Finance Authority of Maine
Revised October 15, 2009
Investment Policy

The purpose of this Investment Policy is to establish the investment scope, objectives, delegation of authority, internal controls, standards of prudence, authorized investments and transactions, diversification requirements, risk tolerance, safekeeping and custodial procedures, and reporting requirements for the investment of funds by the Finance Authority of Maine ("Authority").

SCOPE

The provisions of this Investment Policy shall apply to all investable funds managed by the Authority including funds provided to the Authority by other organizations such as the State of Maine and the United States Department of Education.

Excess cash from all programs managed by the Authority, including daily cash balances, shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated based upon the proportion of the respective average balances relative to the total pooled balance. Interest earnings shall be distributed to the individual funds on a monthly basis. Exceptions can be made if organizations, which subcontract work to the Authority, request an alternative investment approach and if the Finance & Audit Committee approves the request.

OBJECTIVES

The Authority's principal investment objectives are:

- Preservation of capital and protection of investment principal.
- Maintenance of sufficient liquidity to meet anticipated cash flow needs.
- Diversification to avoid unreasonable market risks.
- Attainment of a market rate of return.
- Conformance with all applicable State and Federal regulations.

DELEGATION OF AUTHORITY AND INTERNAL CONTROLS

The Authority's Board of Directors has delegated the authority to conduct investment transactions and manage the operation of the investment portfolio to the Director of Finance and Operations (DFO). A list of personnel authorized to conduct investment transactions, including managing wire transfers is attached as Appendix I.

The DFO shall develop written administrative procedures and internal controls, consistent with this Investment Policy, for the operation of the Authority's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the Authority.

The Finance and Audit Committee of the Authority's Board of Directors shall provide oversight and advice for the investment function.

The DFO may engage the support services of outside professionals in regard to its investment program, in an effort to produce a net financial advantage or necessary financial protection of the Authority's financial resources.

PRUDENCE AND INDEMNIFICATION

The standard of prudence to be used for managing the Authority's assets is the "prudent expert" rule as stated in the Employee Retirement Income Security Act of 1974, Section 404(a)(1)(B). which says:

> Investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

The Authority's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust and is a matter of public record.

In general, securities will be held to maturity, but from time to time, in the pursuit of the stated objectives of this policy, securities may be sold above or below value in order to maximize the return on the portfolio, to protect the credit quality of the portfolio, or to meet unforeseen cash flow needs. The DFO and authorized investment personnel acting in accordance with written policy and procedures and exercising due diligence shall be relieved of personal responsibility including but not limited to an individual security's credit risk or market price changes.

ETHICS AND CONFLICTS OF INTEREST

The Authority's employees or members of the Board of Directors involved in the investment process shall refrain from any activity that could conflict with proper execution of the investment program or which could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Those individuals involved with the Authority's investments shall disclose annually in writing any material financial interests they have in financial institutions that conduct business with the Authority.

AUTHORIZED SECURITIES AND TRANSACTIONS

The following types of securities and transactions are authorized for investment purposes by the Authority:

1. U.S. Treasury Obligations: Treasury Bills, Treasury Notes, Treasury Bonds and Treasury Strips with a final maturity not exceeding 10 years from the date of purchase.

2. Federal Agency Securities: Mortgage backed securities and collateralized mortgage obligations with a final maturity not exceeding 10 years from the date of purchase issued by the Government National Mortgage Association (GNMA).

3. Federal Instrumentality Securities: Debentures, discount notes, step-up, callable, mortgage backed and floating rate securities, and collateralized mortgage obligations with a final

maturity not exceeding 10 years from the date of purchase issued by the following instrumentalities only: Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB), Federal Home Loan Banks (FHLB), and Federal Home Loan Mortgage Corporation (FHLMC).

4. Prime Commercial Paper with a maturity not exceeding 270 days from the date of purchase which is rated by at least two rating agencies, and the ratings must be at least A-1 by Standard and Poor's, P-1 by Moody's, or F-1 by Fitch at the time of purchase. If the commercial paper issuer has senior debt outstanding, the senior debt must be rated by each service that publishes a rating on the issuer of at least A by Standard and Poor's, A2 by Moody's, or A by Fitch. No more than 5% of the total portfolio shall be invested in any one issuer of commercial paper.

5. State Treasurer's Cash Pool: The cash investment pool managed by the Maine State Treasurer.

6. Money Market Mutual Funds registered under the Investment Company Act of 1940 which: are "no-load" (i.e. no commission fee shall be charged on purchases or sales of shares); have a constant daily net asset value per share of $1.00; have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and have a rating of AAA by Standard and Poor's, Aaa by Moody's or AAA/V1+ by Fitch.

7. Time Certificates of Deposit with a maturity not exceeding 5 years from the date of purchase in state or nationally chartered banks or savings and loans, which are insured by the FDIC and qualify as a depository for State funds. Certificates of Deposit which exceed the FDIC insured amount may only be purchased from financial institutions which have a Highline Data Rating of 20 or better at the time of purchase. In addition, if the aggregate amount of Certificates of Deposit in any one financial institution exceeds 25% of the firm's capital, surplus and undivided profits or 25% of the firm's reserve fund and undivided profits, the Certificates of Deposit shall be collateralized in accordance with Maine Revised Statutes Annotated.

8. Repurchase Agreements with a termination date not exceeding 1 year, collateralized by U.S. Treasury, Agency or Instrumentality securities listed in 1, 2 or 3 above with maturity of the collateral not exceeding 10 years. The purchased securities shall have an original minimum market value including accrued interest of 102 percent of the dollar value of the transaction and the collateral maintenance level shall be 101 percent. Collateral securities shall be marked-to-the-market weekly.

   Repurchase Agreements shall be entered into only with primary dealers reporting to the Federal Reserve Bank of New York or with a financial firm that has a primary dealer within its holding company structure, or banks which meet the credit criteria as outlined in the section of this Policy relating to Selection of Banks and Savings and Loans. Broker/Dealers approved as Repurchase Agreement counterparties, if rated, shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or the equivalent.

9. Obligations from Tax-Exempt Organizations: Taxable and tax-exempt commercial paper or bonds with a final maturity not exceeding 10 years from the date of purchase that have a long-term rating of AA by Standard and Poor's, Aa2 by Moody's, or AA by Fitch or better at

the time of purchase. No more than 5% of the total portfolio shall be invested in any one issuer of taxable or tax-exempt obligations. Notwithstanding the foregoing, FAME will be permitted under this Policy to purchase tax-exempt bonds issued by its' Higher Education Loan Purchase Program (HELPP), with no maturity or rating restrictions, provided that no more than 15% of the total portfolio shall be invested in HELPP bonds. Any investment in HELPP bonds will require Finance & Audit Committee and Board approval before the investment may be made.

10. Corporate Bonds: Bonds issued by U.S. companies and denominated in U.S. currency with a final maturity not exceeding 10 years from the date of purchase which are rated at least AA- by Standard and Poor's, Aa3 by Moody's, or AA- by Fitch at the time of purchase. No more than 5% of the total portfolio shall be invested in any one issuer of corporate bonds.

11. Government Bond Funds registered under the Investment Company Act of 1940 that: are "no-load" (i.e. no commission or fee shall be charged on purchases or sales of shares); limit assets of the fund to U.S. Treasury, Agency or Instrumentality securities and Repurchase Agreements secured by U.S. Treasury, Agency or Instrumentality securities.

12. Guaranteed Investment Contracts ("GIC's"): may be used in certain circumstances such as in bond indentures. The contracts will be rated and have a long-term rating of AA by Standard and Poor's, Aa2 by Moody's, or AA by Fitch or better at the time of purchase or have a short-term rating of least A-1 by Standard and Poor's, P-1 by Moody's, or F-1 by Fitch at the time of purchase.

13. Federal Family Education Loan Program (FFELP): Loans originated by a Maine Lender, including the Authority, that are at least 97% Federally re-insured, and eligible for the U.S. Department Participation and "PUT" programs. Individual investments will ordinarily be refunded with Participation proceeds within 20 days, provided however that there may be a maximum of $3,000,000 outstanding at any time for up to 45 days, unless otherwise approved by the Committee,

It is the intent of the Authority to only purchase from the foregoing list of authorized securities. Any deviation from this list must be preapproved by the Finance & Audit Committee and documented in the minutes of the Finance & Audit Committee.

CONFLICTS WITH AUTHORIZED SECURITIES AND TRANSACTIONS

The limitations established by this Investment Policy will apply at the time a security is purchased and will be based on the then-current conditions of the security. Should a subsequent event cause a security or the investment portfolio to no longer meet the specifications of the Investment Policy, the DFO will determine the appropriate course of action. There is no requirement that a security be sold prior to maturity if it no longer meets the criteria set forth in this Investment Policy.

PORTFOLIO MATURITIES AND LIQUIDITY

To the extent possible, investments shall be made to meet anticipated cash flow requirements and known future liabilities. The Authority will not invest in securities maturing more than 10 years from the date of purchase. The Authority will adhere to the following guidelines: a minimum of 25% of investable funds will be invested in securities with a maturity of one year or less; maximum of 75% will be invested in securities with a maturity of one year to five years, and a maximum of 25% will be invested in securities with a maturity of five years to ten years.

INVESTMENT DIVERSIFICATION

It is the intent of the Authority to diversify investments within the portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. The asset allocation in the portfolio should be flexible depending upon the outlook for the economy, the securities market, and the Authority's anticipated cash flow needs.

Securities will not exceed the following maximum limits in each of the categories listed below as a percentage of the total portfolio.

U.S. Treasury	maximum 100% of the total portfolio
Federal Instrumentality	maximum 85% of the total portfolio
Repurchase Agreements	maximum 85% of the total portfolio
Maine State Treasurer's Cash Pool	maximum 100% of the total portfolio
Prime Commercial Paper	maximum 50% of the total portfolio
Federal Agency	maximum 100% of the total portfolio
Money Market Mutual Funds	maximum 25% of the total portfolio
Certificates of Deposit	maximum 40% of the total portfolio
Tax Exempt Obligations	maximum 20% of the total portfolio
Corporate Bonds	maximum 20% of the total portfolio
Government Bond Funds	maximum 20% of the total portfolio
FFELP Loans	maximum 40% of the total portfolio

No more than 5% of the total portfolio shall be invested in any one issuer of commercial paper, tax-exempt obligations or corporate bonds. GIC's or other investments related to the Higher Education Loan Purchase Program will not be subject to the conditions above but rather governed by the terms of the indenture, which requires rating agency approval.

SELECTION OF FINANCIAL INSTITUTIONS ACTING AS BROKER/DEALERS AND BROKER/DEALERS

The Authority shall maintain a list of authorized broker/dealers and financial institutions that are approved for investment purposes and it shall be the policy of the Authority to purchase securities only from those authorized institutions and firms. To be eligible, a firm must meet at least one of the following criteria:

1. be recognized as a Primary Dealer by the Federal Reserve Bank of New York, or have a primary dealer within its holding company structure; or
2. report voluntarily to the Federal Reserve Bank of New York; or
3. qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

In addition, commercial banks must be members of the FDIC in order to be eligible for authorization.

Broker/dealers and other financial institutions will be selected by the Authority on the basis of their expertise in public cash management and their ability to provide services for the Authority's account. Each broker/dealer, bank or savings and loan that has been authorized by the Authority shall:

1. annually update and submit an approved Broker/Dealer Information Request form;
2. annually submit the firm's most recent financial statements; and if applicable,

in the event that an external investment advisor is not used in the process of recommending a particular transaction in the Authority's portfolio, any authorized broker/dealer from whom a competitive bid is obtained for the transaction will attest in writing that he/she has received a copy of this policy.

The Authority may purchase Commercial Paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item 4 of the Authorized Securities and Transactions section of this Policy.

COMPETITIVE TRANSACTIONS

Each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded.

If the Authority is offered a security for which there is no other readily available competitive offering, then the DFO will document quotations for comparable or alternative securities.

SELECTION OF BANKS AND SAVINGS AND LOANS

The Authority may use bank rating services, the assistance of its investment advisor, or the State Treasurer's Office to help identify banks and savings and loans qualified to provide depository and other banking services, and from which the Authority may purchase Certificates of Deposit. To be eligible for authorization, a bank or savings and loan must be a member of the FDIC. The Authority will periodically evaluate existing banking relationships to determine that they are acceptable.

If the aggregate amount of Certificates of Deposit in any one financial institution exceeds 25% of the firm's capital, surplus and undivided profits or 25% of the firm's reserve fund and undivided profits, the Certificates of Deposit shall be collateralized in accordance with MRSA.

SAFEKEEPING AND CUSTODY

The DFO shall select one or more financial institutions to provide safekeeping and custodial services for the Authority. A safekeeping agreement shall be executed with each custodian bank prior to utilizing that bank's safekeeping services. Custodian banks shall be selected on the basis of their ability to provide services for the Authority's account and the competitive pricing of their safekeeping related services. The Authority may use bank rating services, the assistance of its investment advisor, or the State Treasurer's Office to help select appropriate institutions.

The purchase and sale of securities and Repurchase Agreement transactions shall be settled on a delivery versus payment basis. It is the intent of the Authority that all securities be perfected in the name of the Authority except those held in a Trust Estate in the Higher Education Loan Purchase Program. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investments purchased by the Authority, except Certificates of Deposit, Money Market Mutual Funds, Government Bond Funds, State Treasurer's Cash Pool, collateral for overnight sweep Repurchase Agreements and collateral for Certificates of Deposit, will be delivered by either book-entry or physical delivery and will be held in third-party safekeeping by a Authority approved custodian bank, its correspondent bank or the Depository Trust Company (DTC).

All fed wirable book-entry securities owned by the Authority shall be evidenced by a safekeeping receipt or a customer confirmation issued to the Authority by the custodian bank stating that the securities are held in the Federal Reserve system in a Customer Account or Trust Account for the custodian bank which will name the Authority as "customer."

All securities which are eligible for delivery through the Depository Trust Company (DTC) shall be held in the custodian bank's DTC participant account and the custodian bank shall issue a safekeeping receipt to the Authority evidencing that the securities are held by the DTC for the Authority as "customer."

All non-book-entry (physical delivery) securities shall be held by the custodian bank or its correspondent bank and the custodian bank shall issue a safekeeping receipt to the Authority evidencing that the securities are held by the correspondent bank for the Authority as "customer."

PORTFOLIO PERFORMANCE

The investment portfolio shall be designed to attain a competitive rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The basis for measurement used to determine whether a competitive rate of return is being achieved shall be a comparison to the yields earned on similar funds and/or indices as approved by the Finance & Audit Committee.

REPORTING

The DFO shall prepare monthly reports that include the following information: a listing of individual investments in the portfolio, including the date of purchase, maturity, original cost and market value; income earned for the period, return for the period, and weighted average maturity. The DFO shall present to the Finance & Audit Committee, at least three times a year, a review of the portfolio's performance and seek approval for all transactions.

POLICY REVISIONS

This Investment Policy has been adopted by the Finance Authority of Maine and it replaces any previous investment guidelines formulated by members of the Authority's staff. This Investment Policy has been reviewed by the Finance Authority of Maine Board of Directors at its meeting on May 21, 2009.

The DFO and the Finance & Audit Committee shall review this Investment Policy annually.

Duncan R. MacKellar Director of Finance and Operations (DFO)	Date

Appendix I

AUTHORIZED PERSONS

The following persons are authorized to conduct investment transactions on behalf of the Authority:

Chief Executive Officer
Director of Finance & Operations
Manager of Accounting and Finance
Senior Accountant
Financial Analyst

Appendix II

APPROVED BROKER/DEALERS

The following firms have been authorized to conduct investment transactions with the Authority:

Banc of America Securities, Inc.
Citigroup Global Markets
Fundamental Capital Markets

Merrill Lynch
Mizuho Securities USA, Inc.
Morgan Stanley
J.P. Morgan Securities Inc.
RBC Dain Rauscher
UBS Financial Services Inc.

Appendix III

DEBT RATINGS

Moody's Investors Service

Long-Term Debt Ratings		Short-Term Debt Ratings
Aaa *	Ba1	P-1 *
Aa1 *	Ba2	P-2 *
Aa2 *	Ba3	P-3
Aa3 *	B1	NP
A1	B2	WR
A2	B3	
A3	Caa1	
Baa1	Caa2	
Baa2	Caa3	
Baa3	Ca	
	C	
	WR	

* Approved for FAME investment.

Investment Grade Ratings:

Long-Term: Aaa, Aa1, Aa2, Aa3, A1, A2, A3, Baa1, Baa2, and Baa3
Short-Term: P-1, P-2, and P-3

Moody's Long-Term Debt Rating Definitions

Aaa — Bonds and preferred stock which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa — Bonds and preferred stock which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat larger than Aaa securities.

A — Bonds and preferred stock which are rated A possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment some time in the future.

Baa Bonds and preferred stock which are rated Baa are considered as medium-grade obligations (i.e., they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba Bonds and preferred stock which are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B Bonds and preferred stock which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa Bonds and preferred stock which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca Bonds and preferred stock which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C Bonds and preferred stock which are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

WR Withdrawn

Moody's applies numerical modifiers 1, 2, and 3 in each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Short-Term Debt Ratings

Prime-1 Issuers rated Prime-1 (or supporting institutions) have a superior ability for repayment of senior short-term debt obligations. Prime-1 repayment ability will often be evidenced by many of the following characteristics:

- Leading market positions in well-established industries.
- High rates of return on funds employed.
- Conservative capitalization structure with moderate reliance on debt and ample asset protection.
- Broad margins in earnings coverage of fixed financial charges and high internal cash generation.

- Well-established access to a range of financial markets and assured sources of alternate liquidity.

Prime-2 Issuers rated Prime-2 (or supporting institutions) have a strong ability for repayment of senior short-term debt obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, may be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

Prime-3 Issuers rated Prime-3 (or supporting institutions) have an acceptable ability for repayment of senior short-term obligations. The effect of industry characteristics and market compositions may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection measurements and may require relatively high financial leverage. Adequate alternate liquidity is maintained.

Not Prime Issuers rated Not Prime do not fall within any of the Prime rating categories.

WR Withdrawn.

Standard & Poor's

Long-Term Issue Credit Ratings		Short-Term Issue Credit Ratings
AAA *	BB+	A-1+ *
AA+ *	BB	A-1 *
AA *	BB-	A-2 *
AA- *	B+	A-3
A+	B	B
A	B-	C
A-	CCC+	D
BBB+	CCC	
BBB	CCC-	
BBB-	CC	
	C	
	D	

* Approved for FAME investment.

Investment Grade Ratings:

Long-Term: AAA, AA+, AA, AA-, A+, A, A-, BBB+, BBB, and BBB-
Short-Term: A-1+, A-1, A-2, and A-3

Standard & Poor's Long-Term Issue Credit Rating Definitions

AAA An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is EXTREMELY STRONG.

AA An obligation rated 'AA' differs from the highest rated obligations only in small degree. The obligor's capacity to meet its financial commitment on the obligation is VERY STRONG.

A An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still STRONG.

BBB An obligation rated 'BBB' exhibits ADEQUATE protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

BB An obligation rated 'BB' is LESS VULNERABLE to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B An obligation rated 'B' is MORE VULERNABLE to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

CCC An obligation rated 'CCC' is CURRENTLY VULNERABLE to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

CC An obligation rated 'CC' is CURRENTLY HIGHLY VULNERABLE to nonpayment.

C The 'C' rating may be used to cover a situation where a bankruptcy petition has been filed or similar action has been taken, but payments on this obligation are being continued.

D An obligation rated 'D' is in payment default. The 'D' rating category is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

Plus (+) or minus (-): The ratings from 'AA' to 'CC' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

R This symbol is attached to the ratings of instruments with significant noncredit risks. It highlights risks to principal or volatility of expected returns which are not addressed in the credit rating. Examples include: obligations linked or indexed to equities, currencies, or commodities; obligations exposed to severe prepayment risk – such as interest-only or principal-only mortgage securities; and obligations with unusually risky interest terms, such as inverse floaters.

Short-Term Issue Credit Ratings

A-1 A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on the obligation is extremely strong.

A-2 A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

A-3 A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

B A short-term obligation rated 'B' is regarding as having significant speculative characteristics. The obligor currently has the capacity to meet its financial commitment on the obligation; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

C A short-term obligation rated 'C' is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation.

D A short-term obligation rated 'D' is in payment default. The 'D' rating is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be added during such grace period. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

GLOSSARY

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.

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

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

Certificate of Deposit: A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs are typically negotiable.

Collateral: Securities or property pledged by a borrower to secure payment.

Commercial Paper: An unsecured promissory note with a fixed maturity of no more than 270 days. Commercial paper is normally sold at a discount from face value.

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

Debenture: A bond secured only by the general credit of the issuer.

Delivery Versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Discount Securities: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Federal Deposit Insurance Corporation (FDIC): A federal institution that insures bank and savings and loan deposits, currently up to $100,000.

Federal Funds Rate: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

Fed Wire: A computer system linking member banks and other financial institutions to the Fed, used for making inter-bank payments of Fed funds and for making deliveries of and payments for Treasury, agency and book-entry mortgage backed securities.

Guaranteed Investment Contract (GIC): A debt instrument issued by an insurance company, usually in a large denomination, in which the interest rate is guaranteed but the principal is not.

Investment Adviser's Act: Legislation passed by Congress in 1940 that requires all investment advisers to register with the Securities and Exchange Commission. The Act is designed to protect the public from fraud or misrepresentation by investment advisers.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

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

Market Value: Current market price of a security.

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase or 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 upon which the principal or stated value of an investment becomes due and payable.

Money Market Mutual Fund: A mutual fund that limits its investments to some or all types of money market instruments.

Net Asset Value: The market value of one share of an investment company, such as a mutual fund.

No Load Fund: A mutual fund that does not levy a sales charge on the purchase of its shares.

Portfolio: Collection of securities held by an investor.

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. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

Prudent Person Rule: Standard of investing which states investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Ratings: An evaluation of an issuer of securities by Moody's, Standard & Poor's, Fitch, or other rating services of a security's credit worthiness.

Repurchase Agreements: A transaction whereby a holder of securities sells securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the buyer. Dealers use repurchase agreements extensively to finance their positions.

Rule 2a-7 of the Investment Company Act: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 90-day average maturity on investments, and maintenance of a constant net asset value of one dollar ($1.00).

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

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in one month, three months or six months.

Treasury Bonds: Long-term coupon bearing U.S. Treasury securities having initial maturities of more than ten years.

Treasury Notes: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

Yield: The rate of annual income return on an investment, expressed as a percentage.