



## **INVESTMENT POLICY**

**FOR THE YEAR ENDING DECEMBER 31, 2016**

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**INVESTMENT POLICY**  
**CHAMBERS COUNTY, TEXAS**

This Investment Policy is adopted to meet the County's responsibilities under the Public Funds Investment Act, Chapter 2256, TEX. GOV'T CODE

1. **DEFINITIONS** For purposes of this Investment Policy, the following definitions shall apply:

- a. "Bond Proceeds" means the proceeds from the sale of bonds, notes and any other obligations issued by the County, and reserves and funds maintained by the County for debt service purposes.
- b. "Book Value" means the current face or par value of an investment plus or minus the accrued amortization or accretion.
- c. "Funds" means public funds in the custody of the County authorized to invest.
- d. "Investment Pool" means an entity created under the Government Code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are: (i) preservation and safety of principal; (ii) liquidity; and (iii) yield.
- e. "Market Value" means the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market-pricing source quoted on the valuation date.
- f. "Qualified Representative" means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization and who is one of the following:
  - (1) for a business organization doing business that is regulated or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;
  - (2) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution; or
  - (3) for an Investment Pool, the person authorized by the elected official or board with authority to administer the activities of the Investment Pool to sign the written instrument on behalf of the Investment Pool.

2. **INVESTMENT OFFICER** The County Auditor shall serve as the investment officer of the County, shall recommend appropriate legally authorized and adequately secured investments, and shall invest County Funds as directed by the Commissioners Court, this investment policy and in accordance with generally accepted accounting procedures. All investment transactions, except Investment Pools, shall be executed on a delivery versus payment basis. The investment officer shall exercise the judgment and care under prevailing circumstances that a prudent person would exercise in the management of his or her own affairs.

3. **WITHDRAWAL & TRANSFER AUTHORITY** The County Auditor is authorized to withdraw and transfer and reinvest the County's investments as prescribed in this investment policy. Any other employee or representative of the County will be permitted to perform these functions by express written authority of the Commissioners Court.

4. **CHECKS, DRAFTS, ETC** All checks, drafts, notes or other orders for payment of money issued in the name of the County shall be signed by the County Treasurer. In the absence of the County Treasurer, a deputy may be designated by the County Treasurer to sign.

5. **APPROVED INVESTMENTS** The County is authorized to invest its Funds in only the following investment types, consistent with the strategies and maturities defined in this policy:

- a. Obligations, including letters of credit, of the United States or its agencies and instrumentalities.
- b. Direct obligations of the State of Texas or its agencies and instrumentalities.
- c. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the state of Texas, the United States, or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.
- d. Certificates of deposit or share certificates issued by a state or national bank domiciled in Texas or a state or federal savings bank domiciled in Texas or a state or federal credit union domiciled in Texas that is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor and is secured by obligations described in above, including mortgage-backed securities directly issued by a federal agency or instrumentality that have a Market Value of not less than the principal amount of the certificates or secured in any other manner and amount provided by law for the deposits of the County.

- e. Certificates of deposit where 1) funds are invested through a) a broker that has its main office or branch office in Texas and is selected from a list adopted by the county, b) a depository institution that has its main office or a branch office in Texas and that is selected by the county; 2) the broker or the depository institution selected by the county arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the county; 3) the full amount of the principle and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and 4) the county appoints the depository institution selected by the investing entity under subdivision (1), and entity described by Government Code Section 2257.041(d), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).
- f. A public funds Investment Pool meeting the requirements of Government Code} {2256.016 and 2256.019, if the Commissioners Court authorizes the investment in the particular pool by resolution.

As provided in TEX. GOV'T CODE,} {2256.009(b), the following are not authorized investments:

- a. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
- b. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- c. Collateralized mortgage obligations that have a stated final maturity date of greater than ten years.
- d. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

An expanded list of investment options is provided as **Exhibit B**.

6. **SAFETY AND INVESTMENT MANAGEMENT** The investment officer shall observe financial market indicators, study financial trends, and utilize available educational tools in order to maintain appropriate managerial expertise. Investments shall be made in a manner that ensures the preservation of capital in the overall portfolio and offsets, during a 12-month period, any market price losses resulting from interest-rate fluctuations by income received from the balance of the portfolio.

The investment officer will monitor the market price of investments acquired with public funds through the Wall Street Journal, in accordance with Government Code 2256.005(b)(4)(D).

The investment officer will monitor rating changes of investments acquired with public funds through Moody's, Fitch, and S&P rating agencies online in accordance with Government Code 2256.005(b)(4)(F). The investment officer shall take all prudent measures that are consistent with this investment policy to liquidate an investment that does not have the minimum rating required for that investment, in accordance with Government Code 2256.021.

7. **LIQUIDITY AND MATURITY** Assets of the County shall be invested in instruments whose maturities do not exceed three years from the time of purchase, subject to the following exceptions:

- a. Law requires a shorter maturity.
- b. The County's investment portfolio shall have sufficient liquidity to meet anticipated cash flow requirements, projected on a weekly, monthly, and annual basis.

8. **DIVERSITY** The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer. The County may meet its obligation to diversify by placing all or part of its investment portfolio in a public funds Investment Pool meeting the requirements of Government Code } { 2256.016 and 2256.019, if the Commissioners Court authorizes the investment in the particular pool by resolution.

9. **FUNDS/STRATEGIES** Investments of the following fund categories shall be consistent with this policy and in accordance with the strategy defined below:

**Operating Funds.** Investment strategies for operating funds and commingled pools containing operating funds shall have as their primary objective investment liquidity and maturity sufficient to meet anticipated cash flow requirements.

**Debt Service Funds.** Investment strategies for debt service funds shall be consistent with any requirements in the bond documents, and shall have as their objective sufficient investment liquidity to timely meet debt service payment obligations and with no maturities extending beyond the final debt service payment date.

**Debt Service Reserve Funds.** Investment strategies of debt service reserve funds shall be consistent with any requirements in the bond documents, and shall have as their primary objective the generation of a dependable revenue stream from high quality short-to-medium term securities with minimal volatility.

**Bond Proceeds.** Investment strategies shall be in compliance with the bond covenants regarding the investment and handling of such Funds.

**Safekeeping and Custody.** The cash, collateral, and investments of the County shall be held by an independent third party with which the County has a current custodial agreement. Funds of the County in excess of federally insured amounts shall be collateralized by pledged securities in accordance with the Public Funds Collateral Act, Chapter 2257 of the Texas Government Code. The County shall retain clearly marked receipts providing proof of the county's ownership, or the County may delegate an Investment Pool the authority to hold legal title as custodian of investments purchased with County Funds.

10. **SELECTION OF AUTHORIZED BROKER/DEALERS** Broker/dealers must submit annual audited financial statements to the County and be in good standing with the National Association of Securities Dealers. Representatives of brokers/dealers shall be registered with the Texas State Securities Board. In accordance with Government Code 2256.025, the Commissioners' Court, at least annually, shall review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the County. A list of authorized broker/dealers is provided as **Attachment B**.

11. **SELLERS OF INVESTMENTS** A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with the County. The Qualified Representative of the business organization seeking to sell an authorized investment shall execute a written instrument stating:

- a. The business organization has received and reviewed the County's investment policy; and
- b. Has acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the County and the organization that are not authorized by the County's investment policy, except to the extent that this authorization requires an analysis of the County's entire portfolio or requires an interpretation of subjective investment standards.

A form of the written instrument is provided as **Exhibit A**. The investment officer may not acquire or otherwise obtain any authorized investment described in this policy from a person who has not delivered to the County an instrument that is substantially in this form.

12. **INVESTMENT TRAINING** The County Auditor as a chief financial officer of the County, and any other investment officers of the County appointed by the Commissioners Court, if any, shall: (1) attend at least one training session from an independent source approved by Commissioners' Court or a designated investment committee advising the investment officer as provided for in the investment policy and containing at least 10 hours of instruction relating to the Auditor's or officer's responsibilities within 12 months after taking office or assuming duties; and (2) attend an investment training session not less than once in a two-year period that begins on the first day of the County's fiscal year and consists of the two consecutive fiscal years after that

date, and receive not less than 10 hours of instruction relating to investment responsibilities from an independent source approved by Commissioners' Court or a designated investment committee advising the investment officer as provided for in this investment policy.

13. **STANDARD OF CARE** Investments shall be made with judgment and care, under prevailing circumstances that a person of prudence, discretion, and intelligence would exercise in the management of his or her own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investments shall be governed by the objectives specified in Government Code 2256.006, in order of priority specified therein. In determining whether an investment officer has exercised prudence with respect to an investment decision, the following shall be taken into consideration:

- a. The investment of all Funds, rather than the prudence of a single investment, over which the officer had responsibility.
- b. Whether the investment decision was consistent with the Commissioners' Court's written investment policy

14. **PERSONAL INTEREST** An investment officer who has a personal business relationship with a business organization offering to engage in an investment transaction for the County shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined by Government Code Chapter 573, to an individual seeking to sell an investment to the County shall file a statement disclosing that relationship with the Commissioners Court and with the Texas Ethics Commission. An investment officer has a personal business relationship with a business organization if:

- a. the investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair Market Value of the business organization;
- b. funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or
- c. the investment officer has acquired from the business organization investments with a Book Value of \$2,500 or more for the personal account of the investment officer.

15. **QUARTERLY REPORTS** Not less than quarterly, the investment officer shall prepare and submit to the Commissioners Court a written report of investment transactions for all Funds covered by the Public Funds Investment Act. This report shall be presented to the Commissioners' Court not less than quarterly, within a reasonable time after the end of the period. The report must:

- a. Describe in detail the investment position of the County on the date of the report.



- b. Be prepared jointly and signed by all County investment officers.
- c. Contain a summary statement of each pooled funds group that states the:
  - (1) Beginning market value for the reporting period;
  - (2) Ending market value for the period;
  - (3) Fully accrued interest for the period.
- d. State the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested.
- e. State the maturity date of each separately invested asset that has a maturity date.
- f. State the account or fund or pooled group fund in the County for which each individual investment was acquired.
- g. State the compliance of the investment portfolio of the County as it relates to the County's investment strategy expressed in the County's investment policy and relevant provisions of law.

16. **ANNUAL REVIEW** The investment policy and the investment strategy shall be reviewed and adopted not less than annually by the Commissioners Court. The Commissioners' Court shall affirmatively, by written resolution, state that it has reviewed the investment policy and investment strategy, and such resolution shall record any changes made in the investment policy or investment strategy. The RESOLUTION TO ADOPT INVESTMENT POLICY is provided as **Attachment A**.

17. **ANNUAL AUDIT** The Commissioners Court shall perform or have conducted a compliance audit of management controls on investments and adherence to the Commissioners Court's established investment policies. The compliance audit shall be performed in conjunction with the annual financial audit by the County's independent auditing firm. If the County invests in other than money market mutual funds, Investment Pools or money market accounts offered by its depository bank in the form of certificates of deposit, or the reports prepared by the investment officers shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the Commissioners Court.

18. **ELECTRONIC FUNDS TRANSFER** The County may use electronic means to transfer or invest all Funds collected or controlled by the County.

19. **AUTHORIZATION** Unless authorized by this policy, a person may not deposit, withdraw, transfer, or manage in any other manner the Funds of the County.

20. **COMPLIANCE** All investments made by the County must comply with the Texas Public Funds Investment Act and all federal, state and local statutes, rules or regulations.

**ATTACHMENT A**

**RESOLUTION TO ADOPT INVESTMENT POLICY**

Commissioners' Court has reviewed, and hereby affirms that they approve the Investment Policy and investment strategy as presented, in accordance with Item 16 of the Investment Policy.

Approved by Commissioners' Court in a duly posted meeting on this

\_\_\_\_\_ day of \_\_\_\_\_ 20\_\_.

\_\_\_\_\_  
Jimmy Sylvia, County Judge

\_\_\_\_\_  
Mark Huddleston, Commissioner, Pct 1

\_\_\_\_\_  
Gary R. Nelson, Commissioner, Pct 3

\_\_\_\_\_  
Larry G. George  
Commissioner, Pct 2

\_\_\_\_\_  
A.R. "Rusty" Senac, Commissioner, Pct 4

ATTEST:

\_\_\_\_\_  
Heather H. Hawthorne, Chambers County Clerk

## ATTACHMENT B

### AUTHORIZED BROKER/DEALERS

#### **Depository Bank:**

Prosperity Bank  
146 Spur 5  
Winnie, Texas 77665  
409-296-3000  
[www.prosperitybanktx.com](http://www.prosperitybanktx.com)

#### **Public Funds Investment Pools:**

1. TexPool  
1001 Texas Avenue, Suite 1400  
Houston, Texas 77002  
1-866-839-7665  
[www.texpool.com](http://www.texpool.com)
2. Texas Class  
815-A Brazos Street, # 345  
Austin, Texas 78701  
1-800-707-6242  
[www.texasclass.com](http://www.texasclass.com)

#### **Government Securities Brokers and Dealers:**

Coastal Securities, Inc.  
5555 San Felipe, Suite 2200  
Houston, Texas 77056  
713-435-4334  
[www.coastalsecurities.com](http://www.coastalsecurities.com)

BOSC, Inc.  
A subsidiary of BOK Financial Corp.  
5 Houston Center, Suite 1000,  
1401 McKinney Ave.  
Houston, Texas 77010  
[www.boscinc.com](http://www.boscinc.com)  
Email: [rweiler@bokf.com](mailto:rweiler@bokf.com)

TCG ADVISORS  
900 S Capital of Texas Hwy  
Suite 350  
Austin, Texas 78746  
[www.tcginvestments.com](http://www.tcginvestments.com)  
Email: [hpoole@tcginvestments.com](mailto:hpoole@tcginvestments.com)  
Phone: 512-600-5236  
Fax: 512-600-5300

**EXHIBIT A**

**Form of Statement by Seller of Investments**

THE STATE OF TEXAS    }}  
  }}  
COUNTY OF CHAMBERS }}{

BEFORE ME, the undersigned authority, on this day personally appeared the person whose name is subscribed below, who, being by me first duly sworn, upon oath deposed and said:

My name is \_\_\_\_\_ . I am a Qualified Representative of \_\_\_\_\_ (the "Organization"), which is engaged in the business of selling investments and desires to sell investments to Chambers County (the "County"). This Statement is provided to meet the requirements of the Public Funds Investment Act.

I hereby certify that

1. I have received and reviewed the County's investment policy;
2. The Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the County and the Organization that are not authorized by the County's investment policy, except to the extent that the Organization has not made an analysis of the make-up of the County's entire portfolio or has not engaged in any interpretation of subjective investment standards; and
3. The statements, representations and declarations made in this document are true and correct.

\_\_\_\_\_  
Qualified Representative

SWORN TO AND SUBSCRIBED BEFORE ME, this the \_\_\_\_\_ day of \_\_\_\_\_  
\_\_\_\_\_.

\_\_\_\_\_  
Notary Public in and for the State of Texas

## **EXHIBIT B**

### **EXPANDED LIST OF INVESTMENT OPTIONS**

- A. Except as provided by Government Code 2256.009(b), the following are authorized investments:
- (1) Obligations, including letters of credit of the United States or its agencies and instrumentalities;
  - (2) direct obligations of this state or its agencies and instrumentalities;
  - (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
  - (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;
  - (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.
  - (6) certificates of deposit if issued by a state or national bank domiciled in this state or a savings bank domiciled in this state and is:
    - (a) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor;
    - (b) secured by obligations that are described by Section 2256.009(a) of the Public Funds Investment Act, including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by Section 2256.009(b) of the Public Funds Investment Act; or
    - (c) secured in any other manner and amount provided by law for deposits of the county.

- (d) certificates of deposit 1) invested through a) a broker that has its main office or a branch office in this state and is selected from a list adopted by the County as required by Government Code 2256.025; or b) a depository institution that has its main office or a branch office in this state and that is selected by the County, 2) the broker or the depository institution selected by the County arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the County, 3) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and 4) the County appoints the depository institution selected by the County under subdivision (1), and entity described by Government Code Section 2257.041(d), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the County with respect to the certificates of deposit issued for the account of the County.
- (7) A fully collateralized repurchase agreement, as defined in the Public Funds Investment Act that:
- (a) has a defined termination date,
  - (b) is secured by a combination of cash and obligations described by Section 2256.009(a)(1) of the Public Funds Investment Act; and
  - (c) requires the securities being purchased by the county or cash held by the entity to be pledged to the county, held in the county's name, and deposited at the time the investment is made with the county or with a third party selected and approved by the county; and
  - (d) is placed through a primary government securities dealer, as defined by the Federal Reserve or a financial institution doing business in this state.

Notwithstanding any law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received by a county under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

8. A bankers acceptance if it:
- (a) has a stated maturity of 270 days or fewer from the date of its issuance; and

- (b) will be, in accordance with its terms, liquidated in full at maturity;
  - (c) is eligible for collateral for borrowing from a Federal Reserve Bank;  
and
  - (d) is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.
9. Commercial paper is an authorized investment under this subchapter if the commercial paper:
- (a) has a stated maturity of 270 days or fewer from the date of its issuance; and
  - (b) is rated not less than A-1 or P-1 or an equivalent rating by at least:
    - (1) two nationally recognized credit rating agencies; or
    - (2) one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.
10. Mutual funds and money market mutual funds with limitations described below
- (a) A no-load money market mutual fund is authorized if it:
    - (1) is registered with and regulated by the Securities and Exchange Commission;
    - (2) has a dollar-weighted average stated maturity of 90 days or fewer; and
    - (3) includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.
    - (4) Provides the investing entity with a prospectus and other information as required by the Securities and Exchange Act of 1934 or the Investment Company Act of 1940.
  - (b) A no-load mutual fund is authorized if it:
    - (1) is regulated by the Securities and Exchange Commission;



- (2) has an average weighted maturity of less than two years;
- (3) is invested exclusively in obligations approved by this subchapter;
- (4) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and
- (5) conforms to the requirements set forth in Sections 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.

Relative to mutual funds and money market mutual funds, the county **may not**:

- (a) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in Government Code 2256.014(b);
  - (b) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Government Code 2256.014(b); or
  - (c) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described in Government Code 2256.014(a) or (b), in an amount that exceeds 10 percent of the total assets of the mutual fund.
11. Eligible investment pools (as discussed in the Public Funds Investment Act, Sec.2256.016 and 2256.019) if the Commissioners Court by resolution authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by the Public Funds Investment Act. A county by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

**B. Prohibited**

The Chambers County Investment Officer has **no authority** to use any of the following investment instruments that are strictly prohibited:

- (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;

- (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- (3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and
- (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.