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Alternative Agency Issuers: Current and Prospective

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If you can't explain it to a six year old, you
don't understand it yourself.

-Albert Einstein

State of California Government Code Section 53601 (f)

(f) Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

- **Currently Allowable Issuers**
 - TVA – Tennessee Valley Authority
 - FAMCA – Farmer Mac
 - AID – Agency for International Development
 - PEFCO – Private Export Funding Corporation
- **Prospectively (but Not Currently) Allowable**
 - IBRD – International Bank for Reconstruction and Development
 - IFC – International Finance Corporation
 - IDB – Inter-American Development Bank
 - Covered Bonds
 - Sovereign Issuers

Currently Allowable (but not always used) Issuers

TVA	
Name of Organization	Tennessee Valley Authority
Mission	To address a wide range of environmental, economic, and technological issues, including the delivery of low-cost electricity and the management of natural resources in Tennessee and parts of Alabama, Georgia, Kentucky, Mississippi, North Carolina, and Virginia.
Rating	Aaa/AA+
Annual Issuance	\$1.6 billion in 2011
Debt Outstanding	\$26.4 billion
Types of Bonds Issued	Discount notes, bullets, callables, and floating rate notes
Guarantee Associated with Issues	Initially, federal appropriations funded all TVA operations. Appropriations for the TVA power program ended in 1959, and appropriations were phased out by 1999. TVA is now fully self-financing, funding operations primarily through electricity sales and power system financings.
Tie to U.S. Government	Established by Congress in 1933.
Where Domiciled	Knoxville, TN, USA
Level where they trade to FNMA/FHLMC	5 to 20 bps cheap to agency benchmark curve.

Source: TVA

FAMCA	
Name of Organization	Farmer Mac
Mission	Created in 1987 to establish a secondary market for agricultural mortgage and rural utilities loans in an effort to increase the availability of long-term credit at stable rates to segments of rural America.
Rating	No rating
Annual Issuance	\$2 billion (MTNs); 12 billion (DNs)
Debt Outstanding	\$10.2 billion
Types of Bonds Issued	Discount Notes, Medium Term Notes (bullets and callables)
Guarantee Associated with Issues	Regulated by Farm Credit Administration (independent agency, inside the executive branch of US government), \$1.5 Billion US Treasury backstop, 54% LTV ratio, \$4.3 loan portfolio size, broadly diversified loan portfolio.
Tie to U.S. Government	Chartered by US Congress in 1987 as an instrumentality of US government.
Where Domiciled	Washington DC, USA
Level where they trade to FNMA/FHLMC	2 to 40bps cheap to agency benchmark curve.

Source: FAMCA

AID	
Name of Organization	Agency for International Development
Mission	Created in 1961, the US Agency for International Development is an independent agency that provides economic, developmental, and humanitarian assistance around the world in support of the foreign policy goals of the US (largest loan program is to Israel).
Rating	Aaa/AA+
Annual Issuance	
Debt Outstanding	\$11.9 billion (to Israel)
Types of Bonds Issued	Fixed, floating rate, and zero coupon bonds
Guarantee Associated with Issues	Full faith and credit of the governments of Israel and the USA.
Tie to U.S. Government	Foreign Assistance Congressional Act of 1961 mandated the creation of an agency to promote long-term assistance for economic and social development.
Where Domiciled	Washington DC, USA
Level where they trade to FNMA/FHLMC	5 to 20 bps cheap to agency benchmark curve.

Source: AID

PEFCO	
Name of Organization	Private Export Funding Corporation
Mission	Assists the financing of US exports by supplementing available financing from commercial banks and other lenders. Acts as both a direct lender and as a secondary buyer of export loans originated by other lenders. Incorporated in 1970.
Rating	Aaa/AA+
Annual Issuance	\$1.2 billion in 2011
Debt Outstanding	\$4.5 billion
Types of Bonds Issued	Bullets
Guarantee Associated with Issues	All loans made by PEFCO are guaranteed or insured as to the due and punctual payment of principal and interest by Ex-Im Bank, whose obligations are backed by the full faith and credit of the United States.
Tie to U.S. Government	Established in 1970 with support of the US Dept. of Treasury and Ex-Im Bank. The Export-Import Bank (Ex-Im Bank) is an independent US government agency, chartered under the Export-Import Bank Act of 1945. Export-Import Bank Reauthorization Act of 2012 to be signed by President week of May 28, 2012.
Where Domiciled	New York City, NY, USA
Level where they trade to FNMA/FHLMC	Approximately equal to where GSEs trade.

Source: PEFCO and Fueling Development: Energy Technologies for Developing Countries by Congress of the United States, Office of Technology Assessment. April 1992

High Grade But Currently Not Allowable Issuers

IBRD	
Name of Organization	International Bank for Reconstruction and Development
Mission	To reduce poverty in middle-income and developing countries by promoting sustainable development through loans, guarantees, risk management products, analytical and advisory services in the public sector.
Rating	Aaa/AAA
Annual Issuance	\$29 billion
Debt Outstanding	\$125 billion
Types of Bonds Issued	DNs, bullets, and callables
Guarantee Associated with Issues	Guaranteed by all shareholders of the World Bank.
Tie to U.S. Government	The International Bank for Reconstruction and Development ("World Bank") was established in 1945 pursuant to an international treaty known as the Articles of Agreement of the International Bank for Reconstruction and Development (the "Articles"). The United States' membership in the World Bank was authorized by a federal statute known as the Bretton Woods Agreements Act (22 U.S.C. 286 et seq.), which was enacted as an amendment to the Federal Reserve Act of 1913.
Where Domiciled	Washington, DC, USA
Level where they trade to FNMA/FHLMC	2 to 10 bps rich to agency benchmark curve.

Source: IBRD

IFC	
Name of Organization	International Finance Corporation
Mission	The U.S. government calls for "an International Finance Corporation" tied to the World Bank. It finances private enterprises in developing countries but take no government guarantees, always work alongside other private investors and, never manage its investees.
Rating	Aaa/AAA
Annual Issuance	\$3 billion in 2011; \$2 billion in 2012.
Debt Outstanding	\$38.21 billion as of June 30, 2011.
Types of Bonds Issued	DNs, callables, and bullets
Guarantee Associated with Issues	Directly owned by 184 member countries. The US controls 24%, Japan 6%, with the seven largest OECD (Organization for Economic Cooperation and Development) governments controlling 51% of the capital
Tie to U.S. Government	The International Bank for Reconstruction and Development ("World Bank") was established in 1945 pursuant to an international treaty known as the Articles of Agreement of the International Bank for Reconstruction and Development (the "Articles"). The United States' membership in the World Bank was authorized by a federal statute known as the Bretton Woods Agreements Act (22 U.S.C. 286 et seq.), which was enacted as an amendment to the Federal Reserve Act of 1913.
Where Domiciled	Washington, DC, USA
Level where they trade to FNMA/FHLMC	2 to 10 bps rich to agency benchmark curve.

Source: IFC

IDB	
Name of Organization	Inter-American Development Bank
Mission	Established in 1959 to promote economic and social development in Latin America and the Caribbean. Loans are to governments (95%) and to the private sector (5%).
Rating	Aaa/AAA
Annual Issuance	\$7 billion in 2011
Debt Outstanding	\$ 50 billion in 2011
Types of Bonds Issued	Callables and bullets; 500mm DN program.
Guarantee Associated with Issues	Debt is backed by the 48 member countries.
Tie to U.S. Government	The Inter-American Development Bank was established in 1959 pursuant to an international treaty, the Agreement Establishing the Inter-American Development Bank. The United States, via an act of Congress, accepted membership in the Bank under the authority of the Inter-American Development Bank Act. The IADB is a public international organization whose members are the governments of 48 countries, including the USA. The United States is the largest voting shareholder in the IADB with 30%, giving veto power on any matter brought before the Board of Executive Directors.
Where Domiciled	Washington, DC, USA
Level where they trade to FNMA/FHLMC	5 to 10 bps rich to agency benchmark curve.

Source: IDB

Covered Bonds

Covered Bonds	
Name of Organization	Issuing corporation typically a Bank
Purpose	Increase access to capital markets to issuers and increase the amount of high-grade issuance to buyers. Because security remains “on balance sheet” for issuer the risk of the underlying assets is not transferred directly to the buyer.
Rating	Varies but generally Aaa/AAA
Annual Issuance	Has varied between \$200 billion and \$250 billion
Debt Outstanding	Estimated at about 3 trillion
Types of Bonds Issued	Bonds typically 2 – 10 years
Guarantee Associated with Issues	Corporate bonds that are backed by mortgages. The cash flows are determined contractually but the bond while an obligation of the issuer is supported by a specific pool of mortgages. While this is similar to a mortgage-backed or asset-backed security the asset is an obligation to pay on the part of the issuer and the owner is not dependent on the underlying mortgages for payment. Though if there is a default the owner has recourse to the issuer <u>and</u> the mortgage pool.
Where Domiciled	In 2008 the Treasury and the Fed announced that they would attempt to help create a market in the U. S. The credit crisis severely curtailed development of this market.
Level where they trade to FNMA/FHLMC	5 to 50 cheap to Treasuries

Source: Standard & Poor's

Sovereign Debt	
Name of Organization	Issuing Country or Instrumentality
Mission	Funding ongoing governmental expenses
Rating	Vary from AAA to non-investment grade
Annual Issuance	Varies by Country
Debt Outstanding
Types of Bonds Issued	Bills and Bonds
Guarantee Associated with Issues	Full Faith & Credit of Issuing Country or Instrumentality
Tie to U.S. Government	Sovereign Debt is debt generally issued by a government in a foreign currency. Typically, issuance will occur in a reserve currency like the U. S. Dollar, the Euro or British Pound Sterling.
Where Domiciled	Country of Origin though many issue dollar denominated securities
Level where they trade	Varies

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