

## ATTACHMENT 1

# FEDERAL DEPOSIT INSURANCE CORPORATION CORPORATE INVESTMENT POLICY (2018)

### ***Legal Basis for the Corporate Investment Program***

All Corporate investments are made in accordance with provisions of section 13(a) of the Federal Deposit Insurance Act, which requires: 1) that funds held in the Deposit Insurance Fund that are not otherwise employed shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States; and 2) the approval of the Secretary of the Treasury for purchases and sales of securities at any one time aggregating in excess of \$100,000.

On a daily basis, the U.S. Department of the Treasury's Bureau of the Fiscal Service (BFS) offers non-marketable U.S. Treasury securities at current market prices with no transaction fees or costs to the Corporation. Known as Government Account Series (GAS) Treasury securities, the Secretary of the Treasury has restricted federal agencies with investment authority, including the FDIC, to buying and selling such GAS Treasury securities. Accordingly, by buying and selling these GAS Treasury securities through the BFS, the Corporation meets the requirement of obtaining the approval of the Secretary of the Treasury for purchases and sales of securities at any one time aggregating in excess of \$100,000.

### ***Deposit Insurance Fund (DIF) Investment Objectives***

In managing the DIF investment portfolio, the Corporation's stated objectives include:

- Managing money in a professional manner, consistent with maintaining confidence in the deposit insurance program and with the Corporation's strategic objective that the Deposit Insurance Fund remains viable.
- Holding all DIF investments to maturity, including securities both designated as held-to-maturity (HTM) and designated as available-for-sale (AFS).<sup>1</sup> (All or a portion of the DIF

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<sup>1</sup> This is consistent with the Department of the Treasury's *Investment Fund Operating Circular*, which provides that when federal entities invest, the principal amounts and maturities of investments should be selected to coincide approximately with the agency's disbursement estimates, so that the investments may be bought and held to their maturities. See Sections 4030, p. 14 and 4060, ¶ f, p. 19.

investment portfolio may be designated as AFS under Accounting Standards Codification Topic 320, *Investments – Debt and Equity Securities*.) However, sales of such securities may be consummated to meet DIF’s funding needs. To the extent that security sales are deemed necessary, all of the DIF portfolio’s AFS securities shall be sold before selling any HTM securities.

- Managing the investment program at the lowest reasonable cost, without compromising standards of quality, security, or control.
- Striving continuously to improve investment and cash management techniques, including periodically measuring and assessing the DIF’s investment performance.

### ***Composition of the DIF Portfolio***

The DIF portfolio shall include a Primary Reserve and may also include a Secondary Reserve.

#### **Primary Reserve**

The Primary Reserve shall consist of:

- overnight investment securities that will be the primary source of liquidity for the DIF;
- investment securities that are designated AFS; and
- investment securities designated as HTM with remaining maturities of three months or less.

Specific investment objectives related to the DIF’s portfolio’s Primary Reserve include, in order of priority:

- seek to control the need for any AFS security sales;
- seek to avoid the need for any HTM security sales; and
- seek to maximize investment returns, subject to the above objectives.

#### **Secondary Reserve**

The Secondary Reserve shall consist of all investment securities designated HTM that are not included in the Primary Reserve.

Specific investment objectives related to the DIF portfolio’s Secondary Reserve include, in order of priority:

- seek to avoid the need for any HTM security sales; and
- seek to maximize investment returns.

## ***Investment Guidelines***

### **Permissible Investments**

The DIF portfolio will be invested in any of the non-marketable U.S. Treasury securities offered by the BFS to federal agency investors, including but not limited to:

- conventional non-callable Treasury bills, notes, bonds, and special certificates;
- Treasury Inflation-Protected Securities (TIPS);
- zero-coupon securities created under the Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS) program;
- Floating Rate Notes; and
- other securities that may be offered by the BFS to federal agency investors.

In addition, any of these securities may be purchased on a when-issued basis, in accordance with existing BFS practices.

From time to time, the Chief Financial Officer (CFO), with the advice of the Investment Advisory Group<sup>2</sup> (IAG), may establish certain limitations with respect to investments in any of the permissible security types.

### **Maturity Considerations**

- *Primary Reserve:* All AFS securities held in the DIF portfolio's Primary Reserve will have remaining maturities of twelve years or less. Moreover, the CFO, with the advice of the IAG, may establish certain limits on the amount, types, maturities, and/or modified durations of AFS securities. Factors that may be considered in setting such limits include current and anticipated market conditions, fund balance characteristics, and other relevant data.
- *Secondary Reserve:* All securities held in the DIF portfolio's Secondary Reserve will have remaining maturities of twelve years or less. As with the AFS securities in the

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<sup>2</sup> The Investment Advisory Group consists of five members, is chaired by the CFO, the Director of the Division of Finance is a permanent member, and the Chairman appoints three individuals who have investment backgrounds, but are not directly involved in the Corporation's investment activities (see section below titled "Investment Advisory Group" for a complete description).

primary reserve, the CFO, with the advice of the IAG, may establish certain limits on the amount, types, maturities, and/or modified durations of HTM securities.

- *Aggregate Portfolio*: At the time of purchase of any longer-term investment security, not more than 50 percent of the DIF portfolio (measured by par value) shall contain securities having maturity dates that fall within *all* calendar years between year six and year twelve.

For compliance measurement purposes, the sixth calendar year shall begin five years from the subsequent January 1. For the purposes of this provision, a “longer-term investment security” is defined as a security with a maturity date falling within the sixth through twelfth calendar years. Moreover, to the extent that callable securities’ premiums are amortized to their first call date (given the certainty that they will be called on their first call dates), and then such first call dates would be used for determining portfolio maturity distributions and compliance with applicable policy maturity limitations.

### ***Authority of the CFO and DOF Director under the Corporation’s Bylaws and this Corporate Investment Policy***

In accordance with Article VI of the Corporation’s Bylaws, and consistent with 31 U.S.C. section 902 of the Chief Financial Officers Act, the CFO or his/her designees are to manage and implement the Corporate investment program. Article VI of the Corporation’s Bylaws provides that the Director of the Division of Finance (DOF Director) shall, among other things, receive, deposit, disburse, manage, safely keep, and account for all funds of the Corporation. In accordance with these authorities, the DOF Director is thus responsible for implementing the investment strategy and for managing day-to-day financial transactions. In this connection, and in keeping with this Policy, the DOF Director or his/her designees are authorized to invest and reinvest the funds of the Corporation, sell investments designated as AFS prior to their stated maturity, sell securities designated as HTM so long as the securities have remaining maturities of three months or less, and perform all related incidental acts. Securities designated as HTM that have more than three months to their stated maturity may only be sold with the specific approval of the CFO or his/her designee.

### ***Contingency Funding***

This section contains eight subsections as follows:

- Alternative Sources of Liquidity – Legal Basis
- Borrowing from the U.S. Treasury (under Section 14(a) of the FDI Act)
- Borrowing from the FFB (under Section 14(b) of the FDI Act)

- Borrowing from Insured Depository Institutions (under Section 14(d) of the FDI Act)
- Borrowing from Federal Home Loan Banks (under Section 14(e) of the FDI Act)
- Contingency Funding Constraint – FDI Act Limitations on Borrowings
- Borrowings – Reporting Requirements
- Corporate Contingency Funding Policy Statement

### Alternative Sources of Liquidity – Legal Basis

In the event that the DIF's resources are insufficient to meet its deposit insurance and other obligations, section 14 of the Federal Deposit Insurance Act (FDI Act) provides the following contingency borrowing authority:

- *Borrowing from the U.S. Treasury (section 14(a))*: The FDIC is authorized to borrow from the Treasury, not exceeding in the aggregate \$100 billion outstanding at any one time, subject to the approval of the Secretary of the Treasury.
- *Borrowing from the Federal Financing Bank (section 14(b))*: The FDIC is authorized to issue and sell the Corporation's obligations, on behalf of the Deposit Insurance Fund, to the Federal Financing Bank (FFB).
- *Borrowing for the DIF from insured depository institutions (section 14(d))*: Subject to certain conditions, the FDIC may issue obligations to, or borrow from, insured depository institutions.
- *Borrowing for the DIF from Federal Home Loan Banks (section 14(e))*: Subject to certain conditions, the FDIC may also borrow from the Federal Home Loan Banks with the concurrence of the Federal Housing Finance Agency.

### Borrowing from the U.S. Treasury (under Section 14(a) of the FDI Act)

Under section 14(a) of the FDI Act, the Corporation is authorized to borrow, and the Secretary of the Treasury (Secretary) is authorized and directed to loan on such terms as may be fixed by the Corporation and the Secretary, such funds as in the judgment of the Board of Directors of the Corporation are needed for insurance purposes, not exceeding in the aggregate \$100 billion outstanding at any one time, subject to the approval of the Secretary.

The Secretary will determine the rate of interest, taking into account the current market yields on outstanding marketable Treasury securities of comparable maturities. All loans and repayments made pursuant to section 14(a) of the FDI Act shall be treated as public debt transactions of the United States. Moreover, section 14(a) of the FDI Act provides appropriated funds to the Secretary as may be necessary.

Section 14(a) of the FDI Act also states that no amount of funds can be provided unless there is an agreement between the Secretary and the Corporation providing a repayment schedule that demonstrates that income to the Corporation from assessments will be sufficient to amortize the outstanding balance within the period established in the repayment schedule and pay the interest accruing on such balance.

Finally, among other things, section 14(a) of the FDI Act requires that the Secretary and the Corporation shall consult with the House and Senate Banking Committees on the terms of the repayment schedule, including terms relating to any emergency special assessment under section 7(b)(7) of the FDI Act, and will provide a copy of the repayment schedule to the respective Committees within 30 days of advancing any funds pursuant to section 14(a) of the FDI Act.

### **Borrowing from the Federal Financing Bank (under Section 14(b) of the FDI Act)**

Under section 14(b) of the FDI Act, the Corporation is authorized to sell the Corporation's obligations, on behalf of the DIF, to the Federal Financing Bank.<sup>3</sup> The FFB makes funds available to Federal agencies at a rate lower than what a borrower would receive in private credit markets. Both the FDIC and the Resolution Trust Corporation borrowed from the FFB in the early and mid-1990s and found the process to be efficient and cost effective.

This Corporate Investment Policy incorporates the December 6, 2006 Board Resolution and the September 16, 2008, Board Resolution<sup>4</sup> that approved entering into a \$100 billion Note Purchase Agreement (NPA) with the FFB and authorized the CFO to: (1) execute the NPA; (2) execute notes; (3) renew the NPA; (4) request and repay advances; and (5) take other necessary actions to carry out the terms of the resolutions.

The resolution sets forth that the concurrence of the General Counsel is needed for actions 1 through 3, and that the CFO can only delegate his authority to one or more designees for actions 4 and 5.

With respect to actions 4 and 5, the CFO has delegated his authority to the DOF Director to manage the DIF's FFB borrowings program; in turn, the DOF Director has re-delegated this authority to DOF's Treasury Management Section manager and designated staff.

### **Borrowing from Insured Depository Institutions (under Section 14(d) of the FDI Act)**

Under section 14(d) of the FDI Act, the Corporation may issue obligations to insured depository institutions, and may borrow from insured depository institutions provided that the proceeds are used solely for carrying out the Corporation's functions with respect to the DIF; and that terms of the obligation or instrument limit the Corporation's liability for payment of interest and

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<sup>3</sup> The FFB is a government corporation, created by Congress in 1973 under the general supervision of the Secretary of the Treasury. The FFB was established to centralize and reduce the cost of federal borrowing, as well as federally-assisted borrowing from the public. The FFB lending policy states that the FFB should be the vehicle through which Federal agencies finance programs.

<sup>4</sup> The December 6, 2006, Board Resolution bears Seal No. 074569 and the September 16, 2008, Board Resolution bears Seal No. 075920.

repayment of principal to the amount which is equal to the amount of assessment income received by the DIF under section 7 of the FDI Act.

Among other things, any borrowings under this section shall be subject to the Public Debt Limit established in section 3101(b) of title 31 of the U.S. Code. In addition, any borrowings under this section reduce the amount of the Treasury borrowings permitted under section 14(a). The maximum interest rate on such borrowings shall be determined by the Secretary of the Treasury, taking into consideration current market yields on outstanding marketable Treasury securities of comparable maturities. Also, any such obligation issued or amount borrowed shall be a liability of the DIF. From the standpoint of insured depository institutions, the funds for obligations purchased or loans made must be derived from the institution's capital or retained earnings, and such obligation or loans shall be treated as an asset.

#### **Borrowing from Federal Home Loan Banks (under Section 14(e) of the FDI Act)**

Under section 14(e) of the FDI Act, the Corporation may borrow from the Federal Home Loan Banks (FHLBs), with the concurrence of the Federal Housing Finance Agency (FHFA), such funds as the Corporation considers necessary for the use of the DIF. Any loan from an FHLB shall bear interest of not less than the marginal cost of funds to that bank, taking into account the maturities involved; shall be adequately secured, as determined by the FHFA; and shall be a direct liability of the DIF.

#### **Contingency Funding Constraint – FDI Act Limitations on Borrowings**

Under section 15(c) of the FDI Act, the DIF is subject to a maximum obligation limitation (MOL) such that the DIF cannot issue new obligations or borrowings from any of the four sources, including the FFB, if the aggregate amount of all obligations and borrowing were to exceed the sum of (1) the amount of cash or cash equivalents held by the DIF; (2) the amount which is equal to 90 percent of the FDIC's estimate of the fair market value of assets held by the DIF; and (3) the total of the amounts authorized to be borrowed from the Secretary of the Treasury pursuant to section 14(a) of the FDI Act.

Hence, notwithstanding the multiple borrowing options afforded the DIF under section 14 of the FDI Act, the DIF's ability to borrow is constrained by the MOL.

#### **Borrowings – Reporting Requirements**

The CFO shall notify the Board of Directors at least 24 hours prior to any initial exercise of the FDIC's borrowing authority under section 14 of the FDI Act. DOF staff shall report quarterly to the Investment Advisory Group on all outstanding borrowings under section 14 of the FDI Act, including the total number of such borrowings, the principal amount owed, any payoffs made, and the interest expense of the borrowings incurred to date. The CFO will report quarterly to the Board of Directors on its borrowings under this section.

## Corporate Contingency Funding Policy Statement

When faced with a situation that requires utilizing contingency funding, the Corporation shall consider all its options, and will, in its sole discretion as determined by the Board of Directors, choose to use the option it deems to be in the best interest of the Deposit Insurance Fund.

### ***Investment Advisory Group***

An Investment Advisory Group consisting of the CFO, the DOF Director, and three members (not directly involved in the Corporate and liquidation funds investment operations) appointed by the Chairperson, shall convene four times per year, preferably at least once each calendar quarter. The CFO shall chair the IAG. The IAG shall review the overall investment, Treasury securities market, and economic outlooks; review the most recent quarter's investment performance; review cash flow projections for the DIF portfolio; and review any actions that constitute exceptions to this policy. The IAG shall also advise the CFO on target amounts or percentages to be held in the primary reserves for the DIF portfolio where applicable; and advise the CFO on the investment strategies within the constraints set by this investment policy. Minutes shall be kept of the IAG's meetings.

The Division of Finance shall be responsible for preparing briefing materials for the IAG. These materials shall include, at a minimum:

- DIF portfolio status report;
- DIF portfolio cash flow forecasts;
- a summary of the execution of the IAG's instructions since its prior meeting; and
- a recommended investment strategy for the DIF portfolio for the subsequent period.

In the event market conditions or cash flow projections require a reassessment of investment strategies between regularly scheduled IAG meetings, the Division of Finance staff shall notify the CFO who shall determine in his or her sole discretion whether an interim IAG meeting should be held.

### ***Reporting Requirements***

The CFO will report quarterly to the Board of Directors on:

- the status and recent investment experience of the DIF portfolio;
- the current and prospective investment strategies;
- any limitations on the size of the Primary Reserve and of the Secondary Reserve;



- the principal reasons for any significant changes in either investment experience or strategy;
- any actions taken that constitute exceptions to this policy; and
- all outstanding borrowings, as appropriate.

### ***Other Corporate Investment Portfolios***

The principal investment portfolio of the Corporation is the DIF portfolio. The business activities of the Corporation may result in the need to create pools of funds that must be segregated and invested separately from the DIF portfolio because of restrictions on use, maturity, availability, or for other reasons. As deemed appropriate, the CFO may establish an individual investment portfolio to segregate the investment activity for investable funds that are subject to specific restrictions. The CFO will establish a written investment strategy for any such portfolio that is consistent with this policy. The CFO shall report to the Board of Directors on each such portfolio, including the written investment strategy for any such portfolio.