RESOLUTION NO. 1792

A Resolution Adopting the District's Investment Policy

WHEREAS, the District adopted an Investment Policy under Resolution No. 1569 in order to enhance opportunities for prudent and systematic investment and to organize and formalize investment-related activities; and

WHEREAS, the District's goal is to continue investing public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands and conforming to all Washington statutes governing the investment of public funds; and

WHEREAS, the District Treasurer developed an updated Investment Policy that has received certification from the Washington Public Treasurers Association (WPTA) Investment Policy Certification program; and

WHEREAS, the District desires to adopt the certified Investment Policy in furtherance of meeting the District's investment goals and obligations in the most responsible manner.

NOW, THEREFORE, BE IT RESOLVED that the Board of Commissioners of Public Utility District No. 1 of Okanogan County hereby adopts the attached WPTA certified Investment Policy to formalize District policies and procedures used to meet the District's financial goals in accordance with all laws and statutes governing the investment of public funds.

Dated this 27th day of March, 2023.

Jerry Asmussen, President

Scott Vejraska, Vice President

ATTEST:

William C. Colyar, Secretary

APPROVED as to form:

Heidi E. Appel, General Counsel

PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY

INVESTMENT POLICY

1. Purpose

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities for the Public Utility District No. 1 of Okanogan County (the District).

The policy outlines investments scope, objectives, prudence, delegation of authority, reporting requirements, internal control, investment limitations, safeguarding requirements, liquidity, performance expectation, quality, and maturity.

The goal of the District is to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands and conforming to all Washington statutes governing the investment of public funds.

2. Scope

This investment policy applies to activities of the District with regard to investing the financial assets of all funds. These funds are accounted for in the District's Annual Financial Report and include:

Revenue Fund
Employee Leave Fund
Customer Deposit Fund
Rate Stabilization Fund
Bond Associated Funds
Vehicle Replacement Fund
All other Restricted Funds
Any new fund(s) created by the Board of Commissioners, unless specifically exempted

Should bond covenants be more restrictive than this policy, funds shall be invested in full compliance with those restrictions.

3. Objective

The primary objectives, in priority order, of the District's investment activities shall be:

Legality: The District investments will be in accordance with all statutes governing the investment of public funds as well as applicable provisions of bond resolutions.

Safety: 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 risk including credit risk and interest rate risk.

A. Credit Risk – The District will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:
- Limiting investments to the safest types of securities including the State of Washington Local Government Investment Pool.
- Pre-qualifying the financial institutions with which the District will do business as those institutions identified by the Public Deposit Protection Commission as Qualified Washington Public Depositaries.
- Diversify the investment portfolio so that potential losses on individual securities will be minimized.

B. Interest Rate Risk – The District will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:
- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in shorter-term securities or the Washington State Local Government Investment Pool.

Return on Investment (Yield): Yield should become a consideration only after the basic requirements of safety and liquidity have been met. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Liquidity: The portfolio will remain sufficiently liquid to enable the District to meet all cash requirements that might reasonably be anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

4. Prudence

The standard of prudence to be applied by investment officers shall be the "prudent Investor" rule, which 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."

The investment officers, acting in accordance with the investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

5. Delegation of Authority

The Treasurer or the Deputy Treasurer are the only employees authorized to execute investments transactions and manage the investment which includes initiating daily transactions in the investment portfolio based on liquidity and cash flow requirements of the District and their respective funds.

6. Ethics and Conflicts 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.

In addition, RCW 42.17A.570 requires treasurers to file the Treasurers' Annual Report to the Public Disclosure Commission between January 1 and April 15, to cover the preceding calendar year.

7. Authorized Financial Dealers and Institutions

A. Selection of a primary bank for Public Utility District No. 1 of Okanogan County general banking services will be made by the Treasurer in conjunction with Director of Finance, Accounting and Administration.

B. The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

As required by state law, (RCW 39.58), certificates of deposit will be purchased only from those institutions approved by the Washington Public Deposit Protection Commission (PDPC) as eligible for deposit of public funds. The Treasurer will annually adopt the eligibility list provided by the PDPC as the approved depositary list.

The maximum amount placed with any one depositary will not exceed the net worth of the institution as determined by the PDPC.

Qualified broker/dealers and financial institutions will be reviewed and selected by the Treasurer on a routine basis. All brokers/dealers and financial institutions who desire to do business with Public Utility District No. 1 of Okanogan County must supply the Treasurer with the following:

1. Annual audited financial statements.
2. Proof of FINRA (Financial Industry Regulatory Authority) certification.
3. Proof of registration with the State of Washington.
4. A completed Broker/Dealer questionnaire and a certification of having read the Public Utility District No. 1 of Okanogan County Investment Policy.

The Treasurer will conduct an annual review of the financial condition of the firms. A current audited financial statement is required to be on file for each financial institution and broker/dealer with whom the District invests.

8. Authorized Investments

All municipal corporations in Washington State, including the District, are empowered by statute to invest in certain types of securities. Eligible investments are only those securities and deposits authorized by State statute as defined in RCW 39.58 and 39.59.

For the District, the following securities are authorized investments:

A. Investment deposits, including certificates of deposit, with qualified public depositories as defined in RCW 39.58.

B. Certificates, notes, or bonds of the United States, or other obligation of the United States or its agencies, or of any corporation wholly owned by the government of the United States (such as the Government National Mortgage Association).

C. Obligations of government-sponsored corporations which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. (These include, but are not limited to Federal Home Loan Bank notes and bonds, and Federal National Mortgage Association notes, bonds and guaranteed certificates of participation).

D. Repurchase agreements for securities listed in B and C above, provided that the transaction is structured so that the District obtains control over the underlying securities and a Master Repurchase Agreement has been signed with the bank or dealer.

E. Public Funds Interest Bearing Accounts such as money market deposits with depository banks that are qualified public depositories as defined in RCW 39.58.

F. State of Washington Investment Pool.

9. Selection of Investment Instruments

Investments shall be placed using an informal bidding procedure where rates will be received from approximately 2-4 institutions. In order to stimulate the local economy, the District may place an investment with a local institution that is not the highest bidder, provided that the bid is deemed to be within a reasonable range, taking into consideration portfolio diversification and local presence. A local institution is defined as a bank or savings and loan association doing business in Okanogan County.

If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments which meet the maturity requirement. If no specific maturity is required, a bid range in 30-day increments from 30 days to 3 years will be used to determine which maturities would be most advantageous.

10. Collateralization

A. The collateral for repurchase agreements shall be U.S. Treasury or Agency securities with a term of maturity not to exceed the maximum maturity allowed by investment policy.

B. Mortgage-backed securities of any maturity will not be accepted as collateral.

C. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be at 102% of market value of principal and accrued interest.

D. Collateral is to be delivered to and held by the trust department of the bank with whom the Treasurer is currently using as the District's safekeeping custodian. Collateral held for repurchase agreements will be evidenced by safekeeping receipts provided to the Treasurer.

11. Safekeeping and Custody

A. **Delivery vs. Payment:** All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited with a third party custodian prior to the release of funds.

B. **Safekeeping:** Securities will be held by an independent third-party custodian selected by the Treasurer. Safekeeping receipts will evidence all transactions.

C. **CD's:** Certificates of deposit will be held by the Treasurer.

12. Diversification

It is the policy of the Public Utility District No. 1 of Okanogan County to diversify its investment portfolio. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer or class of securities, all cash and cash equivalent assets in all funds shall be diversified by maturity, issuer and by the class of security. Diversification strategies shall be determined and revised periodically by investment officers for all funds

13. Internal Control

The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the District.

Training should be provided to staff in investments, and personnel should keep current with financial development by participating in continuing education in investment management and subscribing to financial journals and periodicals.

Controls deemed most important include: separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the number of authorized investment officers, documentation of transaction and strategies, and code of ethics standards.

14. Sale of Portfolio

Any major changes in Investment Strategy including the liquidation of the portfolio shall require a majority vote by the Districts' Finance Committee.

15. Maturities

To the extent possible and to preclude sales of securities that could result in a loss, investments will be made to coincide with anticipated cash flow requirements. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as the Local Government Investment Pool and in money market funds from banking institutions to ensure that appropriate liquidity is maintained to meet ongoing obligations.

Satisfying this requirement, remaining funds may be invested in authorized securities not to exceed three years in maturity, except when compatible with a specific fund's investment needs.

16. Procedures

Day-to-day procedures concerning investment management and accounting are outside the scope of this policy. As deemed necessary, the Treasurer will establish written procedures for the operation of the investment program consistent with this policy.

17. Performance Standards/Benchmark

The investment portfolio will be managed in accordance with the parameters specified within this policy. The investment portfolio will be designed to obtain an average rate of return during budgetary and economic cycles, consistent with the investment objectives and cash flow needs. As such, the yield of the District's investment portfolio will be benchmarked to the Local Government Investment Pool annual average yield.

18. Monthly Reporting

The Treasurer of the District shall submit a monthly investment report to the Board of Commissioners. At a minimum, this report should include type of investment, institution, date of maturity, amount of investment, and yield.

19. Investment Policy Adoption

Okanogan Public Utility District's investment policy shall be adopted by a resolution of the District Commission. The policy shall be reviewed on an as-needed basis and any modifications made thereto must be approved by the District Commission.

GLOSSARY

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

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

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

ASSET - Available property, as for payment of debts

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

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

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

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

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

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

BOOK VALUE - The amount at which an asset is carried on the books of the owner. The book value of an asset does not necessarily have a significant relationship to market value.

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

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

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

COMMERCIAL PAPER: An unsecured short-term promise to repay a fixed amount on a certain future date. Commercial paper usually matures from 2 to 270 days and is traded on a discount basis. This debt instrument, issued by banks, companies and other borrowers, uses only their credit ratings to back the security.

CORPORATE BOND/NOTE – A debt security issued by a corporation. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations. Corporate bonds are considered higher risk than government bonds. As a result, interest rates are almost always higher, even for higher credit quality companies. Most corporate bonds have maturities greater than one year. Corporate debt that matures in less than one year is typically called commercial paper.

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

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

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

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

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

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

DELIVERY VS PAYMENT - There are two methods of delivery of securities: Delivery vs. payment and delivery vs. receipt (also called free). Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for the securities.

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

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

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

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

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

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

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

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

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

FEDERAL DEPOSIT INSURANCE (FDIC) - A Federal institution that insures bank deposits. The current limit is up to $100,000 per depository account.

FEDERAL FARM CREDIT BANK – FFCB – The Farm Credit System is a nationwide network of borrower-owned lending institutions and specialized service organizations. Established by Congress in 1916 as the authority for certain predecessor entities, the System is the oldest of the Government-sponsored enterprises. Throughout its long history, the fundamental purpose of the System has remained the same: To provide American agriculture with sound and dependable credit at competitive interest rates. Currently, there are three Farm Credit Banks and one Agricultural Credit Bank providing funds and support services to approximately 78 locally owned Farm Credit Associations and numerous cooperatives nationwide. Approximately 40 percent of the real estate and non-real estate credit needs of U.S. agriculture are met by the System

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

FEDERAL HOME LOAN BANK SYSTEM - FHLB – Created by the Federal Home Loan Bank Act of 1932 to increase the amount of funds available for lending institutions who provide mortgages and similar loan agreements to individuals. Having served its original objectives well, the FHLB system now primarily focuses on increasing the amount of loanable funds available for affordable housing and community development projects. It continues to have a material impact on housing and development financing offering funds to member institutions at rates that are usually lower than commercially competitive prices. The 11 banks of the FHLB Bank System are owned by over 7,300 regulated financial institutions from all 50 states, U.S. possessions, and territories.

FEDERAL HOME LOAN MORTAGAGE CORPORATION - FHLMC (Freddie Mac) - is a stockholder-owned, government-sponsored enterprise chartered by Congress in 1970 to keep money flowing to mortgage lenders in support of homeownership and rental housing for middle income Americans. FHLMC purchases, guarantees and securitizes mortgages to form mortgage-backed securities. The mortgage-backed securities that it issues tend to be very liquid and carry a credit rating close to that of U.S. Treasuries.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA) - FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a Federal corporation working under the auspices of the Department of Housing and Urban Development, HUD. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages.

FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL RESERVE SYSTEM - The central bank of the United States which has regulated credit in the economy since its inception in 1913. Includes the Federal Reserve Bank, 14 district banks and the member banks of the Federal Reserve, and is governed by the Federal Board.

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

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

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

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

LIQUIDATION - Conversion into cash.

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

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

LOCAL GOVERNMENT INVESTMENT POOL (LGIP) - The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

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

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

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

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

NATIONALLLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO) - A credit rating agency that issues credit ratings that the U. S Securities and Exchange Commission permits other financial firms to use for certain regulatory purposes.

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

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

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

PORTFOLIO - Collection of securities held by an investor.

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

PRIMARY DEALERS - A 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 requirements as well as provide a valuable flow of information to the Fed about the state of the worldwide markets.

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

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

PRUDENCE - The ability to govern and discipline oneself by the use of reason. Shrewdness in the management of affairs. Able to use skill and good judgment in the use of resources.

PUBLIC FUND INTEREST BEARING INVESTMENT ACCOUNTS- Bank accounts with Qualified Public Depositories which pay a rate of interest on the balance maintained. Used in diversifying the investment portfolio and most commonly used as part of a liquidity portfolio.

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

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

REPRICING - The revaluation of the market value of securities.

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

SALLIE MAES - Pooling of student loans guaranteed by the Student Loan Mortgage Association (SLMA) to increase the availability of education loans. The SLMA purchases the loans after buying them on the secondary market from lenders. SLMA stock is publicly traded.

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

SECURITIES AND EXCHANGE COMMISION – (SEC) - A U.S. government agency that oversees securities transactions, activities of financial professionals and mutual fund trading to prevent fraud and intentional deception. The SEC consists of five commissioners who serve staggered five-year terms. No more than three of the commissioners may belong to the same political party.

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

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

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

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

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

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

TREASURY NOTES AND BONDS - While T-Bills are sold at a discount rate that establishes the yield to maturity, all other marketable treasury obligations are coupon issued. These include Treasury Notes with maturities from one to ten years and Treasury Bonds with maturities of 10-30 years. The instruments are typically held by banks and savings and loan associations. Since Bills, Notes and Bonds are general obligations of the U.S. Government, and since the Federal Government has the lowest credit risk of all participants in the money market, its obligations generally offer a lower yield to the investor than do other securities of comparable maturities.

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

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

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

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

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

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

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