

Exhibit A

City of Sealy, Texas

Investment Policy



Approved by City Council on 1/22/2019

**CITY OF SEALY, TEXAS
INVESTMENT POLICY**

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CITY OF SEALY, TEXAS INVESTMENT POLICY

I. POLICY

It is the policy of the City of Sealy, Texas (hereinafter referred to as the “City”) that, after allowing for the anticipated cash flow requirements of the City and giving due consideration to the safety and risk of investment, all available funds shall be invested in conformance with these legal and administrative guidelines, seeking to optimize interest earnings to the maximum extent possible.

Effective cash management is recognized as essential to good fiscal management. Investment income is a source of revenue to the City’s funds. The City’s investment portfolio shall be designed and managed in a manner designed to maximize this revenue source, to be responsive to public trust, and to be in compliance with legal requirements and limitations.

Investments shall be made with the primary objectives of:

- Safety** and preservation of principal,
- Maintenance of sufficient **liquidity** to meet operating needs,
- Public trust** from prudent investment activities, and
- Optimization of **interest earnings** on the portfolio.

II. PURPOSE

The purpose of this investment policy is to comply with Chapter 2256 of the Government Code (hereinafter referred to as the “Public Funds Investment Act”), which requires each municipality to adopt a written investment policy regarding the investment of its funds and funds under its control. The investment policy addresses the methods, procedures, and practices that must be exercised to ensure effective and judicious fiscal management of the City’s funds.

III. SCOPE

This investment policy shall govern the investment of all financial assets of the City. These funds are accounted for in the City’s Comprehensive Annual Financial Report (CAFR) and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds
- Trust and Agency Funds, to the extent not required by law or existing contract to be kept segregated and managed separately
- Debt Service Funds, including reserves and sinking funds, to the extent not required by law or existing contract to be kept segregated and managed separately
- Any new fund created by the City, unless specifically exempted from this policy by the City Council or by law.

The City may consolidate cash balances from various funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

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This investment policy shall apply to all transactions involving the financial assets and related activity for all the foregoing funds.

IV. INVESTMENT OBJECTIVES

The City shall manage and invest its cash with four primary objectives, listed in order of priority: **safety, liquidity, public trust, and yield, expressed as optimization of interest earnings**. The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

The City shall maintain a comprehensive cash management program, which includes collection of accounts receivable, vendor payments in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to ensure maximum cash availability and maximum earnings on short-term investment of idle cash.

Safety

Safety of 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. The objective will be to mitigate credit and interest rate risk.

- *Credit Risk:* The City will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, by:
 - Limiting investments to the safest types of investments,
 - Pre-qualifying the financial institutions with which the City will do business, and
 - Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.
- *Interest Rate Risk:* The City will minimize the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates by:
 - Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity,
 - Investing operating funds primarily in certificates of deposit and local government investment pools functioning as money market mutual funds, and
 - Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrently with cash needs to meet anticipated demands. Because all possible cash demands cannot be anticipated, all or a portion of the portfolio will be invested in local government investment pools that offer same-day liquidity.

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Public Trust

All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. Investment Officers shall avoid any transaction that might impair public confidence in the City's ability to govern effectively.

Yield (Optimization of Interest Earnings)

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 liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

V. RESPONSIBILITY AND CONTROL

Delegation of Authority

In accordance with the Public Funds Investment Act, the City Council designates the Director of Finance as the City's Investment Officer. The Investment Officer is authorized to execute investment transactions on behalf of the City. No person may engage in an investment transaction or the management of City funds except as provided under the terms of this investment policy as approved by the City Council. The investment authority granted to investing officers is effective until rescinded by the City Council.

Quality and Capability of Investment Management

The City shall provide periodic training in investments for the designated Investment Officer and other investment personnel through courses and seminars offered by professional organizations, associations, and other independent sources in order to ensure the quality and capability of investment management in compliance with the Public Funds Investment Act.

Training Requirement

In accordance with the Public Funds Investment Act, a newly appointed Investment Officer must attend a training session of at least ten (10) hours of instruction within twelve (12) months of the date the officer took office or assumed the officer's duties. After that, the designated Investment Officer shall attend continuing investment training no less often than once every two years (based on the City's fiscal year) and shall receive not less than eight (8) hours of instruction relating to investment responsibilities. All required investment training shall be provided by an independent source approved by the City Council. For purposes of this policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institution of higher education, or any other sponsor other than a business organization with whom the City may engage in an investment transaction.

Internal Controls

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

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Accordingly, the Director of Finance shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion,
- Separation of transactions authority from accounting and record keeping,
- Custodial safekeeping,
- Avoidance of physical delivery securities,
- Clear delegation of authority to subordinate staff members,
- Written confirmation for telephone (voice) transactions for investments and wire transfers, and
- Development of a wire transfer agreement with the depository bank or third party custodian.

Prudence

The standard of prudence to be applied by the Investment Officer shall be the “prudent investor” rule. This rule 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.” In determining whether the Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- The investment of all funds, or funds under the City’s control, 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 approved investment policy of the City.

Indemnification

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

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that would conflict with the proper execution and management of the investment program or that would impair their ability to make impartial decisions. Employees and Investment Officers shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

An Investment Officer of the City who has a personal business relationship with an organization seeking to sell an investment to the City shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the City Council.

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VI. SUITABLE AND AUTHORIZED INVESTMENTS

Portfolio Management

The City currently has a “buy and hold” portfolio strategy. Maturity dates are matched with cash flow requirements and investments are purchased with the intent to be held until maturity. However, investments may be liquidated prior to maturity for the following reasons:

- An investment with declining credit may be liquidated early to minimize loss of principal.
- Cash flow needs of the City require that the investment be liquidated.

Investments

City funds governed by this policy may be invested in the instruments described below, all of which are authorized by Chapter 2256 of the Government Code (Public Funds Investment Act). Investment of City funds in any instrument or security not authorized for investment under the Act is prohibited. The City will not be required to liquidate an investment that becomes unauthorized subsequent to its purchase.

Authorized

- Certificates of Deposit issued by a bank organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas, or by a savings and loan association or a savings bank organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas and that is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or secured by obligations in a manner and amount provided by law for deposits of the City.
- Local government investment pools, which (1) meet the requirements of Chapter 2256.016 of the Public Funds Investment Act, (2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, (3) seek to maintain a \$1.00 net asset value, and (4) are authorized by resolution or ordinance of the City Council.

All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

Not Authorized

Investments including interest-only or principal-only strips of obligations with underlying mortgage-backed security collateral and collateralized mortgage obligations with an inverse floating interest rate or a maturity date of over 10 years are strictly prohibited.

VII. INVESTMENT PARAMETERS

Maximum Maturities

The longer the maturity of investments, the greater their price volatility. Therefore, it is the City’s policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates.

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The City attempts to match its investments with anticipated cash flow requirements. The City will not directly invest in securities maturing more than two (2) years from the date of purchase; however, the above described certificates of deposit may be collateralized using longer dated investments.

Diversification

The City recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification that shall be achieved by the following general guidelines:

- Limiting investments to avoid over-concentration in investments from a specific issuer or business sector (excluding certificates of deposit that are fully insured and collateralized in accordance with state and federal law), and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs) to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

The following maximum limits, by instrument, are established for the City's total portfolio:

- Certificates of Deposit 75%
- Authorized Pools 75%

VIII. SELECTION OF FINANCIAL INSTITUTIONS

Depository

At least every five (5) years, a depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP). The selection of a depository will be determined by competitive bid, and evaluation of bids will be based on the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state law,
- The ability to provide requested information or financial statements for the periods specified,
- The ability to meet all requirements in the banking RFP,
- Complete response to all required items on the bid form, and
- Lowest net banking service cost, consistent with the ability to provide an appropriate level of service.

Authorized Investment Providers

The City shall, at least annually, review, revise, and adopt a list of qualified financial institutions authorized to engage in investment transactions with the City. All investment providers, including financial institutions, banks, and local government investment pools, must sign a certification acknowledging that the organization has received and reviewed the City's investment policy and that reasonable procedures and controls have been implemented to preclude investment transactions that are not authorized by the City's policy.

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Competitive Bids

It is the policy of the City to require competitive bidding for all individual security purchases and sales except for transactions with local government investment pools. The Director of Finance shall develop and maintain procedures for ensuring a competition in the investment of the City's funds.

Delivery vs. Payment

Securities shall be purchased using the **delivery vs. payment** method with the exception of investment pools. Funds will be released after notification that the purchased security has been received.

IX. SAFEKEEPING OF SECURITIES AND COLLATERAL

Safekeeping and Custodian Agreements

The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure demand or time deposits. Securities owned by the City shall be held in the City's name as evidenced by safekeeping receipts of the institution holding the securities.

Collateral for deposits will be held by a third party custodian designated by the City and pledged to the City as evidenced by safekeeping receipts of the institution with which the collateral is deposited. Original safekeeping receipts shall be obtained. Collateral may be held by the depository bank's trust department, a Federal Reserve bank or branch of a Federal Reserve bank, a Federal Home Loan Bank, or a third party bank approved by the City.

Collateral Policy

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City funds on deposit with a depository bank, other than investments. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC. At its discretion, the City may require a higher level of collateralization for certain investment securities. Securities pledged as collateral shall be held by an independent third party with which the City has a current custodial agreement. The Director of Finance is responsible for entering into collateralization agreements with third party custodians in compliance with this Policy. The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is adequate.

Collateral Defined

The City shall accept only the following types of collateral:

- Obligations of the United States or its agencies and instrumentalities,
- Direct obligations of the state of Texas or its agencies and instrumentalities,

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- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States,
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm not less than A or its equivalent with a remaining maturity of ten (10) years or less,
- A surety bond issued by an insurance company rated as to investment quality by a nationally recognized rating firm not less than A, and
- A letter of credit issued to the City by the Federal Home Loan Bank.

Subject to Audit

All collateral shall be subject to inspection and audit by the Director of Finance or the City's independent auditors.

X. PERFORMANCE

Performance Standards

The City's investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the City.

Performance Benchmark

It is the policy of the City to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, the City shall seek to optimize interest earnings utilizing allowable investments available on the market at that time. Market value will be calculated on a quarterly basis on all securities owned and compared to current book value. The City's portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return on U.S. Treasury Bills at a maturity level comparable to the City's weighted average maturity in days.

XI. REPORTING

Methods

The Investment Officer shall prepare an investment report on a quarterly basis that summarizes investment strategies employed in the most recent quarter and describes the portfolio in terms of investment securities, maturities, and shall explain the total investment return for the quarter.

The quarterly investment report shall include a summary statement of investment activity prepared in compliance with generally accepted accounting principles. This summary will be prepared in a manner that will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be provided to the City Council. The report will include the following:

- A listing of individual securities held at the end of the reporting period,

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- Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period,
- Additions and changes to the market value during the period,
- Average weighted yield to maturity of portfolio as compared to applicable benchmark,
- Listing of investments by maturity date,
- Fully accrued interest for the reporting period,
- The percentage of the total portfolio that each type of investment represents, and
- Statement of compliance of the City's investment portfolio with state law and the investment strategy and policy approved by the City Council.

Monitoring Market Value

Market value of all securities in the portfolio will be determined on a quarterly basis. These values will be obtained from a reputable and independent source and disclosed to the governing body quarterly in a written report.

XII. INVESTMENT POLICY ADOPTION

The City's investment policy shall be adopted by resolution of the City Council. It is the City's intent to comply with state laws and regulations. The City's investment policy shall be subject to revisions consistent with changing laws, regulations, and needs of the City. The City Council shall adopt a resolution stating that it has reviewed the policy and investment strategies annually, approving any changes or modifications.

XIII. INVESTMENT STRATEGY

The City shall maintain an investment portfolio that utilizes specific investment strategy considerations designed to address the unique characteristics of its various fund groups. In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Authorized securities will be of the highest credit quality, and when not matched to liabilities, they will be short-term and liquid. The portfolio will be diversified to avoid market and credit risks. Diversification and full liquidity requirements will be met through the use of investment pools and certificates of deposit. Investment guidelines by fund type are as follows:

- A. Investment strategies for operating funds and commingled cash pools containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles.
- B. Investment strategies for debt service funds shall have as their primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date which exceeds the debt service payment date.
- C. Investment strategies for debt service reserve funds shall have as their primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with

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a low degree of volatility. Securities should be of high quality and, except as may be required by the bond ordinance specific to an individual issue, of short- to intermediate-term maturities.

- D. Investment strategies for special projects or special purpose fund portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The stated final maturity dates of securities held should not exceed the estimated project completion date.

XIV. APPROVED INVESTMENT PROVIDERS

Local Government Investment Pools

TexPool
TexPool Participant Services
Federated Investors, Inc.
1001 Texas Avenue, Suite 1400
Houston, TX 77002
Phone: (866) 839-7665
Fax: (866) 839-3291

TexSTAR
TexSTAR Participant Services
J.P. Morgan Investment Management, Inc.
1201 Elm Street, Suite 3500
Dallas, TX 75270
Phone: (800) 839-7827
Fax: (214) 953-8878

Financial Institutions/Banks

Any bank organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas, or by a savings and loan association or a savings bank organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas and that is guaranteed or insured by the Federal Deposit Insurance or its successor or secured by obligations in a manner and amount provided by law for deposits of the Entity.

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GLOSSARY OF INVESTMENT TERMS

ACCRETION: The increase in value of an asset toward its redemption price over time as it approaches maturity. The discount amount is accreted to par over the life of the security on a daily basis.

ACCRUED INTEREST: The accumulated interest due on a bond as of the last interest payment made by the issuer of the bond. The security is always sold with the accrued interest included.

AGENCY SECURITY: A U.S. Government-issued security that was not issued by the Treasury Department but that may be backed by the full faith and credit of the United States depending upon the issuing agency. A debt security issued by a federal or federally sponsored agency, such as the Federal National Mortgage Association (FNMA).

AMORTIZATION: The decrease in value of an asset to its redemption price over time as it approaches maturity. On a mortgage backed security, the reduction through periodic repayments of both interest and principal. The premium amount is amortized to par over the life of the security on a daily basis.

ARBITRAGE: Profiting from the differences in price when the same security, currency, or commodity is traded on two or more markets.

ARBITRAGE BONDS: Bonds issued by a municipality in the tax exempt markets and reinvested in the taxable markets in order to gain interest rate advantage or the advantage earned by refunding higher-rate bonds in advance of their call date. Proceeds from the lower-rate refunding issue are invested in treasuries until the first call date of the higher-rate issue being refunded.

ASK PRICE: The price at which securities are offered by the broker/dealer. The price at which a governmental entity buys a security.

ASSET ALLOCATION: The way that investments are distributed and weighted among different types of investment vehicles. The objective of asset allocation is to diversify market and credit risk while obtaining the greatest possible return consistent with the investor's risk tolerance.

AVERAGE LIFE: The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

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

BASIS POINT: A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of one (1) percent of yield. For example, 1/4 of 1 percent is equal to 25 basis points.

BEAR MARKET: A prolonged period of falling security prices, usually caused by declining economic conditions and/or rising interest rates.

BENCHMARK: The performance of a predetermined group of securities or an individual security for comparative risk and performance purposes. Benchmarks may be based on available indexes, such as the Standard and Poor's Index or selected for specific investment strategies.

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BID PRICE: The price offered by the seller of a security. The price at which a governmental entity will sell a security.

BOND: A long-term debt obligation issued by a government, corporation, or municipality that generally pays a stated rate of interest at regular intervals and returns the face value upon maturity.

BOOK VALUE: The value at which a security is carried on an inventory list or other financial records of an investor. Book value reflects the price at which the security was originally bought plus net amortization/accretion to that point in time. The book value will differ significantly from the security's current market value.

BROKER: A broker brings buyers and sellers together for a commission (fee). The broker takes no position in a trade and does not act as a principal or own securities.

BULL MARKET: A period of prolonged rises in the price of stocks, bonds, and/or commodities due to favorable market conditions producing lower interest rates.

CALL FEATURE: Part of the agreement a bond issuer makes with a buyer, called the indenture, describing the schedule and price of redemption before maturity. A call is an embedded option in the security allowing the seller to "call" (buy) it back at specific times.

CALL PRICE: Price at which a bond or preferred stock with a call provision or call feature can be redeemed (repurchased) by the issuer.

CALL PROVISION: A bond provision that allows the bond issuer to redeem the bond prior to the bond's maturity date. If the bond states that this provision can be exercised after a given number of years, or at a price greater than the par value, or the bond is not callable, the bond is said to have call protection.

CALL RISK: The risk to a bondholder that a bond may be redeemed prior to maturity.

CALLABLE BOND: A bond that has an option which can be exercised by the issuer of the bond to redeem the bond prior to its maturity date. The provision will state the times and price that the bond may be called at.

CAPITAL GAIN: The profitable result of the sale of a security or asset whereby the net sales price exceeds the book value of the security at the date of sale.

CAPITAL LOSS: The resulting loss on the sale of a security or asset whereby the net sale proceeds are less than the book value of the security at the date of sale.

CASH FLOW ANALYSIS: An analysis of changes in revenues and expenditures that affect the cash balance.

CASH SALE/PURCHASE: A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

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CERTIFICATE OF DEPOSIT (CD): A time deposit issued by a bank that pays interest periodically or at maturity; a time deposit with a specific maturity evidenced by a certificate. Large denomination CDs are typically negotiable. There is a penalty for early withdrawal of the CD (time deposit).

COLLATERAL: Securities, evidences of deposit, or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERAL POOLING: Approved for Texas banks in 2009, this allows any bank to eliminate individual collateral pledges to public units and substitute by creating a pool (or portfolio) of securities that are pledged to all their clients. It is designed to reflect 102% of *all* entities' funds. The program is monitored by the State Comptroller.

COLLATERALIZATION: The 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 mortgage-backed bond created from a pool of mortgages which creates different classes of securities (tranches) from one pool with different risk profiles.

COMMERCIAL PAPER (CP): Short-term obligations with maturities ranging from 1 to 270 days issued by banks, corporations, and other borrowers to investors with large temporary cash positions. Such instruments are unsecured and usually discounted, but are generally interest bearing.

COMPOUND INTEREST: The method of computing interest on a principal sum where the interest rate is applied to the original principal and any accumulated interest.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Sealy. It includes combined statements and basic financial statements for each individual fund and account group prepared in conformity with generally accepted accounting principles (GAAP). It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed statistical section.

CONSTANT DOLLAR FUND: A short-term money market fund whose objective is to offer safety, liquidity, and always strives to maintain a \$1 share value for all participants. SEC registered funds maintain a limited 90-day WAM (weighted average maturity). AAA-rated funds usually require a 60-day WAM.

CONTINUOUS CALL OPTION: A call option on a security under which the issuer maintains the right to repurchase the bond from the investor, on any date, from the time that the bond is first callable until its maturity date.

CONVEXITY: A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

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COUPON RATE: The fixed annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. A certificate attached to a bond evidencing interest due on a payment date.

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 the issuer of a bond will default, fail, or have its credit rating reduced. This could involve the loss of all or part of the invested principal.

CURRENT YIELD (CURRENT RETURN): A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his or her own account. A dealer maintains a portfolio and can trade from that portfolio.

DEBENTURE: A bond secured only by the general credit of the issuer. U.S. government agency notes are debentures.

DEFLATION: An economic condition that is characterized by the decline in the prices of goods and services (the reverse of inflation). See also **INFLATION**.

DELIVERY VERSUS PAYMENT (DVP): There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment requires the delivery of securities before payment is made securing the assets for the entity. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities and is less secure.

DEPOSITORY TRUST COMPANY (DTC): A firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of the certificates. The DTC uses computerized debit and credit entries. A member of the Federal Reserve System, the system mirrors the FedWire system and was designed to reduce the load on the FedWire system.

DEPRECIATION: The decline in the value of an asset or investment.

DERIVATIVE SECURITY: A financial instrument whose value is based on, and determined by, another security or benchmark. Examples include mortgage backed securities as well as Treasury strips, callable securities, and floaters.

DISCOUNT: The difference between the cost price of a security and its par, or face value, at maturity when quoted at lower than face value. A security selling below the original offering price shortly after sale also is considered to be "at a discount."

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value; e.g., U.S. Treasury Bills and U.S. agency discount notes.

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DISCOUNT ON SECURITIES: The difference between a security's par value and its price when trading at less than par price (100).

DISCOUNT RATE: The interest rate member banks pay the Federal Reserve when the banks use securities as collateral. Banks usually set their loan rates one point above the discount rate.

DISCRETE CALL OPTION: An option whereby the bondholder has sold the issuer the right to repurchase the bonds back from the investor, only on interest payment dates or dates of the schedule, from the time that the bond is first callable until its maturity date.

DIVERSIFICATION: The spreading of an investment over a large number of securities in order to reduce financial risk or the process of using different securities and maturities in a portfolio to reduce market and credit risk (i.e., "not putting all your eggs in one basket").

DURATION: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

EQUITY: Ownership possessed by shareholders in a corporation.

FAIR MARKET VALUE: The price at which a buyer and seller agree. In investment accounting and GASB, the market value at one point in time, usually the end of the fiscal year.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government that supply credit to various classes of institutions and individuals; e.g., savings and loans, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): The federal agency that insures bank deposits, currently up to \$250,000 per deposit as identified by taxpayer identification number.

FEDERAL FUNDS (FED FUNDS): Funds deposited by commercial banks at Federal Reserve Banks, including funds in excess of bank reserve requirements. The target rate is set by the Fed but trades at slightly different rates as the *effective* rate on a daily basis.

FEDERAL FUNDS RATE (the "FED RATE"): The rate of interest at which banks with excess reserves charge banks lacking reserves for overnight loans to meet reserve requirements. This rate is set by the market to be consistent with the daily reserve requirements and monitored by the Fed.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend money to savings and loan associations, cooperative banks, and other mortgage lenders in a manner similar to the Federal Reserve's role with commercial banks. The Federal Home Loan Bank System is made up of 12 regional FHLBs. It raises money by issuing notes and bonds and lends money to savings and loans and other mortgage lenders based on the amount of collateral the institution can provide.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC, or "FREDDIE MAC"): Publicly chartered agency that buys qualifying residential mortgages from lenders, packages them into new securities backed

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by those pooled mortgages, provides certain guarantees, and then resells the securities on the open market. Placed in conservatorship in 2009 which effectively makes the securities full faith and credit of the United States.

FEDERAL HOUSING ADMINISTRATION (FHA): Federally sponsored agency that insures lenders against loss on residential mortgages.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA, or “FANNIE MAE”): FNMA is a federal corporation working under the auspices of the U.S. Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. FNMA is a private stockholder-owned corporation, which includes purchases of a variety of adjustable mortgages and secondary loans, in addition to fixed-rate mortgages. FNMA’s securities are also highly liquid and are widely accepted. Placed in conservatorship in 2009 which effectively makes the securities full faith and credit of the United States.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other presidents serve on a rotating basis. The Committee meets eight times per year to set U.S. monetary policy.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, DC, twelve regional banks, and about 5,700 commercial banks that are members of the system.

FINAL MATURITY: The date on which a security is due and payable. The maturity date stated on the face of a security.

FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA): Formerly the National Association of Securities Dealers (NASD). A self-regulating industry organization of brokers and dealers who trade securities in the United States. Designated by the Maloney Act of 1933 to establish rules of fair market practices.

FIXED INCOME MARKET: The market defined by securities with set (fixed) coupon rates.

FLEXIBLE REPURCHASE AGREEMENT (FLEX REPO): A type of repurchase agreement used primarily for investment of bond proceeds that has a maturity corresponding with the last expected construction draw for the bond project. Flex repos pay a fixed rate of interest and allow for cash withdrawals at the buyer’s discretion during the life of the agreement.

FLOATER: A security whose value or coupon is determined from (floats on) an index or other security, such as Libor or T-Bills.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA, or “GINNIE MAE”): GNMA buys Veterans Administration, Farmers Home Administration, and Federal Housing Administration mortgages, then issues bonds on pools of the mortgages. An investor in this bond receives monthly dividends through the mortgagee’s payments of principal and interest. GNMA’s are full faith and credit of the U.S. Government, unlike other mortgage based agencies.

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GOVERNMENT SECURITIES: Obligations of the U.S. Government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See **TREASURY BILL**, **TREASURY NOTE**, and **TREASURY BOND**.

INFLATION: The effect of generally rising prices of goods and services.

INFLATIONARY RISK: A form of investment risk that measures the effect of inflation on an investment. If the after-tax return on an investment is lower than the rate of inflation, the investor will have less purchasing power at the maturity of the investment. The greatest risk to fixed income securities is where the fixed rate will be devalued by the rise in inflation.

INSTRUMENTALITY: A federal agency whose obligations, while not direct obligations of the U.S. Government, are sponsored or guaranteed by the government and backed by the government.

INTEREST RATE: The fixed annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

INTEREST-RATE RISK: A form of investment risk whereby changes in interest rates adversely affect the value of a security portfolio. For example, the value of bond holdings will decline should interest rates increase.

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. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

INVERTED YIELD CURVE: The economic condition where the yield on short-term issues is greater than the yield on long-term securities. In theory, this scenario could lead to further declines in interest rates and possible recession.

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.

INVESTMENT-GRADE OBLIGATIONS: An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

ISSUE DATE: The date from which the bond begins to accrue interest. Also known as "effective date."

LIQUID ASSET: An asset that can be converted easily into cash. Some examples are money market fund shares, treasury bills, and bank deposits.

LIQUIDITY: An asset that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if a buyer can be found easily. The spread between the bid and asked price is narrow because the securities are liquid and usually reflect high credit quality such as T-Bills.

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LIQUIDITY RISK: A type of investment risk whereby an investment may not be able to be sold quickly at a fair market price when cash is needed. Long-term Treasury Bonds, for example, are publicly traded and have excellent liquidity. Limited partnerships, on the other hand, are often not publicly traded and typically have poor liquidity.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): Professionally managed pool of funds composed of cash deposits from a large group of cities, counties, school districts, and local governments. In Texas, created under the Local Government Cooperation Act. A portfolio of securities is purchased and each pool participant owns a pro rata share in the pool of investments. It can be a mutual fund or a money market fund equivalent.

MARGIN: The amount of additional collateral pledged to an entity in order to accommodate changes in market prices. Normally set at 102% for treasuries and agencies.

MARK-TO-MARKET: The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

MARKET RISK: The risk that the price of a typical security can decrease, leading to possible principal loss if a sale of the security is required before maturity.

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

MASTER REPURCHASE (REPO) AGREEMENT: A written contract covering all repo transactions between two parties to the repurchase or reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower. The industry standard is from the Security Industry and Financial Markets Association (SIFMA).

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

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

MONEY MARKET ACCOUNT: An interest bearing bank savings account which normally earns interest at a higher interest rate than a regular savings account, but with a minimum required balance and other restrictions. Normally restricted to six withdrawals per month.

MONEY MARKET MUTUAL FUND (MMMF): A specific type of mutual fund that invests solely in money market instruments (short-term debt instruments, such as treasury bills, commercial paper, bankers' acceptances, repos, and federal funds) as defined and registered with the SEC and regulated by the Investment Company Act of 1940 as 2a-7 funds. They strive to maintain a \$1 net share value for participants. Three types of MMMFs are Treasury, Governmental, and Prime. MMMFs are designed for safety and liquidity.

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MUTUAL FUND: The fund that pools the resources of investors who buy shares and invests the proceeds in a portfolio of securities designed to achieve the fund's investment objective. All of the owners in the fund shares participate in the gains or losses of the fund. The value of the share is calculated off the market value of the portfolio. These products can only be sold by registered representatives. Mutual funds are also known as an open-end diversified management investment company. Long-term investment funds that pool money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are designed for yield and involve more risk than money market mutual funds. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management, and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which is independent of the adviser, administrator, or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO), such as the FINRA.
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

MORTGAGE-BACKED SECURITY: A security backed by pools of home loan mortgages. Investors in mortgage-backed certificates receive monthly payments derived from the income stream of interest and principal of the underlying mortgages.

MUNICIPAL BONDS: A bond or debt obligation issued by state or local governments to fund general municipal needs or special projects. See also **REVENUE BONDS**.

NEGATIVE YIELD CURVE: See **INVERSE YIELD CURVE**.

NET ASSET VALUE (NAV): The value of a mutual fund share as determined at the close of each business day. NAV is determined by summing the market value of all securities in the portfolio, deducting expenses, and dividing this total by the number of shares outstanding. All shares redeemed on that day are done so at the NAV for that specific day.

NET ASSET VALUE FUNDS: Mutual funds seeking to offer a higher yield than the constant dollar funds (money market funds). These funds purchase longer maturing securities, which translate into a higher market and volatility risk as well as longer WAM. These funds experience market fluctuation due to the risk of the longer securities and will subject the investor to a higher level of market price and volatility risk than a constant dollar fund.

NO LOAD MUTUAL FUND: A mutual fund which does not levy a sales charge on the purchase of its shares.

NOMINAL YIELD: The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

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NORMAL YIELD CURVE: A yield curve where short-term yields are lower than long-term yields. The slope of the curve rises gradually in the early years and becomes almost flat in latter years. Generally reflects a market in expectation of higher rates.

OFFER PRICE: The price asked by a seller of securities. The price at which a security will be sold to a governmental entity.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the Federal Open Market Committee (FOMC) in order to influence the volume of money and credit in the economy.

OPPORTUNITY COST: The maximum profit an alternative plan of action would provide.

PAR VALUE: For bonds, the par value is the face amount and equals the amount of principal due at maturity. The principal amount on which interest is calculated.

PLEGGED ASSETS: Bank-owned securities used as collateral for government deposits. Authorized collateral is defined by the Public Funds Collateral Act in Texas.

PORTFOLIO: Collection of securities held by an investor.

POSITIVE YIELD CURVE (NORMAL YIELD CURVE): A yield curve where short-term yields are lower than long-term yields. The slope of the curve rises gradually in the early years and becomes almost flat in latter years. The relationship of time and rates. Generally reflects a market in expectation of higher rates.

PREMIUM: (1) The difference in price between the security's price and par (face amount) if a security is selling above its par value. (2) An amount that must be paid above par in order to call or refund an issue. (3) The price of an option.

PREPAYMENT: The risk that changes in interest rates will cause the anticipated maturity of a mortgage-backed security to be shortened. Homeowners prepay all or part of a mortgage when interest rates decline to refinance at lower costs, causing money to be returned to the owner of the mortgage-backed security, who must reinvest at a lower rate.

PRICE/BOOK RATIO: A financial ratio, which relates a company's stock (share price) to its total assets less any intangible assets (goodwill, patents) minus current and long-term liabilities.

PRICE/EARNINGS RATIO: A financial ratio, which is commonly referred to as the P/E ratio or multiple. This is the relationship of a company's stock price divided by earnings per share. It provides stock investors with an indication of how much is being paid (share price) for a company's earnings potential.

PRIMARY DEALER: A group of government securities dealers who 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 formal oversight. Primary dealers can include Securities and Exchange Commission (SEC)-registered securities broker-dealers and banks. These dealers must make the market (buy Treasuries if offered, therefore providing the liquidity) in U.S. Treasuries.

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PRIME RATE: The rate of interest at which a commercial bank offers to lend money to its most creditworthy customers.

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

PRIVATE ACTIVITY BOND: A taxable municipal bond.

PROCEEDS: Money received from the sale of a security or from the issuance of a security.

PRODUCER PRICE INDEX (PPI): A measure of wholesale prices.

PROMISSORY NOTE: An unconditional signed promise in writing to pay a specified sum in demand at a fixed time. A promise to pay.

PROSPECTUS: A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

PRUDENT PERSON RULE: An investment safety standard used by most governmental investors. The rule states that investments will be made under circumstances then prevailing which persons of discretion and intelligence will purchase, not for speculation, but for investment, recognizing the probable return of principal as well as the return on that investment.

PUT: An option that gives the holder of a security the right to sell a portion of the security back to the issuer (or put holder) at a specified time at a specified price.

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 and that has segregated for the benefit of the Public Deposit Protection Commission eligible collateral having a value of not less than its maximum liability and which has been approved by the commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. Coupon rate divided by the purchase price.

REALIZED GAIN/LOSS: The true gain (profit) or loss of principal resulting from a sale of a security based on the difference between the security's book value and its market value. See **Unrealized Gain/Loss**.

REDEMPTION PRICE: See **CALL PRICE**.

REGULAR SETTLEMENT: Paying for a security one day after the trade date.

REINVESTMENT RISK: The risk that funds will have to be reinvested in a lower interest rate security if the original security is called away.

REPURCHASE AGREEMENT (RP or REPO): An investment agreement involving the purchase of a security and a simultaneous agreement to repurchase that security at a specified price and date. Repurchase

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agreements are used as a way to earn income on idle cash at or near the fed funds market rate. A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security buyer in effect lends the seller money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, i.e., increasing bank reserves.

RESET DATE: The date on which a floating security's rate or value is reset based on an established index and schedule.

REVENUE BONDS: Securities issued by governmental entities and secured by the revenue stream from the project being built or supported, such as water treatment facilities or sewage plants.

RISK: A measure of the probability of financial loss.

SAFE HARBOR: The shifting of financial assets to less volatile areas to reduce risk.

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

SALLIE MAE (SLMA): Securities issued by the Student Loan Marketing Association, an agency of the U.S. Government. Not authorized for public investments since it gave up its GSE designation in 2006.

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

SECURITIES AND EXCHANGE COMMISSION (SEC): A governmental organization established to regulate the U.S. financial markets.

SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION (SIFMA): Formerly the Bond Market Association, a self-regulatory group of brokers/dealers.

SELF-REGULATORY ORGANIZATION (SRO): A stock exchange, securities, or commodities organization that is registered with the Securities and Exchange Commission and that is responsible for making sure that its members obey rules and regulations.

SERIAL BOND: A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

SETTLEMENT DATE: The purchase or sale date of a security on which the money changes hands. See also **TRADE DATE**.

SHORT: To have sold a security without owning the security in anticipation of subsequently purchasing it at a lower price and making a profit. Not permitted by governmental entities.

SIMPLE INTEREST: The method of computing interest on a principal sum where the interest rate is applied only to the original principal amount.

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SINKING FUND: Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

SKIP DAY SETTLEMENT: Settlement one day after normal settlement, i.e., two-day settlement.

SPREAD: The difference between any two prices or measures. The difference between the current bid and the current ask of a given security or between yields on similar securities. Refers to the additional yield that may be earned on a security over and above a U.S. Treasury obligation with a comparable maturity.

STRIP: A security issued by the U.S. Treasury in which the coupons have been removed and only the principal remains, leaving a deeply discounted security which pays no interest but returns the principal at maturity. Other agencies and dealers “strip” securities, but only the Treasury or an agency can create a “strip.” The others carry unique names, such as TIGRS (Receipts) and are structured on a trust receipt.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options, and shifts in the shape of the yield curve.

SWAP: Trading one asset for another.

TERM BOND: Bonds comprising a large part of all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

TERM REPURCHASE AGREEMENT: A repurchase agreement that lasts a longer than normal period of time, i.e., more than overnight.

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.

TRADE DATE: The date on which the agreement to buy or sell a security is made. See also **SETTLEMENT DATE**.

TREASURY BILL (TB or T-Bill): A marketable, short-term U.S. Government debt security issued at a discount from par value, auctioned by the U.S. Treasury with maturities of 91 days, 180 days, or 365 days.

TREASURY BOND: The bellwether Treasury security. A thirty-year U.S. Government debt security issued at a fixed interest rate with a maturity. The bond is often used to set mortgage rates.

TREASURY NOTE (TN or T-Note): A marketable, medium-term U.S. Government debt security issued at a fixed interest rate with a maturity of one to ten years.

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TRUST INDENTURE: A trust deed between a borrower and trust holder on the terms of the trust.

UNDERWRITER: The firm that agrees to buy an issue of securities on a given date and at a given price who will then usually resell them through a distribution network.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

UNREALIZED GAIN/LOSS: The amount of gain (profit) or loss that would be reflected on the sale of a security if that security had to be sold in the market at that time, calculated on the difference between book value and market value of the security.

VARIABLE RATE CD: A short-term CD with an interest rate that is reset at set intervals on an agreed upon index.

VOLATILITY: Characteristic of a security, commodity, or market to rise or fall sharply in price within a short-term period.

VOLATILITY RISK RATING: A rating system to clearly indicate the level of volatility and other non- credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the return ("aaa" by S&P, "V-1" by Fitch) to those that are highly sensitive with currently identifiable market volatility risk ("ccc" by S&P, "V-10" by Fitch).

WEIGHTED AVERAGE MATURITY (WAM): The dollar weighted average remaining term to maturity of all assets in a pool or securities portfolio. The maximum WAM is usually based on an entity's cash flow analysis.

WHEN ISSUED (WI): A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

WINDOW: A term for the electronic bulletin board on which U.S. agencies sell their issues. The agencies "open their window" for the initial offering of a security.

YIELD: A financial ratio that measures the earnings on a capital investment. The ratio is generally expressed as a percentage of the current price.

YIELD BURNING: A situation in which securities firms artificially raise the prices on the Treasury bonds used when municipalities refinance outstanding debt, especially advance escrows. Municipalities are prohibited from making money on their tax-exempt transactions, so underwriters raise the price and "burn down" the yield on the securities to the level that municipalities are allowed to earn. Illegal under IRS regulations.

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YIELD CURVE: A chart equating time and rates and consisting of the yields of bonds of the same quality but different maturities. This can be used as a gauge to evaluate the future of the interest rates.

YIELD TO CALL (YTC): A financial ratio that measures the rate of return on a callable bond. The yield on a bond assumes redemption of that bond by the issuer at the first possible call date as stated in the indenture agreement.

YIELD TO MATURITY (YTM): A financial ratio that measures the rate of return on a bond's acquisition cost and the value at maturity. The ratio accounts for any interest income from the bond and assumes that the bond is held and redeemed at maturity.

ZERO COUPON BOND: A bond that does not make interest payments but is sold at a deep discount. At the maturity of the bond, the full face amount of the bond is payable. The bond does result in taxable income each year.

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INDUSTRY TERMS AND ACRONYMS

Accounting Terms

- Par – Face value of the security
- Par – Price of 100 (\$1 for \$1)
- Discount – Price less than par
- Premium – Price greater than par
- Principal – Face minus discount or plus premium

Banking Terms

- Time Deposit – Certificate of deposit
- Demand Deposit – Checking account
- Depository – Financial institution
- ACH – Automated Clearing House
- Pre-note – Pre-notification for ACH
- FedWire – Federal Wire System
- Fed – Federal Reserve

Securities Terms

- SLMA – Student Loan Marketing Association
- FNMA – Federal National Mortgage Association (“Fannie Mae”)
- TB – Treasury Bill
- TN – Treasury Note
- AGY – U.S. Agency Security
- Disco – U.S. Agency Discount Note
- FHLMC – Federal Home Loan Mortgage Corporation (“Freddie Mac”)
- FHLB – Federal Home Loan Bank
- GNMA – Government National Mortgage Association (“Ginnie Mae”)
- CMO – Collateralized Mortgage Obligation
- Strip – Principal Only Treasury
- Repo – Repurchase Agreement
- Book-entry – Securities in electronic form
- DVP – Delivery versus payment
- DK – Do not know (Fed wire rejection)
- Fail – Security not delivered as planned
- Bearer Bond – Security with physical value

Trading Terms

- Bid – Price at which one sells a security
- Offer – Price at which one buys a security
- Callable – Security with embedded call
- CP – Commercial paper
- BA – Bankers Acceptance
- MMMF – Money Market Mutual Fund
- Trade Ticket – Trace Documentation

Other Terms

- CPI – Consumer price index

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- DTC – Depository Trust Corporation
- FDIC – Federal Deposit Insurance Corporation
- FFCB – Federal Farm Credit Bank
- FHA – Federal Housing Administration
- FINRA – Financial Industry Regulatory Authority
- FOMC – Federal Open Markets Committee
- FRB – Federal Reserve Bank
- MBS – Mortgage backed securities
- PPI – Producer price index
- PTC – Participatory Trust Corporation
- TVA – Tennessee Valley Authority
- TSY – U.S. Treasury