

RESOLUTION NO. 95-07

RESOLUTION OF THE CALIFORNIA HOUSING  
FINANCE AGENCY TO ADOPT THE CALIFORNIA  
HOUSING FINANCE AGENCY INVESTMENT POLICY

WHEREAS, from time-to-time the California Housing Finance Agency ("Agency") receives requests from credit rating agencies and other financial institutions with whom the Agency has contractual arrangements for the Agency's investment policy; and

WHEREAS, the Agency has determined that there exists a need for the Agency to formalize its practices by adopting an investment policy statement which can be provided when such information is requested from the Agency; and

WHEREAS, such policy authorizes that bond moneys be invested in accordance with the provisions of each bond indenture, as authorized by State law and resolution of the Board of Directors, and, when applicable, as approved by credit rating agencies or financial institutions providing credit enhancement; and

WHEREAS such policy also authorizes that derivative investment instruments such as reverse repurchase agreements, inverse floating rate securities, interest-only or principal-only strips of mortgage backed securities, and structured notes of government-sponsored agencies shall not be purchased without specific approval to do so by the Board of Directors; and

WHEREAS, Section 51003 of Part 3 of Division 31 of the Health and Safety Code of the State of California authorizes the Agency to direct the Treasurer to invest moneys in the fund which are not required for its current needs, including proceeds from the sale of any bonds, in any eligible securities specified in Section 16430 of the Government Code;

NOW, THEREFORE, BE IT RESOLVED, by the Board of Directors of the California Housing Finance Agency, that the California Housing Finance Agency Investment Policy presented to this meeting is

hereby adopted for the purpose of providing information on the Agency's investment policy to requesting parties.

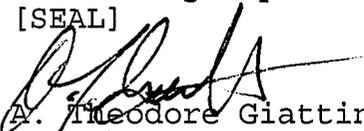
AYES: Cheng, Coyle, Maddy (for Fong), Hawkins, Hobbs, Mazza, Sterpa  
NOES: None  
ABSTENTIONS: None  
ABSENT: Dunphy, Gordon, Wallace

I hereby certify that this is a true and correct copy of Resolution 95-07 adopted at a duly constituted meeting of the Board of Directors of the California Housing Finance Agency held on March 9, 1995 at San Francisco, California.

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a full, true, and correct copy of the original resolution adopted at said meeting and entered in said minutes; and that said resolution has not been amended, modified, or rescinded in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 14th day of March , 1995.

[SEAL]

  
A. Theodore Giattina  
Secretary of the Board of  
Directors of the California  
Housing Finance Agency

California Housing Finance Agency

INVESTMENT POLICY

I. PURPOSE

To provide a comprehensive outline of CHFA's longstanding investment policies. Such an outline will serve as a useful source of information for the Executive Director, the Board of Directors, credit rating agencies, financial institutions wishing to do business with CHFA, and bond investors. The need for a written policy is especially evident now that CHFA is entering into business transactions with parties who will be relying on CHFA's general obligation.

II. SCOPE

This policy describes how, when and by whom investment decisions are made, how different moneys are invested, who carries out CHFA's investment plans, and who is responsible for various investment reports.

III. RESPONSIBILITIES

A. CHFA

The Director of Financing is responsible for deciding how all CHFA moneys (including moneys in the California Housing Loan Insurance Fund and other moneys entrusted to CHFA) are invested. Personnel of the Financing Division and the Accounting Division are responsible for carrying out the investment plans and providing investment reports.

B. Other Entities

The State Treasurer, CHFA's other trustees or co-trustees, and CHFA's depository account banks are responsible for the execution of CHFA's investment decisions and for the safekeeping of investment securities.

IV. INVESTED MONEYS

A. Bond Moneys

Bond moneys shall be invested in accordance with the provisions of each bond indenture, as authorized by State law and resolution of the Board of Directors, and as approved by credit rating agencies or credit enhancement financial institutions. Decisions about the initial investment of bond proceeds shall be made in connection with each sale of bonds. The Financing Division lead manager ("staff") for the bond transaction shall solicit the advice of the investment bank acting as senior managing bond underwriter and of bond counsel to determine the most appropriate investment course of action. If a decision is made to obtain an investment agreement, staff will usually request the managing underwriter to solicit proposals on CHFA's behalf. If a decision is made to purchase investment securities, staff will ask the bond trustee or co-trustee to obtain such securities through a competitive process.

B. Other Moneys

Moneys other than bond moneys held in the State Treasury shall generally be invested, as authorized by State law, in the Surplus Money Investment Fund ("SMIF"), a State of California investment pool administered by the California State Treasurer under the supervision of the State's Pooled Money Investment Board.

V. AUTHORIZED INVESTMENTS

Attached are the provisions of State law which describe the types of investments that are authorized for CHFA and for the SMIF.

VI. INVESTMENT AGREEMENTS

All investment agreements shall include provisions protecting CHFA's interests in the event of a credit rating downgrade of the provider. Typical protections would allow CHFA to demand that the provider collateralize the agreement with sufficient collateral to restore the credit rating. If the provider declined to collateralize, CHFA would retain the option of liquidating the agreement and investing the moneys elsewhere.

Investment agreements with foreign financial institutions are allowed only if CHFA is sufficiently protected from the added risks of foreign investment. For example, the sovereign debt of the home country should be rated triple-A by at least one credit rating service acceptable to CHFA. In addition, the agreement should be with a domestic branch of the foreign institution so that it is enforceable under the laws of the United States.

## VII. INVESTMENT STRATEGY

### A. Maturity Matching

CHFA's indentures generally require that bond moneys be invested so that principal and interest is paid not later than the dates on which such moneys will be needed by the trustee. For other moneys, this same strategy should be employed.

### B. Derivative Instruments

CHFA shall not purchase derivative investment instruments such as reverse repurchase agreements, inverse floating rate securities, interest-only or principal-only strips of mortgage backed securities, and structured notes of government-sponsored agencies without specific approval of the Board of Directors.

### C. Sales of Securities

The Financing Division shall direct any sales of securities. Such sales may be for the purpose of obtaining liquid funds for authorized disbursements (such as loan originations or bond redemptions) or for the taking of profits. Profit-taking strategies will generally be considered only where investment maturities are long, bond refunding opportunities are expected to be pursued in the near future, and the profit will not result in arbitrage rebate.

## VIII. CASH MANAGEMENT OPERATIONS

The Accounting Division has the operational responsibilities for cash management, including all disbursements, transfers of funds, and deposits of receipts. The Accounting Division is responsible for ensuring that receipts of bond moneys (e.g., loan principal and interest pledged to a bond indenture) are handled in accordance with each bond issue's investment plan.

IX. INVESTMENT REPORTS

The Accounting Division is responsible for providing timely reports showing the amount on deposit in all CHFA accounts and how such amounts are invested. The Financing Division will use the Accounting Division's reports as the basis for comprehensive quarterly or semi-annual investment reports suitable for distribution outside CHFA.

X. ARBITRAGE REBATE

The Accounting Division is responsible for all duties in connection with CHFA's arbitrage rebate obligations under federal tax law, including calculation and disbursement of any required arbitrage rebate payments and any related reporting.

**STATE OF CALIFORNIA**  
**Health and Safety Code**  
**Division 31, Part 3, Chapter 3**

**51003. Investment of moneys; repurchase and reverse repurchase agreements; investment agreements; eligible securities; financial institutions; increments**

The agency shall, from time to time, direct the Treasurer to invest moneys in the fund which are not required for its current needs, including proceeds from the sale of any bonds, in any eligible securities specified in Section 16430 of the Government Code which the agency shall designate. The agency may direct the Treasurer to invest the moneys by entering into repurchase agreements or reverse repurchase agreements, which, for purposes of this section, shall mean agreements for the purchase or sale of eligible securities pursuant to which the seller or buyer agrees to repurchase or sell back the securities on or before a specified date and for a specified amount. The agency may direct the Treasurer to invest the moneys in investment agreements with corporations, financial institutions, or national associations within the United States which are rated by a nationally recognized rating service within the top three ratings of the service. For purposes of this section, investment agreements shall mean any agreement for the investment of moneys in the fund whether at fixed or variable interest rates, and may include, but not be limited to, repurchase agreements, notes, uncollateralized time deposits and certificates of deposit. The agency may direct the Treasurer to deposit moneys in interest-bearing accounts in state or national banks or other financial institutions having principal offices in this state.

Subject to any agreement with holders of particular bonds, in furtherance of the provisions of Section 51373, and to the extent permitted by law, the agency may also invest moneys of the fund in obligations or financial institutions as are permitted by board resolution. The agency may alternatively require the transfer of moneys in the fund to the Surplus Money Investment Fund for investment pursuant to Article 4 (commencing with Section 16470) of Chapter 3 of Part 2 of Division 4 of Title 2 of the Government Code.

All interest or other increment resulting from such investment or deposit shall be deposited in the fund, notwithstanding Section 16305.7 of the Government Code. Moneys in the fund shall not be subject to transfer to any other fund pursuant to any provision of Part 2 (commencing with Section 16300) of Division 4 of Title 2 of the Government Code, excepting the Surplus Money Investment Fund.

STATE OF CALIFORNIA  
Government Code  
Division 4, Part 2, Chapter 3

16430.     **Eligible securities for investment of surplus moneys**

Eligible securities for the investment of surplus moneys shall be:

- a. Bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
- b. Bonds or interest-bearing notes on obligations that are guaranteed as to principal and interest by a federal agency of the United States.
- c. Bonds of this state, or those for which the faith and credit of this state are pledged for the payment of principal and interest.
- d. Bonds or warrants, including, but not limited to, revenue warrants, of any county, city, metropolitan water district, California water district, California water storage district, irrigation district in the State of California, municipal utility district, or school district of this state.
- e. Bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, in debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended, in bonds or debentures of the Federal Home Loan Bank Act, in stock, bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act as amended, and in the bonds of any federal home loan bank established under said act, obligations of the Federal Home Loan Mortgage Corporation, and in bonds, notes, and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act as amended.
- f. Commercial paper of "prime" quality as defined by a nationally recognized organization which rates such securities. Eligible paper is further limited to issuing corporations: (1) organized and operating within the United States; (2) having total assets in excess of five hundred million dollars (\$500,000,000);

Purchases of eligible commercial paper may not exceed 180 days' maturity, represent more than 10 percent of the outstanding paper of an issuing corporation, nor exceed 30 percent of the resources of an investment program. At the request of the Pooled Money Investment Board, such investment shall be secured by the issuer by depositing with the Treasurer securities authorized by Section 53651 of a market value at least 10 percent in excess of the amount of the state's investment.

- g. Bills of exchange or time drafts on and accepted by a commercial bank, otherwise known as bankers acceptances, which are eligible for purchase by the Federal Reserve System.
- h. Negotiable certificates of deposits issued by a nationally or state-chartered bank or savings and loan association. For the purposes of this section, negotiable certificates of deposits do not come within the provisions of Chapter 4 (commencing with Section 16500) and Chapter 4.5 (commencing with Section 16600).
- i. The portion of bank loans and obligations guaranteed by the United States Small Business Administration, or the United States Farmers Home Administration.
- j. Student loan notes insured under the Guaranteed Student Loan Program established pursuant to the Higher Education Act of 1965, as amended (20 U.S.C. 1001, et seq.) and eligible for resale to the Student Loan Marketing Associations established pursuant to Section 133 of the Education Amendments of 1972, as amended (20 U.S. C. 1087-2).
- k. Obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, or the Government Development Bank of Puerto Rico.
- l. Bonds, debentures, and notes issued by corporations organized and operating within the United States. Securities eligible for investment under this subdivision shall be within the top three ratings of a nationally recognized rating service.