INVESTMENT POLICY

1.0 POLICY

It is the policy of the City of New Braunfels to invest public funds in a manner which will provide the highest reasonable investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds. The Policy complies with and incorporates the Public Funds Investment Act, (the "Act"), Chapter 2256, Texas Government Code and the Public Funds Collateral Act, Chapter 2257, Texas Government Code.

2.0 SCOPE

This Investment Policy applies to all financial assets of the City of New Braunfels. These funds are accounted for in the City's Comprehensive Annual Financial Report and include:

Funds

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

Any new funds created by the City will be incorporated under this Policy unless specifically exempted by Council action.

3.0 PRUDENCE

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. The standard states:

> Investments shall 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.

Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal liability 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 the investment officers have exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the officer 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.

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4.0 OBJECTIVES

The primary objectives, in priority order, of the City of New Braunfels' investment activities shall be:

4.1 Safety

Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. The City shall seek to control the risk of loss due to the failure of a security issuer or guarantor by investing in high credit quality securities, by qualifying and monitoring financial counter-parties, through adequate collateralization, through diversification, and by establishing maximum maturities and weighted average maturities.

4.2 Liquidity

The City of New Braunfels' investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

4.3 Diversification

Whenever practical, assets held in the portfolio(s) shall be diversified to minimize the risk of loss resulting from the concentration of assets in a specific maturity, a specific issuer, or a specific market sector.

4.4 Return on Investments

The City of New Braunfels' investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

5.0 INVESTMENT STRATEGY

The City maintains one commingled portfolio for investment purposes which incorporates the specific investment strategy considerations and the unique characteristics of the fund groups represented in the portfolio:

A. The investment strategy for operating, enterprise and special revenue funds has as its primary objective assurance that anticipated liabilities are matched and adequate investment liquidity provided. The secondary objective is to create a portfolio structure which will experience minimal volatility. This may be accomplished by purchasing high quality, short- to medium-term maturity securities which will complement each other in a laddered maturity structure permitting some extension for yield enhancement.

B. The investment strategy for debt service funds shall have as its primary objective the assurance of available funds adequate to fund the debt service obligations on a timely basis. Successive debt service dates will be fully funded before extension.

C. The investment strategy for debt service reserve funds shall have as its primary objective the ability to generate a revenue stream to the debt service funds from high quality securities with a low degree of volatility. Securities should be high credit quality and, except as may be required by the bond ordinance specific to an individual issue, be limited to short to intermediate-term maturities.

D. The investment strategy for capital projects or capital project funds will have as its primary objective assurance that anticipated cash flows are match funded and that adequate liquidity is provided for unanticipated draws. The stated final maturity dates of securities held may not exceed the estimated project completion date.

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The City shall pursue an active versus a passive portfolio management strategy. That is, securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade.

6.0 DELEGATION OF AUTHORITY AND RESPONSIBILITIES

Management responsibility for the investment program has been delegated by City Council primarily to the City Manager, the Chief Financial Officer, and the Assistant Finance Director, who are designated by resolution as investment officers.

The Investment Officers shall establish written procedures for the operation of the investment program consistent with this Investment Policy. Procedures should include safekeeping controls, documentation, internal controls, repurchase agreements, wire transfers, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Chief Financial Officer. The Chief Financial Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Each Investment Officer shall attend 10 hours of training in the responsibilities of the position within 12 months of assuming those duties. In addition, Investment Officers shall attend an investment training session not less than once in a two-year period that begins on the first day of the fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than eight hours of instruction relating to investment responsibilities from an independent source approved by the City.

The City may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control. A contract may not be for a term longer than two years. A renewal or extension of the contract must be made by the City Council by order, ordinance, or resolution.

7.0 ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any personal financial/investment relationships that could impact the performance of the City of New Braunfels' investment portfolio. If an Investment Officer has a personal relationship as defined in the Act with a business organization engaging in investment transactions with the City, the Investment Officer must disclose the relationship and file a disclosure with the City Secretary and the Texas Ethics Commission.

8.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Investment Officer(s) or adviser will maintain a list of authorized broker/dealers, financial institutions, money market mutual funds and local government investment pools offering to engage in an investment transaction with the City. An annual review of the services provided, financial condition and registrations of these firms will be conducted by the Chief Financial Officer and a list of firms submitted to Council for approval at least once a year. [2256.005]

Broker/dealers may include "primary" dealers as defined by the New York Federal Reserve or regional dealers. Financial institutions shall be qualified public depositories as designated by state law.

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All firms desiring to transact investment transactions with the City must complete the City's internal questionnaire and execute a Policy Certification (Appendix A) before any transaction. A current audited financial statement is required to be on file for each firm. Should the City contract with an external investment advisor to execute the City's investment strategy, including the negotiation and execution of investment transactions, the advisor shall be responsible for conducting appropriate due diligence and providing a list of its approved broker/dealers not less than annually. In addition, a managing officer of the investment advisory firm shall sign the City's written certification, which shall be included as part of the investment advisory contract.

9.0 AUTHORIZED INVESTMENTS

Authorized investments shall be limited to the following, as further defined by the Act:

9.1 Obligations of the United States or its agencies and instrumentalities excluding mortgage backed securities;

9.2 Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities;

9.3 Fully insured or collateralized certificates of deposit issued by banks doing business in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, secured by obligations as described by the Policy;

9.4 Fully collateralized repurchase agreements having a defined termination date, placed through a primary government securities dealer or a bank doing business in Texas, and secured in accordance with this Policy, purchased under a master repurchase agreement which specifies the rights and obligations of both parties and requires that the securities involved in the transaction be held in a safekeeping account subject to the control of the City with a stated final maturity of one year, except flex repurchase agreements used for bond funds which may extend to match the expenditure plan of the bond proceeds.

9.5 AAA-rated SEC-registered money market mutual funds with a dollar-weighted average portfolio maturity of 60 days or fewer whose investment objectives include seeking to maintain a stable net asset value of $1 per share.

9.6 Constant-dollar, AAA-rated Texas local government investment pools as defined by the Act.

9.7 Collateralized or insured demand deposit accounts in approved depositories approved by City Council under an executed depository agreement.

9.8 An SEC registered, no-load mutual fund with a weighted average maturity of less than two years, invested exclusively in obligations approved by the Policy, and continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.

9.9 Obligations of any US state or political subdivision rated AA or better by a nationally recognized rating agency not to exceed two years to maturity.

9.10 A certificate of deposit (CD) or share certificate is an authorized investment if the certificate is issued by a depository institution that has its main office or a branch office in Texas and is 1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; (2) secured by any combination of cash and obligations in 9.1 through 9.3 above, including pass-

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through mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, or with an FHLB letter of credit.

In addition, an investment in CDs made in accordance with the following conditions is an authorized investment: (1) the funds are invested through: a broker that has its main office or a branch office in Texas and selected from a list adopted by the City, or a depository institution that has its main office or a branch office in Texas and is selected by the City; (2) the selected broker or the depository institution arranges for the deposit of the funds in CDs in one or more federally insured depository institutions, wherever located, for the account of the City; (3) the full amount of the principal and accrued interest of each CD is insured by the United States or an instrumentality of the United States; and the City appoints the selected depository, any institution described in Section 2257.041(d) of the Public Funds Collateral Act or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian with respect to the CDs issued for the account of the City.

9.11 Commercial paper that has a stated maturity of 270 days or less from the date of issuance and is rated A-1 or P-1 or an equivalent rating by at least two nationally recognized rating agencies.

Competitive Bidding Requirement

It is the policy of the City to require competitive bidding for all individual security purchases except for those transactions with money market mutual funds and local government investment pools which are deemed to be made at prevailing market rates. At least three bids/offers must be obtained. Bids may be solicited in any manner provided by law. For those situations where it may be impractical or unreasonable to receive three bids for a transaction due to a rapidly changing market environment or to secondary market availability, documentation of a competitive market survey of comparable securities or an explanation of the specific circumstance must be included with the bid document and retained for auditing purposes.

Delivery versus Payment

Transactions must be settled on a delivery versus payment (DVP) basis to a City approved depository except for transactions involving mutual funds, investment pool or collateralized bank CDs. This assures City control of all its funds and assets. No securities shall be held by the transaction counterparty.

Change of Authorization or Rating

The City will not be required to liquidate investments that were authorized investments at the time of purchase. The Investment Officer or investment adviser shall monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by Policy, the Investment Officer or adviser shall notify the City Manager of ratings change, conditions affecting the rating and possible loss of principal with liquidation options available, within two weeks after the ratings change.

Monitoring FDIC Status

The Investment Officer or Investment Adviser shall regularly monitor the status and ownership of all banks issuing brokered CDs owned by the City based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered CDs are held, the Investment Officer or Adviser shall immediately liquidate any brokered CD which places the City above the FDIC insurance level.

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10.0 COLLATERALIZATION

10.1 Pledged Collateral

The City of New Braunfels requires all time and demand deposits to be insured or collateralized at a minimum of 102%. City depositories will be required to execute tri-party depository agreements to include safekeeping agents. If the Federal Reserve acts as custodian, the Pledge Agreement of Circular 7 will be executed in lieu of the tri-party FRB signature. The agreement shall define the City's rights to collateral and shall establish a perfected security interest in compliance with federal and state regulations, including:

A. The agreement shall be in writing;
B. The agreement shall be executed by the Depository and the City contemporaneously with the acquisition of the asset;
C. The agreement will include no listing of pledged collateral.
D. The agreement must be approved by the Board of Directors or the Loan Committee of the Depository and a copy of the meeting minutes must be delivered to the City.

If the City's depository offers a collateral pooling program as defined by State Law (Local Government Code 2257) the investment officers will evaluate the program for cost efficiencies and risk before participation. Participation in a collateral pool will require Council approval.

10.2 Owned Repurchase Agreement Collateral

Each counterparty to a repurchase transaction is required to execute the Securities Industry and Financial Markets Association (SIFMA) Master Repurchase Agreement. An executed copy of this Agreement must be on file before any transaction is initiated. Collateral will be evidenced by safekeeping receipts clearly denoting City ownership from the safekeeping agent.

10.3 Authorized Collateral

A. **Time and Demand Deposits**

Deposits must be secured by an FHLB Letter of Credit or any combination of cash and obligations in section 9.1 through 9.3 above, including pass-through mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than 102% of the principal amount of the CDs.

B. **Repurchase Agreements**

Securities bought and sold as part of a repurchase agreement are limited to:
- U.S. Government, Agencies and Instrumentalities obligations including mortgage backed securities

The eligibility of specific issues may at times be restricted or prohibited by the City because of current market conditions.

10.4 Collateral Substitution or Reduction

Pledged collateral for deposits and repurchase agreements may be substituted or reduced at any time provided that the total market value of the collateral, plus FDIC insurance, remains equal to or greater than 102% of the deposit amount. The custodian, who shall be independent of the pledging bank, will be liable for monitoring and maintaining the collateral and collateral margins at all times.

10.5 Monitoring Collateral Adequacy for Certain Investments

Monthly reports of the pledged securities with the full descriptions and market values are required to be sent directly to the City from the custodian for all time and demand deposits. The Investment Officers will review the adequacy of the collateral.

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The Investment Officers will monitor the adequacy of all collateral underlying repurchase agreements on at least a weekly basis.

10.6 Margin Calls

If any collateral falls below 102%, the counterparty will be required to pledge additional securities no later than the end of the next business day.

11.0 DELIVERY VERSUS PAYMENT

All security transactions, including collateral for repurchase agreements, shall be conducted on a delivery-versus-payment (DVP) basis. Securities shall be held by a third-party custodian approved by the Chief Financial Officer and evidenced by original safekeeping receipts.

12.0 DIVERSIFICATION

The City of New Braunfels shall diversify its portfolio by security type and institution.. Risk of principal loss in the portfolio as a whole shall be minimized by diversifying investment types according to the following limitations.

Investment Type	% of Portfolio
U.S. Treasury Notes/Bonds/Bills	90%
U.S. Government Agencies	80%
Certificates of Deposit	50%
Limit per financial institution	10%
Repurchase Agreements	20%
Flex repurchase agreements by bond issue	100%
Money Market Mutual Funds	25%
Local Government Investment Pools	100%
Commercial Paper	20%
Limit per issuer	5%

13.0 MAXIMUM MATURITIES

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not invest in securities maturing more than two (2) years from the date of purchase.

14.0 PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a reasonable yield throughout budgetary and economic cycles, commensurate with the investment risk constraint and the cash flow requirements. The benchmarks established for the portfolio in keeping with the cash flow requirements of the City shall be the six month U.S. Treasury bill.

15.0 REPORTING

The Investment Officers shall provide a report on investment activity and returns to the City Council on a quarterly basis. Investment performance will be monitored and evaluated by the Investment Officers on a monthly basis. This investment report shall be signed and in compliance with the Act and include, at a minimum:

1) detail on each investment position of the portfolio,
2) the beginning and ending amortized book and market value,
3) the change to market value during the period for each portfolio,
4) the beginning and ending amortized book and market value for each investment security by asset type and fund type,
5) the final stated maturity date of each investment security,

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6) the dollar weighted average maturity of the portfolio and its comparison to an accepted benchmark, and
7) a statement of compliance of the investment portfolio with the Authority's Investment Policy and Strategy and the Act.

Prices used for the calculation of market values will be obtained from independent sources.

16.0 INVESTMENT POLICY ADOPTION

The Investment Policy shall be adopted by resolution of the City Council on no less than an annual basis. Any changes to the Policy shall be reflected in the approving resolution of Council.

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APPENDIX A:

CITY OF NEW BRAUNFLES

INVESTMENT POLICY CERTIFICATION

Firm: _____
Account Representative: _____
Date of Completion: _____

This certification is executed on behalf of the City of New Braunfels (the "City") and the "Firm" pursuant to the Public Funds Investment Act, Chapter 2256, Texas Government Code in relation to investment transactions conducted between the City and the Firm.

As the authorized representative of the Firm, I hereby acknowledge that I have received and reviewed the attached Investment Policy of the City of New Braunfels.

I hereby further acknowledge that the Firm has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the City and the Firm not authorized by the Investment Policy, except to the extent that this authorization is dependent on analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards.

Firm Name: _____

Address: _____

_____

Representative's Telephone (___) _____

Representative's FAX (___) _____

Representative's Email: _____

Signature _____

Printed Name _____

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APPENDIX B:

AUTHORIZED BROKER/DEALERS AND COUNTERPARTIES

In accordance with the Texas Public Funds Investment Act, 2256.025 Selection of Authorized Brokers,

> *The governing body of an entity subject to this subchapter or the designated investment committee of the entity shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.*

The authorized list of counterparties is:

Bank of America Merrill Lynch
BOK Financial
Cantor Fitzgerald & Co
Citigroup Global Markets
D.A. Davidson
Daiwa Capital Markets
FTN Financial
Goldman, Sachs & Co
INTL FCStone
JP Morgan Securities
KeyBanc Capital Markets
Loop Capital Markets **
Mesirow Financial
Mizuho Securities
Morgan Stanley & Co
Piper Jaffray & Co.
Raymond James
RBC Capital Markets
Rice Financial **
SunTrust Robinson Humphrey
Stifel, Nicolaus & Co.
TD Securities
UBS Securities
Vining Sparks
Wells Fargo Securities
Williams Capital Group **

*** Bold face font indicates firm is a Primary Dealer.**

*** Dark blue italics font indicates firm is an Historically Underutilized Business (HUB) or Minority/Women Owned Business (MWOB).*

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Texpool Local Government Pool
TexStar Local Government Pool
Texas CLASS Local Government Investment Pool

JPMorgan Chase Money Market Mutual Fund – Government and Agency
Invesco Government Money Market Funds
- Invesco Treasury Portfolio
- Invesco Government & Agency Portfolio
- Invesco Treasury Obligations Portfolio

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APPENDIX C:

Glossary of Cash Management Terms

Accretion – common investment accounting entry in which the book value of securities purchased at a discount are gradually written up to the par value. The process has the effect of recording the discount as income over time.

Accrued Interest – Interest earned, but not yet paid, on a bond.

Agency – See Federal Agency

Amortization – common investment accounting entry in which the book value of securities purchased at a premium are gradually written down to the par value.

Basis Point - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

Benchmark – Index used to compare risk and performance to a managed portfolio.

Bid - The indicated price at which a buyer is willing to purchase a security or commodity.

Book Value – The original acquisition cost of an investment plus or minus the accrued amortization or accretion.

Broker – A financial firm that brings securities buyers and sellers together in return for a fee. The term “broker” is often used interchangeably with “dealer” to refer to a seller of investment securities.

Callable Bond - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Cash Settlement - A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

Collateralization - Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

Collateralized Mortgage Obligation (CMO) – A derivative mortgage-backed security (MBS) created from pools of home mortgage loans. A single MBS is divided into multiple classes, each class containing a unique risk profile and security characteristics. A number of CMO classes are expressly prohibited by Texas State law.

Commercial Paper - An unsecured short-term promissory note issued by corporations, with maturities ranging from 1 to 270 days. Commercial paper must carry a minimum rating of A1P1 in order to be eligible under the Texas Public Funds Investment Act.

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Constant Maturity Treasury (CMT) – A calculated average released by the Federal Reserve of all Treasury yields along a specific maturity point. This calculation is frequently used as a benchmark for conservative government portfolios.

Coupon Rate - The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

Credit Risk - The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Derivative – Financial instruments whose value is derived from the movement of an underlying index or security.

Dealer – A dealer, as opposed to a broker, acts as a principal in all securities transactions, buying and selling for their own account. Often times, the terms “broker” and “dealer” are used interchangeably to refer to a seller of investment securities.

Delivery Versus Payment (DVP) - A type of securities transaction in which the purchaser pays for securities at the time of delivery either to the purchaser or his/her custodian.

Derivative Security - Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

Discount - The amount by which the par value of a security exceeds the price paid for the security.

Diversification - A process of investing assets among a range of security types by sector, maturity, and quality rating**.**

Dollar Weighted Average Maturity (WAM) - The average maturity of all the securities that comprise a portfolio.

Fair Market Rate – A documented and verifiable rate of interest which approximates the average rate which could have been earned on similar investments at the time of the transaction.

Federal Agency – A debt instrument, either fully guaranteed or sponsored by the U.S. government. The typical definition of agency includes the government sponsored enterprises of Fannie Mae, Freddie Mac, the Federal Farm Credit Bank (FFCB) and the Federal Home Loan Bank (FHLB).

Federal Deposit Insurance Corporation (FDIC) - A federal agency that insures bank deposits, currently up to $250,000 per account. Public deposits that exceed this amount must be properly collateralized with investment securities or insured through a surety bond.

Interest Rate - See "Coupon Rate."

Internal Controls - An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met.

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Interlocal Cooperation Act –Law permitting joint participation by local governments providing one or more government functions within the State. This law (Section 791.001 et seq. of the Texas Government Code ("the Act")) has allowed for the creation of investment pools in Texas.

Investment Advisors Act of 1940- Law which requires all Investment Advisors to be registered with the SEC in order to protect the public from fraud.

Investment Policy - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities. The Texas Public Funds Investment Act requires that public entities have a written and approved investment policy.

Investment Pool – An entity created under the Interlocal Cooperation Act to invest public funds jointly on behalf of the entities that participate in the pool.

Liquidity – A liquid investment is one that can be easily and quickly converted to cash without substantial loss of value. Investment pools and money market funds, which allow for same day withdrawal of cash, are considered extremely liquid.

Local Government Investment Pool (LGIP) - An investment by local governments in which their money is pooled as a method for managing local funds.

Market Risk - The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value - A security's par amount multiplied by its market price.

Master Repurchase Agreement – A written contract covering all future transactions between the two parties to a repurchase agreement.

Maturity - The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity."

Money Market Mutual Fund - Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

Mortgage-Backed Security (MBS) – Security backed by pools of home loan mortgages.

Financial Industry Regulatory Authority (FINRA) - formerly the National Association of Securities Dealers (NASD) - A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Net Asset Value (NAV) – The value of a mutual fund or investment pool at the end of the business day. NAV is calculated by adding the market value of all securities in a fund or pool, deducting expenses, and dividing by the number of shares in the fund or pool.

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Offer - An indicated price at which market participants are willing to sell a security. Also referred to as the "Ask price."

Par - Face value or principal value of a bond, typically $1,000 per bond. A security's par value is multiplied by its coupon rate to determine coupon payment amount.

Premium - The amount by which the price paid for a security exceeds the security's par value.

Primary Government Securities Dealer (Primary Dealer) – a pre-approved bank, broker-dealer, or other financial institution that is able to make business deals with the U.S. Federal Reserve, such as underwriting new government debt. These dealers must meet certain liquidity and quality requirements as well as provide a valuable flow of information to the Fed about the state of the worldwide markets.

Principal - The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prudent Person Rule - An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

Regular Settlement – The date that ownership of a security changes from seller to buyer. It also refers to the date that the buyer must pay for and the seller must deliver the securities to the broker-dealer. For U.S. Government securities have a regular settlement one business day following the trade date (T+1). Mutual funds are settled on a same day basis.

Repurchase Agreement (repo or RP) - An agreement by one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

Reverse Repurchase Agreement (Reverse Repo) - An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

Safekeeping - Holding of assets (e.g., securities) by a financial institution.

Swap - Trading one asset for another.

Total Return - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return

Treasury Bills - Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

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Treasury Notes - Intermediate U.S. government debt securities with maturities of two- to 10-years and issued in denominations ranging from $1,000 to $1 million or more.

Uniform Net Capital Rule - SEC Rule 15C3-1- a rule created by the U.S. Securities and Exchange Commission ("SEC") in 1975 to regulate directly the ability of broker-dealers to meet their financial obligations to customers and other creditors.

Volatility - A degree of fluctuation in the price and valuation of securities.

Yield - The current rate of return on an investment security generally expressed as a percentage of the security's current price.

Yield-to-call (YTC) - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

Yield Curve - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

Yield-to-maturity - The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

Z**ero-coupon Securities** – Securities issued at a discount which make no periodic interest payment. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

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