Alaska Municipal Bond Bank Authority
Investment Policy

September 3, 2020

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1.0 Statutory Authority

Listed below is a brief summary of the statutes regarding the Alaska Municipal Bond Bank Authority's creation, authority, and responsibility. These statutes provide that the Authority: 1) has the power to invest its funds, and 2) has the powers and responsibilities established in AS 37.10.07 (the prudent investor rule) with respect to the investment of amounts held by the Authority.

AS 44.85.005 - 44.85.420 create and control the Alaska Municipal Bond Bank Authority (Bond Bank).

AS 44.85.020. CREATION OF ALASKA MUNICIPAL BOND BANK AUTHORITY. The bond Bank is a public corporation and government instrumentality within the Department of Revenue but having a legal existence independent of and separate from the state and has continuing succession until its existence is terminated by law.

AS 44.44.85.080. GENERAL POWERS. In addition to other powers granted in this chapter, the Authority may:

(13) invest funds or money of the Bond Bank Authority not required at the time of investment for loan to political subdivisions for the purchase of municipal bonds, in the same manner as permitted for investment of funds belonging to the state, except as otherwise provided in this chapter.

2.0 Delegation of Authority

Overall management responsibility for the investment program is retained by the Bond Bank's Board of Directors with certain powers delegated to the Executive Director and the Investment Committee. The Investment Committee consists of a designated representative of the Board, the Executive Director and the Financial Advisor. The Executive Director chairs the Investment Committee and establishes meeting dates and times. The Investment Committee has primary responsibility for oversight of investments and recommends updates to investment policy. The Investment Committee can modify authorized investments for up to 90 days or until the next scheduled board meeting.

3.0 <u>Management</u>

The purpose of the Bond Bank is to provide statutorily authorized borrowers access to low cost funds for capital projects. The Bond Bank has achieved this goal since 1975 primarily by issuing bonds and purchasing borrower bonds at the same interest rate. Since 2005 the Bond Bank has only sold general obligation bonds that are secured by a full faith and credit pledge of the Bond Bank, a pledge of the underlying borrower loans, a statutory moral obligation pledge of the state, a pledge of a Bond Bank level reserve, an ability to intercept certain state revenues of the borrower, and starting in fiscal year 2009, an annual State appropriation of an unlimited amount of general funds in the operating budget to replenish Bond Bank reserves if there is a default. Bond Bank bonds are currently rated 'A+' by S&P Global, and 'A1' by Moody's.

The Bond Bank consolidates bond issues through master resolutions which provide for periodic bond issues to be authorized through series resolutions on a parity basis. Each series resolution authorizes bonds of the Bond Bank to be issued and loans to single or multiple borrowers to be entered into. All bonds issued under a master resolution are secured, in part, by a pooled debt service reserve fund. Other than issues for a lease backed transaction in the 2010 Master Resolution, and the regional health organization backed transactions in the 2016 Master Resolution, a majority of Bond Bank issues are sold through the 2005 Master Resolution program. Prior to the 2005 program the Bond Bank sold general obligation bonds through the 1976 resolution, and revenue bonds on a stand-alone basis. All bonds issued under the 1976 resolution or on a stand-alone basis have been repaid.

The Bond Bank's assets are contained within three general types of funds: 1) those held in reserves as required by bond resolution; 2) the funds in the Custodian Account of the Bond Bank; and 3) the payments from borrowers received seven days prior to Bond Bank debt service payments (unless underlying loan agreements stipulate earlier funding of debt service payments). The Bond Bank's investment manager manages the majority of the funds in the reserves and the funds in the custodian account, but not those in the debt service payment accounts.

The investment earnings of the Bond Bank pay for debt service on reserve obligations of the Bond Bank and funding the annual operating budget of the Bond Bank. When earnings exceed these needs, there is a statutory sweep of those earnings to the State of Alaska's General Fund (which have been appropriated back to the Bond Bank each year since fiscal year 2009). When earnings are less than expenses, net assets of the Bond Bank are used to fund costs. As a result of extraordinarily low yields on allowed investments in recent fiscal years, earnings have been less than expenses of the Bond Bank.

A. Funds and Accounts

1. Custodian Account (held by Bond Bank's custodian bank)

This account holds unrestricted funds of the Bond Bank and is used to pay operating costs, provide for reserve fund deposits when required due to authorization with new money bond issues or as reserve obligations mature, and make annual transfers of any excess earnings of appropriated funds to the State. Any excess earnings generated by, or releases due to a diminished reserve requirement of the Bond Bank's reserve funds are transferred to the custodian account as required by resolution. There are no federal arbitrage yield limitations on the custodian account. The Custodian Account balance has been somewhat volatile over the Bond Bank's life. The Custodian Account balance, and future projected cash outflows, are a critical component in determining the investment policy of this account.

In the current interest rate environment, it is anticipated that until the Custodian Account balance reduces to $10 million, funds will be transferred from the Custodian Account to be placed in Bond Reserves as required by additional bond issues, dependent upon the type of issuance, and if the use or extension of surety policies present themselves. A review of anticipated bond issuances, reserve funding requirements, reserve obligation debt service, and operating budget impact shall be documented and provided to the Investment Committee annually. Generally, projecting forward, a continuation of the gradual trend of increasing outstanding par amount of bonds is expected.

Per AS 44.85.270(i) the Bond Bank may borrow excess funds from the State of Alaska's general fund at the discretion of the Commissioner of the Department of Revenue. The Bond Bank has used this authority in 2010, and again in 2011. The loans carried a variable rate based on the return on the general fund and were expected to last for a term of less than five years. This authority to borrow from the State's general fund provides additional flexibility for future cash flow needs of the Bond Bank and additional borrowing from the general fund may be undertaken.

2. Bond Reserve Funds (held by Trustee Bank)

There are three funds under the control of bond resolutions referred to as "Reserve Funds." The reserves are part of the security structure provided to bond purchasers and are available in the case of a deficiency in a Debt Service Fund in accordance with the bond resolutions. The use and investment of these funds are restricted by the applicable bond resolution. The funds' earnings are capped by the arbitrage yield limit on the bonds they secure. While earnings subject to rebate can exceed the applicable arbitrage yield limit, any cumulative excess return calculated on a five-year rolling schedule will be rebated to the Internal Revenue Service. All Bond Reserve Funds are valued quarterly by the trustee using an accreted methodology rather than a mark to market eliminating the impact of interest rate volatility on unrealized gains and losses of securities. Excess amounts are transferred to the Custodian Account and deficiencies must be made up from the Custodian Account.

(a) 2005 General Bond Resolution, adopted July 13, 2005

Provides authorization for issuing the majority of general obligation bonds of the Authority to fund both general obligation and revenue bond loans to authorized borrowers. The 2005 Resolution's Reserve Fund allows the reserve requirement to be met with any combination of Bond Bank assets, borrowed funds, or surety policies. The 2005 Reserve Fund balance is anticipated to be stable with continued growth.

(b) 2010 General Bond Resolution, adopted October 19, 2010

Provides authorization for issuing general obligation bonds of the Authority to fund lease obligations of municipalities. The 2010 Resolution creates a Reserve Fund with funding flexibility similar to the 2005 Resolution. There has only been one series of bonds sold through the 2010 Resolution. There are currently no bonds outstanding under the 2010 Resolution, and no additional issues are planned or known of at this time.

(c) 2016 Master Bond Resolution, adopted May 5, 2016

Provides authorization for issuing general obligation bonds of the Authority, created to finance loans to regional health organizations (RHOs). The 2016 Resolution's Reserve Fund allows the reserve requirement to be met with any combination of Bond Bank assets, borrowed funds, or surety policies. The 2016 Reserve Fund balance is anticipated to be stable with potential for modest growth until the limit of outstanding bonds at any one time of $205 million is reached, or until there are any changes or modifications to statute.

Investment of moneys and funds held in the 2005 Reserve Fund, 2010 Reserve Fund, and 2016 Reserve Fund is controlled by Resolution**.** Permitted investments are limited to the following securities:

1. Direct obligations of or obligations insured or guaranteed by the United States of America or agencies or instrumentalities of the United States;

2. Money market funds, that are SEC registered, in which the securities of the fund consist of obligations listed in item 1 of this section.

3. Interest-bearing time deposits or certificates of deposit of a bank or trust company continuously secured and collateralized by obligations of the type described in item 1 of this section, or by general obligations of the State having a market value at least equal at all times to the amount of such deposit or certificate, to the extent such deposit or certificate is not insured by the Federal Deposit Insurance Corporation or any successor thereto.

-Included in Exhibit B are excerpts from the 2005 General Bond Resolutions defining "Investment Securities."

(e) Municipal Debt Payments (held by Trustee/Paying Agent)

Per bond resolutions, debt service payments are made seven business days in advance of debt service coming due. Investment of these funds is limited by the bond resolutions. Due to the short duration, these funds will be held in a US Treasury backed money market fund.

4.0 <u>Prudence</u>

As established by 37.10.071 (c) the management and investment of assets by the Bond Bank shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent investor would use in the conduct of an enterprise of a like character and with like aims. This is commonly known as the "Prudent Investor Standard".

A. The Prudent Investor Standard shall be applied by the Bond Bank in the context of managing an overall portfolio. Investment officials acting in accordance with written procedures and this 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 taken to control adverse developments.

5.0 <u>Investment Objectives</u>

There are distinct investment objectives associated with the Custodian Account, Reserve Funds, and Municipal Debt Payments. The objectives for these three classes of funds are listed below in order of priority.

A. The Custodian Account

1. Minimum Fund Balance: As the means of providing for the ongoing operation of the Bond Bank a minimum balance of $5 million shall be targeted. The account shall be analyzed each June 30 and if the balance is projected to be reduced to under $10 million in the coming 18 months the entire Board of Directors shall be advised of the projections and strategies implemented to ensure the minimum balance target is maintained.

2. Return on Investment: The Custodian Account investment portfolio shall be designed with the objective of attaining the highest market rate of return subject to the required uses of the Account. An annual analysis of risk profile and historical benefit must be undertaken by the Investment Committee and Bond Bank staff to determine the reasonable length of investment horizon and how it relates to the current Custodian Account balance, known cash transfers, and reasonably projected liquidity needs.

3. Liquidity: The Custodian Account is managed to provide sufficient liquidity to meet annual operating requirements, paying the prior fiscal year's state dividend, transfers to reserves as needed for bond issuance activity, and all or part of reserve obligation debt service. The annual operating budget has been set at approximately $1 million since fiscal year 2017. The statutory sweep to the State's general fund has been appropriated back to the Custodian Account since 2009. The liquidity requirement for the operating budget, or any required transfer to the State are predictable from year to year while transfers from the Custodian Account to fund reserves are more difficult to predict as they are based on future borrowing activity. Reserve obligations are limited to the 2005 and 2016 Reserve funds and need to be tracked to provide funds to pay them off as they mature. Additionally, any coverage beyond the reserve requirement provided for by

utilization of surety policies within the 2005 or 2016 Reserve fund needs to be factored into forecasting.

To ensure liquidity is assessed properly: 1) the annual budget and annual audit shall be provided to the investment manager when available to detail anticipated expenditures during the fiscal year; 2) the investment manager shall be included in distribution lists for bond issues and informed of anticipated transfers to reserve funds; and 3) the Executive Director or Finance Director shall provide the Investment Manager with annual updates on the schedule of reserve obligations of the 2005 and 2016 reserve, and if those debt service payments are anticipated to be funded with cash from the Custodian Account.

4. Preservation of Principal: Long-term preservation of principal is the third objective of the Custodian Account's investment program. Investments shall be undertaken in a manner that minimizes the probability of principal loss.

B. The Bond Reserve Funds

1. Preservation of Principal: Preservation of Principal is the foremost objective of the Reserve Funds' investment program. These funds shall be managed to ensure that the corpus is preserved. These funds are valued quarterly with excess flowing to the Custody Account and any deficiencies funded from the Custody Account.

2. Liquidity: These funds are in place to provide for debt service on reserve obligations in the event of underlying borrower default, but are expected to reside in the reserve for the life of the bonds until release upon the final maturity of the bond issue, or change in reserve requirement due to maturity of bond issues within the reserve. There has been no failure to pay during the Authority's history, indicating a low probability of expending these funds due to failed payment. The Bond Bank would have up to seven days' notice of an impending draw upon one of the reserve funds, and based on the dispersion of borrowers and payment dates any potential draw, even due to default, is anticipated to be limited to less than approximately 10% of the total reserve.

3. Return on Investment: Due to IRS restrictions, there is a limit to maximizing return that is correlated to the interest rate of the bonds that the reserve secures. Generally, the IRS code requires arbitrage rebate payments when investment returns exceed a bond yield. It is anticipated that the Reserve Funds cumulative average return should generally target the blended arbitrage yield limit of the bond issues secured. With significant negative arbitrage resulting from reinvestment in taxable Treasury and Agency securities since 2009, the arbitrage rebate limit is significantly higher on select series of bonds for their remaining life. An annual review of the Treasury and Agency environment shall be undertaken by the Investment Committee to show the relationship between rebate limits on outstanding loans and what can be reasonably achieved on the open market.

C. Municipal Debt Payments

1. Preservation of Principal and Liquidity: Preservation of principal and liquidity are the foremost objectives of the Municipal Debt Payments investment program, as these funds will be expended within seven business days of receipt (unless municipal debt payments must be paid further in advance per the loan agreement).

2. Return on Investment: Return on investment is a benefit of holding these funds for the advance payment period, but not the focus of investing the funds.

6.0 Investment Policy

This section outlines the investment policy for the Custodian Account, Reserve Funds, and the Municipal Debt Payments.

A. Custodian Account

The Custodian Account funds shall be invested as follows:

Risk Tolerance	Moderate
Investment Objective	Minimal exposure to principal loss. Maximize current income with moderate risk tolerance. Medium to High liquidity requirement to match cash flow transfer needs of the Bond Bank.
Time Horizon	At least a $350,000 market value shall be maintained at all times for cash and cash equivalents (money market, Three-month U.S. Treasury Bills, targeting U.S. Treasuries or Agencies with maturities of less than three months). Up to $1,000,000 shall be used for longer term, five year to ten year U.S. Treasury and Agency securities. The balance of the fund shall target one day to five year U.S. Treasury and Agency securities according to current and projected cash flow needs of the Bond Bank.
Special Considerations	No arbitrage rebate restrictions. Some of this account’s earnings are used to calculate the state’s general fund payment. Target near term cash flows to match annual budget and payment to state’s general fund.

Effective September 3, 2020, the Alaska Municipal Bond Bank Authority's investment policy for the Custodian Account is:

5%	**Money Market Fund (no less than $350,000)**
95%	**Government Agencies and US Treasuries**

Alaska Municipal Bond Bank's shall track the following benchmarks for annual review by the Investment Committee; however, due to the targeted nature of the fund to invest in short to long dated maturities, and match the cash flow needs, there is not a performance benchmark that directly mirrors the objectives of the funds.

Effective September 3, 2020, the Alaska Municipal Bond Bank's performance benchmark for the Custodian Account is:

5%	**Three Month US Treasury Bill**
95%	**Bloomberg Barclays US 1-5 Year Gov't Bond Index**

B. Bond Reserve Funds

The 2005 Reserve fund shall be invested as follows:

Risk Tolerance	Low to Moderate
Investment Objectives	Low exposure to principal loss. While much of the money in the fund will be expended over an intermediate to long time horizon, material loss would affect outstanding obligations. Intermediate liquidity requirement. Arbitrage yield limitations reduce the benefit of obtaining higher yields.
Time Horizon	While the anticipated time horizon is intermediate (one to ten years) there may be a need for cash quickly in the event of a payment delinquency. The reserves may have only as much as a seven days' notice of the need for a draw on the reserve. The expectation is that much of the money will be spent as scheduled for debt repayment or returned to the Custodian Account in greater than five years. Anticipated and unanticipated liquidity needs should be funded from the portion

	of the portfolio invested in the shorter term maturities to the extent allowed by portfolio limits.
Special Considerations	Bond Resolutions limit allowed investment of these funds, investment risk should be examined on an annual basis to ensure that no greater than the minimum level of risk required to achieve the highest probability of earning the arbitrage yield limit on the bonds is incurred.

Effective September 3, 2020, the Alaska Municipal Bond Bank Authority's investment policy for the 2005 Reserve Fund is:

90% +/- 10%	**Government Agencies and US Treasuries with Maturities of less than 5 years**
10% +/- 10%	**Government Agencies and US Treasuries with Maturities of more than 5 years and less than 10 years**

Alaska Municipal Bond Bank's shall track the following benchmarks for annual review by the Investment Committee; however, due to the targeted nature of the fund to invest a portion into Government Agencies and US Treasuries with Maturities of more than 5 years and less than 10 years, there is not a performance benchmark that directly mirrors the objectives of the fund.

Effective September 3, 2020, the Alaska Municipal Bond Bank's performance benchmark for the 2005 Reserve Fund is:

100% **Bloomberg Barclays US 1-5 Year Gov't Bond Index**

The 2010 Reserve fund shall be invested as follows:

Risk Tolerance	Low to Moderate
Investment Objectives	Low exposure to principal loss. While the money in the fund will be expended over an intermediate to long time horizon, material loss would affect outstanding obligations. Intermediate liquidity requirement. Arbitrage yield limitations reduce the benefit of obtaining higher yields.

Time Horizon	While the anticipated time horizon is intermediate (one to ten years) there may be a need for cash quickly in the event of a payment delinquency. The reserves may have only as much as a seven days' notice of the need for a draw on the reserve. The expectation is that much of the money will be spent as scheduled for debt repayment or returned to the Custodian Account in greater than five years. Anticipated and unanticipated liquidity needs should be funded from the portion of the portfolio invested in the shorter term maturities to the extent allowed by portfolio limits.
Special Considerations	Bond Resolutions limit allowed investment of these funds. Investment risk should be examined on an annual basis to ensure that the minimum level of risk required to achieve the highest probability of earning the arbitrage yield limit on the bonds is maintained.

Effective September 3, 2020, the Alaska Municipal Bond Bank Authority's investment policy for the 2010 Reserve Fund is:

90% +/- 10%	**Government Agencies and US Treasuries with Maturities of less than 5 years**
10% +/- 10%	**Government Agencies and US Treasuries with Maturities of more than 5 years and less than 10 years**

Alaska Municipal Bond Bank's shall track the following benchmarks for annual review by the Investment Committee; however, due to the targeted nature of the fund to invest a portion into Government Agencies and US Treasuries with Maturities of more than 5 years and less than 10 years, there is not a performance benchmark that directly mirrors the objectives of the fund.

Effective September 3, 2020, the Alaska Municipal Bond Bank's performance benchmark for the 2010 Reserve Fund is:

100% Bloomberg Barclays US 1-5 Year Gov't Bond Index

The 2016 Reserve fund shall be invested as follows:

Risk Tolerance	Low to Moderate
Investment Objectives	Low exposure to principal loss. While the money in the fund will be expended over an intermediate to long time horizon, material loss would affect outstanding obligations. Intermediate liquidity requirement. Arbitrage yield limitations reduce the benefit of obtaining higher yields.
Time Horizon	While the anticipated time horizon is intermediate (one to ten years) there may be a need for cash quickly in the event of a payment delinquency. The reserves may have only as much as a seven days' notice of the need for a draw on the reserve. The expectation is that much of the money will be spent as scheduled for debt repayment or returned to the Custodian Account in greater than five years. Anticipated and unanticipated liquidity needs should be funded from the portion of the portfolio invested in the shorter term maturities to the extent allowed by portfolio limits.
Special Considerations	Bond Resolutions limit allowed investment of these funds. Investment risk should be examined on an annual basis to ensure that the minimum level of risk required to achieve the highest probability of earning the arbitrage yield limit on the bonds is maintained.

Effective September 3, 2020, the Alaska Municipal Bond Bank Authority's investment policy for the 2016 Reserve Fund is:

90% +/- 10%	**Government Agencies and US Treasuries with Maturities of less than 5 years**
10% +/- 10%	**Government Agencies and US Treasuries with Maturities of more than 5 years and less than 10 years**

Alaska Municipal Bond Bank's shall track the following benchmarks for annual review by the Investment Committee; however, due to the targeted nature of the fund to invest a portion into Government Agencies and US Treasuries with Maturities of more than 5 years and less than 10 years, there is not a performance benchmark that directly mirrors the objectives of the fund.

Effective September 3, 2020, the Alaska Municipal Bond Bank's performance benchmark for the 2016 Reserve Fund is:

100% Bloomberg Barclays US 1-5 Year Gov't Bond Index

C. Municipal Debt Payments

These funds will be invested with the following in mind:

Risk Tolerance	Low. All of the money will be expended within seven business days. Material loss would affect outstanding obligations.
Investment Objectives	Low exposure of principal loss. High liquidity requirement.
Time Horizon	Short. All of the money is expected to be spent in less than seven business days
Other Constraints	Bond resolutions limit investments

Effective September 3, 2020, the Alaska Municipal Bond Bank's performance benchmark for the Municipal Debt Payments is:

100% Money market fund

Effective September 3, 2020, the Alaska Municipal Bond Bank Authority's performance benchmark for the Municipal Debt Payments is:

100% Three Month US Treasury Bill

7.0 Diversification, Concentration & Subsequent Events:

See Exhibit A for a list of the Permitted Investments associated with the Custodian Account. Included in Exhibit B are excerpts from the 2005 General Bond Resolutions defining "Investment Securities.

8.0 Safekeeping and Custody:

All security transactions, including collateral for repurchase agreements, entered into by the Bond Bank shall be conducted on a delivery versus payment basis. Securities will be held by a third party custodian designated by the Executive Director and evidenced by safekeeping receipts and statements

9.0 Reporting:

A monthly report shall be prepared by the Custodian as well as by the Investment manager summarizing investment activity in the portfolios. Performance reporting will be prepared and presented to the Executive Director on a quarterly basis.

EXHIBIT A

CUSTODIAN ACCOUNT
Permitted Investments

Investment of funds and money held in the Custodian Account are limited to:

a. Money market investments comprising:

- Repurchase agreements collateralized only by U.S. Treasury obligations, including bills, notes, and bonds, and only when the collateral carries a market value equal to or greater than 102% of the amount of the repurchase agreements, and only when the custodial bank appointed by retirement funds will take custody of the collateral;
- Negotiable certificates of deposit and bankers acceptances; provided that an issuing bank must have total assets in excess of $5 billion.
- US Treasury or US Government Agency

b. United States Treasury obligations including bills, notes, bonds, and other debt obligations issued by the United States Treasury, and backed by the full faith and credit of the U.S. Government.

c. Other full faith and credit obligations of the U.S. Government.

d. Securities issued or guaranteed by agencies and instrumentalities of the U.S. Government, but not explicitly backed by the full faith and credit of the U.S. Government.

e. Investment grade corporate debt securities.

f. Mortgage-Backed Securities (MBS's) and Collateralized Mortgage Obligations (CMO's) comprising:

    - Agency MBS investments issued by Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association;

    - CMO investments securitized by agency MBS's issued by Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, or the Governmental National Mortgage Association; provided that permissible CMO investments include only sequential class CMO's or type I planned amortization class CMO's.

Investment Practices and Investment Restrictions

1. Prohibited Transactions

The following transactions are prohibited with the Custodian Account of the Alaska Municipal Bond Bank unless those transactions have the prior written consent of the Investment Committee:

- Short sale of securities (the sale and settlement of a security not currently owned by the Authority and a formal agreement to borrow the security to facilitate the settlement of the short sale);
- Purchases of futures, forwards or options for the purpose of speculating (currency futures, forwards and options are permitted only for hedging or to facilitate otherwise permissible transactions);
- Borrowing to leverage the return on investments. Extended settlement of securities purchases executed to facilitate or improve the efficiency of a transaction will not be considered borrowing, provided that sufficient cash equivalent securities or receivables are available to facilitate the extended settlement;
- Purchases of "private placement" or unrated bonds;

EXHIBIT B

Excerpts from the 2005 General Bond Resolution

"Investment Securities" shall mean the following to the extent permitted by the Act and the laws of the State of Alaska:

(1) Governmental Obligations;

(2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself);

(a) *Farmers Home Administration* ("FmHA") Certificates of Ownership;

(b) *Federal Housing Administration* ("FHA") Debentures;

(c) *General Services Administration* Participation certificates;

(d) *Government National Mortgage Association* ("GNMA" or "Ginnie Mae") GNMA-guaranteed mortgage-backed bonds or GNMA-guaranteed pass-through obligations (participation certificates);

(e) *United States Maritime Administration* Guaranteed Title XI financing;

(f) *United States Department of Housing and Urban Development ("HUD") Project Notes Local Authority Bonds*;

(3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following government agencies (stripped securities are only permitted if they have been stripped by the agency itself);

(a) *Federal Home Loan Bank System.* Senior debt obligations (Consolidated debt obligations);

(b) *Federal Home Loan Mortgage Corporation.* ("FHLMC" or "Freddie Mac") rated AAA by Standard & Poor's and Aaa by Moody's Participation Certificates (Mortgage-backed securities) Senior debt obligations;

(c) *Federal National Mortgage Association.* ("FNMA" or "Fannie Mae") rated AAA by Standard & Poor's and Aaa by Moody's Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal);

(d) *Student Loan Market Association.* ("SLMA" or "Sallie Mae") Senior debt obligations;

(e) *Resolution Funding Corp.* ("REFCORP") Only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book-entry form are acceptable; and

(f) *Farm Credit System.* Consolidated systemwide bonds.

(4) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-G," "AAAm" or "AAm" or by Moody's of "Aaa" including funds from which the Trustee or its affiliates receive fees for investment advisory or other services to such fund;

(5) Certificates of Deposit ("CD") secured at all times by collateral described in (a) and/or (b) above. CD's must have a one-year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-l+" or better by S&P, and "Prime-1" or better by Moody's. The collateral must be held by a third party and the third party must have a perfected first security interest in the collateral;

(6) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by the Federal Deposit Insurance Corporation ("FDIC"), including Bank Insurance Fund ("BIF") and Savings Association Insurance Fund ("SAIF");

(7) Commercial paper rated "Prime-1" by Moody's and "A-1+" or better by S&P and which matures not more than 270 days after the date of purchase;

(8) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in the highest long-term rating category assigned by such agencies;

(9) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" by Moody's and "A-1+" by S&P;

(10) Repurchase agreements providing for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date; provided, however, that the repurchase agreement must satisfy certain criteria articulated in writing to the Bank by the Rating Agencies and such agreement must be approved in writing prior to its acquisition by each bond insurer then insuring any Series of Bonds; and

(11) Investment contracts with providers the longterm, unsecured debt obligations of which are rated at least "Aaa" by the Rating Agencies.