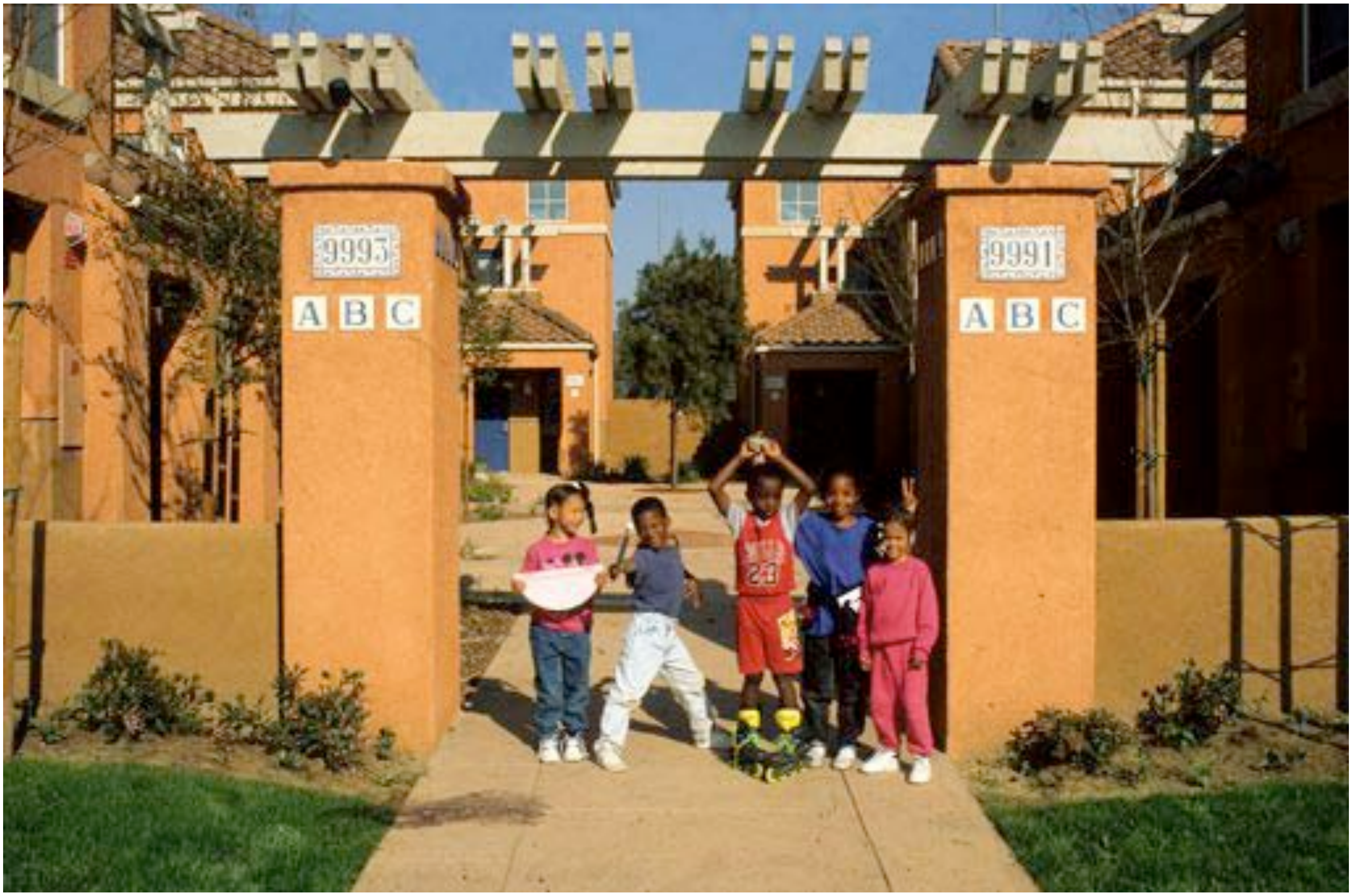
Foreclosure and Delinquency Study



City of Oakland Community Development Districts

Administrative Review Draft
August 3, 2011

DRA
DAVID PAUL ROSEN & ASSOCIATES
DEVELOPMENT, FINANCE AND POLICY ADVISORS

SUBMITTED TO:

Community & Economic Development Agency
City of Oakland
250 Frank H. Ogawa Plaza, Suite 5313
Oakland, CA 94612

SUBMITTED BY:

David Paul Rosen & Associates

1330 Broadway, Suite 937
Oakland, CA 94612
510-451-2552
510-451-2554 Fax
david@draconsultants.com
www.draconsultants.com

3941 Hendrix Street
Irvine, CA 92614
949-559-5650
949-559-5706 Fax
nora@draconsultants.com
www.draconsultants.com

Table of Contents





LIST OF TABLES

LIST OF CHARTS

APPENDIX A

APPENDIX B

Executive Summary

1. Purpose and Scope of the Study

The high cost of housing in Oakland results in housing problems ranging from households paying a high percentage of their incomes toward housing to overcrowding. Market access to credit for low and moderate income homebuyers plays an important role in alleviating some of these housing problems.

The City of Oakland's Linked Banking Services Ordinance, established in 1993, is primarily designed to increase the availability of credit for the City's community development credit needs, particularly credit for small businesses, and for the acquisition of residential properties in the City's seven Community Development Districts ("CD Districts"), the geographic area considered to contain the vast majority of community credit need.

This study examines mortgage default and foreclosure data and risks for the City of Oakland CD Districts, based on available data. The geographic area comprising the City of Oakland's seven CD Districts is approximated by zip codes.[1] This study reviews:

Subprime lending trends reported by lenders under the Home Mortgage Disclosure Act for the City of Oakland, in comparison to the State of California as a whole;

Loan modification data for the Home Affordable Modification Program (HAMP) for the San Francisco-Oakland-Fremont MSA;

Foreclosure risk scores published by the Local Initiatives Support Corporation (LISC), which rate the relative foreclosure risk of Oakland CD Districts' zip

[1] The zip codes included in the analysis of Oakland's CD Districts are: 94601, 94603, 94604, 94605, 94606, 94607, 94609, 94612, 94620, 94621, and 94624.

codes with other zip codes across the San Francisco-Oakland-Fremont metropolitan area; and,

Data on loan defaults and trustee sales for properties in the Oakland CD District zip codes from Dataquick Information System.

DRA also reviewed recent legislative efforts by local and state governments, including the Cities of San Jose and Los Angeles, to include the performance of financial institutions with respect to loan modifications and responsible lending as a criterion in the cities' investment policies.

2. Summary of Findings

Subprime lending trends in the City of Oakland closely parallel statewide activity for the 2004 to 2006 period, for which Home Mortgage Disclosure Act (HMDA) data are currently available. High-cost, or subprime, mortgages (defined as those first liens with an interest rate more than 3 percent higher than a Treasury security of comparable term), comprised 25.4 percent of first mortgage purchase loans originated between 2004 and 2006 in the City of Oakland. There were a total of 4,500 high-cost mortgages recorded in the HMDA data for Oakland during this time period. The City of Oakland percentage is slightly higher than the 22.4 percent figure for the State of California as a whole over the same time period. High-cost refinance loans comprised 17.8 percent of refinance loans in Oakland, with a total of 6,208 high-cost loans, compared to 16.2 percent in the State of California.

Loan modification data from the HAMP program indicate that a total of 10,638 permanent loan modifications were completed in the San Francisco-Oakland-Fremont MSA as of March 2011.

LISC foreclosure risk scores for the Oakland CD District zip codes indicate that the 94605, 94621 and 94603 zip codes experienced the highest incidence of subprime mortgages, delinquencies and foreclosures, with overall risk scores of 65.7, 58.8 and 54.8, respectively. These were the only three of the 11 CD District zip codes with scores over 50 percent, indicating the foreclosure risk in these areas is considered to be more than 50 percent of the risk in the highest-risk zip code in the metro area.

Data on notices of defaults and notices of trustee sales from Dataquick Information Systems by zip code support the finding that zip codes 94605, 94621 and 94603 are among the hardest hit by foreclosure activity of the Oakland CD District zip codes, with 26 percent, 16 percent, and 16 percent of mortgage defaults, respectively. However, the Dataquick data also identified zip code 94601, which had 18 percent of loan defaults, as affected by foreclosure activity, even though the LISC risk score for this zip code was lower than for the three zip codes at 31.6. These four zip codes also accounted for 20 of the 27 properties (74 percent) scheduled for trustee sale as of June 2011.

Findings of the foreclosure data analysis indicate that the City's foreclosure response efforts should be focused on these four zip codes within the CD Districts.

Some communities are developing, or amending existing, responsible banking ordinances to use their own economic resources (such as cash deposits and long-term investments) as leverage to encourage banks to do more aggressive mortgage modifications, provide small business lending, and invest in local communities.

The City of San Jose passed an ordinance in December 2009 that requires the city to consider mortgage modification performance as criteria in deciding where to invest city deposits. This ordinance is credited with moving $1 billion out of Bank of America for its poor loan modification performance.

The City of Los Angeles is considering passing even more comprehensive legislation that will take into account a bank's impact on the city (including mortgage modifications, small business and affordable housing development lending, branch locations) as criteria for deciding where to invest public dollars.

The City of Oakland may want to consider amending its own linked banking ordinance to add additional language holding financial institutions responsible for their willingness to undertake loan modifications.


A. Context

The single-family housing market has seen dramatic changes over the past decade. The U.S. subprime mortgage crisis followed a decade-long housing boom fueled by low interest rates and excess liquidity. During the boom period, home prices rose rapidly and many homebuyers purchased these high-priced homes with non-traditional mortgage products funded by over-eager mortgage lenders. Approximately 80 percent of U.S. mortgages issued to subprime borrowers were adjustable-rate mortgages[1].

After U.S. home sales prices peaked in 2006 and began to decline, many homeowners found themselves "upside down," owing more on their home than it was worth. As unemployment rose, many homeowners found themselves out of a job and unable to make their mortgage payments. In addition, the serious subprime crisis, which began in mid-2007, was followed by a widely reported "credit crunch," during which it became very difficult for borrowers to refinance their home to lower their interest rates. These factors led to a marked increase in delinquency and foreclosure rates.

According to the Mortgage Bankers Association's (MBA) National Delinquency Survey, the number of delinquent mortgages[2] reached a peak in the fourth quarter of 2009 at over 5 million homes nationwide and more than 700,000 in the State of California. The number of homes in foreclosure during this same quarter reached more than 100,000 in California and more than 500,000 nationwide, according to MBA. Foreclosure data from RealtyTrac indicate that foreclosures in California have dropped to 52,000 properties, or one in 259 housing units.

---

[1] Senator Dodd, "Create, Sustain, Preserve and Protect the American Dream of Home Ownership," press release, February 7, 2007.

[2] Includes loans that are at least one payment past due but does not include loans in the process of foreclosure.

Delinquency rates in the MBA survey peaked at 10.44 percent nationally in the third quarter of 2009[1], the highest since MBA started collecting data in 1972. In addition, the percentage of loans in foreclosure was 4.58 percent. The combined percentage of loans in foreclosure or at least one payment past due was 15.02 percent, also the highest ever recorded in the MBA delinquency survey.

Delinquency and foreclosure rates have declined since the peak but remain high. The delinquency rate for mortgage loans on one- to four- unit residential properties was 7.79 percent of all loans outstanding as of the end of the first quarter of 2011, according to the MBA survey. The percentage of loans on which foreclosure actions were started during the first quarter was 1.08 percent, which is the lowest level since the end of 2008.

Table 1 and **Chart 1** show nationwide trends in delinquency and foreclosure rates from second quarter 2008 through first quarter 2011.

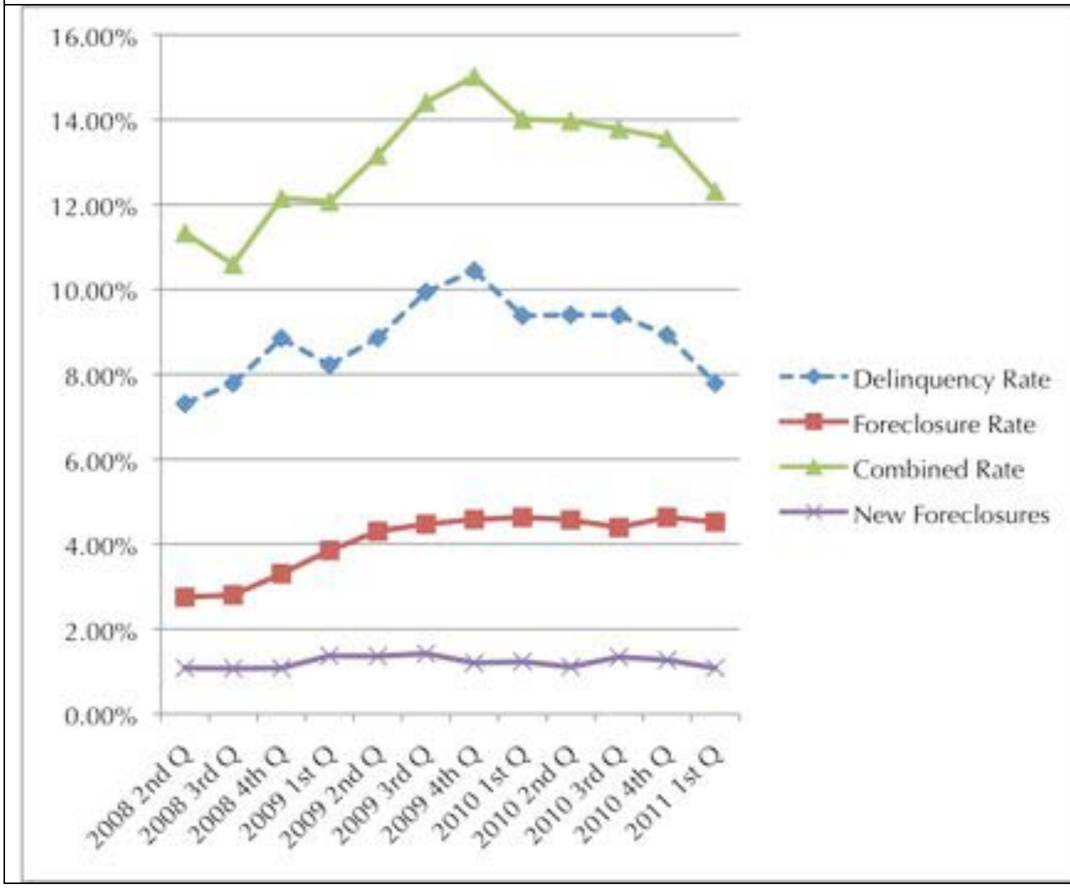
[1] Non-seasonally adjusted basis.

Table 1 Nationwide Trends in Delinquency and Foreclosure Rates[1] 2008 to 2011				
Year/Quarter	**Delinquency Rate[2]**	**Foreclosure Rate[3]**	**Combined Rate**	**Foreclosure Starts[4]**
2008				
2nd Q	7.31 percent	2.75 percent	11.33 percent	1.08 percent
3rd Q	7.79 percent	2.80 percent	10.59 percent	1.07 percent
4th Q	8.85 percent	3.30 percent	12.15 percent	1.08 percent
2009				
1st Q	8.22 percent	3.85 percent	12.07 percent	1.37 percent
2nd Q	8.86 percent	4.30 percent	13.16 percent	1.36 percent
3rd Q	9.94 percent	4.47 percent	14.41 percent	1.42 percent
4th Q	10.44 percent	4.58 percent	15.02 percent	1.20 percent
2010				
1st Q	9.38 percent	4.63 percent	14.01 percent	1.23 percent
2nd Q	9.40 percent	4.57 percent	13.97 percent	1.11 percent
3rd Q	9.39 percent	4.39 percent	13.78 percent	1.34 percent
4th Q	8.93 percent	4.63 percent	13.56 percent	1.27 percent
2011				
1st Q	7.79 percent	4.52 percent	12.31 percent	1.08 percent

[1] Non-seasonally adjusted rates.
[2] Includes loans that are at least one payment past due but does not include loans in the foreclosure process.
[3] Includes loans that are somewhere in the foreclosure process.
[4] Includes loans on which foreclosure actions were started during the quarter.

Source: Mortgage Bankers Association National Delinquency Survey; David Paul Rosen & Associates.

Chart 1
Nationwide Trends in Delinquency and Foreclosure Rates[1]
2008 to 2011



[1] Non-seasonally adjusted rates.

B. Subprime Lending Trends

DRA obtained data on higher-priced, subprime mortgage loans reported by lenders under the HMDA.

For loan applications taken prior to October 1, 2009, HMDA required lenders to compare the annual percentage rate (APR) on the loan to the yield on a Treasury security with a comparable term to maturity to determine whether a loan was required to be reported as higher-priced. If the difference exceeded 3 percentage points for a first lien loan or 5 percentage points for a junior lien, loan it was classified as high-cost and the rate spread was reported.

Under the amended rule, lenders instead compare the APR on the loan to a survey-based estimate of APRs currently offered on prime mortgage loans of a comparable type. Lenders then report the spread if the spread is equal to or greater than 1.5 percentage points for a first lien loan or 3.5 percentage points for a subordinate-lien loan. The revised reporting methodology applies to loan applications taken on or after October 1, 2009 and for loans that closed on or after January 1, 2010, regardless of their application dates.

Table 2 compares subprime lending data for the City of Oakland and the State of California. Lending activity in general, and subprime lending activity in particular, in Oakland closely mirrors that for the State as a whole. Like the State, owner-occupied home purchase loans comprised 87 percent to 88 percent of all first mortgage purchase loans in 2009, while investor home purchase loans accounted for the remaining 12 percent to 13 percent.

Subprime lending data is available for the 2004 to 2006 period. There were 4,500 high-cost purchase loans in the City of Oakland during this time period, comprising 25 percent of all purchase loans. This is slightly higher than for the State of California, where 22 percent of all purchase loans were high-cost. There were 40.5 high-cost purchase loans for every 1,000 one- to four-unit dwellings in the City of Oakland, slightly below the 42.0 high-cost purchase loans for every 1,000 one- to four-unit dwellings across the State.

Table 2 Subprime Mortgage Lending Data City of Oakland and State of California 2004 to 2006				
	City of Oakland		State of California	
	Number	Percent	Number	Percent
2009 Data				
First Mortgage Purchase Loans	3,000	100.0 percent	332,086	100.0 percent
Owner-Occupied Home Purchase Loans	2,617	87.2 percent	291,043	87.7 percent
Investor Home Purchase Loans	383	12.8 percent	41,043	12.3 percent
2004 to 2006 Data				
High-Cost Purchase Loans	4,499	25.4 percent	404,479	22.4 percent
High-Cost Purchase Loans per 1,000 1-4 Family Units	40.5	--	42.0	--
High-Cost Refinance Loans	6,208	17.8 percent	547,711	16.2 percent
High-Cost Refinance Loans per 1,000 1-4 Family Units	55.9	--	56.9	--

Source: Home Mortgage Disclosure Act (HMDA) reports; Federal Financial Institutions Examination Council (FFIEC); David Paul Rosen & Associates.

There were 6,208 high-cost refinance loans in the City of Oakland between 2004 and 2006, comprising 17.8 percent of all refinance loans. The incidence of high-cost refinance loans was 55.9 per 1,000 one- to four-family units. For the State as a whole, the percentage of refinance loans that were high cost was 16.2 percent, with an incidence of 56.9 high-cost refinance loans per 1,000 one- to four-family units.

C. Loan Modifications

DRA obtained loan modification data for the Making Home Affordable (MHA) Program, initiated by the Obama Administration in March 2009, for the San Francisco-Oakland-Fremont MSA. Under the MHA, the Home Affordable Modification Program (HAMP) was designed to enable borrowers that meet eligibility requirements to avoid foreclosures by modifying loans to a level that is affordable to borrowers and sustainable for the long term.

Borrower eligibility for HAMP was based on meeting specific criteria, including:

1. The borrower is delinquent on their mortgage or facing imminent risk of default;

2. The property is occupied as the borrower's primary residence; and,

3. The mortgage was originated on or before January 1, 2009 and the unpaid principal balance could not exceed $729,750 for one-unit properties.

After determining a borrower's eligibility, a servicer was directed to take a series of steps to adjust the monthly mortgage payment to 31 percent of the borrower's total pretax monthly income:

1. Reduce the interest rate to as low as 2 percent;

2. If necessary, extend the loan term to 40 years; and,

3. If necessary, forbear (defer) a portion of the principal until the loan is paid off and waive interest on the deferred amount.

Servicers could also elect to forgive principal under HAMP on a stand-alone basis or before any modification step in order to achieve the target monthly mortgage payment.

The HAMP database tracks active trials and permanent modifications since January 2010, and trial and permanent modifications started since March 2011. **Table 3** summarizes these data for the San Francisco-Oakland-Fremont MSA. As of March 2011, a total of 21,699 trial modifications had been started in the MSA, with 2,991 trials still active. In addition, 11,461 permanent modifications had been started, with 10,638 modifications completed. HAMP activity in the MSA accounted for 1.9 percent of total HAMP activity nationwide.

Table 3
Home Affordable Modification Program (HAMP)
Loan Modification Data
San Francisco-Oakland-Fremont MSA
2010 to 2011

Date	Trial Modifications Started	Active Trials	Permanent Modifications Started	Permanent Modifications Completed	Total HAMP Activity	percent of Total HAMP Activity
Jan. 2010	N/A	11,201	N/A	1,340	12,541	1.3 percent
June 2010	N/A	6,471	N/A	5,590	12,061	1.6 percent
Jan. 2011	N/A	2,781	N/A	9,743	12,524	1.8 percent
Mar. 2011	21,699	2,991	11,461	10,638	13,629	1.9 percent

Note: Figures are cumulative of figures in prior time periods.
Source: Home Affordable Modification Program; David Paul Rosen & Associates


D. LISC Foreclosure Risk Scores

1. Purpose of the Scores

To help communities make informed decisions about how to allocate and spend their resources for foreclosure prevention and neighborhood stabilization, LISC developed foreclosure “risk scores” at the zip code level within each state and within each metropolitan area. These scores incorporate measures of subprime lending, foreclosures, delinquency and vacancies.

The intrastate zip code level risk scores show the relative foreclosure risk at the zip code level within a state. They are intended to assist in allocating assistance at the state or local level. The highest risk zip code in the state is assigned a score of 100 and all other zip codes are assigned a score relative to the highest risk zip code. A zip code with a score of 50 is estimated to have about half the risk level of the highest scoring zip code. The scores indicate relative risk of zip codes on each component individually.

Similarly, the intra-metropolitan zip code level risk scores show the relative foreclosure risk at the zip code level within a metropolitan area and are intended to assist in the allocation of resources within a metro area. The highest zip code is again assigned a score of 100 and the others are assigned scores relative to the highest risk zip code, with a score of 50 indicating about half the risk level.

The LISC component scores are intended to help communities understand important variations in foreclosure risk patterns. For example, a high vacancy component score may indicate a large number of abandoned properties. Spending resources to rehab houses for resale may not be the most efficient strategy if homes are not selling at all in a neighborhood with a lot of abandoned properties.

The component scores may also assist in identifying trends. Some zip codes have a lower foreclosure component score than their delinquency component scores. This means that these zip codes had a relatively small foreclosure problem as of June

2009, while the higher delinquency score suggests the number of foreclosures may be expected to increase in the following months.

The underlying causes of the foreclosure crisis may also be different. For example, a zip code with a low level of subprime lending risk but a high level of delinquency risk may indicate that foreclosures are due more to loss of jobs and/or income rather than loans that were high-cost and unaffordable from the start, as may be the case in an area with a high subprime risk score.

2. Methodology

The LISC indicators used in developing the risk scores include:

> First-lien mortgages in foreclosure as a percentage of all units with a residential mortgage;
>
> Subprime first-lien mortgages as a percentage of all units with a residential mortgage;
>
> First-lien mortgage delinquencies of 30 days or more as a percentage of all units with a residential mortgage (used to anticipate future foreclosures); and,
>
> Vacancies as a percent of occupied units in zip codes with high rates of subprime loans (to reflect the program's emphasis on vacant properties).

All loan and foreclosure counts are restricted to first-lien mortgages only. Foreclosures include pre-foreclosure filings and loans where banks have begun the foreclosure process, but have not sold the property to another owner. REO properties are not included in the zip code analysis.

To calculate the risk scores, researchers first calculated the three key measures used in the risk score: percent of loans in foreclosure, percent of loans that are subprime, and the percent of loans that are delinquent. Data sources included LPS Applied Analytics, the Mortgage Bankers Association, the 2002 Residential Finance Survey, and the 2006 American Community Survey (ACS).

To account for the incidence as well as the concentration of each measure, LISC researchers created three product indicators:

Percent of loans in foreclosure weighted by number of foreclosures;

Percent of subprime loans weighted by number of subprime loans; and,

Percent of delinquent loans weighted by number of delinquent loans.

In other words, the percent of foreclosures was multiplied by the number of foreclosures, and so on. To create comparable values that would give the indicators equal weight, researchers calculated what share each zip code's product represented of the total product summed across all metropolitan zip codes.

Each zip code's initial score was then multiplied by a local vacancy ratio. The ratio was calculated by dividing the vacancy rate in each high subprime zip code by its metropolitan area vacancy rate in high subprime zip codes. High-subprime zip codes are those that fell in the top quartile nationwide of the percent of first-lien mortgages that are subprime for all metropolitan zip codes. In these zip codes, more than 13.58 percent of loans are subprime. The vacancy rate adjustment to the initial score was capped at 10 percent, making the minimum adjustment equal to 0.9 and maximum equal to 1.1. The ratio was also capped at .9 for all zip codes that do not have a high subprime rate.

All ZIP codes with less than 10 total weighted loans were removed before initial and final scores were calculated.

A final score was calculated for each zip code, indicating risk relative to other zip codes within the same metropolitan area. A final score of 100 was assigned to the zip code with the highest adjusted initial score in each metropolitan area, which identified it as the zip code with the highest risk. Each remaining zip code was assigned a final score based on the ratio of its adjusted initial score to the adjusted initial score of the highest risk zip code.

3. LISC Scores for Oakland CD District Zip Codes

Table 4 shows the LISC Intra Metro foreclosure component scores and overall risk scores for the Oakland CD District zip codes. Three zip codes had overall risk scores in excess of 50, indicating they have more than half the risk than the highest risk zip code in the San Francisco-Oakland-Fremont MSA. Zip code 94605 had the highest risk score at 65.7, followed by 94621 with 58.8, and 94603 with 54.8.

Zip code 94605 had a subprime component score of 91.0, suggesting that unaffordable mortgages may be a major cause of delinquencies and foreclosures in that zip code. Zip code 94603 also had a high subprime component score of 82.2 and zip code 94621 had a subprime score of 76.2. Only zip code 94605 had foreclosure and delinquency component scores in excess of 50.

Table 4
LISC Intra Metro Area
Foreclosure Component and Risk Scores
Oakland Community Development District Zip Codes
March 2011

Zip Code	Subprime	Foreclosure	Delinquency	Overall Risk
94601	39.4	29.2	29.0	31.6
94603	82.2	44.3	46.6	54.8
94604	N/A	N/A	N/A	N/A
94605	91.0	58.3	56.8	65.7
94606	11.0	8.1	8.6	9.1
94607	11.0	12.2	9.6	10.7
94609	12.2	5.4	6.2	7.5
94612	2.1	2.5	3.3	2.8
94620	N/A	N/A	N/A	N/A
94621	76.2	40.6	38.0	58.8
94624	N/A	N/A	N/A	N/A

Note: All zip codes with less than 10 total weighted loans were removed before initial and final scores were calculated and appear as N/A above.

Source: Local Initiatives Support Corporation; Foreclosure-Response.org; David Paul Rosen & Associates.

E. Foreclosure Data

DRA researched and compiled foreclosure data for the City of Oakland CD District zip codes from Dataquick. The data include properties which have been issued Notices of Default (NODs), and those that have received Notices of Trustee Sale (NOTs), as of June 2011.

Table 5 summarizes the total number of properties in default by zip code. It also disaggregates the data for owner-occupied single-family properties, non-owner occupied single-family homes, and properties with two or more units. As of June, 2011 there were 572 properties with first mortgages in default. Zip code 94605 had the largest percentage of the CD zip codes, with 150 defaulted mortgages, or 26 percent. Zip code 94612 had the lowest share of defaulted mortgages, with 16 defaults, or 3 percent.

Most of the defaulted loans were for owner-occupied single-family homes, with 335 defaults or 59 percent of the total. Non-owner occupied single-family homes accounted for 79 defaults, or 14 percent. Two or more unit properties accounted for the remaining 158 defaults, or 27 percent.

Table 5
Number of First Mortgage Defaults by Zip Code and Property Type[1]
Oakland Community Development Districts
June 2011

Zip Code	Single-Family Owner-Occupied	Single-Family Non-Owner Occupied	2 or More Units	Total	percent of Total
94601	49	10	44	103	18 percent
94603	69	11	15	95	16 percent
94605	107	24	19	150	26 percent
94606	22	9	24	55	10 percent
94607	10	2	16	28	5 percent
94609	20	3	12	35	6 percent
94612	2	2	12	16	3 percent
94621	56	18	16	90	16 percent
Total	335	79	158	572	100 percent
percent of Total	59 percent	14 percent	27 percent	100 percent	--

[1] Includes properties for which a Notice of Default has been issued but for which a Notice of Trustee Sale has not yet been issued.
Source: Dataquick Information Systems; David Paul Rosen & Associates.

Table 6 provides more detail on the number of properties receiving NODs, including the original first mortgage amount, and the number of units in the property for each of the CD District zip codes. The largest share of defaulted mortgages had original mortgage amounts of between $300,000 to $400,000, with 200 defaults, comprising 35 percent of the total. Loans under $100,000 accounted for 71 defaults, or 13 percent. Loans in the $200,000 to $300,000 range accounted for 125 defaults, or 22 percent. Loans of $400,000 or more accounted for 176 defaults, or 31 percent.

Table 7 displays NOT data by price range, number of units in the property, and owner-occupancy status for single-family properties. Given the much smaller number of NOTs issued, data are disaggregated by original first mortgage amount for all zip codes, and then by zip code for all original first mortgage amounts.

As of June 2011, there were a total of 27 properties in the Oakland CD District zip codes which for which Notice of Trustee Sales had been issued. Owner-occupied single-family loans accounted for 14 of these properties, or 52 percent. As for the NODs, the largest share of NOTs were for original mortgage amounts of between $300,000 to $400,000, with 8 NOTs, comprising 30 percent of the total.

Zip code 94621 had the largest share of NOTs, with 9 mortgages or 33 percent. Zip code 94605 had the second largest number of NOTs, with 6 mortgages or 22 percent. Zip code 94612 was the only zip code with no properties with NOTs.

Table 6
Number of First Mortgage Defaults by Original First Mortgage Amount (1)
City of Oakland Community Development Districts By Zip Code
June, 2011

Zip Code	Original Loan Amount: Less than $100,000	$100,000 to $200,000	$200,000 to $300,000	$300,000 to $400,000	$400,000 to $500,000	$500,000 or More	Total	Percent of Total
94601								
Single-Family Owner Occupied	2	5	10	19	11	2	49	48%
Single-Family Non-Owner Occupied	0	0	4	4	2	0	10	10%
2-4 Units	2	1	7	8	13	4	35	34%
5+ Unit	0	0	0	1	1	7	9	9%
Total Zip Code 94601	4	6	21	32	27	13	103	100%
Percent of Total	4%	6%	20%	31%	26%	13%	100%	
94603								
Single-Family Owner Occupied	2	7	19	27	13	1	69	73%
Single-Family Non-Owner Occupied	0	0	5	5	1	0	11	12%
2-4 Units	1	0	5	6	1	1	14	15%
5+ Unit	0	0	1	0	0	0	1	1%
Total Zip Code 94603	3	7	30	38	15	2	95	100%
Percent of Total	3%	7%	32%	40%	16%	2%	100%	
94605								
Single-Family Owner Occupied	6	9	17	44	22	9	107	71%
Single-Family Non-Owner Occupied	0	0	6	14	3	1	24	16%
2-4 Units	0	0	1	5	2	4	12	8%
5+ Unit	1	0	4	2	0	0	7	5%
Total Zip Code 94605	7	9	28	65	27	14	150	100%
Percent of Total	5%	6%	19%	43%	18%	9%	100%	
94606								
Single-Family Owner Occupied	2	1	2	12	3	2	22	40%
Single-Family Non-Owner Occupied	1	0	1	3	2	2	9	16%
2-4 Units	2	1	2	0	5	5	15	27%
5+ Unit	0	0	1	3	0	5	9	16%
Total Zip Code 94606	5	2	6	18	10	14	55	100%
Percent of Total	9%	4%	11%	33%	18%	25%	100%	
94607								
Single-Family Owner Occupied	0	0	3	2	4	1	10	36%
Single-Family Non-Owner Occupied	0	1	0	1	0	0	2	7%
2-4 Units	0	1	1	1	4	2	9	32%
5+ Unit	0	1	1	4	1	0	7	25%
Total Zip Code 94607	0	3	5	8	9	3	28	100%
Percent of Total	0%	11%	18%	29%	32%	11%	100%	
94609								
Single-Family Owner Occupied	2	0	3	2	9	4	20	57%
Single-Family Non-Owner Occupied	0	0	1	1	1	0	3	9%
2-4 Units	1	0	0	2	4	4	11	31%
5+ Unit	0	0	0	1	0	0	1	3%
Total Zip Code 94609	3	0	4	6	14	8	35	100%
Percent of Total	9%	0%	11%	17%	40%	23%	100%	
94612								
Single-Family Owner Occupied	0	0	2	0	0	0	2	13%
Single-Family Non-Owner Occupied	0	0	1	1	0	0	2	13%
2-4 Units	0	0	0	2	3	1	6	38%
5+ Unit	0	0	1	1	1	3	6	38%
Total Zip Code 94612	0	0	4	4	4	4	16	100%
Percent of Total	0%	0%	25%	25%	25%	25%	100%	
94621								
Single-Family Owner Occupied	4	10	18	18	4	2	56	62%
Single-Family Non-Owner Occupied	2	6	4	6	0	0	18	20%
2-4 Units	0	0	4	5	3	3	15	17%
5+ Unit	0	0	1	0	0	0	1	1%
Total Zip Code 94621	6	16	27	29	7	5	90	100%
Percent of Total	7%	18%	30%	32%	8%	6%	100%	
TOTAL CD ZIP CODES								
Single-Family Owner Occupied	18	32	74	124	66	21	335	59%
Single-Family Non-Owner Occupied	3	7	22	35	9	3	79	14%
2-4 Units	6	3	20	29	35	24	117	20%
5+ Unit	1	1	9	12	3	15	41	7%
Total All Zip Codes	28	43	125	200	113	63	572	100%
Percent of Total	5%	8%	22%	35%	20%	11%	100%	

(1) Includes properties for which a Notice of Default has been issued but for which a Notice of Trustee Sale has not yet been issued.

Table 7
Number of Residential Properties Scheduled for Trustee Sale (1)
By First Mortgage Amount and Zip Code
City of Oakland Community Development Districts
June 2011

BY ORIGINAL LOAN AMOUNT

	Original Loan Amount							
	Less than $100,000	$100,000 to $200,000	$200,000 to $300,000	$300,000 to $400,000	$400,000 to $500,000	$500,000 or More	Total	Percent of Total
Single-Family Owner Occupied	1	2	3	3	3	2	14	52%
Single-Family Non-Owner Occupied	0	0	0	0	0	1	1	4%
2-4 Units	0	0	2	2	2	3	9	33%
5+ Unit	0	0	0	3	0	0	3	11%
Total	1	2	5	8	5	6	27	100%
Percent of Total	4%	7%	19%	30%	19%	22%	100%	

BY ZIP CODE

	Original Loan Amount									
	94601	94603	94605	94606	94607	95609	94612	94621	Total	Percent of Total
Single-Family Owner Occupied	3	0	4	1	1	0	0	5	14	52%
Single-Family Non-Owner Occupied	0	0	1	0	0	0	0	0	1	4%
2-4 Units	0	1	1	1	1	1	0	4	9	33%
5+ Unit	1	0	0	1	0	1	0	0	3	11%
Total	4	1	6	3	2	2	0	9	27	100%
Percent of Total	15%	4%	22%	11%	7%	7%	0%	33%	100%	

(1) Includes properties for which a Notice of Default has been issued but have not yet been issued of Notice of Trustee Sale.

Source: Dataquick Information Systems; David Paul Rosen & Associates


F. Responses to the Foreclosure Crisis

To ensure that local and state governments are investing their dollars in banks that are investing back in local communities, some communities are developing, or amending existing, responsible banking ordinances to use their own economic resources (such as cash deposits and long-term investments) as leverage to encourage banks to do more aggressive mortgage modifications, provide small business lending, and invest in local communities.

The City of San Jose passed an ordinance in December 2009 that requires the city to consider mortgage modification performance as criteria in deciding where to invest city deposits. This ordinance is credited with moving $1 billion out of Bank of America for its poor loan modification performance.

The City of Los Angeles is considering passing even more comprehensive legislation that will take into account a bank's impact on the city (including mortgage modifications, small business and affordable housing development lending, branch locations) as criteria for deciding where to invest public dollars.

In Massachusetts, the state Treasurer Steve Grossman has implemented a new "Small Banking Business Initiative", with a goal of boosting small businesses by placing at least $100 million in state deposits with Massachusetts community, regional, and local banks willing to increase their small business lending efforts.

Legislators in New York City and Boston are considering passing similar legislation.

The recent movement is based on earlier efforts in other cities including Cleveland, which passed legislation in 1991 that is credited with bringing $10 billion in investment to the City, and Philadelphia, that passed similar legislation in 2002 that has helped increase home lending to low-income and minority neighborhoods. Philadelphia recently divested from two of their city depositories that refused to furnish the city the information asked for by the ordinance.

The San Jose and Los Angeles ordinances are profiled below.

1. City of San Jose

The City of San Jose approved an ordinance in December 2009 to modify the City's investment policy to make a bank's loan modification performance a criterion in deciding where the city will invest its money. As a result, the City moved almost $1 billion dollars from Bank of America in 2010.

The language that was added as Section 22 to the City's investment policy is excerpted below.

> 22.0 SOCIAL RESPONSIBILITY – FORECLOSURE MITIGATION
>
> In addition to and subordinate to the objectives set forth in Section 4.0 herein, investment of funds should be guided by the following socially responsible investment goals when investing in permitted short-term investment instruments provided by mortgage servicers. To the extent competing financial institutions offer short-term investment instruments of substantially equivalent safety, liquidity and yield, the level of participation in the federal Home Affordable Modification Program (HAMP) and/or a Community Reinvestment Act rating of "satisfactory" or higher will be used as an investment criteria to differentiate between similar financial institutions' short-term investment instruments.

2. City of Los Angeles

The City of Los Angeles is considering a much broader ordinance to provide for the establishment of a Responsible Banking Investment Monitoring Program. The proposed program was first introduced in February 3, 2009. Consideration of the program was last continued by the Budget and Finance Committee to an undetermined date on April 18, 2011. The language of the ordinance, dated August 6, 2010, includes the following provisions

2.1 Disclosures from Financial Institutions

Banking institutions must disclose annually a statement of community reinvestment goals, including the number, size and type of small business loans; home mortgages; home improvement loans; community development loans; and investments within the City of Los Angeles. The statements must also include the number and location of branches, ATM machines, loan production offices and any other delivery methods for banking services.

Banks and financial institutions that make home mortgage loans must include the following information in their annual statements:

(1) The number and type of fixed-rate, 30 year loans;

(2) The number and type of completed permanent and temporary loan modifications designed to avoid home foreclosures; and,

(3) Detailed information, as allowed by applicable laws, on the number of rate and principal reduction actions taken with respect to loan modifications.

Banks and financial institutions that provide banking services must notify the Treasurer at least 90 days prior to the date of the proposed closing of any physical branch within the City limits.

2.2 Loan Modifications

Banks and financial institutions that make home mortgage loans must certify that:

(1) The bank or financial institution allows unemployed borrowers to qualify for home loan modifications based on unemployment insurance; and,

(2) The bank or financial institution allows tenants in homes subject to foreclosure to continue to rent the properties until they are sold.

2.3 Evaluation and Ranking of Banking Institutions

The Treasurer is directed to annually rank the performance of banking institutions under contract with the City, using Community Reinvestment Act evaluations and reports of the banking institutions' performances to make that ranking. The ranking is to be one of the factors used to determine if the City will continue to do business with the banking institution.

Based on the ranking, the Treasurer is authorized to do the following:

(1) Increase the level of City banking business held by a banking institution that scores in the top 20 percent of local reinvestment performance;

(2) Withdraw City banking business from a banking institution that scores in the bottom 20 percent of local reinvestment performance; and,

(3) Take other such steps, consistent with sound fiscal practice and applicable law, as may be necessary or desirable.

Appendix A

TITLE CITY OF SAN JOSE INVESTMENT POLICY	PAGE 1 of 33	POLICY NUMBER 1-12
EFFECTIVE DATE November 3, 1987	REVISED DATE September 28, 2010	

APPROVED BY COUNCIL ACTION 11/03/87, Item 7e(6); 9/20/88, Item 10a, Res. No. 60898; 12/13/88, Item 6f(1), Res. No. 61089; 9/12/89, Item 6f(2), Res. No. 61661; 12/8/92, Item 7e(9); 10/12/93, Item 9f, Res. No. 64925; 1/25/94, Item 7d(4); 2/1/94, Item 6f(8); 3/7/95, Item 7d(5); 4/23/96, Item 9j, Res. No. 66571; 06/26/01, Item 3.10; 5/21/02, Item 3.4, Res. No. 70976; 6/04/02, Item 3.7, Res. No. 71005; 6/24/08, Item 2.13, Res. No. 74474; 6/09/09, Item 2.6, Res. No. 74941; 12/8/2009, Item 3.8(b), Res. No. 75198; 09/28/10, Item 3.3, Res. No. 75576

1.0 POLICY

The purpose of this Investment Policy ("Policy") is to establish overall guidelines for the management and investment of the City of San Jose's ("City") public funds.

It is the policy of the City to invest public funds in a manner to meet the City objectives, in order of priority, safety of invested funds, maintenance of sufficient liquidity to meet cash flow needs; and attainment of a rate of return consistent with the first two objectives, while conforming to the provisions of California Government Code Sections 53600 et seq.[1], the Charter of the City of San Jose, the City of San Jose Municipal Code, and this Policy.

2.0 SCOPE

This Policy applies to all funds, entities and investment activities under the Director of Finance's control as accounted for in the Comprehensive Annual Financial Report, including but not limited to the following unless specifically exempted by statute or ordinance:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Enterprise Funds
- Trust and Agency Funds
- Any new fund created by the City Council unless specifically exempted

2.1 The City's Deferred Compensation Plan is excluded because it is managed by a third party administrator under the authority of the City's Deferred Compensation Advisory Committee and invested by individual plan participants. Additionally, the City's Retirement Funds are generally excluded because they are managed by the Retirement Administration under the authority of the Retirement Boards.

[1] Even though the provisions of California Government Code Sections 53600 et. seq. do not necessarily apply to the City as a charter city the City has determined that it is prudent to conform this Investment Policy to State law.

2.2 Proceeds of debt issuances shall be invested in accordance with the investment objectives of this Policy and in accordance with the permitted investment provisions of their specific bond indentures. The reporting requirements in Section 18.0 shall not apply to bond proceeds held by trustees. Bond proceeds held in various trust accounts are not subject to percentage restrictions specified in Section 9.0 of this Policy. If in the opinion of the Director of Finance the matching of bond reserve funds with the maturity schedule of an individual bond issue is prudent, the Director of Finance is authorized to cause the bond reserve fund to be invested in an investment vehicle that is authorized by this Policy but that has a maturity that exceeds the five year limitation specified in Section 13.0 of this Policy.

3.0 PRUDENCE

3.1 "City Investment Officials" means the Director of Finance, Assistant Director of Finance, Division Manager – Treasury, Principal Investment Officer, Financial Analyst and any other Finance staff that the Director of Finance authorizes in writing. The overall investment program shall be designed and managed with a degree of professionalism worthy of the public trust. City Investment Officials performing duties in furtherance of the investment program, shall act as fiduciaries subject to the Prudent Investor Standard which shall be applied in the context of managing an overall portfolio.

> ***Prudent Investor Standard***: Acting with care, prudence and diligence under circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity of the agency. Individuals charged with responsibility of investing public funds improve their chance of meeting the prudent investor standard by following a strict professional discipline which involves prudence, discretion and intelligence as exercised 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.

3.2 City Investment Officials, acting in accordance with this Policy and written procedures governing the City's investment program and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided that deviation from expectations are reported in a timely fashion as required by this Policy and the City's investment program procedures and appropriate action is taken to control adverse developments.

4.0 OBJECTIVES

The primary objectives, in order of priority, of the City's investment program are:

4.1. Safety

Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City will diversify its investments by investing funds among a variety of financial institutions and securities offering independent returns. In particular, the City shall seek to preserve principal by mitigating credit risk and market or interest rate risk by doing each of the following:

4.1.1 Credit risk, defined as the risk of loss due to the failure of the security issuer or backer, will be mitigated by:

a. Limiting investments to high quality securities;
b. Prequalifying the financial institutions with which the City will do business;
c. Diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the City; and
d. Monitoring the investment portfolio pursuant to Investment Procedures to anticipate and respond appropriately to a significant reduction of credit worthiness of any of the depositories or investment counterparties.

4.1.2 Market or interest rate risk, defined as the risk that the market value of portfolio securities will fall due to an increase in general interest rates, will be mitigated by:

a. Generally structuring the City's portfolio so that securities mature to meet the City's cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to their maturation to meet those specific needs; and

b. Occasionally restructuring the portfolio to minimize the loss of market value and/or to enhance return/yield subject to the constraints described in Section 17.0 of this Policy.

4.2 Liquidity

The City's investment portfolio will be structured in a manner which will provide that securities mature at the same time as cash is needed to meet anticipated demands (static liquidity). Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). The specific percentage mix of different investment instruments and maturities is described in Section 9.0 of this Policy.

It is the general intent of the City to hold all investments until maturity to ensure the return of all invested principal. However, securities may be sold prior to maturity as needed to comply with the intent of this Policy. While it may occasionally be necessary or strategically prudent for the City to sell a security prior to maturity to either meet unanticipated cash needs, to minimize loss of principal of a security with declining credit, or to restructure the portfolio, this Policy specifically prohibits trading securities for the sole purpose of speculating or taking an unhedged position on the future direction of interest rates. Specifically, "When, as, and if issued" trading and open-ended portfolio restructuring transactions are prohibited; however, purchasing “When, as, and if issued” U.S. Treasuries and U.S. Government Agencies with forward settlement dates not greater than 21 days are permitted. Purchasing “When, as, and if issued” U.S. Treasuries and U.S. Government Agencies with forward settlement dates greater than 21 days are permitted with prior written approval by the Director of Finance.

4.3 Yield

The City’s investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, taking into consideration the investment risk constraints and liquidity needs. Yield on the City's investment portfolio is of secondary importance compared to the safety and liquidity objectives described above. Investments are limited to relatively low-risk securities in anticipation of earning a rate of return relative to the risk being assumed. Nevertheless, investment performance shall be periodically monitored and evaluated by the Director of Finance by comparison with other benchmark yields.

5.0 DELEGATION OF AUTHORITY

Authority to manage the City’s investment program is derived as follows:

5.1 Responsibilities of the Finance Department

The Finance Department is charged by the City Charter with responsibility for maintaining custody of all public funds and securities belonging to or under the control of the City, and for the deposit and investment of those funds in accordance with principles of sound treasury management and in accordance with applicable laws and ordinances.

5.2 Responsibilities of the Director of Finance

The Director of Finance is appointed by the City Manager and is subject to his or her direction and supervision. In accordance with the City Charter, Article VIII, Section 806, the Director of Finance is charged with responsibility for the conduct of all Finance Department functions, including the custody and investment of City funds, and the development of procedures to implement this Policy. The Director of Finance is further responsible for the duties and powers imposed by the general laws of the State of California upon City Treasurers, City Assessors and City Tax Collectors.

Subject to the limitations and requirements specified in this Policy, the Director of Finance and his/her authorized designee(s) can execute agreements and other forms of documentation in order to make investments in Permitted Investments (as defined in Section 9.0, below). Under the oversight of the Director of Finance, responsibility for the operation of the investment program may be delegated to the Finance staff, who shall act in accordance with established written procedures and internal controls consistent with the Policy. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls in accordance with Section 14.0 of this Policy.

5.3 Responsibilities of the City Manager

The City Manager is responsible for directing and supervising the Director of Finance. He or she is responsible further to keep the City Council fully advised as to the financial condition of the City.

5.4 Responsibilities of the City Auditor

The City Auditor is charged by the City Charter with conducting performance audits as assigned by the City Council. A review of the City's investment program could be a part of the responsibility described above.

5.5 Responsibilities of the City Council

The City Council shall annually review and shall adopt by resolution the Investment Policy as described in Section 23.0. As provided in Section 18.0, the Council shall receive and review Quarterly Investment Reports. The distribution of these Quarterly Reports shall be by electronic means as described in that Section. No less than semi-annually, with the Second Quarterly Report (July – December) and the Fourth Quarterly Report (January – June) the City Council Committee assigned the responsibility for review of Finance Department reports shall have agendized a presentation and overview of the City's Investment Program.

6.0 INVESTMENT PROCEDURES

The Director of Finance shall establish written investment policy procedures for the operation of the investment program consistent with this Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No City Investment Official may engage in an investment transaction on behalf of the City except as provided under the terms of this Policy and the written procedures established by the Director of Finance.

7.0 ETHICS AND CONFLICTS OF INTEREST

City Investment Officials involved in the investment process shall refrain from personal business activity that could conflict with proper execution of investments subject to this Policy. City Investment Officials shall avoid all conflicts of interest or appearance of conflicts of interest when performing duties in furtherance of this investment program. The Director of Finance shall immediately disclose any financial interest which is subject to disclosure under the California Political Reform Act or would constitute a conflict of interest under Government Code Section 1090 to the City Manager and the City Attorney. All other City Investment Officials shall immediately disclose any financial interest which is subject to disclosure under the California Political Reform Act or would constitute a conflict of interest under Government Code Section 1090 to the Director of Finance, who in turn will immediately notify the City Manager and the City Attorney. Additionally, City Investment Officials shall comply with the City's Code of Ethics, conflict of interest requirements under state law and the disclosure requirements of the Political Reform Act.

8.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

8.1 Standards for Financial Institutions eligible to transact investment business with the City include (collectively, “Financial Institutions”):

a. Primary government dealers as designated by the Federal Reserve Bank of New York (Exhibit A), or
b. National or state chartered banks, or
c. Regional broker/dealers, or
d. Direct issuers of securities eligible for purchase by the City
e. All must be licensed by the State of California
f. All must be members of Financial Industry Regulatory Authority (FINRA).

8.2 The Director of Finance will maintain a list of Financial Institutions authorized to provide investment services and a list of approved security broker/dealers after a careful review of their qualifications and creditworthiness.

8.2.1 All Financial Institutions and broker/dealers who desire to do business with the City shall provide the necessary information (e.g. audited financial statements, proof of state registration, proof of FINRA certification, etc.) from which the City can determine their creditworthiness, the existence of any pending legal action against the firm or the individual brokers who work directly with the City, as well as an understanding of the security markets that they serve.

8.2.2 The Director of Finance will conduct an annual review of the financial condition and registrations of approved Financial Institutions and security broker/dealers. Audited financial statements, collected as part of the annual review will be on file (either paper or electronic) for each Financial Institution and broker/dealer with which the City invests. City Investment Officials will periodically review the approved list of Financial Institutions and security broker/dealers to determine the need to add to or delete from the approved list.

8.2.3 The Director of Finance will make a determination on whether an Agreement (consultant or service agreement) needs to be executed with the Financial Institution based on the scope of services and compensation provided. For example, the City currently executes an Agreement for Investment Custodial Services as well as Investment Advisory Services. While it is not currently being contemplated, to the extent any broker/dealer is providing investment advisory services, as opposed to traditional brokerage services, the City will enter into an Agreement for those services. Additionally, any firm in which the City enters into a Repurchase Agreement must meet the requirements outlined in Section 9.0(7) of the Policy. The City requires that an agreement for services be executed prior to entrusting its funds to any dealer or Financial Institution, and that up-to-date financial statements be sent to the Director of Finance upon their issuance.

8.2.4 After the annual Council adoption of the Policy, the Director of Finance shall send a copy of the current edition of the Policy to all Financial Institutions and broker/dealers, which are approved to execute investment transactions with the City. Confirmation of receipt of this policy shall be considered evidence that the Financial Institution and broker/dealer understands the City's Policy and intends to sell the City only appropriate investments authorized by this Policy.

9.0 AUTHORIZED INVESTMENTS

All investments shall conform to Sections 53600 et seq. of the California Government Code and as described within the Policy ("Permitted Investments"). Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. If subsequent to purchase, portfolio percentage constraints are above the maximum thresholds due to changes in value of the portfolio, or changes due to revisions of the Policy, then the affected securities may be held to maturity in order to avoid potential principal losses. However, the Director of Finance may choose to rebalance the portfolio (pursuant to Section 17.0 of the Policy) if percentage imbalances are deemed to impair portfolio diversification.

If subsequent to purchase, securities are downgraded below the minimum acceptable ratings level (below prime for short term ratings, or below investment grade for long term ratings), then the securities shall be reviewed for possible sale within a reasonable amount of time after the downgrade. In either instance listed above, the fact will be disclosed in the Quarterly Investment Report as described in Section 18.0 of this Policy.

Permitted Investments and applicable limitations shall include:

9.1 United States Treasury Obligations, including Bonds, Notes and Bills

a. There is no maximum portfolio limit.
b. Purchase in Treasury securities shall not exceed five years to maturity.

9.2 United States Government Agency Issues

a. The purchase of United States Federal Government Agency securities will be limited to the senior, non-subordinated issues of the Federal Farm Credit Banks (FFCBs), the Federal Home Loan Banks (FHLBs), Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA). This limitation shall not apply to money market mutual funds described in Section 9.0(10).
b. There is no maximum portfolio limit.
c. Purchase in eligible Agency securities shall not exceed five years to maturity.
d. The purchase of subordinated debt of a United States Government Agency will be classified as Corporate Note as listed in this Policy, and as such subject to limitations of that security type.

9.3 Bankers Acceptances (BAs)

a. BAs eligible for investment must be rated “P1, A1, or F1” or better by two of the three nationally recognized rating services, Moody’s, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed above.
b. The purchase is limited to BAs issued by domestic U.S. or foreign banks and which must be rated by Fitch as follows: an issuer rating of “B” or better for domestic U.S., “C” or better for California banks, or “A/B” or better for foreign banks, or if the issuing bank issues debt, other than BAs, the outstanding debt must be rated “A3, A-, or A-” or higher, respectively by Moody’s, S&P or Fitch. No rating may be lower than any of the ratings listed in the preceding sentence.
c. Foreign BAs must be dollar-denominated.
d. No more than 5% of the portfolio shall be invested in any single institution.
e. No more than 20% of the portfolio shall be invested in BAs.
f. The maturity of any BA shall not exceed 180 days.

9.4 Time Deposits

a. Deposits up to the federally insured (FDIC) limit may be invested in, but are not limited to banks and savings and loans with offices located in the San Jose area.
b. No more than $10 million of the portfolio shall be invested in federally insured time deposits of which no more than 5% shall be invested in one issuer.
c. Deposits shall not exceed the net worth of the bank or savings and loan.
d. The maturity of such deposits shall not exceed three years.
e. Deposits over the federally insured limit (FDIC) may be invested in, but are not limited to banks and savings and loans in the San Jose area.
f. Depositories must have an issuer rating of “B” or better by Fitch.
g. Deposits shall be collateralized in the manner prescribed by State law for depositories.
h. No more than $10 million of the portfolio shall be invested in non-negotiable and collateralized deposits of which no more than 5% shall be invested in one issuer.
i. Deposits shall not exceed the net worth of the bank or savings and loan.
j. The maturity of non-negotiable and collateralized deposits shall not exceed 18 months.

9.5 Commercial Paper (CP)

a. Commercial paper eligible for investment must be rated “P1, A1, or F1” or better by two of the three nationally recognized rating services, Moody’s, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed above.
b. Issuing corporations must be organized and operating within the United States and have total assets in excess of $500,000,000 and shall issue debt, other than commercial paper, if any, that is rated “A3, A-, or A-” or higher, respectively by Moody’s, S&P or Fitch. No rating may be lower than any of the ratings listed in the preceding sentence.
c. Purchase of commercial paper may not represent more than 10% of an issuing corporation’s commercial paper.
d. No more than 5% of the portfolio shall be invested in any single institution.
e. No more than 20% of the portfolio shall be invested in commercial paper.

f. The maturity of the commercial paper shall not exceed 270 days.

9.6 Negotiable Certificates of Deposit (NCDs)

a. Depositories shall be limited to banks and savings and loans with an issuer rating of “A/B” or better by Fitch.
b. No more than the lesser of the net worth of the institution or 5% of the portfolio shall be invested in any single institution.
c. No more than 20% of the portfolio shall be invested in NCDs.
d. The maturity of the NCDs shall not exceed 180 days.

9.7 Repurchase Agreements (Repos)

a. Repos are executed only with primary dealers of the Federal Reserve Bank of New York which have entered into the City's Master Repurchase Agreement and any subsequent amendments to the Master Repurchase Agreement.
b. Securities accepted as collateral for repurchase agreements are U.S. Treasury or U.S. Federal Government Agency issues permitted by this Policy and the limitations set for under Section 9.0(1) and 9.0(2).
c. The full market value of securities (including accrued interest) accepted as collateral as authorized by this Policy shall be at the time of transfer equal to at least 102 percent of the face value of the Repo.
d. For other than overnight investments, the securities transferred shall be marked to market on a daily basis and maintained at a market value equal to at least 102 percent of the repurchase agreement's face value.
e. No more than 50% of the portfolio shall be invested in repos.
f. No more than 10% of the portfolio shall be invested in a repo with any single institution.
g. The maturity of any Repo shall not exceed 92 days.

9.8 Corporate Notes

a. Securities eligible for investment must be rated “A3, A-, or A-” or better by two of the three nationally recognized rating services, Moody’s, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed above.
b. No more than 5% of the portfolio shall be invested in any single institution.
c. Medium-term corporate notes may not exceed 20% of the City’s portfolio.
d. The maturity of any corporate note shall not exceed three years.

9.9 Local Agency California Investment Fund (LAIF)

a. Funds may be invested in LAIF; a State of California managed investment pool, up to the maximum dollar amounts per separate legal entity in conformance with the account balance limits authorized by the State Treasurer.
b. Annual review of LAIF's Pool Money Investment Board Annual Report will be conducted to continue to ensure LAIF's investment policy, standards, and rate of return are compatible with the City's risk tolerance.

9.10 Money Market Mutual Fund

a. An investment objective of the fund must be the maintenance of a price per share of $1.00.
b. Fund is registered with the Securities and Exchange Commission (SEC) and complies with the most current guidelines of Rule 2a-7 and other rules under the Investment Company Act of 1940 governing the operation of money market funds.
c. Must meet either one of the following credit criteria for investment:
d. The Fund must be rated by not less than two of the following: Moody's -rated Aaa, S&P rated AAAm, or Fitch-rated AAA.; or
e. Retained an investment adviser registered with the SEC, or exempt from the SEC registration requirements with not less than five years experience investing in securities and obligations authorized by the California Government Code 53601 and managing money market mutual funds with assets under management in excess of $500 million.
f. The Fund invests only in U.S. Treasury and U.S. Federal Government Agency securities, and in repurchase agreements backed by U.S. Treasury and U.S. Federal Government Agency securities.
g. No more than 10% of the portfolio shall be invested in any one money market mutual fund.
h. No more than 20% of the portfolio shall be invested in money market mutual funds.

9.11 Reverse Repurchase Agreements (Reverse Repos)

a. Except as otherwise authorized by the City Council, the use of reverse repurchase agreements will be limited to those occasions where unanticipated, short-term cash requirements can be met more advantageously by initiating a reverse repurchase agreement than by selling a security into the secondary market prior to its maturity.
b. Reverse repurchase agreements are executed only with primary dealers of the Federal Reserve Bank of New York which have signed the City's Master Repurchase Agreement and any subsequent amendments to the Master Repurchase Agreement.
c. Under no circumstances shall the City sell securities through reverse repurchase agreements for the purpose of financing the acquisition of other securities.
d. The term of any reverse repurchase agreement shall be limited to 30 days.
e. The amount of the agreement may not exceed the lesser of $25 million or 20% of the base value of the portfolio, and only a single agreement shall be in effect at one time.

f. Prior written approval by the City Manager or his or her designee is required to enter into a reverse repurchase agreement, and the fact that such a reverse repurchase agreement has been executed will be reported in writing within 72 hours to the City Manager, City Council and City Auditor and will also be included in the Quarterly Investment Report.

9.12 Municipal Bonds

Municipal bonds are debt obligations issued by the state and local governments and their agencies such as cities, counties, government retirement plans, school districts, state universities, sewer districts, municipally owned utilities and authorities operating bridges, airport and other transportation facilities; including bonds payable solely out of the revenue from a revenue-producing property owned, controlled, or operated by a state or local agency. No more than 20% of the total portfolio shall be invested in municipal bonds. Municipal bonds are further classified as follows:

9.12.1 Category 1 - Bonds issued by the City or agency[2] of the City

a. Securities eligible for investment must be rated, A3, A-, A- or better by two of the three nationally recognized credit rating organizations, Moody's, Standard & Poor's or Fitch, respectively; or if deemed appropriate for purchase by the Director of Finance if the issuing agency does not apply for a rating. No rating may be lower than any of the ratings listed above. Such ratings must be the issuing agency's underlying rating, irrespective of any credit enhancements obtained from third party organizations.
b. No more than 5% of the total portfolio for each separate legal entity with an aggregate limit in bonds issued by the City or its agencies not to exceed 10% of the total portfolio.
c. The maturity shall not exceed five years unless there is a mandatory put provision or tender option date imbedded into the security; then the date of the put provision shall be used to determine the maturity.
d. Maturity may exceed five years without a mandatory put provision or tender option date imbedded into the security when prior approval is obtained in writing from the Director of Finance and the City Manager.
e. Maturities exceeding five years will be specifically delineated in the Quarterly Investment Report.

[2] "*Agency of the City*" includes all "component units" of the City of San José as defined in the City's Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles, including, but is not limited to, the Redevelopment Agency of the City of San José ("Redevelopment Agency"), the City of San José Financing Authority, the San José – Santa Clara Clean Water Financing Authority, the City of San José Parking Authority and any other Joint Powers Authority created in which the City and/or the Redevelopment Agency is a majority obligor or participant.

9.12.2 Category 2 - Bonds issued by the State of California

a. Obligations must be rated in the A3, A-, A- or better category by two of the three nationally recognized credit rating organizations, Moody's, Standard & Poor's or Fitch, respectively). No rating may be lower than any of the ratings listed above. Such rating must be the issuing agency's underlying rating, irrespective of any credit enhancements obtained from third party organizations.
b. No more than 5% of the total portfolio shall be invested in bonds issued by the State of California.
c. The maturity, mandatory put provision, or tender option date shall not exceed five years.

9.12.3 Category 3 - Bonds issued by any other local agency within the State of California

a. Obligations must be rated in the A3,A-, A- or better category by two of the three nationally recognized credit rating organizations, Moody's, Standard & Poor's or Fitch, respectively. No rating may be lower than any of the ratings listed above. Such ratings must be the issuing agency's underlying rating, irrespective of any credit enhancements obtained from third party organizations.
b. Investments in this category may not represent more than 10% of the issuing entity's outstanding debt.
c. The maturity, mandatory put provision, or tender option date shall not exceed five years.
d. No more than 5% of the total portfolio shall be invested in any one issuer.
e. Municipal bonds in this category may not exceed 5% of the City's portfolio.

9.12.4 Category 4 - Bonds issued by any of the other 49 states, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California

a. Obligations must be rated in the A3, A-, A- or better category by two of the three nationally recognized credit rating organizations, Moody's, Standard & Poor's or Fitch, respectively. No rating may be lower than any of the ratings listed above. Such ratings must be the issuing agency's underlying rating, irrespective of any credit enhancements obtained from third party organizations.
b. The maturity, mandatory put provision, or tender option date shall not exceed five years.
c. Investments in this category may not represent more than 10% of the issuing entity's outstanding debt.
d. Investments in this category may not represent more than 10% of the issuing entity's outstanding debt.
e. No more than 5% of the total portfolio shall be invested in any one issuer.
f. Municipal bonds in this category may not exceed 5% of the City's portfolio.

9.13 Investment Agreements (IA)

An IA is a contract providing for the lending of issuer funds to a financial institution (the "Provider") which agrees to repay the funds with interest under predetermined specifications. IAs may be used for the investment of bond proceeds in accordance with the permitted investment provisions of the specific bond indentures. To reduce the risk associated with a Provider's inability to meet its contractual obligations, the following safeguards are required in the use of an IA:

a. Competitive bidding of the investment agreement pursuant to the Internal Revenue Code and any regulations promulgated thereto;
b. Provider (or guarantor of Provider) rated AA or above from at least one national rating agency and ratings in the "AA" category from at least one other national rating agency;
c. Provider's participation in the financing will not adversely affect the transaction, including the expected rating on the Bonds;
d. Provider downgrade provisions in order to (i) allow the City to terminate the Agreement and withdraw the par value (outstanding principal balance and accrued interest) of the invested proceeds with no penalty or (ii) to require the Provider to increase the collateral level;
e. Collateralization of at least 104% (including accrued interest);
f. The collateralization requirement does not apply to Conduit Financings;
g. Collateral held by a third party;
h. Securities accepted as collateral for repurchase agreements are U.S. Treasury or U.S. Federal Government Agency issues permitted by this Policy and including the limitations set for under Section 9.0(1) and 9.0(2) of this Policy. In addition, with the prior written approval of the Director of Finance, securities listed in Section 9.0(15) will be accepted as collateral.
i. Agreement to include termination provisions in the event of Provider breach or Provider downgrade; and
j. Trustee to monitor the Provider's rating, securities, and collateral value on a weekly basis.

9.14 Stocks

From time to time stock may be received as a gift, through bankruptcies or as payment in lieu of monies due the City. Such stock shall be sold unless received through a gift or bequest with restrictions on its sale. Sale proceeds will be distributed to the appropriate program fund. If the stock has no market value or if the cost of selling it exceeds the market value, the stock will be written off or monitored periodically to be sold when a break-even market value can be realized.

9.15 Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO)

a. Must be issued by a United States Government Agency.
b. Must be AAA rated or its equivalent or better by a nationally recognized rating service. If rated by any of the three rating agencies, the ratings may not be lower than those listed above by any of the rating agencies.

c. The maturity of any MBS or CMO security shall not exceed 5 years except with prior written approval from the Director of Finance.
d. Maturities exceeding five years will be specifically delineated in the Quarterly Investment Report.
e. No more than 10% of the portfolio shall be invested in MBS and CMO in aggregate.

9.16 Asset Backed Securities (ABS)

a. Must be AAA rated or its equivalent or better by a nationally recognized rating service. If rated by any of the three rating agencies, the ratings may not be lower than those listed above by any of the rating agencies.
b. The maturity of any ABS security shall not exceed 5 years.
c. The issuer of the ABS security must have an A3, A-, or A- rating or better by Moody's, S&P, or Fitch, respectively, of its underlying debt. If rated by any of the three rating agencies, the ratings may not be lower than those listed above by any of the rating agencies.
d. The ABS security shall only be backed by commercial and consumer receivables.
e. No more than 5% of the portfolio shall be invested in ABS.

9.17 Ineligible Investments

Ineligible investments include common stock (with the exception noted above in Section 9.0(14)), inverse floaters, range notes, mortgage-derived interest-only strips, or any security that could result in zero interest accrual if held to maturity and any investments not authorized by this Policy unless otherwise approved by the City Council.

9.18 Combined Issuer/Institution Limits

No more than 10% of the portfolio shall be invested in aggregate of any single institution of the following types: Bankers Acceptances, Commercial Paper, Negotiable Certificates of Deposits, and Corporate Notes.

10.0 COLLATERALIZATION

Collateralization is required on two types of investments: non-negotiable and collateralized time deposits and repurchase agreements.

10.1 Non-negotiable and collateralized time deposits with banks and savings and loans

Shall be collateralized in the manner prescribed by California Government Code 53652 for depositories accepting municipal investment funds.

10.2 Repurchase Agreements

a. The types of securities to be accepted as transferred securities in repurchase agreements in which the City is the buyer shall be limited to U.S. Treasury or U.S. Federal Government Agency issues permitted under this Policy. The City shall maintain a preference for collateral of shorter-term maturities.
b. The full market value (including accrued interest) of the securities used as collateral for the repurchase agreements shall not be allowed to fall below 102% of the value of the repurchase agreement as provided in the Master Repurchase Agreement.
c. Substitutions of transferred securities shall be limited to U.S. Treasury Securities permitted under this Policy and may not be made without prior written approval by the Director of Finance.

11.0 SAFEKEEPING AND CUSTODY

All securities owned by the City shall be held in safekeeping by the City's custodial bank or by a third party bank trust department, acting as agent for the City under the terms of a custody agreement or master repurchase agreement. All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis through the City's safekeeping agent. Securities held in custody for the City shall be independently audited on an annual basis to verify investment holdings.

12.0 DIVERSIFICATION

The City, consistent with the primary objectives of safety, liquidity and yield, will diversify its investment by security type, issuer and maturity dates. Portfolio percentage and/or dollar limits are indicated in Section 9.0 of this Policy.

13.0 MAXIMUM MATURITIES

The City's investment portfolio shall be structured to provide that sufficient funds from investments are available to meet the City's anticipated cash needs. The choice of investment instruments and maturities shall be based upon an analysis of anticipated cash needs, existing and anticipated revenues, interest rate trends and specific market opportunities. The average weighted maturity of the investment portfolio will not exceed two years, and no investment will have a maturity of more than five years from its date of purchase unless specifically approved according to the provisions set forth elsewhere in this Policy.

14.0 INTERNAL CONTROLS

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

a. Separation of duties.
b. Control of collusion.
c. Custodial safekeeping.
d. Avoidance of physical delivery of securities.
e. Written confirmation of transfers for investments and wire transfers.
f. Written procedures for placing investment transactions.
g. Delegation of authority to investment officials.

15.0 PERFORMANCE STANDARDS

The investment portfolio shall be designed with the overall objective of safety, liquidity and a rate of return on investment commensurate with the investment risk constraints and the cash flow needs.

16.0 MARKET YIELD (BENCHMARK)

The City's investment portfolio is generally managed on a "buy and hold" strategy. Given this strategy, the basis used by the Director of Finance to determine whether market yields are being achieved shall be to identify a benchmark comparable to the weighted average maturity and average composition of the investment portfolio, which varies over time. The benchmark used shall be delineated in the Quarterly Investment Report and may be modified due to material changes in the portfolio's composition or weighted average maturity. If the benchmark is changed, the modification shall be explained in the Quarterly Investment Report.

The City's Investment Portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, taking into consideration the investment risk tolerance and liquidity needs of the City. Yield on the City's investment portfolio is of secondary importance to the safety and liquidity objectives described in Section 4.0 of the Policy.

17.0 RESTRUCTURING TRANSACTIONS

17.1 General Definitions

The restructuring process involves a change in the composition of the portfolio such that the aggregate portfolio after all transactions are executed meets original goals and constraints of the Policy and performance has been improved. Restructuring opportunities are not a function of time but rather a result of changing market conditions. Conditions that are generally favorable to restructurings are:

a. Availability of more beneficial issues.
b. Changes in the shape of the yield curve.
c. Changes in quality or sector spreads.

A restructured portfolio must continue to generate sufficient cash flow to meet the City's cash requirements without impairing the overall quality/diversification constraints of the portfolio.

17.2 Specific Requirements

a. Restructuring transactions in the City's portfolio shall not exceed $40 million (par value) per month in original securities exchanged for replacement securities.
b. Prior conceptual approval shall be obtained in writing from the Director of Finance.
c. Executed restructuring transactions will be reported to the City Manager within 72 hours.
d. Executed restructuring transactions will be included in the Quarterly Investment Report.
e. Net sales gains or losses shall not be incurred to the point of radically altering the current month's earned interest yield (plus or minus 30 basis points).

18.0 REPORTING AND DISTRIBUTION

The Director of Finance shall prepare and submit Quarterly Investment Reports containing the information described in Sections 19.0 to be posted to the City's internet site for public access and distribute a hard copy of the reports to the City Clerk's Office for public review. In the event there are exceptions to the Policy, the Director must report as described in Section 20.0.

19.0 QUARTERLY INVESTMENT REPORTS

The Quarterly Investment Reports shall be placed on the next available agenda of the City Council Committee responsible for the review of Finance Department items after the electronic distribution and posting of the reports. At least semi-annually, the Committee shall receive an oral presentation on the contents of the Quarterly Investment Report as described in Section 5.0(5). The Quarterly Investment Report will include the following information: portfolio statistics, portfolio performance, compliance reporting requirements, investment trading activity and investment strategy:

19.1 Portfolio Statistics

a. Classification of the investment, the percentage of the total portfolio which each type of investment represents, issuer, CUSIP, purchase date, rating of security, date of maturity, par and dollar amount invested on all securities and investments.

b. Current market value and the source of the market value.
c. Weighted average maturity of the investment portfolio.
d. Trend of average portfolio maturity.
e. Maturity aging by type of investment.
f. Unrealized gain or loss resulting from appreciation or depreciation in the market value of securities.
g. Portfolio turnover rate and trend.

19.2 Portfolio Performance

a. Weighted average yield on reporting quarter's purchases.
b. Weighted average yield on reporting quarter's sales and/or maturities.
c. Weighted average yield of the portfolio based upon book value as compared to a benchmark.
d. Trend of the monthly earned interest yield on investments.
e. Trend of the monthly days to maturity and yield.

19.3 Compliance Reporting Requirements

a. Cash management projection: Statement denoting the ability of the City to meet its expected obligations over the next six months.
b. Statement of compliance with the Policy: Reasons for and number of violations or exceptions to the investment policy during the quarter being reported on, as well as prior violations or exceptions which have not yet been corrected.
c. Comparison of budgeted investment earnings to actual earnings for the reporting quarter and fiscal year-to-date.
d. Distribution reports by bank and broker/dealer.

19.4 Investment Trading Activity

a. All investment transactions occurring during the quarter whether or not the transaction has been fully settled.
b. Separation of realized trading gains or losses from interest received on trading activity ((Since the City is not involved in active trading, this will occur only when a security must be sold prior to maturity as defined in Section 4.0(2)).
c. Aggregate commitments to purchase securities or make other payments to dealers in a manner to permit adequate cash need forecasting.
d. A brief description of executed reverse repos and the associated interest cost and interest earnings from the transactions.
e. A brief description of executed restructuring transactions. Number and dollar volume of trades executed for the sole purpose of restructuring the portfolio and analysis of benefit derived from those trades.
f. A description of any security purchased during the quarter with a maturity exceeding five years.
g. A description of any security downgraded below the minimum acceptable ratings level (below prime for short term ratings, or below investment grade for long term ratings).

19.5 Investment Strategy

A description of the current investment strategy, and the assumptions upon which it is based.

20.0 REPORTING POLICY EXCEPTIONS

While this Policy prescribes various maximums, minimums and other relatively arbitrary numerical limits, it is intended primarily to be a management tool. When the Director of Finance determines that an exception to one of the Policy's numerical limits is in the best interest of the City, and is otherwise consistent with the Policy, such exception is permitted so long as it is consistent with applicable City, State and Federal laws. Whenever an exception or violation of this Policy is made, that fact shall be reported to the City Manager within three business days, and to the City Council within 10 days of its discovery. Major exceptions will be reported immediately. All exceptions to the Policy and the appropriate explanation or justification for the exception shall be included in the Quarterly Investment Report. Fluctuations in portfolio assets can cause technical exceptions to the various percentage limits of the Policy which should not be interpreted as "reportable exceptions". The Director of Finance may choose to rebalance the portfolio if percentage imbalances are deemed to impair portfolio diversification.

21.0 SEMI-ANNUAL COMPLIANCE AUDITS

No less than semi-annually each year, a compliance audit shall be conducted of the City's investment program to determine whether the City's investments within the City's pooled portfolio are in compliance with the City's Investment Policy, internal controls, and department procedures. If the City Council does not direct that the compliance audits be included in the City Auditor's annual workplan, then the Director of Finance shall cause such compliance audits to be conducted by an external auditor.

22.0 SOCIAL RESPONSIBILITY – FORECLOSURE MITIGATION

In addition to and subordinate to the objectives set forth in Section 4.0 herein, investment of funds should be guided by the following socially responsible investment goals when investing in permitted short-term investment instruments provided by mortgage servicers. To the extent competing financial institutions offer short-term investment instruments of substantially equivalent safety, liquidity and yield, the level of participation in the federal Home Affordable Modification Program (HAMP) and/or a Community Reinvestment Act rating of “satisfactory” or higher will be used as an investment criteria to differentiate between similar financial institutions' short-term investment instruments.

23.0 INVESTMENT POLICY REVIEW/ADOPTION

The Policy shall be adopted by resolution of the City Council on an annual basis. This Policy shall be reviewed annually to ensure its consistency with respect to the overall objectives of safety, liquidity and yield, and its relevance to current laws and financial trends. An annual Statement of Investment Policy including proposed amendments to the Policy with the exception of minor Policy changes shall be prepared by the Director of Finance for the review and recommendation of the City Council Committee assigned the responsibility for review of Finance Department reports prior to submission to the entire City Council for consideration and approval.

24.0 TRAINING AND CONTINUING EDUCATION

The City strives for professionalism and accountability in the investment of its funds. In order to ensure the highest possible professional standards, the City Investment Officials as defined in the Policy, are encouraged to complete at least 16 hours per year of continuing education programs or other training in cash and investment management.

25.0 GLOSSARY

Definitions of investment-related terms are listed on Exhibit B.

EXHIBIT A

LIST OF THE PRIMARY GOVERNMENT SECURITIES DEALERS REPORTING TO THE GOVERNMENT SECURITIES DEALERS STATISTICS UNIT OF THE FEDERAL RESERVE BANK OF NEW YORK

BNP Paribas Securities Corp.
Banc of America Securities LLC
Barclays Capital Inc.
Cantor Fitzgerald & Co.
Citigroup Global Markets Inc.
Credit Suisse Securities (USA) LLC
Daiwa Securities America Inc.
Deutsche Banc Securities Inc.
Goldman, Sachs & Co.
HSBC Securities (USA), Inc.
Jefferies & Company, Inc
J. P. Morgan Securities, Inc
Mizuho Securities USA Inc.
Morgan Stanley & Co. Incorporated
Nomura Securities International, Inc.
RBC Capital Markets Corporation
RBS Securities Inc.
UBS Securities LLC

NOTE: This list has been compiled and made available for statistical purposes only and has no significance with respect to other relationships between dealers and the Federal Reserve Bank of New York. Qualification for the reporting list is based on the achievement and maintenance of the standards outlined in the Federal Reserve Bank of New York's memorandum of January 22, 1992.

Government Securities Dealers Statistics Unit
Federal Reserve Bank of New York
May 1, 2010

NOTE: The City’s Finance Department will replace this list in the official Investment Policy as changes are made by the Federal Reserve Bank of New York.

EXHIBIT B

GLOSSARY

ACCRETION: Adjustment of the difference between the price of a bond bought at an original discount and the par value of the bond.

AGENCIES: Federal agency securities and/or Government-sponsored enterprises (GSEs), also known as U.S. Government instrumentalities. Securities issued by Government National Mortgage Association (GNMA) are considered true agency securities, backed by the full faith and credit of the U.S. Government. GSEs are financial intermediaries established by the federal government to fund loans to certain groups of borrowers, for example homeowners, farmers and students and are privately owned corporations with a public purpose. The most common GSEs are Federal Farm Credit System Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Association, and Federal National Mortgage Association.

AMORTIZATION: Accounting procedure that gradually reduces the cost value of a limited life or intangible asset through periodic charges to income. For fixed assets, the term used is "depreciation". It is common practice to amortize any premium over par value paid in the purchase of preferred stock or bond investments.

APPRECIATION: Increase in the value of an asset such as a stock bond, commodity or real estate.

ASKED PRICE: The price a broker/dealer offers to sell securities.

ASSET BACKED: A type of security that is secured by receivables, such as credit card and auto loans. These securities typically pay principal and interest monthly.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. This money market instrument is used to finance international trade.

BASIS POINT: One-hundredth of one percent (i.e., 0.01%).

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investment.

BID PRICE: The price a broker/dealer offers to purchase securities.

BOND: A financial obligation for which the issuers promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

BOOK RATE OF RETURN: A measure of a portfolio's performance over time. It is the internal rate of return which equates the beginning value of the portfolio with the ending value, and includes interest earnings and realized gains and losses on the portfolio.

BOOK VALUE: The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

BROKER: A broker acts as an intermediary between a buyer and seller for a commission and does not trade for his/her own risk and account or inventory.

CALLABLE SECURITIES: A security that can be redeemed by the issuer before the scheduled maturity date.

CASH FLOW: An analysis of all changes that affect the cash account during a specified period.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

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

COLLATERALIZED MORTGAGE OBLIGATION (CMO): A type of mortgage-backed security that creates separate pools of pass-through rates for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

COMMERCIAL PAPER: Short-term, unsecured, negotiable promissory notes of corporations.

COMMERCIAL RECEIVABLES: Business debt owed to a creditor which may be used as collateral for asset backed securities. These receivables include equipment leases, building leases, and other business loans.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual financial report for the City. It includes combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).

CONDUIT FINANCING: A financing in which a governmental agency issues debt and the proceeds of the issue are loaned to a nongovernmental borrower who then applies the proceeds for a project financing or (if permitted by federal tax laws for a qualified 501(c)(3) bond) for working capital purposes.

CONSUMER RECEIVABLES: Consumer debt owed to a creditor which may be used as collateral for asset backed securities. These receivables include credit card, auto, and home equity loans.

CORPORATE NOTE: Debt instrument issued by a private corporation.

COUPON: The annual rate at which a bond pays interest.

CREDIT ANALYSIS: An analysis of the economic and financial conditions to determine creditworthiness or the ability to meet debt obligations.

CREDIT RATINGS: A grade given to a debt instrument that indicates its credit quality. Private independent rating services such as Standard & Poor's, Moody's and Fitch provide these evaluations of the issuer's financial strength, or its ability to pay principal and interest in a timely fashion. High graded credit ratings are as follows:

<table>
<tr><th colspan="2">Moody's</th><th colspan="2">Standard & Poor's</th><th colspan="2">Fitch</th></tr>
<tr><th>Long Term</th><th>Short Term</th><th>Long Term</th><th>Short Term</th><th>Long Term</th><th>Short Term</th></tr>
<tr><td>Aaa</td><td rowspan="6">P1</td><td>AAA</td><td rowspan="4">A1+</td><td>AAA</td><td rowspan="6">A1+</td></tr>
<tr><td>Aa1</td><td>AA+</td><td>AA+</td></tr>
<tr><td>Aa2</td><td>AA</td><td>AA</td></tr>
<tr><td>Aa3</td><td>AA-</td><td>AA-</td></tr>
<tr><td>A1</td><td>A+</td><td rowspan="2">A1</td><td>A+</td></tr>
<tr><td>A2</td><td>A</td><td>A</td></tr>
<tr><td>A3</td><td rowspan="2">P2</td><td>A-</td><td rowspan="2">A2</td><td>A-</td><td rowspan="2">A2</td></tr>
<tr><td>Baa1</td><td>BBB+</td><td>BBB+</td></tr>
</table>

CREDIT RISK: The risk that an obligation will not be paid and a loss will result due to a failure of the issuer of a security.

CUSIP: Stands for Committee on Uniform Securities Identification Procedures. A CUSIP number identifies most securities, including: stocks of all registered U.S. and Canadian companies, and U.S. government and municipal bonds. The CUSIP system—owned by the American Bankers Association and operated by Standard & Poor's—facilitates the clearing and settlement process of securities. The number consists of nine characters (including letters and numbers) that uniquely identify a company or issuer and the type of security.

CURRENT YIELD: The annual interest on an investment divided by the current market value. Since the calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSTODIAN: A bank or other financial institution that keeps custody of stock certificates and other assets.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own risk and account or inventory.

DEBENTURES: A bond secured only by the general credit of the issuers.

DEFEASED BOND ISSUES: Issues that have sufficient money to retire outstanding debt when due, so that the agency is released from the contracts and covenants in the bond documents.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVE: A financial instrument that is based on, or derived from, some underlying asset, reference date, or index.

DIRECT ISSUER: Issuer markets its own paper directly to the investor without use of an intermediary.

DISCOUNT: The difference between the cost of a security and its value at maturity when quoted at lower than face value.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns and risk profiles.

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. Duration measures the price sensitivity of a bond to changes in interest rates.

EARNED INCOME YIELD THIS PERIOD (annualized): The Total net Earnings this period divided by Average Daily Portfolio Balance and the number of days in the period, multiplied by 365 (or 360 depending on the profile setting), and then multiplied by 100.

FACE VALUE: The principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

FAIR VALUE: The amount at which a security could be exchanged between willing parties, other than in a forced or liquidation sale. If a market price is available, the fair value is equal to the market value.

FANNIE MAE: Trade name for the Federal National Mortgage Association (FNMA), a U.S. Government sponsored enterprise.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that provides insurance on bank deposits, guaranteeing deposits to a set limit per account, currently $100,000.

FEDERAL FARM CREDIT BANK (FFCB): Government-sponsored enterprise that consolidates the financing activities of the Federal Land Banks, the Federal Intermediate Credit Banks and the Banks for Cooperatives. Its securities do not carry direct U.S. government guarantees.

FEDERAL FUNDS RATE: The rate of interest at which Federal funds are traded. This rate is considered to be the most sensitive indicator of the direction of interest rates, as it is currently pegged by the Federal Reserve through open-market operations.

FEDERAL GOVERNMENT AGENCY SECURITIES: Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored enterprise (currently made up of 12 regional banks) that regulates and lends funds and provides correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. Although the banks operate under federal charter with government supervision, the securities are not guaranteed by the U. S. Government.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): Government sponsored enterprise that helps maintain the availability of mortgage credit for residential housing. FHLMC finances these operations by marketing guaranteed mortgage certificates and mortgage participation certificates. Its discount notes and bonds do not carry direct U.S. government guarantees.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): Government sponsored enterprise that is the largest single provider of residential mortgage funds in the United States. FNMA 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 securities do not carry direct U.S. Government guarantees.

FEDERAL OPEN MARKET COMMITTEE (FOMC): A committee of the Federal Reserve Board, which establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

FEDERAL RESERVE SYSTEM: The central bank of the U.S. which consists of a seven member Board of Governors, 12 regional banks and about 5,700 commercial banks that are members.

FED WIRE: A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

FREDDIE MAC: Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. government sponsored enterprise.

FITCH INDIVIUAL BANK RATINGS: Individual Ratings are assigned to banks that are legal entities. These ratings, which are internationally comparable, attempt to assess how a bank would be viewed if it were entirely independent and could not rely on external support. These ratings are designed to assess a bank's exposure to, appetite for, and management of risk, and thus represent the agency's view on the likelihood that it would run into significant financial difficulties such that it would require support. The ratings are as follows:

A: A very strong bank.
Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.

B: A strong bank.
There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects.

C: An adequate bank, which, however, possesses one or more troublesome aspects.
There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.

D: A bank that has weaknesses of internal and/or external origin.
There are concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects. Banks in emerging markets are necessarily faced with a greater number of potential deficiencies of external origin.

E: A bank with very serious problems, which either requires or is likely to require external support.

F: A bank that has either defaulted or, in Fitch Ratings' opinion, would have defaulted if it had not received external support. Examples of such support include state or local government support, (deposit) insurance funds, acquisition by some other corporate entity or an injection of new funds from its shareholders or equivalent.

Note: Gradations may be used among the ratings A to E: i.e. A/B, B/C, C/D, and D/E. No gradations apply to the F rating.

GINNIE MAE: Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB): A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

GUARANTEED INVESTMENT CONTRACTS (GICS): An agreement acknowledging receipt of funds, for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

INACTIVE DEPOSITS: Funds not immediately needed for disbursement.

INTEREST RATE: The annual yield earned on an investment, expressed as a percentage.

INTEREST RATE RISK: The risk of gain or loss in market values of securities due to changes in interest-rate levels. For example, rising interest rates will cause the market value of portfolio securities to decline.

INVESTMENT AGREEMENTS: A contract providing for the lending of issuer funds to a financial institution which agrees to repay the funds with interest under predetermined specifications.

INVESTMENT GRADE (LONG TERM RATINGS): The minimum, high quality ratings for long term debt such as corporate notes. Investment Grade ratings are as follows: A3 (Moody's), A- (S&P), and A- (Fitch).

INVESTMENT PORTFOLIO: A collection of securities held by a bank, individual, institution or government agency for investment purposes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash with minimum risk of principal.

LOCAL AGENCY INVESTMENT FUND (LAIF): An investment pool sponsored by the State of California and administered/managed by the State Treasurer. Local government units, with consent of the governing body of that agency, may voluntarily deposit surplus funds for the purpose of investment. Interest earned is distributed by the State Controller to the participating governmental agencies on a quarterly basis.

LOCAL AGENCY INVESTMENT POOL: A pooled investment vehicle sponsored by a local agency or a group of local agencies for use by other local agencies.

MARK TO MARKET: Current value of securities at today's market price.

MARKET RISK: The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates. Systematic risk of a security that is common to all securities of the same general class (stocks, bonds, notes, money market instruments) and cannot be eliminated by diversification (which may be used to eliminate non-systematic risk).

MARKET VALUE: The price at which a security is currently being sold in the market. See FAIR VALUE.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase agreements and reverse repurchase agreements that establish 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.

MATURITY: The date that the principal or stated value of a debt instrument becomes due and payable.

MEDIUM-TERM NOTES (MTNs): Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION: The percent change in price for a 100 basis point change in yields. This is a measure of a portfolio's or security's exposure to market risk.

MONEY MARKET: The market in which short term debt instruments (Treasury Bills, Discount Notes, Commercial Paper, Banker's Acceptances and Negotiable Certificates of Deposit) are issued and traded.

MORTGAGED BACKED SECURITIES: A type of security that is secured by a mortgage or collection of mortgages. These securities typically pay principal and interest monthly.

MUNICIPAL BONDS: Debt obligations issued by states and local governments and their agencies, including cities, counties, government retirement plans, school districts, state universities, sewer districts, municipally owned utilities and authorities running bridges, airports and other transportation facilities

MUTUAL FUND: An entity that pools money and can invest in a variety of securities which are specifically defined in the fund's prospectus.

NEGOTIABLE CERTIFICATE OF DEPOSIT: A large denomination certificate of deposit which can be sold in the open market prior to maturity.

NET PORTFOLIO YIELD: Calculation in which the 365-day basis equals the annualized percentage of the sum of all Net Earning during the period divided by the sum of all Average Daily Portfolio Balances.

NEW ISSUE: Term used when a security is originally "brought" to market.

NOTE: A written promise to pay a specified amount to a certain entity on demand or on a specified date.

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 FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit: Sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PAR VALUE: The amount of principal which must be paid at maturity. Also referred to as the face amount of a bond. See FACE VALUE.

PORTFOLIO: The collection of securities held by an individual or institution.

PREMIUM: The difference between the par value of a bond and the cost of the bond, when the cost is above par.

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 informal oversight. These dealers are authorized to buy and sell government securities in direct dealing with the Federal Reserve Bank of New York in its execution of market operations to carry out U.S. monetary policy. Such dealers must be qualified in terms of reputation, capacity, and adequacy of staff and facilities.

PRIME (SHORT TERM RATING): High quality ratings for short term debt such as commercial paper. Prime ratings are as follows: P1 (Moody's), A1 (S&P), and F1 (Fitch).

PRINCIPAL: The face value or par value of a debt instrument, or the amount of capital invested in a given security.

PROSPECTUS: A legal document that must be provided to any prospective purchaser of a new securities offering registered with the Securities and Exchange Commission that typically includes 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 (also known as an "official statement").

PRUDENT INVESTOR STANDARD: A standard of conduct for fiduciaries.–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.

PUBLIC DEPOSITS: A bank that is qualified under California law to accept a deposit of public funds.

PURCHASE DATE: The date in which a security is purchased for settlement on that or a later date. Also known as the "trade date".

RATE OF RETURN: 1) The yield which can be attained on a security based on its purchase price or its current market price. 2) Income earned on an investment, expressed as a percentage of the cost of the investment.

REALIZED GAIN (OR LOSS): Gain or loss resulting from the sale or disposal of a security.

REGIONAL DEALER: A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

REPURCHASE AGREEMENT (RP or REPO): A transaction in which a counterparty or the holder of securities (e.g. investment dealer) sells these securities to an investor (e.g. the City) with a simultaneous agreement to repurchase them at a fixed date. The security "buyer" (e.g. the City) in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the “buyer” for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): The opposite of a repurchase agreement. A reverse repo is a transaction in which the City sells securities to a counterparty (e.g. investment dealer) and agrees to repurchase the securities from the counterparty at a fixed date. The counterparty in effect lends the seller (e.g. the City) money for the period of the agreement with terms of the agreement structured to compensate the buyer.

RISK: Degree of uncertainty of return on an asset.

SAFEKEEPING: A service which banks offer to clients for a fee, where physical securities are held in the bank’s vault for protection and book-entry securities are on record with the Federal Reserve Bank or Depository Trust Company in the bank’s name for the benefit of the client. As agent for the client, the safekeeping bank settles securities transactions, collects coupon payments, and redeems securities at maturity or on call date, if called.

SECURITIES AND EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See UNIFORM NET CAPITAL RULE.

SECONDARY MARKET: A market for the repurchase and resale of outstanding issues following the initial distribution.

SECURITIES: Investment instruments such as notes, bonds, stocks, money market instruments and other instruments of indebtedness or equity.

SETTLEMENT DATE: The date on which a trade is cleared by delivery of securities against funds.

SPREAD: The difference between two figures or percentages. It may be the difference between the bid (price at which a prospective buyer offers to pay) and asked (price at which an owner offers to sell) prices of a quote, or between the amount paid when bought and the amount received when sold.

STRUCTURED NOTE: A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include “inverse floating rate” notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising and “dual index floaters”, which pay interest based on the relationship between two other interest rates, for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

STUDENT LOAN MARKET ASSOCIATION (SLMA): Government-sponsored enterprise that purchases student loans from originating financial institutions and provides financing to state student loan agencies. It provides a national secondary market for federally-sponsored student loans and credit to participants in the post secondary education lending sector.

SUBORDINATED DEBT: Debt over which senior debt has priority. In the event of a bankruptcy, subordinated debt holders receive payment only after senior debt holders are paid in full.

TIME DEPOSIT: A deposit with a California bank or savings and loan association for a specific amount and with a specific maturity date and interest rate. Deposits of up to $100,000 are insured by FDIC. Deposits over $100,000 are collateralized above the insurance with either government securities (at 110% of par value), first trust deeds (at 150% of par value), or letters of credit (at 105% of par value).

TOTAL RATE OF RETURN: A measure of a portfolio's performance over time. It is the internal rate of return which equates the beginning value of the portfolio with the ending value, and includes interest earnings and realized and unrealized gains and losses on the portfolio. For bonds held to maturity, total return is the yield to maturity.

TRUSTEE OR TRUST COMPANY OR TRUST DEPARTMENT OF A BANK: A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

UNDERWRITER: A dealer which purchases a new issue of municipal securities for resale.

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.

U.S. GOVERNMENT AGENCY SECURITIES: Securities issued by U.S. government agencies, most of which are secured only by the credit worthiness of the particular agency. See AGENCIES.

U.S. TREASURY OBLIGATIONS: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are the benchmark for interest rates on all other securities in the U.S. The Treasury issues both discounted securities and fixed coupon notes and bonds. The income from Treasury securities is exempt from state and local, but not federal, taxes.

> **TREASURY BILLS:** Securities issued at a discount with initial maturities of one year or less. The Treasury currently issues three-month and six-month Treasury bills at regular weekly auctions. It also issues very short-term "cash management" bills as needed to smooth out cash flows.
>
> **TREASURY NOTES:** Intermediate-term coupon-bearing securities with initial maturities of one year to ten years.
>
> **TREASURY BOND:** Long-term coupon-bearing securities with initial maturities of ten years or longer.

UNREALIZED GAIN (OR LOSS): Gain or loss that has not become actual. It becomes a realized gain (or loss) when the security in which there is a gain or loss is actually sold. See REALIZED GAIN (OR LOSS).

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

WEIGHTED AVERAGE MATURITY: The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

WEIGHTED AVERAGE YIELD AT THE END OF PERIOD: The summation of each investment's period-end scheduled book value multiplied by its ending sub-period yield and divided by the total scheduled book value. Investments maturing on or before the end date of the report period will not affect the weighted average yield.

WHEN ISSUED (WI): Short form of "when, as, and if issued." WI refers to a transaction made conditionally because a security, although authorized, has not yet been issued with the exception of new Treasury, Agency, and Corporate issuances to settle within 21 days.

YIELD: The annual rate of return on an investment expressed as a percentage of the investment. See CURRENT YIELD; YIELD TO MATURITY.

YIELD CURVE: Graph showing the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

YIELD TO MATURITY: Concept used to determine the rate of return if an investment is held to maturity. It takes into account purchase price, redemption value, time to maturity, coupon yield, and the time between interest payments. It is the rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

Appendix B

City Hall East
200 N. Main Street
Room 800
Los Angeles, CA 90012

(213) 978-8100 Tel
(213) 978-8312 Fax
CTrutanich@lacity.org
www.lacity.org/atty

City of Los Angeles

CARMEN A. TRUTANICH
City Attorney

REPORT NO. R10-0274

AUG 06 2010

REPORT RE:

AN ORDINANCE AMENDING ARTICLE 2 OF CHAPTER 5.1 OF DIVISION 20 OF THE LOS ANGELES ADMINISTRATIVE CODE TO PROVIDE FOR THE ESTABLISHMENT OF A RESPONSIBLE BANKING INVESTMENT MONITORING PROGRAM

The Honorable City Council
of the City of Los Angeles
Room 395, City Hall
200 North Spring Street
Los Angeles, California 90012

Council File No. 09-0234

Honorable Members:

Pursuant to your request, this Office has prepared and now transmits for your consideration the attached draft ordinance approved as to form and legality. This draft ordinance amends Article 2 of Chapter 5.1 of Division 20 of the Los Angeles Administrative Code in order to create a Responsible Banking Reporting procedure within the City of Los Angeles. Pursuant to this ordinance, banks which want to receive City funds would be required to report annually regarding their lending activities within the City as well as their community reinvestment goals, including small business loans, home mortgages, home improvement loans, community development loans, and investments within the City of Los Angeles.

Council Rule 38 Referral

The draft ordinance has been sent to the Treasurer pursuant to Council Rule 38 for review and comment directly to Council.

If you have any questions regarding this matter, please contact Assistant City Attorney Valentin F. Dinu at (213) 978-7780. He or another member of this Office will be present when you consider this matter to answer any questions you may have.

Very truly yours,

CARMEN A. TRUTANICH, City Attorney

By

PEDRO B. ECHEVERRIA
Chief Assistant City Attorney

PBE:VFD:ac
Transmittal

M:\Econ Dev_Pub Finance\Public Finance\VAL DINU\BANKING INVESTMENT MONITORING PROGRAM 8-6-10.doc

ORDINANCE NO. ________________

An ordinance amending Article 2 of Chapter 5.1 of Division 20 of the Los Angeles Administrative Code to provide for the establishment of a Responsible Banking Investment Monitoring Program.

THE PEOPLE OF THE CITY OF LOS ANGELES DO ORDAIN AS FOLLOWS:

Section. 1. Sections 20.94 through 20.96 of Article 2 of Chapter 5.1 of Division 20 of the Los Angeles Administrative Code are hereby amended or adopted, as applicable in their entirety to read as follows:

Sec. 20.94. Definitions.

The following definitions shall apply to the following terms used in this article:

(a) **"City"** shall mean City of Los Angeles and all Departments for whose funds the City Treasurer is custodian and those Departments who grant the Treasurer discretion over their funds pursuant to City Charter § 60(b).

(b) **"Banking institution"** shall mean:

(1) State and national banks;

(2) **"Associations"** and **"savings associations"** as defined in California Financial Code § 5102(a);

(3) **"Federal associations"** as defined in California Financial Code § 5102(b).

(4) **"Credit Unions"** as defined by federal and state law.

(c) **"Banking services"** shall include, but not be limited to, deposit services, electronic access services, disbursement services, lending money on the security of real or personal property or without security and other credit services, clearing and safekeeping of securities, wire transfers of funds, and collection, investment and disbursement services of funds associated with securities transactions.

Sec. 20.95. Disclosures Required From Financial Institutions.

Banking institutions seeking City banking business must disclose at the time they initially apply to engage in such business and annually thereafter, the following information through a filing with the City Treasurer:

(a) A statement of community reinvestment goals, including the number, size and type of small business loans; home mortgages; home improvement loans; community development loans; and investments within the City of Los Angeles. In addition, such statements shall also include the number and location of branches, ATM machines, loan production offices and any other delivery methods for banking services;

(1) The statement of community reinvestment goals shall parallel the Federal Community Reinvestment Act (CRA) evaluation matrix; however it will focus on assessment area performance specifically within the City and County of Los Angeles. Financial institutions shall submit information according to their classification as "local institutions" or "non-local institutions", as further defined below:

(i) A **"local institution"** is defined as a financial institution with 80% or greater of its depository and lending operations within the United States postal zip codes of the City and County of Los Angeles, California. The primary factor to be used for classifying the institution as a local institution will be the institution's listing of branch locations as reported in the most recent FDIC summary of deposit reference file. For institutions that fall into this **"local institution"** category, the June 30th FDIC call report or NCUA 5300 filing will serve as the basis for numerical analysis.

(ii) A **"non-local Institution"** is defined as a financial institution with over 20% of its depository and lending operations outside the United States postal zip codes of the City and County of Los Angeles, California. The primary factor to be used for classifying the institution as a non-local institution will be the institution's listing of branch locations as reported in the most recent FDIC summary of deposits reference file. For institutions that fall into this **"non-local institution"** category, the institution shall provide a supplemental June 30th filing detailing the lending performance elements of an FDIC call report or NCUA 5300 report on the branches located within the zip codes of the City and County of Los Angeles.

(2) As part of the Statement of Community Reinvestment Goals focusing on assessment area performance within the City of Los Angeles, financial institutions shall include data addressing their lending activities within the city, including but not limited to:

(i) Loan activity within the assessment area versus the institution's deposit base within the area;

(ii) Community development loans or investments within the assessment area, including loans to nonprofit housing developers for tenants at or below 80 percent of the area's median income;

(iii) Small business lending, with an overall retail borrower penetration report indicating range of income levels and business sizes served, including the number of loans made to businesses with annual revenue of $1 million or less; and

(iv) Charitable or community investment activities within the assessment area not otherwise specified.

(b) Banks and financial institutions which make home mortgage loans shall also include the following information in their annual statements:

(1) The number and type of fixed-rate, 30 year loans;

(2) The number and type of completed permanent and temporary loan modifications designed to avoid home foreclosures; and

(3) Detailed information, as allowed by applicable laws, on the number of rate and principal reduction actions taken with respect to loan modifications.

(c) All banks and financial institutions that provide banking and financial services to the City of Los Angeles shall notify the City Treasurer, in writing, at least 90 days prior to the date of the proposed closing of any physical branch located within the City limits. The contents of notice to the City shall include:

(1) Identification and address of the branch to be closed;

(2) The proposed date of the closing;

(3) A detailed statement of the reasons for the decision to close the branch; and

(4) Statistical or other information in support of such reasons.

(d) The information shall be disclosed on a form to be provided by the City, and signed by an authorized representative under penalty of perjury. The disclosure statements filed by banking institutions shall be posted on the appropriate City websites for public viewing within 90 days of the beginning of each new City fiscal year, and be available for public inspection and copying.

Sec. 20.95.1. Loan Modification and Tenant Protection Certification.

Banks and financial institutions which make home mortgage loans shall certify as follows:

(a) That the bank or financial institution allows unemployed borrowers to qualify for home loan modifications based on unemployment insurance; and

(b) That the bank or financial institution allows tenants in homes subject to foreclosure to continue to rent the properties until they are sold.

Sec. 20.96. Evaluation And Ranking Of Banking Institutions.

The Treasurer, on an annual basis, shall review and evaluate the information contained in the disclosure statements filed by banking institutions pursuant to this Article. In addition, the Treasurer shall review any additional information deemed necessary or desirable in evaluating the performance of banking institutions including but not limited to the public sections of evaluations and reports prepared by federal and state agencies pursuant to the Community Reinvestment Act of 1977, as amended.

The Treasurer shall, on an annual basis, rank the performance of banking institutions under contract with the City. The Treasurer shall use the evaluations of the banking institutions' performances in that ranking. The ranking shall be one of the factors used to determine if the City will continue to do business with the banking institution.

The Treasurer's annual evaluation and ranking of banking institutions shall be presented to the City Council and posted on the appropriate City websites for public viewing within 90 days of the beginning of each new City fiscal year; and be made available for public inspection and copying.

Sec. 2. Section 20.98 of Article 2 of Chapter 5.1 of Division 20 of the Los Angeles Administrative Code is amended to read as follows:

Sec. 20.98. Award of Banking Business.

Prior to conducting any banking transactions to which this Article applies, the Treasurer shall review the performance of such banking institution. The City Treasurer is authorized to disqualify from awarding financial services contracts to any bank or financial institution which has exhibited a pattern of discriminatory or other illegal credit practices, or has violated criminal or civil laws which have resulted in significant financial harm to the City of Los Angeles. A banking institution which fails to submit the information required by this Article shall not be eligible for City banking business.

The Treasurer, in evaluating Requests for Proposal/Requests for Qualifications (RFP/RFQ) for banking services, consistent with state and federal law, shall give preference to those respondents that provide evidence of active community investment practices as described in this Article. Further, with respect to banking institutions which already conduct City banking transactions, the Treasurer may, upon making such evaluation and ranking, take the following measures:

(a) Increase the level of City banking business held by a banking institution that scores in the top 20% of local reinvestment performance; and

(b) Withdraw City banking business from a banking institution that scores in the bottom 20% of local reinvestment performance; and

(c) Take other such steps, consistent with sound fiscal practice and applicable law, as may be necessary or desirable.

Sec. 3. Article 2 of Chapter 5.1 of Division 20 of the Los Angeles Administrative Code is amended to add a new section 20.98.1 to read as follows:

Sec. 20.98.1 Treasurer's Reports.

On an annual basis, the Treasurer shall inform the Board of Commissioners of the Los Angeles City Employees' Retirement System (LACERS), the Los Angeles Department of Water And Power Employee Retirement Plan (LADWPERP), and the Los Angeles Board of Fire And Police Pension Commissioners of the performance of banking institutions as rated pursuant to the City of Los Angeles' reinvestment performance rating system.

Sec. 4. The City Clerk shall certify to the passage of this ordinance and have it published in accordance with Council policy, either in a daily newspaper circulated in the City of Los Angeles or by posting for ten days in three public places in the City of Los Angeles: one copy on the bulletin board located at the Main Street entrance to the Los Angeles City Hall; one copy on the bulletin board located at the Main Street entrance to the Los Angeles City Hall East; and one copy on the bulletin board located at the Temple Street entrance to the Los Angeles County Hall of Records.

I hereby certify that this ordinance was passed by the Council of the City of Los Angeles, at its meeting of ____________________.

JUNE LAGMAY, City Clerk

By ________________________
Deputy

Approved ____________________

____
Mayor

Approved as to Form and Legality

CARMEN A. TRUTANICH, City Attorney

By Valentin F. Dinu (FRE)
VALENTIN F. DINU
Assistant City Attorney)

Date 8/6/10

File No. 09-0234

M:\Econ Dev_Pub Finance\Public Finance\VAL DINU\Responsible Banking Ordinance Norton.docm 7-26-10.docm