COUNTY OF ORANGE

OFFICE OF THE TREASURER-TAX COLLECTOR

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CHANGES IN ELIGIBILE CREDITS

In the month of September, there were four changes to the Treasurer's approved eligibility list:

1) **Caterpillar Financial Services Corp** was added
2) **Household Finance Corp** was added
3) **Royal Bank of Canada** was removed
4) **Strong Heritage Money Fund** was removed

Please see the attached reports detailing the reasons the above actions were taken by the Treasurer.

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To: Treasury Investment Committee
From: John Byerly, Financial Analyst
Date: September 7, 2004
Subject: **Caterpillar Financial Services Corporation (CAT FIN)**
Caterpillar Inc. (CAT)

Rating: **A1/P1/F1** **A/A2/A+** (**CAT1**)
A1/P1/F1 A/A2/A+ (CAT)

Exposure: County/XFund/Schools/JWA - None

Recommendation: Return name to eligibility list

Rationale: Largest manufacturer of earthmoving machinery and a leading supplier of agricultural equipment

Summary:

Caterpillar Financial Services Corporation (CAT FIN) is a wholly-owned subsidiary of Caterpillar Inc.(CAT) and provides retail financing to customers and dealers around the world for Caterpillar and non-competitive related equipment. CAT FIN also provides wholesale financing to CAT dealers and purchases short-term dealer receivables from Caterpillar. CAT is the world's largest manufacturer of earthmoving machinery, with roughly twice the share of its largest competitor, Japan-based Komatsu Ltd., and is a leading supplier of agricultural equipment. CAT has plants worldwide and sells its equipment globally via a network of more than 200 dealers in about 3,200 locations. Brokers include Banc of America Securities, Goldman Sachs and Merrill Lynch.

On April 15, 2003, S&P put CAT and CAT FIN long-term ratings on credit watch negative for an increased exposure to unfunded postretirement benefit liabilities. Benefits funding for the company had suffered the previous 3 years from a decline in the stock market and declining interest rates. Caterpillar was missing its target 9% rate of return on their portfolio at the same time medical cost inflation was steep.

Then on June 24, 2003, S&P cut the long-term rating to A from A+, affirmed the A-1 short-term ratings which were never on credit watch, and cited the outlook as stable. The downgrade reflected those concerns about the increased exposure to unfunded postretirement benefit liabilities, which reduce the company's financial flexibility. Even so, the new ratings reflect CAT's strong competitive business position and satisfactory cash flow protection. S&P expects that CAT "should generate acceptable earning measures, even at the bottom of the economic cycle."

Now a year later, CAT's debt and debt like obligations are expected to be no higher than the $10-12 billion range in the future. This is the same prediction as a year ago. Their liquidity position is considered ample. Caterpillar equipment operations had consolidated cash and ST investments of nearly $300 million, bank lines of $6.5 billion, outstanding CP of about $3.8 billion, and available credit of about $2.4 billion. Near-term debt maturities are largely matched with receivable collections. Free cash flow was about $300 million and is expected to range from $500 million to $1 billion based on improving profitability, good working capital management, and moderate capital expenditures.

CAT invests $850 million a year or over 4% of total sales on R&D to maintain its leadership position in technology and unmatched product offering. An unprecedented upturn in demand pushed 2003 earnings to record levels. Additionally, management plans to reduce costs by more than $1 billion by the end of this year.

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To: Treasury Investment Committee
From: John Byerly, Financial Analyst
Date: September 7, 2004
Subject: **Household Finance Corporation (HFC)**

Rating:	**A1/P1/F1**	**A/A1/A+**	(**HFC**)
	A1/P1/F1	A/A1/A+	(Household International, Inc)
	A1/P1/F1+	A+/Aa2/AA	(HSBC Holdings PLC)

Exposure: County/XFund/Schools/JWA - None

Recommendation: Return name to eligibility list

Rationale: Strong national consumer finance company, now with one of the world's leading financial institutions as its ultimate parent

Summary:

Household Finance Corporation (HFC), the principal operating subsidiary of Household International, Inc. (HI), is a leader in branch based consumer finance. HFC offers personal cash loans to consumers and provides commercial leasing and financing. HFC operates through branch lending offices in the United States.

HSBC Holdings, the third largest banking company in the world by market capitalization, acquired HI last year. In response, Moody's and Fitch upgraded HSBC. Fitch also upgraded both Household companies on August 16 of this year, as the integration was deemed "successful" and "largely complete". Outstanding CP was $6.3 billion as of July 31. Brokers include Goldman Sachs, JP Morgan, Lehman, Merrill, and Morgan Stanley.

HFC's liquidity included $5.2 billion of cash and securities net of insurance reserves and committed bank lines of around $10.1 billion. Also strengthening HFC's liquidity position is its access to multiple funding sources (through good and bad credit cycles), including domestic and foreign term debt, CP issuance, and securitization of credit cards and private loans, home equity, bankcards, and auto paper.

HSBC maintains $10 billion in cash and bank balances, in addition to nearly $17 billion in short term investments.

HFC benefits from the merger with lower funding costs, improved market access, direct funding opportunities (HFC received $1.9 billion in funding in Q1-04 from HSBC affiliates), and potential capital support for growth.

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To: Treasury Investment Committee
From: Julia Xue, Senior Financial Analyst
Date: September 20, 2004
Subject: **Royal Bank of Canada**

Rating:	WAS:	A1+/P1/F1+	AA-/Aa3/AA
	NOW:	A1+/P1/F1+	AA-/Aa3/AA*-

Exposure: County/Xfund/Schools/JWA - None

Recommendation: Remove from Foreign Bank Eligibility List

Rationale: Put on credit watch negative by Fitch

Summary: September 14, 2004 - Fitch Ratings has placed the long-term and individual ratings of Royal Bank of Canada on Watch Negative mainly due to difficulties in its U.S. operation, as well as management changes.

Fitch is concerned about the company's continued difficulties and missteps in the company's U.S. operation, as well as the recent announcement of a senior management and business unit realignment in Toronto that has led to the retirement of a number of the company's seasoned and well respected management team. The announced retirement was of three vice chairmen, and its Chief Financial Officer.

The Rating Watch will be resolved following Fitch's review of RBC's strategy to improve their financial performance, especially in the U.S. market, under the auspices of the new management structure.

In order to remain in compliance with our Investment Policy Statement, I recommend taking the name off our Foreign Bank Eligibility List.

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To: Treasury Investment Committee
From: John Byerly, Financial Analyst
Date: September 27, 2004
Subject: Strong Heritage Money Fund

Rating: **AAA / Aaa / NR**

Exposure: County/Schools/JWA - $577,000.00/ $76,000.00/ $4,410.36

Recommendation: Remove name as an eligible investment

Rationale: Declining asset size and inactivity

Summary:

Over the summer Strong Funds have suffered from the SEC mutual fund trading investigation and the loss of chairman-CEO-founder Richard Strong. Strong Heritage Money Fund's assets have fallen to $625 million as of August 31, 2004.

Wells Fargo & Co expects to acquire the assets of Strong Capital Management Inc. by the end of this year and plans to merge the companies' mutual funds. Well's signed Strong's chief investment officer, Dick Weiss, and most of the firm's investment managers to multiyear contracts.

While the fund benefits from new ownership and a more certain future, the fund remains non-competitive. I recommend that Strong Heritage Money Fund be removed as an eligible investment.