

LENDING POLICY 2009/10

1. Policy for determining which institutions should be on the lending list

The Authority will lend to the following types of institutions:

- Debt Management Account Deposit Facility
- Local Authorities defined in section 2 below
- UK Banks & UK Building Societies meeting the credit rating criteria set out below.
- Banks domiciled in other countries providing the country has a sovereign rating of at least AAA from each of the three credit rating agencies and the bank meets the credit rating criteria set out below.
- AAA rated Money Market Funds
- The Authority's bank if it does not meet the credit rating criteria below. To be used for small balances up to £1m which it is uneconomic to invest elsewhere.

No non-specified investments will be made and therefore no non-rated institutions will be on the lending list.

Minimum credit rating criteria for banks and building societies

	Fitch	Moody's	Standard & Poor's
Short term	F1	P-1	A-1
Long term	A	A2	A
Individual/Financial Strength	C	C	N/A
Support	1	N/A	N/A

When determining whether the Authority should lend to a bank or building society, it must have at least the minimum credit rating shown above from each of the agencies which provides a rating on it.

If an agency removes one of the set of ratings it issues for a bank or building society, the institution will be removed from the list.

If the ratings of a parent bank fall below the minimum criteria, no lending will be undertaken with its subsidiaries even if their ratings continue to meet the minimum criteria.

2. Policy for determining monetary and time limits for deposits

Time

- Deposits will be made for a maximum of 364 days.
- Deposits to institutions not based in the UK will be limited to a maximum of 3 months.

Monetary limits

- Debt Management Account Deposit Facility – No limit
- AAA rated Money Market Funds – Group limit of £7m, limit of £5m per fund
- UK Banks, UK Building Societies & Overseas Banks – limits as per the table below:

Upper Limit: £5m

	Fitch	Moody's	Standard & Poor's
Short term	F1+	P-1	A-1
Long term	AA-	Aa3	AA-
Individual/Financial Strength	B	B	N/A
Support	1	N/A	N/A

Lower Limit: £3m

	Fitch	Moody's	Standard & Poor's
Short term	F1	P-1	A-1
Long term	A	A2	A
Individual/Financial Strength	C	C	N/A
Support	1	N/A	N/A

Banking Group Limit

Where a number of banks are owned by a single institution, a group limit will be applied as follows:

- The total which can be lent to any group of banks is £7m. The limit for each bank within the group will apply according to the credit rating table above.
- Local Authorities – Group limit of £7m; individual authority limits according to size of authority:

	Monetary Limit	Time Limit
County Councils	£3m	3 months
Metropolitan District Councils	£2m	1 month
Scottish Unitary Councils	£2m	1 month
English Unitary Councils	£1m	1 month
English District (non Metropolitan) Councils	£1m	1 month
London Councils	£1m	1 month
Welsh Unitary Authorities	£1m	1 month
Northern Ireland Authorities	£1m	1 month

- Small balances that are uneconomic to invest will be invested with Hertfordshire County Council up to the limit for any one county council of £3m.

3. Policy to be followed when credit ratings change

Negative Watch

- If an institution is on a £3m limit when it is put on negative rating watch, it will be removed from the list.
- If an institution is on a £5m limit when it is put on negative rating watch, the limit will be reduced to £3m.

Downgrading

- If an institution is downgraded below the minimum credit rating criteria, then it will be removed from the list with immediate effect. If the downgrade reduces the limit per this policy, this will be done with immediate effect.
- If funds are on call with an institution when a downgrade happens, they will be withdrawn or the balance reduced as appropriate, at the earliest possible opportunity, which may be the following working day.
- If there are outstanding fixed term deposits with an institution which has been removed from the list, terms for repayment will be sought and, if offered, fully considered and documented by Hertfordshire County Council (HCC) officers in their weekly meeting (see section 4 below).
- Downgradings and the action taken will be reported in reports to members.

4. Other matters to be considered by officers

In applying the policy set out above, officers should refer to the following sources of market information on a regular basis:

- Credit Default Swap Rates
- Outlook reports from credit agencies
- Financial Times and other news sources

A meeting of all officers involved in the dealing function plus either the HCC Director of Performance & Resources or one of HCC Finance Assistant Directors, will be held on a weekly basis to review all relevant information and take decisions within the policy

about how to react to it. By its very nature the information will not be definitive and therefore although officers will do all they can to react to these sources of information with the primary objective of security in mind, it will not be possible to pick up on everything. The frequency of these meetings will be kept under review and the HCC Director of Performance & Resources will alter this if appropriate.

On a daily basis, officers receive quotes for fixed term deposits over a range of periods from a minimum of 3 brokers to consider when making decisions.

The minimum deposit size to be used when placing funds for fixed terms is £1m, as this is the minimum amount to make an investment worthwhile at current interest rates taking into consideration transaction costs. The maximum amount is £5m in order to spread risk. The only exceptions to this are deposits with the DMADF and movements in and out of call accounts.