

**CITY OF MONT BELVIEU**  
**City Council Policy**

**Page :** 1 of 3  
**Approved By**  
**City Council:** February 15, 2007  
**Reviewed By:** Bryan Easum

<b>Title: Banking and Investments Policy – Collateralization Policy</b>
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The City of Mont Belvieu’s investment portfolio is selected and managed in such a manner as to ensure that it will meet all the requirements established by the City of Mont Belvieu Banking and Investments Policy and the Public Funds Investment Act. The Collateralization Policy, as part of the overall Banking and Investments Policy, is intended to protect certain City investments by providing a buffer against market changes and to provide a level of security for all City funds. Therefore, collateralization will be required on: (1) deposits held by depository banks, (2) certificates of deposit, and (3) repurchase (and reverse) agreements.

The following percentages constitute the minimum market value for collateral instruments that are pledged for City deposits (and accumulated interest thereon). This Policy requires that collateral be revalued and adjusted on a monthly basis. The variable nature of this system recognizes the appropriateness of lower minimum requirements for collateral instruments that mark-to-market more frequently and higher ratios for collateral that is market adjusted less frequently.

- - Form of Collateral Pledged - -	Minimum Coll. Required - Mkt. Value -
1. U.S. Treasury Bills and Treasury Notes and Bonds	
a. maturing within one year	102%
b. maturing in 1-5 years	105%
c. maturing in more than 5 years	110%
d. zero-coupon Treasury securities (STRIPs, etc.) with maturities exceeding 10 years	120%
2. Actively traded U.S. Government Agency securities	
a. Maturing in less than 1 year	103%
b. Maturing in 1-5 years	107%
c. Maturing in more than 5 years	115%
3. U.S. Agency variable-rate securities	103%

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- - Form of Collateral Pledged - -	Minimum Coll. Required - Mkt. Value -
4. GNMA mortgage pass-through securities	
a. Current issues	115%
b. Older Issues	120%
c. Issues for which prices are not quoted	125%
5. Other federal agency or mortgage pass-through securities	125%
6. Local mortgage pools	Unauthorized
7. Collateralized Mortgage Obligations (CMO's) and Real Estate Mortgage Investment Conduit Securities (REMICS)	120%
8. Bonds of the State, School Districts, Municipalities and other Special Districts bonds	
a. General Obligation Bonds rated A or higher	
(1) maturing in less than 1 year	102%
(2) maturing in 1-5 years	107%
(3) maturing in more than 5 years	110%
b. Revenue bonds (1)	
(1) maturing in less than 1 year	105%
(2) maturing in 1-5 years	110%
(3) maturing in more than 5 years	120%

Note (1): Lower rated revenue bonds (A or BBB) should be collateralized at higher ratios. Ratios of 110%, 120%, and 130%, respectively, for maturities of less than 1 year, 1-5 years, and more than 5 years, shall be required.

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**Page :** 3 of 3  
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Collateralization requirements will be calculated using the pledged security's market value and accrued interest less amounts insured by the FDIC, FSLIC, or there successors. Collateral required shall be the percentages noted, as a value of par, plus accrued interest.

- A. **Documentation of Pledged Collateral** - Evidence of the pledged collateral shall be maintained by the Director of Finance, his liaison, or a third party financial institution.
- B. **Documentation Pledge Agreement** - Repurchase agreements shall be documented by a specific agreement noting the collateral pledge in each agreement.
- C. **Monthly Verification of Value of Collateral** - Collateral shall be reviewed monthly to assure that the market value of the pledged securities is adequate.
- D. **Qualifications of Collateral Obligations** - Issuers must collateralize with obligations specified in Section XII OF THE Banking and Investments Policy.