

BY ELECTRONIC MAIL

April 23, 2011

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Re: Treatment of Corporate Trust Deposit Accounts Under Basel III Liquidity Framework

Ladies and Gentlemen:

The American Bankers Association,¹ together with ABA's Corporate Trust Committee,² is providing written comments relating to the Basel Committee's framework for the liquidity portion of its reforms to international capital standards published on December 10, 2010 (the December 2010 Framework). Previously, the Basel Committee's governing body, the Group of Governors and Heads of Supervision of the Bank for International Settlements had published its December 2009 Consultative document on an international framework for liquidity risk measurement, standards and monitoring. The Basel Committee modified its December 2009 consultative document in July 2010, and the Basel III framework was endorsed on November 12, 2010, by the G-20 leadership at its meeting in Seoul.³

¹ The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's \$13 trillion banking industry and its 2 million employees. ABA's extensive resources enhance the success of the nation's banks and strengthen America's economy and communities. Learn more at www.aba.com.

² ABA's Corporate Trust Committee focuses on the role of banks in providing corporate trust services both in the U.S. and abroad. The Corporate Trust Committee currently is comprised of representatives of twelve major banking institutions. These institutions provide more than ninety percent of indenture trustee and agency services in the U.S. Their customers are primarily issuers of corporate debt (such as large corporations, business enterprises and financial institutions), municipal bond issuers (such as state and local governments, authorities and agencies), project finance debt issuers (sponsors of infrastructure and related projects), entities engaged in leveraged-lease finance (including major equipment financing), and structured finance (such as mortgage-backed securities, asset-backed securities, commercial paper programs and other securitization programs).

³ For purposes of this letter, we refer to the foregoing documents collectively as the "Basel III Liquidity Standards."

ABA is concerned that the U.S. bank regulatory authorities may not adequately recognize and take into account the special nature of corporate trust accounts held by U.S. banks when considering the application of the liquidity requirements of the December 2010 Framework. As discussed more fully below, we believe that the contractual limitations attendant to corporate trust accounts significantly limit the potential amount of net cash outflows in a scenario of severe financial distress; we believe it fully justified to expect outflows of five percent or less. Imposing liquidity requirements that do not correctly reflect the outflow characteristics of these accounts will add significant and unnecessary costs to this important segment of the banking industry. In addition, it will create an unintended disincentive that will tend to drive banks away from a line of business that provides a stable and important source of revenue with limited risk.

ABA believes that the views expressed herein reflect the views of virtually all U.S. corporate trust banks. The comments set forth in this letter are those of the ABA and the Corporate Trust Committee and not expressed as representing the views of any single bank, and are confined to the impact of the December 2010 Framework on banks holding corporate trust accounts. Various individual banks may have already commented on aspects of the Basel III framework with respect to liquidity, capital, and related matters.

At its root, corporate trust is a service business in which institutional customers' funds are placed in the hands of a select group of banks with the reputation and capability of servicing and managing large and oftentimes complex engagements for those customers. Customers seek out these banks and establish operational relationships governed by elaborate, detailed agreements outlining the duties of the corporate trust bank. The December 2010 Framework has accepted the concept that in a stress scenario most customer funds will remain in corporate trust banks because of "established operational relationships." We concur – but we strongly believe that the December 2010 Framework greatly underestimates how significant and hence how stable corporate trust funds are in a real world environment. As a result, the assumptions in the December 10 Framework of a 25 percent run-off rate are significantly higher than what would occur in under real world conditions for corporate trust accounts and certainly well beyond all relevant experience.

SUMMARY

The December 10 Framework is the liquidity portion of the Basel Committee's initiatives to strengthen global capital and liquidity regulation. The objective of the liquidity portion of this effort is to increase the ability of banks to absorb shocks that arise from both financial and economic stress.

The December 10 Framework seeks to achieve this through the development of two separate but complementary liquidity standards. These are: (i) a short-term standard, intended to help banks withstand acute stress over a 30-day period (the Liquidity Coverage Ratio (LCR)); and (ii) a Net Stable Funding Ratio, intended to provide incentives for banks to fund ongoing activities with more stable sources of funds. For purposes of these comments, we address only the impact of the LCR on corporate trust banks.

As designed, the LCR portion of the December 10 Framework requires that banks maintain sufficient assets convertible to cash to equal at least the amount of run-off that a bank is expected to incur during an acute 30-day stress scenario. In designing a structure to require a bank to maintain sufficient funding sources to offset the anticipated effect of a stress scenario, the Basel Committee made qualitative and quantitative assumptions regarding the level of a bank's funding base run-off in these circumstances. The assumptions range from a modest 5 to 10 percent run-off rate for funds backed by a stable system of deposit insurance, a 25 percent run-off rate for wholesale funding with operational relationships, and finally a 75–100 percent run-off rate for wholesale funding with no operational relationships. Our focus is on the December 10 Framework's treatment of wholesale funding held by corporate trust banks which, under the LCR, have an assumed run-off rate of 25 percent in light of the presence of operational relationships.

Paragraph (b) 72 of the December 2010 Framework does not specifically reference corporate trust funds. Instead it establishes a one-size-fits-all run-off factor under the LCR of 25 percent for all wholesale funding of customers with established operational relationships and upon which the customer has “substantive dependency.” An established operational relationship, according to the December 2010 Framework, refers to –

clearing, custody or cash management relationships in which the customer is reliant on the bank to perform these services as an independent third party intermediary in order to fulfill its normal banking activities over the next 30 days.

The December 2010 Framework also requires that the funds be placed in the bank as a by-product of the services and not sought out in the wholesale market for the sole purpose of offering interest income.

After careful review of the LCR portion of the December 2010 Framework, ABA believes that the Basel Committee has treated all forms of wholesale funding with operational relationships as identical. In doing so, it fails to differentiate between smaller wholesale funding provided to a bank by, say, a real estate settlement company with an escrow account in a community bank, as contrasted with deposits of millions of dollars in municipal bond dividends with a top ten corporate trust bank to be remitted periodically to bondholders. Both are institutional customers and both have placed funds in the bank for the customer’s operational purposes. But the escrow account may be impacted by short-term market pressures, while the municipal bond customer relationship is governed by complex agreements that may be 30 or more years in duration. Its operational relationship is little impacted by a short-term stress scenario. Rather, it is based on careful consideration of the operation of the bank over time and the accuracy of its recordkeeping, high-quality service, and institutional continuity.

Because the corporate trust business depends on the ability to provide sophisticated services for complex matters and to manage large amounts of data, institutional customers carefully select corporate trust banks before the engagement, and they almost never change providers after the engagement begins. With relationships on matters as diverse as payments to pension fund annuitants or holders of oil and gas royalties, corporate trust engagements can and do continue for decades. In addition, outflows from corporate trust deposits are strictly limited by contractual terms, and investment of funds awaiting disbursement generally remain with the corporate trust bank. For these reasons, and as discussed below, we believe it is inappropriate to assign a 25 percent run-off factor, as the December 2010 Framework has done, for such deposits and funds provided by customers with operational relationships during a 30-day period of severe stress. ABA believes that corporate trust contracts and relationships by their nature are, in effect, effectively perpetual engagements, little responsive to short term-stress and inextricably link the bank and its institutional customer. The detailed background provided below about corporate trust services and the varied nature of the engagements demonstrates that the 25 percent run-off assumption has no factual basis but rather was based on a less-than-clear understanding of how the corporate trust market actually functions.

ABA strongly urges you to examine the run-off assumption in light of the true nature of customer deposits and funds in the corporate trust context and recognize the dependency of corporate trust institutional customers on banks to whom they have entrusted such responsibilities. We believe that the nature of these relationships limits both the ability and the incentive for customers to withdraw or influence the withdrawal of funds in a period of severe financial or economic stress such that the run-off factor should be no greater than five percent for traditional corporate trust activities.

As noted above, many of the banks on ABA’s Corporate Trust Committee provide corporate trust services abroad. Therefore, because the Basel capital framework applies worldwide, we urge you to consult with your international counterparts on the appropriate run-off factor for corporate trust deposits so that these international corporate trust banks are not at a competitive disadvantage with respect to their activities outside the U.S.

BACKGROUND

1. Characteristics of Corporate Trust Services

Corporate trust is a specialized service performed by only a limited number of banks and is not widely understood outside the corporate trust industry itself.⁴ The corporate trust department of a bank is engaged by an institutional customer, such as a corporation,⁵ financial institution, or governmental entity⁶ to provide a particular type of trustee or agency service in connection with the issuance of publicly sold or privately placed debt, or in connection with a variety of other types of corporate, commercial, securities-related or litigation-related transactions involving a financing, security or escrow arrangement.

A corporate trust department of a bank is administered as a specialized trust department (separate and distinct from the bank's commercial and retail banking functions and separate from its traditional personal trust services). Unlike a traditional trustee, the trustee and agency engagements undertaken by a corporate trust department are nondiscretionary in nature and are governed by detailed administrative agreements and highly personalized performance requirements to which the bank is required to adhere.⁷

As such, the trust, escrow or agency accounts established and held within a corporate trust department are restricted in their use and application (including with respect to rights of withdrawal and investment) by the terms of the legally binding indenture, trust, or agency agreement (governing agreements). The standard forms of governing agreements have been expanded and refined over the decades. However, the governing agreements are also tailored to the customers' needs and the performance standards of the corporate trust bank in meeting those needs. As a result, any discretionary interruption of service or renegotiation with another corporate trust bank becomes a costly and perhaps risky occurrence. The highly specialized nature of the services provided and the dependency of customers on the banks providing these services is evident from a brief overview of the various accounts held by corporate trust banks.

2. Types of Accounts and Capacities Held

Corporate and Municipal Bonds - When engaged in a corporate bond or municipal bond transaction, in addition to serving as indenture trustee, the corporate trustee will typically act as paying agent for the bonds and as depository bank to hold in trust any related transaction accounts or funds, such as sinking funds, construction funds, reserve funds, and tax rebate funds. The administration of these accounts often must meet the requirements of complicated maturity or redemption schedules, sometimes for multiple series of bonds, and often involves investment restrictions that must be met for the issuer to comply with applicable tax requirements.

⁴ The use of indenture trustees in the United States arose with railroad bonds in the 19th century. Relatively simple documents of only a few pages have developed over decades of use, legislative developments, court decisions and market practices into complex documents containing extensive, carefully drafted provisions that govern the performance of the bank acting as a corporate trustee or agent and the administration of accounts under its control in the performance of its duties. Corporate trust banks provide a variety of trustee and agency services in connection with a variety of debt securities and other transactions, including corporate bonds, municipal bonds, project finance, leveraged-lease finance, structured finance and securitization, as well as insurance trusts, liquidation trusts, related agency engagements, such as escrow agent, collateral agent, fiscal agent or paying agent, and other similar engagements.

⁵ The reference here to "corporation" is meant to include any type of business entity, regardless of legal form.

⁶ The reference here to "governmental entity" includes state and local agencies and authorities.

⁷ Prior to the event of default, indenture trustees serve in a ministerial capacity. Upon the occurrence of an event of default, trustees generally have certain fiduciary duties to collect the debt or realize upon pledged collateral, or to undertake other remedial or enforcement action or exercise of remedies for the benefit of investors in accordance with the terms of the governing documents.

Structured Finance and Securitization - When acting as trustee in structured finance and securitization transactions, in addition to providing other services, the corporate trustee will typically act as custodian of the pooled or pledged property (cash-flow assets) or collateral making up the assets of the trust estate. It will receive collections and proceeds from these assets periodically and deposit the cash receipts into trust accounts for the benefit of the trust estate. It will carry out distribution on designated payment dates in accordance with the specifically defined cash allocation provisions of the governing documents. Cash flow allocation requirements, recordkeeping, and related fund administration analytics associated with these accounts are often complex, and must be administered within restrictive time frames.

Escrow, Custodian, and Paying Agent Transactions - When acting as escrow agent in an engagement involving a deposit of cash in escrow, or when acting as custodian, collateral agent, paying agent, or fiscal agent, the corporate trust bank will hold deposited funds in an escrow or other agency account, as applicable, within its corporate trust department, for the benefit of the parties to the governing agreement. Those funds are held until the stated conditions or requirements permitting release are met, as set forth in the escrow agreement.

In each of these cases, these accounts are held in trust or as agent, on behalf of others, and are administered strictly in accordance with the provisions of the governing agreement, without discretion as to their use or application on the part of the trustee or agent and without availability for withdrawal by the underlying customer or transaction parties, in each case except in accordance with the terms of the governing agreement.

DISCUSSION

ABA believes that a runoff assumption of no more than five percent is appropriate for corporate trust accounts for the following reasons:

- First, because of the specialized nature of indenture trustee and agency engagements carried out in accordance with carefully drafted, complex documents, the withdrawal, payment, disbursement, and investment of funds in such accounts are strictly limited. Therefore any temporary outflows may be made only in accordance with the governing documents and, thus, are extremely limited.
- Second, the complex operational requirements of such accounts generally lead to retention of deposits in the corporate trust bank.
- Third, the longevity of corporate trust engagements mitigates against withdrawal of funds from corporate trust accounts.

Because of these characteristics, funds in corporate trust deposit accounts are extremely stable and are not generally impacted by short-term severe economic distress.

1. Outright withdrawals and disbursements are restricted.

Withdrawals from corporate trust accounts for outright payment or disbursement are permitted only in accordance with the terms and applicable requirements of the governing agreement. Accordingly, outright withdrawals by the account customer or account beneficiary on a discretionary basis are not permitted.

Trust indentures. In the case of indenture trustee engagements for bonds, notes and other debt securities, outright disbursements generally are made in accordance with the terms of the governing indenture or trust agreement only as follows:

- On scheduled payment dates for the payment of scheduled principal and interest on the bonds or other debt securities when due and payable;
- At final maturity;
- Upon redemption in the case of securities subject to redemption prior to maturity;
- In the event of acceleration prior to maturity upon the occurrence of an event of default; or
- From reserve funds and other accounts held under indentures or trust agreements.

Agency accounts. Likewise, in the case of escrow or other agency accounts, outright disbursement is permitted only when and as permitted or required by the applicable terms of the governing escrow or agency agreement. These are not accounts from which outright withdrawals can be made by the account customer or account beneficiary on a discretionary basis.

Accordingly, corporate trust accounts held uninvested in cash are not subject to run-off resulting from the occurrence of severe economic or financial shocks in the marketplace, for the reason that such funds may not be withdrawn at the discretion of customers, but rather may be disbursed, paid out, or otherwise applied only by the trustee or agent (as applicable) in accordance with legally binding terms set forth in the governing document.

2. Corporate trust funds that are invested generally remain in the corporate trust bank.

Except for certain circumstances in which they may be held uninvested,⁸ funds held in corporate trust accounts are generally invested on a directed basis pursuant to investment instruction from the customer or another authorized transaction party. However, it is important to understand that the governing agreement typically restricts the selection of investments, limiting the directing party to a specified list or schedule of “permitted” or “eligible” investment choices.

Corporate trust banks typically design internal investment products to comply with investment eligibility and liquidity requirements (Balance Sheet Investment Products) for their customers to ensure the highest retention in the bank of funds while invested. Unless the governing document requires investment in a prescribed third-party investment facility,⁹ it is common for the party directing the investment to select one or more of the corporate trust bank’s Balance Sheet Investment Products. Because of the limited differences in yield between internal and external investments, retention in the corporate trust banks of corporate trust deposits is often viewed as operationally preferable.

In this regard, it is useful to understand the qualities and dynamics that drive corporate trust customer relationships. Because of applicable cost structures, corporate trust engagements are typically large transactions involving multi-million dollar, or sometimes multi-billion dollar, financings. The administrative and operational requirements of the corporate trustee’s performance, including administration of associated trust and agency accounts, are often detailed and complex, requiring compliance with strict timeframes, and sometimes including responsibility for detailed investor reporting and data analytics. As a result, the customer base for corporate trust services is institutional and sophisticated, generally

⁸ With respect to uninvested funds held by national banks in fiduciary accounts, any amount in excess of federal deposit insurance must be fully collateralized. Certain state-chartered banks may be subject to similar collateralization requirements under applicable state law or by regulation.

⁹ Investments outside the corporate trust bank include pre-arranged guaranteed investment contracts or forward purchase agreements with third-party providers, or investment in State and Local Government Series (SLGS) securities, in the case of tax exempt bonds.

corporations, financial institutions and governmental or quasi-governmental entities, who pay close attention to reputation, performance, and quality of service in their selection. Investment selection by these customers is conservative and, as explained above, works within a range of very limited investment options, and is confined by associated operational needs and concerns.

To be sure, temporary outflows of funds for the purpose of investment may occur when funds on deposit in a corporate trust account are directed to be invested in assets outside the corporate trust bank, or when funds on investment in one or more of the corporate trust bank's Balance Sheet Investment Products are directed to be moved into another investment product. However, temporary outflows of funds from movement of investment away from the corporate trust bank's Balance Sheet Investment Products are not likely to occur as a result of severe economic or financial stress, for several reasons.

- First, the number of eligible investment alternatives under the governing document is usually quite limited.
- Second, because eligibility is limited to products carrying little or no risk of principal loss while still meeting applicable liquidity requirements (in order to be available when needed for payment under the applicable indenture, trust, or agency agreement, sometimes on a daily basis), there is often very little difference in yield between the corporate trust bank's Balance Sheet Investment Products and eligible external products.
- Third, because of the nature of the underlying transactions, often involving complicated cash movement within tight time frames, operational concerns outweigh concerns over modest differences in yield.

These elements combine to create an established operational relationship with the corporate trust bank on which the customer has a substantive dependency. As a result, funds on deposit in these corporate trust accounts can be expected to stay at these institutions notwithstanding the occurrence of severe financial or economic stress in the marketplace.

For these reasons, corporate trust customers are service-sensitive and not yield-sensitive in the management of corporate trust account investments, meaning that the funds largely remain in the corporate trust bank. Although corporate trust accounts may be subject to temporary outflow from investment in investment products or vehicles outside the corporate trust bank, such outflows do not tend to occur in response to or as a result of acute economic or financial stress.

3. Relationship Longevity

Corporate trust activities evolve and continue over long periods, and develop into successful corporate trust relationships through performance of service. As noted above, corporate trust activities are typically long-term engagements, generally lasting for the life of a publicly sold or privately placed debt security, usually a corporate bond, municipal bond, asset-backed or mortgage-backed security, other type of structured finance or leveraged finance security, or related corporate or commercial transaction. Administration is systems-driven, involving cash allocation, investment tracking, investor-reporting, related transfer agency services, and other associated complexities of account administration, all of which provide great customer disincentive to change an engagement once established. In addition, governing documents will typically contain technical restrictions and requirements that must be complied with in order for a change or replacement of the corporate trustee take place. For these reasons – cost, complexity, and administrative burden – the sophisticated customers who use corporate trust services are not inclined to, and in large part do not, make frequent changes of their corporate trust relationships, as compared to other types of banking relationships.

4. Inflow Information

During times of severe economic or financial stress in the marketplace, other investment providers or alternative vehicles may become ineligible or unavailable, resulting in a "flight to quality" into the corporate trust bank's Balance Sheet Investment Products.

ABA believes that most corporate trustee banks experienced an *increase* in their corporate trust deposits during the past three years of economic and financial distress.¹⁰ This may have been due to market developments such as the collapse of the auction rate securities market and the financial decline of monoline insurers, which resulted in the elimination of eligibility (or perceived safety) or availability of other investment alternatives. Prior to their financial decline, monoline insurers were active providers of guaranteed investments contracts; however, during and as a result of the market decline of 2007-2009, these and other third-party investment providers became scarce. Whatever the reason, the practical outcome was that funds on deposit for corporate trust purposes were stable during the entire period.

As indicated above, the corporate trust relationship can be complex, requiring highly developed systems in order to calculate and provide for payments to scores, or in some instances thousands or tens of thousands, of payees on a timely and accurate basis. For these reasons, issuers and other entities who select trustees select them very carefully, using a hierarchy of selection factors that rely very little, if at all, on the rates or structure of funding products and rely very much on experience, past relationships, historical performance, accuracy, quality of service, and ability to handle large complex transactions. In effect, the corporate trust customer base tends not to be highly yield or external-event sensitive; rather, because of the size, scope, and risk of the underlying transaction, their concerns are more appropriately focused on, and sensitive to, quality and stability of service, over a long-term period.

Thus, a stress scenario should not materially change the calculus of a corporate trust account unless a bank's servicing capability also declines. In our experience, it is doubtful that any of the factors that would be considered in an acute stress scenario would change the behavior of corporate trust customers and promote run-off.

5. The appropriate outflow classification of corporate trust deposits is not greater than five percent.

The Basel Framework, in its LCR calculations, assumes that the funds of customers with established operational relationships are equally permanent. That is, a 25 percent run-off factor is as likely to occur in a simple escrow account as it would in a complex corporate trust arrangement covering thousands of accounts over many years. This assumption fails to recognize the unique characteristics of corporate trust account relationships described above—the fact that corporate trust engagements are both permanent and long term in nature; the complexity of corporate trust transactions; and the sensitivity of corporate trust clients to service rather than yield. For these reasons, issuers and other entities who select trustees choose them very carefully, using a hierarchy of selection factors that rely very little, if at all, on the rates or structure of funding products and rely very much on experience, past relationships, historical performance, accuracy, quality of service, and ability to handle large complex transactions.

As such, a 25 percent run-off bucket for corporate trust would bear little relationship to how such funds would actually perform in a time of stress; and we suggest that funds held in corporate trust accounts certainly should be regarded as far more similar to stable deposits (five percent run-off) than unsecured wholesale funding with operational relationships (25 percent run-off).

¹⁰ Based on data compiled from members of ABA's Corporate Trust Committee, their aggregate year-end corporate trust deposits increased from 2007 to 2008 by approximately 6 percent or \$4.1 billion; and from 2008 to 2009 by approximately 13 percent or \$12 billion. Indeed, during the turmoil in 2008, the majority of the Committee experienced an increase in corporate trust deposits.

CONCLUSION

For the above reasons, ABA respectfully suggests the run-off assumptions in the LCR for funds held in corporate trust accounts should be 5 percent or less. Corporate trust funds are relationship-driven, generally insensitive to market stress, and are governed by legally binding documents which make them difficult to decouple from the corporate trust bank holding the funds, even in a short-term environment of acute stress.

If you have any questions, please do not hesitate to contact the undersigned. In addition, Corporate Trust Committee members are available to discuss the intricacies of the corporate trust business.

Sincerely,



Cristeena G. Naser
Senior Counsel
Center for Securities, Trust & Investments

APPENDIX A

Sample 1:

“Eligible Investments” shall mean (i) obligations issued or guaranteed by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States is pledged in support thereof); (ii) obligations (including certificates of deposit and banker’s acceptances) of any domestic commercial bank having capital and surplus in excess of \$500,000,000; (iii) repurchase obligations for underlying securities of the type described in clause (i); (iv) investment in the Escrow Agent’s [proprietary name] Money Market Deposit Account. If otherwise qualified, obligations of the Escrow Agent or any of its affiliates shall qualify as Eligible Investments, which such Eligible Investments shall be limited to those instruments readily obtainable and routinely offered by the Escrow Agent’s Corporate Trust Services.

Sample 2:

Pending their use under this Agreement, moneys in the Funds and Accounts established pursuant to this Agreement may be invested by the Trustee or the Authority, as the case may be, in “Permitted Investments” (as defined below) maturing or redeemable at the option of the holder at or before the time when such moneys are expected to be needed and shall be so invested pursuant to written direction of the Institution if there is not then an Event of Default known to the Trustee or the Authority, as appropriate, provided that the Institution shall not request, authorize or permit any investment which would cause any Bonds to be classified as “arbitrage bonds” as defined in IRC §148. Notwithstanding the foregoing, any amount of moneys deposited in the Construction Fund pursuant to Subsection 501(a) which has not been expended within three (3) years of the date of closing shall be invested only in Permitted Investments with a yield not more than 1/8% higher than the yield on the Bonds, unless otherwise permitted by an Opinion of Bond Counsel. Any investments pursuant to this subsection shall be held by the Trustee or the Authority, as applicable, as a part of the applicable Fund and shall be sold or redeemed to the extent necessary to make payments or transfers or anticipated payments or transfers from such Fund, subject to the notice provisions of Section 9-611 of the UCC to the extent applicable. Neither the Trustee nor the Authority shall have any duty to invest in the absence of written direction of the Institution and shall not be liable for any loss on any investment selected by the Institution. Neither the Trustee nor the Authority shall be under any duty to determine whether any investment selected by the Institution would cause the Bonds to be classified as “Arbitrage Bonds” as defined in IRC §148...

The term “Permitted Investments” means:

- Cash (insured at all times by the Federal Deposit Insurance Institution),
- Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:
 - U.S. treasury obligations
 - All direct or fully guaranteed obligations
 - Farmers Home Administration
 - General Services Administration
 - Guaranteed Title XI financing
 - Government National Mortgage Association (GNMA)
 - State and Local Government Series
- Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 - Export/Import Bank
 - Rural Economic Community Development Administration
 - U.S. Maritime Administration
 - Small Business Administration

- U.S. Department of Housing & Urban Development (PHAs)
 - Federal Housing Administration
 - Federal Financing Bank
- Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:
 - Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Institution (FHLMC).
 - Obligations of the Resolution Funding Institution (REFCORP)
 - Senior debt obligations of the Federal Home Loan Bank System
 - Senior debt obligations of other Government Sponsored Agencies approved by the Bond Insurer.
- U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;
- Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;
- Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or (a) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (c)(1)(B) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (b) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;
- Municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of "A2/A" or higher by both Moody's and S&P.
- Investment agreements approved in writing by the Bond Insurer (supported by appropriate opinions of counsel); and
- Other forms of investments (including repurchase agreements) approved in writing by the Bond Insurer.

Any such investments may be purchased from or through the Trustee.

Sample 3:

“Eligible Investments:”

- Any funds denominated in U.S. dollars and any U.S. Dollar-denominated investment that, at the time it is Granted to the Trustee, is one or more of the following obligations or securities, including those investments for which the Trustee or an Affiliate of the Trustee is the issuer or obligor or provides services:
- Direct Registered obligations of, and Registered obligations the timely payment of principal of and interest on which is fully and expressly guaranteed by, the United States of America, or any agency or instrumentality of the United States of America the obligations of which are backed by the full faith and credit of the United States of America;
- Demand and time deposits in, certificates of deposit of, banker’s acceptances issued by, or federal funds sold by a depository institution or trust company (including the Trustee) incorporated under the laws of the United States of America or any state thereof and subject to supervision and examination by federal or state banking authorities so long as the commercial paper or other debt obligations of such depository institution or trust company (or, in the case of the principal depository institution in a holding company system, the commercial paper or debt obligations of such holding company) at the time of such investment or the contractual commitment providing for such investment has a credit rating of “AAA” by S&P and “Aaa” by Moody’s (and if so rated by Moody’s, is not on watch for possible downgrade) in the case of debt obligations other than commercial paper and time deposits, and “A-1” (or, if other than overnight deposits, “A-1+”) by S&P (provided that such debt obligations are in overnight funds only) and “P-1” by Moody’s (and if so rated by Moody’s, is not on watch for possible downgrade) in the case of commercial paper and time deposits;
- Registered debt securities bearing interest or sold at a discount issued by any corporation under the laws of the United States of America or any state thereof that have a credit rating of “AAA” by S&P and “Aaa” by Moody’s at the time of such investment or the contractual commitment providing for such investment;
- Unleveraged repurchase obligations with respect to any security described in clause (a) above, entered into with a depository institution or trust company (acting as principal) described in clause (b) above or entered into with a corporation (acting as principal) whose short-term debt has a credit rating of “A-1+” by S&P and “P-1” by Moody’s at the time of such investment in the case of any repurchase obligation for a security having a maturity not more than 183 days from the date of its issuance or whose long-term debt has a credit rating of “AAA” by S&P and “Aaa” by Moody’s at the time of such investment in the case of any repurchase obligation for a security having a maturity more than 183 days from the date of its issuance;
- Commercial paper or other short term obligations having at the time of such investment a credit rating of “A-1+” by S&P and “P-1” by Moody’s, which are either bearing interest or are sold at a discount from the face amount thereof and that have a maturity of not more than 183 days from their date of issuance; provided that, in the case of commercial paper with a maturity of longer than 91 days, the issuer of such commercial paper (or, in the case of a principal depository institution in a holding company system, the holding company of such system), if rated by the Rating Agencies, must have at the time of such investment a long-term credit rating of “AAA” by S&P and “Aaa” by Moody’s;
- Offshore money market funds with respect to any investments described in clauses (a) through (e) above having, at the time of such investment, a credit rating of not less than “AAAm” or “AAAmg” by S&P and (if such funds are rated by Moody’s) “Aaa” by Moody’s (including those for which the Trustee is investment manager or advisor); and

- Any other investments that (i) satisfy the Rating Condition and (ii) have been approved by a Majority of the Controlling Party;

Provided that (i) Eligible Investments purchased with funds in the Collection Account shall be held until maturity except as otherwise specifically provided herein and shall include only such obligations or securities as mature no later than the Business Day prior to the Payment Date next succeeding the date of investment in such obligations or securities, or are investments of the type described in clause (f) above, in which event such Eligible Investments may mature on such Payment Date, (ii) none of the foregoing obligations or securities shall constitute Eligible Investments if all, or substantially all, of the remaining amounts payable thereunder shall consist of interest and not principal payments, if such security is purchased at a price in excess of 100% of par, if such security is subject to an Offer or if such security is subject to substantial non-credit related risk, as determined by the Collateral Manager or if such security, or, to the actual knowledge of the Collateral Manager, any *pari passu* or more senior obligation of the issuer of such security, is rated by S&P and such rating includes the subscript “r”, “t”, “p”, “pi” or “q” and (iii) none of the foregoing obligations shall constitute Eligible Investments if the income from such obligation or security is or will be subject to deduction or withholding for or on account of any withholding or similar tax, unless the issuer is required to make gross up payments equal to the full amount of any such withholding tax, or the acquisition (including the manner of acquisition), ownership, enforcement or disposition of such obligation or security will subject the Issuer to net income tax in any jurisdiction other than its jurisdiction of incorporation. Eligible Investments may not include obligations secured by real property, including mortgage-backed securities.