

## **U.S. Government and Agency Securities**

**For Local Government Investment**

**Under ORS 294.035 and 294.040**

**Provided Pursuant to ORS 294.046**

**09/12/14**

### **U.S. Treasury Issues**

1. U.S. Treasury Bills
2. U.S. Treasury Notes
3. U.S. Treasury Bonds
4. U.S. Treasury STRIPS (Separate Trading of Registered Interest and Principal of Securities)
5. BECCS (Bearer Corpora Conversions)
6. CUBES (Coupons Under Book-Entry Safekeeping)
7. U.S. Treasury Inflation-Indexed Bonds

All Treasury notes and bonds are strippable. STRIPS are created by separating the interest (coupon) and principal (the note or bond itself), thereby creating zero coupon securities that are sold at a deep discount and payment is received at maturity. STRIPS are direct obligations of the U.S. Treasury and are backed by the full faith and credit of the United States. Strips are not to be confused with CAT's, TIGR's, etc., which are proprietary products that represent a security interest in an underlying U.S. Treasury security. These latter investments ARE NOT permissible investments for local governments.

Previously, when U.S. Treasury Bonds were in physical form, they were literally separated into serial coupons from their respective bonds. This was before book entry; before proprietary products created by dealers that were security interests in some underlying note or bond; and, before the U.S. Treasury itself allowed stripping of its longer debt issues. These old physically separated instruments (basically bearer securities) were converted by the Federal Reserve into wireable book entry form to make the STRIPS market more uniform. These former physical securities that have been so converted are called Coupons Under Book Entry Safekeeping (hence the acronym CUBES). These CUBES are very rare, trade at a higher rate than on-the-run comparable U.S. Treasury STRIPS, and are extremely illiquid. Being old U.S. Treasury securities, CUBES carry the same full faith and credit of the United States Government.

In January, 1997, the United States Treasury started issuing Treasury Inflation Protected Securities (TIPS). Inflation indexed note auctions are usually announced on the first Wednesday

of January and July, with the auction process occurring the second week of January and July. Issuance is the 15th of the same month. These bonds will be fully strippable. Like other bonds, they will be offered in denominations of \$1,000.00. More detailed information beyond this cursory description is available from the Internet ([www.publicdebt.treas.gov](http://www.publicdebt.treas.gov)), The Bond Market Association ([www.bondmarkets.com](http://www.bondmarkets.com)), and research data from brokers/dealers.

### **Agencies and Instrumentalities of the United States**

1. Federal Home Loan Banks (FHLB) - Discount Notes, Consolidated bonds, Floating Rate Notes, and MTNs. [www.fhlp-of.com](http://www.fhlp-of.com)
2. Federal Farm Credit Banks (FFCB) - Consolidated systemwide notes and bonds, Discount notes, Floating Rate Notes, MTNs, and Master notes. [www.farmcredit-ffcb.com](http://www.farmcredit-ffcb.com)
3. Federal National Mortgage Association ("Fannie Mae") - Discount Notes, MTNs, Senior and Subordinated Benchmark Notes (fixed and floating), strips, zero-coupon securities, and mortgage-backed securities. [www.fanniemae.com](http://www.fanniemae.com)
4. Federal Home Loan Mortgage Corporation ("Freddie Mac") - Discount Notes, MTNs, Senior and Subordinated Reference Notes (fixed and floating), Mortgage Participation Certificates (PC's), Collateralized Mortgage Obligations (CMO's), and Strips. [www.freddiemac.com](http://www.freddiemac.com)
5. Government National Mortgage Association ("Ginnie Mae") - Mortgage-Backed Securities in 15- and 30-year maturities - guaranteed by the full faith and credit of the U.S. Government. Collateralized by FHA, VA, and FMHA insured mortgage loans. [www.ginniemae.gov](http://www.ginniemae.gov)
6. Financing Corporation (FICO) –Long-term bonds (none issued since 9/89) - Principal repayment defeased by zero coupon Treasuries.
7. Resolution Funding Corporation (REFCORP) - Strips and Bonds – 30&40-year issues - Principal collateralized by U.S. Treasuries, interest payments backed by the U.S. Treasury and FIRREA.
8. Tennessee Valley Authority (TVA) - Discount Notes, Strips, Notes, and Bonds - Issues available in maturities 5 to 50 years. [www.tva.gov](http://www.tva.gov)
9. Financial Assistance Corporation (FAC) - 15 year bonds, guaranteed by the Treasury, first issued in 7/88. This entity provides capital to Farm Credit System Institutions.
10. Federal Land Banks (FLB) - Bonds - Currently issued through FFCB. (Banks for Cooperatives and Federal Intermediate Credit Bank also issue through FFCB and have no direct issues outstanding.)
11. Federal Housing Administration (FHA) - Debentures - Backed by the full faith and credit of the U.S. Government.
12. Farmers Home Administration (FMHA) - Certificates of Beneficial Ownership (CBO's). Backed by the full faith and credit of the U.S. Government. Discontinued in 1975, small amount remains outstanding.
13. General Services Administration (GSA) - Participation Certificates - Secured by the full faith and credit of the U.S. Government. No new issues since 1974. [www.gsa.gov](http://www.gsa.gov)
14. Maritime Administration - Bonds - Collateralized by ship mortgages, further backed by the full faith and credit of the U.S. Government in the event of default.
15. Washington Metropolitan Area Transit Authority - Bonds - Backed by the full faith and credit of the U.S. Government. Small amount remains outstanding.
16. Small Business Administration (SBA) - Debentures - Backed by the full faith and credit of the U.S. Government. Small amount remains outstanding. [www.sba.gov](http://www.sba.gov)
17. Department of Housing and Urban Development (HUD) - Notes, New Housing Authority Bonds - 40-year issues with 15-year calls. Backed by the full faith and credit of the U.S. Government. No new issues since 1974. Small amount remains outstanding.
18. United States Postal Service - Bonds - May be backed by the full faith and credit of the U. S. Government. Issues with maturities of 20 years or longer. [www.usps.com](http://www.usps.com)
19. United States Department of Veterans' Affairs Guaranteed REMIC Pass-Through Certificates Vendee Mortgage Trust 1992-1 (VINNIE MAE). The full and timely payment of principal and interest of these certificates is guaranteed by the Department of Veterans' Affairs and this guarantee is further backed by the full faith and credit of the United States of America.

20. Private Export Funding Corporation (PEFCO) – Secured Notes with maturities of 5 years or longer. - Interest is guaranteed by the Export-Import Bank of the United States (Eximbank, a federal agency) and whose principal is secured by either cash, securities backed by the full faith and credit of the United States, or Guaranteed Importer Notes which are guaranteed by the Eximbank. The Secured Notes, which are rated AAA. [www.pefco.com](http://www.pefco.com)
21. Federal Agricultural Mortgage Corporation (Farmer Mac), a federally chartered instrumentality of the United States was created to provide capital for agricultural real estate and rural housing. Instruments include discount notes, medium-term notes, and mortgage backed securities. [www.farmermac.com](http://www.farmermac.com)
22. Overseas Private Investment Corporation (OPIC) - is a self-sustaining U.S. Government corporation created under the Foreign Assistance Act of 1961 (FAA), as amended. OPIC facilitates U.S. private investment in developing countries and emerging market economies, primarily by offering political risk insurance, investment guaranties, and direct loans. The corporation issues certificates of participation (COPs) in the U.S. debt markets that are guaranteed by the full faith and credit of the U.S. Government. [www.opic.gov](http://www.opic.gov)

Pursuant to ORS 294.046, this list contains all "agencies and instrumentalities of the United States with available obligations that any county, municipality, political subdivision or school district may invest in...." Generally, all U.S. Treasuries, and Agencies listed in 1 through 8 are appropriate investments for excess cash funds (if the maturities of such instruments are within the local government's investment guidelines). However, attention should be paid to any peculiar characteristics of some of the instruments. For example, mortgage-backed securities like GNMA's may have volatile prepayment characteristics which may make their final maturities unknown. In falling interest rate cycles, borrowers' whose underlying mortgages are the security for the GNMA bonds may refinance their loans accelerating the principal return to the investor. Therefore, the term for a GNMA cannot be relied upon to perform, for example, a debt defeasance. Agencies listed in 9 through 21 are viewed as less appropriate for local government investments, may be infrequently traded, and can be characterized by thin, illiquid markets.

Supranational institutions in which the United States Government owns capital stock are not listed above as agencies and instrumentalities of the United States because they are not solely owned or operated by the US government. Appropriate classification of the indebtedness of supranational institutions (e.g., World Bank, Asian Development Bank, Inter-American Development Bank, etc.) is subject to interpretation by the local government investor.