periodic investment training for any county employee delegated the authority to manage daily investment transactions for the Pool. The T r e a su r e r shall designate employees who should obtain at least twenty (20) hours of investment-related training each year. A CFA Institute member or non-member employee can satisfy this requirement by fulfilling the CFA Institute Continuing Education (CE) Program.

DEFINITIONS

ACCRUED INTEREST - The interest accumulated on a bond since issue date or the last coupon payment. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.

AGENCY - A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally Sponsored Agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. (Also see FEDERAL AGENCY SECURITIES and GOVERNMENT SECURITY)

AMORTIZATION - In portfolio accounting, periodic charges made against interest income on premium bonds in anticipation of receipt of the call price at call or of par value at maturity.

ASSET - Available property, as for payment of debts

AVERAGE MATURITY - A weighted average of the expiration dates for a portfolio of debt securities. An income fund's volatility can be managed by shortening or lengthening the average maturity of its portfolio.

BANK WIRE - A virtually instantaneous electronic transfer of funds between two financial institutions.

BANKERS ACCEPTANCES (BAs) - Bankers Acceptances generally are created based on a letter of credit issued in a foreign trade transaction. They are used to finance the shipment of commodities between countries as well as the shipment of some specific goods within the United States. BAs are short-term, non-interest bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value. These notes trade at a rate equal to or slightly higher than Certificates of Deposit (CDs), depending on market supply and demand.

Bankers Acceptances are sold in amounts that vary from $100,000 to $5,000,000, or more, with maturities ranging from 30 - 270 days. They offer liquidity to the investor as it is possible to sell BAs prior to maturity at the current market price.

BASIS POINT - A measure of an interest rate, i.e., 1/100 of 1 percent, or .0001.

BID - The indicated price at which a buyer is willing to purchase a security or commodity. When selling a security, a bid is obtained. (See Offer)

BOND - A long-term debt security, or IOU, issued by a government or corporation that generally pays a stated rate of interest and returns the face value on the maturity date.

BOOK ENTRY SECURITIES - U.S. government and federal agency securities that do not exist in definitive (paper) form; they exist only in computerized files maintained by the Federal Reserve Bank.

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 broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.

"BY FUND" INVESTING - Those investments purchased for a district or fund outside of the County pool (WCIP).

CERTIFICATES OF DEPOSIT - Certificates of Deposit, familiarly known as CDs, are certificates issued against funds deposited in a bank for a definite period of time and earning a specified rate of return. Certificates of Deposit bear rates of interest in line with money market rates current at the time of issuance.

COLLATERAL: Property (as securities) pledged by a borrower to protect the interest of the lender.

COMMERCIAL PAPER – short term corporate debt that is exempt from SEC registration under most circumstances, is regularly offered for a wide range of maturity dates (up to 270 days), and is used by issuers to provide funds for working capital and to fund current transactions.

COMPETITIVE BID PROCESS - A process by which three or more institutions are contacted via the telephone to obtain interest rates for specific securities.

CORPORATE NOTE – debt that is registered with the SEC, has a specified maturity date (usually one year or longer), and pays fixed or floating rate coupons (usually semi-annually).

CREDIT QUALITY - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

CREDIT RISK - The risk that another party to an investment transaction will not fulfill its obligations. Credit risk can be associated with the issuer of a security, a financial institution holding the entity's deposit, or a third party holding securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any one investment type or with any one party.

CUSTODIAN - An independent third party (usually bank or trust company) that holds securities in safekeeping as an agent for the county.

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

DEFEASE - To discharge the lien of an ordinance, resolution, or indenture relating to a bond issue, and in the process, render inoperative restrictions under which the issuer has been obliged to operate. Comment: Ordinarily an issuer may defease an indenture requirement by depositing with a trustee an amount sufficient to fully pay all amounts under a bond contract as they become due.

DELIVERY - The providing of a security in an acceptable form to the County or to an agent acting on behalf of the County and independent of the seller. Acceptable forms can be physical securities or the transfer of book entry securities. The important distinction is that the transfer accomplishes absolute ownership control by the County

DELIVERY VS PAYMENT - There are two methods of delivery of 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.

DEPOSITARY - A person to whom something is entrusted, a depository.

DEPOSITORY BANK - A local bank used as the point of deposit for cash receipts.

DEPOSITORY INSURANCE - Insurance on deposits with financial institutions. For purposes of this policy statement, depository insurance includes: a) Federal depository insurance funds, such as those maintained by the Federal Deposit Insurance Corporation (FDIC) AND Federal Savings and Loan Insurance Corporation (FSLIC); and b) Public Deposit Protection Commission.

DISCOUNT - 1. (n.) selling below par; e.g., a $1000 bond selling for $900. 2. (v.) anticipating the effects of news on a security's value; e.g., "The market had already discounted the effect of the labor strike by bidding the company's stock down."

DIVERSIFICATION - Dividing available funds among a variety of securities and institutions so as to minimize market risk.

EFFECTIVE RATE - The yield you would receive on a debt security over a period of time taking into account any compounding effect.

FACE VALUE - The value of a bond stated on the bond certificate; thus, the redemption value at maturity. Most bonds have a face value, or par, of $1,000.

FEDERAL AGENCY SECURITIES - Several government-sponsored agencies, in recent years, have issued short and long-term notes. Such notes typically are issued through dealers, mostly investment banking houses. These Federal government-sponsored agencies were established by the U.S. Congress to undertake various types of financing without tapping the public treasury. In order to do so, the agencies have been given the power to borrow money by issuing securities, generally under the authority of an act of Congress. These securities are highly acceptable and marketable for several reasons, mainly because they are exempt from state, municipal and local income taxes. Furthermore, agency securities must offer a higher yield than direct Treasury debt of the same maturity to find investors, partly because these securities are not direct obligations of the Treasury.

The main agency borrowing institutions are the Federal National Mortgage Association (FNMA), the Federal Home Loan Bank System (FHLB), and the Federal Farm Credit System (FFCS).

FNMA - FEDERAL NATIONAL MORTGAGE ASSOCIATION - issues notes tailored to the maturity needs of the investor. Maturities range from 30 days up to 10 years. These notes are made attractive by their denominations from $5,000 to $1 million.

FHLB - FEDERAL HOME LOAN BANK SYSTEM - consists of twelve Federal Home Loan Banks, issues, in addition to long-term bonds, coupon notes with maturities of up to one year.

FEDERAL DEPOSIT INSURANCE (FDIC) - A Federal institution that insures bank deposits. The current limit is up to $250,000 per depository account.

FEDERAL FUNDS RATE - The rate of interest at which Fed Funds are traded between banks. Fed Funds are excess reserves held by banks that desire to invest or lend them to banks needing reserves. The particular rate is heavily influenced through the open market operations of the Federal Reserve Board. Also referred to as the "Fed Funds rate."

FEDERAL HOME LOAN BANKS (FHLB) - The institutions that regulate and lend to savings and loan associations.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA) - FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a Federal corporation working under the auspices of the Department of Housing and Urban Development, HUD. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable 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 RESERVE SYSTEM - The central bank of the United States which has regulated credit in the economy since its inception in 1913. Includes the Federal Reserve Bank, 14 district banks and the member banks of the Federal Reserve, and is governed by the Federal Board.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION (FSLIC) - A federal institution that insures savings and loan deposits. The current limit is up to $100,000 per depository account.

FINANCIAL INSTITUTIONS - Establishments that include the circulation of money, the granting of credit, the making of investments, and the provision of banking facilities.

FISCAL AGENCY - A financial institution that handles certain bond and coupon redemptions on behalf of Whatcom County.

FLEXIBLE REPURCHASE AGREEMENTS (Flex Repos) - Similar to a term repurchase agreement, a flex repo is a contractual transfer of U.S. government securities during the investment period, whereby the Seller agrees to repurchase the collateral securities from the Buyer on the Buyer's demand, subject to provisions of the agreement. The Seller is generally a financial institution such as a securities dealer or a bank. As buyers, most issuers require overcollateralization, marking-to-market of collateral and delivery-vs.-payment of collateral.

GINNIE MAES (GNMAs) - Mortgage securities issued and guarantied, as to timely interest and principal payments, by the Government National Mortgage, an agency within the Department of Housing and Urban Development (HUD).

GOVERNMENT SECURITY - Any debt obligation issued by the U.S. government, its agencies or instrumentalities. Certain securities, such as Treasury bonds are backed by the government as to both principal and interest payments. Other securities, such as those issued by the Federal Home Loan Mortgage Corporation, or Freddie Mac, are backed by the issuing agency.

HAIRCUT - This term describes the way brokers and clients protect themselves from market risk in doing repos. An entity wanting to finance the purchase of $100 million in Treasury bonds may borrow just $98 million of the money. The two percent difference between the amount of securities purchased and the amount of money borrowed is the haircut. Similarly, an entity looking to borrow $100 million may need to provide, as collateral, Treasury securities with a market price equal to $102 million.

LIQUIDATION - Conversion into cash.

LIQUIDITY - Refers to the ease and speed with which an asset can be converted into cash without a substantial loss in value.

LOSS - The excess of the cost or book value of an asset over selling price.

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.

MARK-TO-MARKET - An adjustment in the valuation of a securities portfolio to reflect the current market values of the respective securities in the portfolio. This process is also used to ensure that margin accounts are in compliance with maintenance.

MARKETABILITY - Ability to sell large blocks of money market instruments quickly and at competitive prices.

MARKET RISK - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value. The risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline.

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

MASTER REPURCHASE AGREEMENT - An agreement between the investor and the dealer or financial institute. This agreement defines the nature of the transactions, identifies the relationship between the parties, establishes normal practices regarding ownership and custody of the collateral securities during the term of the investment, provides for remedies in the event of a default by either party and otherwise clarifies issues of ownership.

MATURITY - The time when a security becomes due and at which time the principal and interest or final coupon payment is paid to the investor.

NET WORTH - A financial institutions available funds after their total liabilities have been deducted from their total assets.

NRSRO – Nationally Recognized Statistical Ratings Organizations. "Major" NRSRO defined as Standard and Poor's and Moody's.

OFFER - The indicated price at which a seller is willing to sell a security or commodity. (See BID) When buying a security an offer is obtained.

PAR VALUE - The nominal or face value of a debt security; that is, the value at maturity.

PORTFOLIO - Collection of securities held by an investor.

PREMIUM - The amount by which a bond sells above its par value.

PRIMARY DEALERS - A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC), registered securities broker-dealers, banks, and a few unregulated firms.

PRIME RATE - The interest rate a bank charges on loans to its most credit worthy customers. Frequently cited as a standard for general interest rate levels in the economy.

PRINCIPAL - An invested amount on which interest is charged or earned.

PRUDENCE - The ability to govern and discipline oneself by the use of reason. In investing, exercising due diligence and acting in accordance with the investment policy and written procedures.

QUALIFIED PUBLIC DEPOSITORY - A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated, for the benefit of the commission, eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

REGISTERED SECURITY - A security that has the name of the owner written on its face. A registered security cannot be negotiated except by the endorsement of the owner.

REPURCHASE AGREEMENT (REPO) - The Repo is a contractual transaction between an investor and an issuing financial institution (not a secured loan). The investor exchanges cash for temporary ownership of specific securities, with an agreement between the parties that on a future date, the financial institution will repurchase the securities at a prearranged price. An "Open Repo" does not have a specified repurchase date and the repurchase price is established by a formula computation.

REPRICING - The revaluation of the market value of securities.

REVERSE REPOs - The opposite of the transaction undertaken through a regular repurchase agreement. In a "reverse" the County initially owns securities and the bank or dealer temporarily exchanges cash for this collateral. This is, in effect, temporarily borrowing cash at a high interest rate and is also known as securities lending. Most typically, a Repo is initiated by the lender of funds. Reverses are used by dealers to borrow securities they have shorted.

SAFEKEEPING - A service to customers rendered by banks for a fee whereby all securities and valuables of all types and descriptions are held in the bank's vaults for protection, or in the case of book entry securities, are held and recorded in the customer's name and are inaccessible to anyone else.

SEC – the Securities and Exchange Commission

SECURITIES - Bonds, notes, mortgages, or other forms of negotiable or non-negotiable instruments.

SETTLEMENT DATES - The day on which payment is due for a securities purchase. For stocks and mutual funds bought through an investment dealer, settlement is normally five business days after the trade date. Bonds and options normally settle one business day after the trade date mutual fund shares purchased directly by mail or wire settle on the day payment is received.

SPREAD - (a) Difference between the best buying price and the best selling price for any given security. (b) Difference between yields on or prices of two securities of differing quality or differing maturities. (c) In underwriting, difference between price realized by the issuer and price paid by the investor.

STRIPPED TREASURIES - U.S. Treasury debt obligations in which coupons are removed by brokerage houses, creating zero-coupon bonds.

SUB-POLITICAL - A district or agency whose funds must be deposited with or collected by the Whatcom County Treasurer.

SUPRANATIONAL INSTITUTION – International institutions that provide development financing, advisory services, and/or other financial services to their member countries to achieve overall goal of improving living standards through sustainable economic growth.

TRIPARTITE CUSTODIAN AGREEMENT - An agreement that occurs when a third party or custodian becomes a direct participant in a repurchase transaction. The custodian ensures that the exchange occurs simultaneously and that appropriate safeguards are in place to protect the investor's interest in the underlying collateral.

THIRD-PARTY SAFEKEEPING - A safekeeping arrangement whereby the investor has full control over the securities being held and the dealer or bank investment department has no access to the securities being held.

TIME DEPOSIT - Interest-bearing deposit at a savings institution with a specific maturity.

TREASURY BILLS - Treasury bills are short-term debt obligations of the U.S. Government. They offer maximum safety of principal since they are backed by the full faith and credit of the United States Government. Treasury bills, commonly called "T-Bills," account for the bulk of government financing, and are the major vehicle used by the Federal Reserve System in the money market to implement national monetary policy. T-Bills are sold in three, six, nine, and twelve-month bills. Because treasury bills are considered "risk-free," these instruments generally yield the lowest returns in the major money market instruments.

TREASURY NOTES AND BONDS - While T-Bills are sold at a discount rate that establishes the yield to maturity, all other marketable treasury obligations are coupon issued. These include Treasury Notes with maturities from one to ten years and Treasury Bonds with maturities of 1030 years. The instruments are typically held by banks and savings and loan associations. Since Bills, Notes and Bonds are general obligations of the U.S. Government, and since the Federal Government has the lowest credit risk of all participants in the money market, its obligations generally offer a lower yield to the investor than do other securities of comparable maturities.

UNDERLYING SECURITIES - Securities transferred in accordance with a repurchase agreement.

VENDOR - A business or individual who provides a service or product at a cost.

WHEN-ISSUED TRADES - Typically, there is a lag between the time a new bond is announced and sold and the time it is actually issued. During this interval, the security trades "wi," when, as, and if issued."

Wi - When, as, and if issued. See When-issued trades.

YIELD - The rate at which an investment pays out interest or dividend income, expressed in percentage terms and calculated by dividing the amount paid by the price of the security and annualizing the result.

YIELD BASIS - Stated in terms of yield as opposed to price. As yield increases for a traded issue, price decreases and vice versa. Charts prepared on a yield basis appear exactly opposite of those prepared on a price basis.

YIELD SPREAD - The variation between yields on different types of debt securities; generally, a function of supply and demand, credit quality and expected interest rate fluctuations. Treasury bonds, for example, because they are so safe, will normally yield less than corporate bonds. Yields may also differ on similar securities with different maturities. Long-term debt, for example, carries more risk of market changes and issuer defaults than short-term debt and thus usually yields more.

ZERO-COUPON BONDS - Securities that do not pay interest but are instead sold at a deep discount from face value. They rise in price as the maturity date nears and are redeemed at face value upon maturity.