

**AGENDA ITEM 6.**

**IDAPP INVESTMENT POLICY AND QUARTERLY REPORT**

**Submitted for:** Action

**Summary:** The Statement of Investment Policy for the Illinois Designated Account Purchase Program (IDAPP) was originally approved by the Commission on November 15, 1999, and was most recently reaffirmed on January 16, 2004. The Commission is being asked to reaffirm IDAPP's policy at this time. The changes from the policy adopted on January 16, 2004 are noted in sections 9.1 and 17.0. The required quarterly investment report is also presented as part of this item.

**Action requested:** That the Commission approve the following resolution:

**“BE IT RESOLVED** that the Illinois Student Assistance Commission approves the Statement of Investment Policy for IDAPP as attached, and directs all investment decisions for the program be consistent with provisions set forth in the Statement of Investment Policy for IDAPP.”

**ILLINOIS STUDENT ASSISTANCE COMMISSION - IDAPP**

**STATEMENT OF INVESTMENT POLICY**

**Background**

The Illinois Designated Account Purchase Program (IDAPP) administers the investment of funds in the various student loan revenue bond issues of the Illinois Student Assistance Commission. In accordance with the Commission's enabling Act, these bonds have been sold to purchase or originate student loans. Statutorily, IDAPP's goal is to facilitate access to postsecondary education, primarily by maintaining on-going access to student loans. As a secondary market, IDAPP achieves this both by working with financial institutions to ensure that they have the liquidity needed to continue making such loans, and more recently, by working with postsecondary institutions and lenders to ensure alternative loan programs are available to students whose needs are not being sufficiently served by existing financial aid programs.

When the Commission issues bonds, there is typically a period between the bond closing and the time that loans are purchased. During the life of a bond issue, there are delays between when the students make loans payments and the date when principal and interest payments are due. IDAPP staff directs the investment of funds during these temporary time periods in accordance with the directions given by the bond documents.

Bond documents such as Trust Indentures or Liquidity Agreements place strict limitations on the type of investments that can be made by IDAPP. These limitations are set by the rating agencies and by the institutions providing third party guarantees, such as bond insurance or bank letters of credit. The limitations vary slightly from issue to issue, but in general they restrict investments to direct obligations of the federal government and government agencies, investment agreements, repurchase agreements, bank certificates of deposit, money market funds and highly rated commercial paper and municipal bonds.

The Public Funds Investment Act also restricts the investment of funds under the control of IDAPP. These restrictions apply to any funds, which are not restricted by the terms of a bond document. Investments made by IDAPP are also subject to oversight by the Trustee for each bond issue and by the Auditor General.

The Illinois Public Funds Investment Act requires that all public agencies have a written investment policy in effect prior to January 1, 2000. Although IDAPP has had an investment policy in effect, it is necessary at this time to reaffirm the policy, which was originally adopted on November 15, 1999 and most recently reaffirmed on January 16, 2004.

## ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM INVESTMENT POLICY

**1.0 Policy:** It is the policy of the Illinois Designated Account Purchase Program (IDAPP) to invest its funds in a manner which will provide the highest investment return with a minimum amount of risk while at the same time meeting the cash flow needs of the IDAPP and conforming to all state statutes governing the investment of funds.

**2.0 Scope:** This investment policy applies to all locally held funds (Funds) of the IDAPP. These funds are accounted for in IDAPP's assets as shown on IDAPP's annual financial statements. The term Funds specifically includes, and this investment policy shall apply to, any revenue bond proceedor escrowed funds held under any trust indenture or bond resolution.

**3.0 Standard of Care:** Investments shall be made with reasonable judgment and care, with reasonableness being determined under the circumstances then prevailing and the standard of care being that which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not as speculators but as conservative investors concerned with the probable safety of their capital as well as the probable income to be derived.

**3.1 Prudence:** The standard of prudence to be used when investing funds shall be the "prudent person" standard, which standard shall be applied in the context of managing an overall portfolio. Officials acting in accordance with this investment policy and exercising prudence shall be relieved of personal responsibility for an individual security's credit risk or market price changes.

**4.0 Objectives:** The primary objectives, in priority order, of IDAPP's investment activities shall be:

**4.1 Safety:** Safety of principal is the foremost objective of the investment program. Investments of IDAPP shall be undertaken in a

manner that seeks to ensure the preservation of capital in the overall portfolio.

**4.2 Liquidity:** IDAPP's investment portfolio should remain sufficiently liquid to enable IDAPP to pay all obligations as they come due.

**4.3 Return on Investments:** IDAPP's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles commensurate with IDAPP's investment risk constraints, state law limitations and the cash flow characteristics of the portfolio.

**4.4 Simplicity:** IDAPP's investment portfolio shall be designed to simplify administration of IDAPP's investments to minimize oversight and accounting costs.

**5.0 Authority to Invest - Limitation on Investment Selection:** IDAPP's power to invest its Funds is derived from Section 2 of the Public Funds Investment Act (30 ILCS 235/2) which allows IDAPP to invest its Funds in the following types of securities:

**5.1 Direct Federal Obligations.** Direct obligations of the United States of America or any agency or instrumentality of the United States of America.

**5.2 Federal Guaranteed Obligations.** Obligations on which the timely payment of principal and interest is fully guaranteed by the United States of America or any agency or instrumentality of the United States of America.

**5.3 Participation Interest in Federal Obligations.** Evidences of a direct ownership interest in amounts payable upon any of the obligations set forth in 5.1 or 5.2 of this Section.

**5.4 Federal Affiliated Institutions.** Obligations of the Federal Intermediate Credit Banks, Federal Banks for Cooperatives, Federal Land Banks, Federal Home Loan Banks, Federal

National Mortgage Association or similar government agencies.

**5.5 Certificates of Deposit.** Certificates of deposit, time deposits, or other investments constituting direct obligations of any bank as defined by the Illinois Banking Act, provided, that investments may be made only in those certificates of deposit or time deposits which are fully ensured by the Federal Deposit Insurance Corporation or similar federal agency or which are fully collateralized by obligations described in 5.1 or 5.2 of this Section.

**5.6 Savings and Loan Securities.** Shares, securities, withdrawable capital accounts or deposits of State or federal chartered savings and loan associations which are fully insured by the Federal Deposit Insurance Corporation or similar federal agency or which are fully collateralized by obligations described in 5.1 or 5.2 of this Section.

**5.7 Money Market Funds.** Money market mutual funds registered under the Investment Company Act of 1940, provided that the portfolio of investments of any such money market mutual fund is limited to obligations described in 5.1 or 5.2 of this Section and to agreements to repurchase those obligations.

**5.8 Repurchase Agreements.** Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 subject to the provisions of that Act and the regulations issued thereunder.

**5.9 Investment Agreements.** Investment agreements with financial institutions, provided, that the agreements are fully collateralized by obligations described in 5.1 or 5.2 of this Section.

**5.10 Commercial paper.** Commercial paper rated, at the time of purchase, Prime-1 by Moody's Investors Service or A-1 by Standard & Poor's Ratings Services.

**5.11 State or municipal bonds.** State or municipal bonds rated by Moody's Investors Service or Standard & Poor's Ratings Services

in one of the two highest rating categories assigned by such agencies.

**5.12 Bankers acceptances.** Bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured, and unguaranteed obligation rating of A or AA3 or better by Moody's Investors Service and AA-1 or AA or better by Standard & Poor's Ratings Services.

**6.0 Delegation of Investment Authority:** Investment decisions and directives may only be made by the persons holding the position of Director of IDAPP or Financial Officer. Primary management responsibility for the investment program is hereby delegated to the Financial Officer, who shall serve as IDAPP's chief investment officer. No IDAPP official may engage in an investment transaction except as provided under the terms of this Investment Policy.

**7.0 Review of Investment Transactions:** All investment transactions undertaken shall be reviewed by IDAPP's Investment Committee as part of IDAPP's ongoing internal control review activities to assure compliance with this Investment Policy and to prevent losses of funds that might arise from fraud, officer error, misrepresentation by third parties or imprudent actions by officials. IDAPP's Financial Officer shall immediately disclose any reportable event to the Director of IDAPP, and/or the Executive Director or Chairman of the Commission. The IDAPP Investment Committee consists of the IDAPP Director, Financial Officer, and IDAPP's Financial Advisor.

**8.0 Ethics and Conflicts of Interest:** Officials involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment process, or which could impair their ability to make impartial investment decisions. Officials and persons responsible for internal controls shall disclose to the Executive Director or Chairman of the Commission as appropriate any material financial interests in financial institutions that conduct business with IDAPP, and they shall further disclose any large personal

financial/investment positions that could be related to the performance of IDAPP's investments, particularly with regard to the timing of purchases and sales.

**9.0 Authorized Financial Dealers and Institutions:** Funds of IDAPP may be invested with federal and state financial institutions, or any of their subsidiaries, (provided such institutions have been authorized to conduct business in the State of Illinois and have been specifically approved by IDAPP to receive and hold IDAPP Funds). Commission approval may be granted only if the selection complies with applicable state law, including, without limitation, the Public Funds Investment Act (30 ILCS 235/1 *et seq.*).

**9.1 List of Authorized Financial Institutions.** Those institutions which IDAPP has approved for the deposit of public funds and the provision of investment services as of the date of the adoption or last amendment of this policy are [JP Morgan](#), ~~[Amalgamated Bank of Chicago](#)~~, Bank One, LaSalle National Bank, The Northern Trust Company, Fifth Third Bank, ~~and Bank of America~~, [Albany Bank](#), ~~and Guaranty Bank~~, ~~and US Bank~~, or their successors. IDAPP has also authorized the purchase of qualified investments under Section 5 of this Investment Policy. Such investments may be recommended by, purchased by or held in safekeeping accounts with any of the above institutions or their successors.

**9.2 Annual Review.** An annual review of the financial condition and qualifications of approved financial dealers and institutions will be conducted by the Financial Officer who shall bring any material change in the financial status of such institutions to the attention of IDAPP members at their next meeting.

**10.0 Collateralization:** Collateralization will be required on cash deposits in any institution to the extent the deposit is not fully insured by the United States of America or any agency or instrumentality of the United States of America. In order to anticipate market changes and provide a level of security for all funds, the

collateralization level will be 102% of market value of principal and accrued interest.

The type of investments which may be pledged as collateral shall be limited to cash and those investments set forth in Section 5 of this Investment Policy. Evidence of the pledge of collateral (safekeeping receipt) must be supplied to IDAPP. Collateral may be substituted by the depository institution provided the substituted collateral qualifies in all respects with the provisions of Section 5 of this Investment Policy.

**11.0 Safekeeping and Custody:** All security transactions, including collateral for repurchase agreements, entered into by IDAPP shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by one of the third party custodians designated in Section 9 and evidenced by safekeeping receipts.

**12.0 Diversification:** IDAPP will diversify its investments by security type and institution. With the exception of the obligations set forth in section 5.1, 5.2, or 5.4 or investments fully collateralized by these obligations, no more than 5% of IDAPP's total investment portfolio will be invested in the obligations of a single issuer.

**13.0 Maximum Maturities:** To the extent possible, IDAPP will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, IDAPP will not directly invest in securities maturing more than two (2) years from the date of purchase.

Reserve funds may be invested in securities exceeding two (2) years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds.

**14.0 Internal Control:** The Auditor General shall review the investments made by IDAPP as part of the annual financial and compliance audits of IDAPP and, consequently, no additional internal or external audit will be required except for the review by IDAPP's Financial Officer under Section 7 of this Investment Policy.

**15.0 Performance Standards:** The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles commensurate with the investment risk constraints and the cash flow needs.

**16.0 Reporting:** The Financial Officer is charged with the responsibility of preparing a written market report on investment activity for the quarterly report to the Commission.

**17.0 Investment Policy Adoption:** This investment policy has been adopted by resolution of the Commission on ~~November 19, January 16, 2004~~. The policy shall be reviewed annually by IDAPP. Modifications to this Investment Policy may only be made by a majority of the Commission members.

## ILLINOIS STUDENT ASSISTANCE COMMISSION - IDAPP

### QUARTERLY INVESTMENT REPORT

#### Introduction

The Illinois Designated Account Purchase Program (IDAPP) administers the investment of funds in the various student loan revenue bond issues of the Illinois Student Assistance Commission. These funds are held pending the origination and purchase of student loans or prior to payment of interest or principal or pursuant to certain terms of the bond documents. In accordance with the Illinois Public Funds Investment Act, the investment of these funds is restricted to investment grade securities and is further restricted to only the highest grade securities by the bond documents themselves. IDAPP funds are typically invested in the following categories: money market funds, U.S. Treasury Securities, U.S. Agencies and savings accounts.

Money Market Funds refer to trustee money market funds which invest in high-quality, short-term securities that are issued or guaranteed by the U. S. government, by U.S. government agencies, and in securities subject to repurchase agreements. IDAPP uses money market funds as an investment vehicle to meet day to day originations, purchase commitments and to meet debt service requirements.

U.S. Treasury Securities refer to direct obligations of the U.S. government, backed by the “full faith and credit” of the government, and thus by its ability to raise tax revenues and print currency. The Bureau of Public Debt of the Department of the Treasury issues U. S. Treasury Securities. IDAPP uses U.S. Treasury Securities as an investment vehicle to meet origination and purchase commitments projected over the next twelve months and to meet debt service requirements. Examples of U.S. Treasury Securities are U.S. Treasury Notes, U.S. Treasury Bonds and U.S. Treasury Bills.

U.S. Agencies refer to obligations issued by divisions of the U.S. government and by government-sponsored enterprises, created by Congress to fund certain groups of borrowers such as homeowners and farmers. IDAPP uses U.S. Agency Securities as an investment vehicle to meet origination and purchase commitments projected over the next twelve months and to meet debt service requirements. Examples of U.S. Agencies are the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”).

Savings refer to savings accounts at commercial banks, which are insured up to \$100,000 by the Federal Deposit Insurance Corporation (“FDIC”) and are required by IDAPP as part of its line of credit agreements with several financial institutions.

The market value of the investments reflects changes in the value of the investments from the par or purchase value due to changes in market interest rates relative to the coupon rates. The market values can be larger or smaller than the par values but do not materially impact IDAPP because the investments are normally held until maturity and thus not sold at the market value.

Below is a summary of IDAPP's investments as of September 30, 2004.

**Summary**

	<u>Par Value</u>	<u>Market Value</u>	<u>Percent</u>
Money Market Funds	\$ 113,301,323	\$ 113,301,323	19
U.S. Treasury Securities	0	0	0
U.S. Agencies	473,117,000	473,606,296	80
Savings	<u>2,897,833</u>	<u>2,897,833</u>	<u>1</u>
	<u>\$589,316,156</u>	<u>\$589,805,452</u>	<u>100%</u>
	<u>Due &lt; one year</u>	<u>due &gt; one year &amp; &lt; five years</u>	<u>due &gt; five years &amp; &lt; ten years</u>
Money Market Funds	\$ 113,301,323	\$ 0	\$0
U.S. Treasury Securities	0	0	0
U.S. Agencies	473,117,000	0	0
Savings	<u>2,897,833</u>	<u>0</u>	<u>0</u>
	<u>\$589,316,156</u>	<u>\$0</u>	<u>\$0</u>