METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO

Overview of Collateral Requirements for CD's and Cash Account Balances

Requirements:

1. Securities of the US Government pledged at 105% of current market value of the invested amount <u>not</u> including FDIC insurance.

   Or:

   Letter of Credit issued by the Federal Home Loan Bank secured at 102% of current market value of the invested amount <u>not</u> including FDIC insurance.

2. All investment collateral must be held in safekeeping by a third-party custodial institution as designated by the Treasurer, in the District's name.
   a. Acceptable Custodians:
      i. Federal Reserve Bank of Chicago
      ii. Harris Bank
      iii. Bank of America
   b. Bank chooses custodial bank.
   c. Custodial bank will send paperwork to set up account with the District.

3. No Collateral Agreement is required from financial institutions holding District funds that are invested in Certificates of Deposit and cash accounts.

4. Collateral requirements are covered in the District's Investment Policy – all banks must sign acceptance of the Policy.

Acceptable Forms of Collateral:

- US Treasury Bills
- US Treasury Notes (2-10 years) and Bonds (30 years)
- Federal Home Loan Bank Callable or "Bullets" (FHLB)
- Fannie Mae Callable or "Bullets" (FNMA)
- Federal Home Loan Mortgage Corporation Callable or "Bullets" (FHLMC)
- Federal Farm Credit Bank Callable or "Bullets"
- Letter of Credit (FHLB)
- ❖ <u>NOT</u> Acceptable:
  - ➢ Mortgage-backed collateral, Municipal Bonds, GNMA, or FNMA with monthly principal distributions.
  - ➢ Review cusip on Bloomberg; look for Participation Certificates (PC) statement.

Collateral Maturity date should extend later than original investment.

- If collateral is called, it must be replaced in a timely fashion.
- District issues release and replacement letter.

Definition of Government Agency Callable

- Securities issued by government agencies that may be redeemed before maturity if the issuer chooses.
- If interest rates fall, issuers may choose to redeem them early.
- Bullets are Securities with one principal payment at maturity date (non-callable).
- Bullets Cost more money (offers lower interest rates) since there is no risk of the investment being called if there is a drop in market interest rates.