



# Financial Market Impact on Safety and Soundness of County Investment Portfolio

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SHARON R. BOCK  
Clerk & Comptroller  
Palm Beach County

As Clerk & Comptroller, I have a fiduciary responsibility to prudently invest the public's monies and to ensure that the principal is protected from loss. This has been an unprecedented time in the financial markets. Daily headlines highlight the credit and liquidity issues with the Government Sponsored Enterprises, the major banks, and corporate entities. As a result, questions arise concerning the safety of county investments. I can assure you that all county funds continue to be safely invested in only the highest quality investments.



**Sharon R. Bock**

Our due diligence, conservative investment practices and risk management measures continue to protect the citizens of Palm Beach County. We are proactively monitoring developments in the financial markets daily, and are well poised to take any necessary precautionary measures to safeguard county assets.

Please check "Get the Facts" on our Web site at [www.mypalmbeachclerk.com](http://www.mypalmbeachclerk.com) for the latest information on this issue and for more information about the county's [investment portfolio](#).

Best regards,

Sharon R. Bock  
Clerk & Comptroller  
Palm Beach County

## FREQUENTLY ASKED QUESTIONS

**What does the county own in terms of corporate investments? Does the portfolio contain any securities issued by Lehman Brothers, Merrill Lynch or AIG?**

No, the county's portfolio does not contain any securities issued by Lehman Brothers, Merrill Lynch or AIG. Well in compliance with the [County Investment Policy](#), only 2.7 percent of the county's almost \$2 billion investment portfolio is invested in corporate securities. Palm Beach County's investment portfolio contains senior debt of only General Electric and of HSBC Bank. We continuously monitor both companies, and they remain in the highest rating categories by the major rating agencies. Both companies maintain their stable outlook as well.

**What about the county's cash? Is it safe?**

Yes, the county's cash is safely invested. As a local government in the state of Florida, county funds may only be placed in Qualified Public Depositories (QPD), pursuant to state statute. This means that any funds held in a QPD are collateralized. Wachovia Bank is the county's central depository bank, and a QPD. (See [Wachovia Update](#) on "Get the Facts" at [www.mypalmbeachclerk.com](http://www.mypalmbeachclerk.com).)

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### **What about the approximately \$270 million invested in the Invesco AIM money market account?**

To maintain necessary liquidity, we invest idle cash in a money market account that maintains the highest rating by the major rating agencies. Following the problems with the State of Florida's Local Government Surplus Funds Trust Fund, we elected not to place any more county money into this pool. We heavily researched a safe alternative to hold liquid cash. We selected AIM's Government and Agency Portfolio due to its high rating and the fact that portfolio holdings are restricted to U. S. Treasury and Agency securities.

### **What has been going on with the U.S. Agencies, specifically Fannie Mae (FNMA) and Freddie Mac (FHLMC)?**

Fannie Mae and Freddie Mac are chartered as government-sponsored enterprises (GSE's), created by Congress to provide liquidity and to subsidize the housing and mortgage markets. They buy mortgages from savings and loans, banks and other lenders to generate more cash so that these lenders may continue to make more loans to homeowners. Legislatures, regulators and Federal Reserve officials all agree that they play a crucial role in these markets, allowing them to function properly.

Both GSEs greatly leveraged their capital in response to the expanding housing market in the United States. As the housing markets unraveled, liquidity became a growing concern along with the rising default/foreclosure rates. Given the amount of leverage on the balance sheets, these market conditions had damaging effects to both entities, in terms of capital pressures.

### **What is the county's direct exposure to FNMA and FHLMC?**

At present, approximately 49 percent of the county's portfolio is invested in debt issued by FNMA and FHLMC. With the inflow of Ad Valorem tax dollars during the Fall/Winter months, we project this percentage to drop down closer to about 40%.

### **Are these investments safe?**

Yes, we have not suffered any losses on our FNMA and FHLMC holdings. FNMA and FHLMC are stockholder owned corporations, and it is their preferred and common stock, as well as subordinated debt, that are at risk by recent market events. The county has no exposures to subordinated debt, preferred stock or common stock of the GSEs. It is important to note that all of the county's holdings in FNMA and FHLMC are concentrated in senior notes and collateralized mortgage pools. The senior notes and the mortgage holdings that the county owns are backed

by the GSE and the long-standing implied guarantee of the United States Government. This implied guarantee has essentially evolved into more of an explicit guarantee due to the actions taken recently by Congress and the companies' regulator. Treasury Secretary Paulson's provisions for liquidity and capital investment has provided for such a guarantee. The major rating agencies continue to rate the senior debt obligations that the county owns in the highest rating category – AAA.

### **How is the county's investment portfolio impacted by what is going in the markets?**

The investment portfolio is indeed impacted by unraveling events in the financial markets. It is an extremely volatile time and interest rates continue to fall. This will lower the interest rates across the board as we reinvest and put new monies to work.

However, the market's reaction to recent events has been such that the spreads on the GSE's debt has significantly tightened. Yields have come down and conversely, prices on these securities have risen. The net effect on the county's portfolio is an increase in value overall. However, with the increased volatility in the marketplace, it is unknown whether or not these conditions will continue, and to what extent.

**The bottom line is that the safety of our investments remains intact and our liquidity will not be impacted because of our discipline in diversifying the portfolio. We continue to manage and exceed the county established benchmark.**