
San Benito Housing Authority

Investment Policy

Reviewed 08/2021

HOUSING AUTHORITY OF THE CITY OF SAN BENITO

INVESTMENT POLICY

A. Policy

It is the policy of the Housing Authority of the City of San Benito, Texas (PHA) to invest public funds in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the PHA while conforming to all federal, state, and local statutes governing the investment of public funds.

B. Scope

This investment policy applies to all financial assets of the PHA. These funds are accounted for in the PHA Annual Audit Reports and include:

1. Operating Reserves of all programs
2. Development Reserves
3. Any newly acquired special funds

C. Objective

The primary objectives, in priority order, of the PHA's investment activities shall be:

1. Safety of Principal – Safety is the foremost objective of the PHA investment program. Investments of the PHA shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this goal, diversification is required in order that potential losses on individual investments do not exceed the income generated from the remainder of the portfolio.
2. Liquidity – The PHA's investment portfolio will remain sufficiently liquid to enable the Authority to meet all operating requirements which might be reasonably anticipated.
3. Return on Investments – The PHA's investments portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the PHA's investment risk constraints and cash flow characteristics of the portfolio.
4. Legal Limitations – Direct specific investment parameters for the investment of public funds are found in the U.S. Department of Housing and Urban development Public and Indian Housing Notice 95-27 issued May 11, 1995. (See Appendix B for Texas Requirements)
5. Administrative Cost – In choosing an investment, the PHA shall consider the administrative work involved, particularly with regards to investment of short duration. The more frequent turnover of investment may lead to higher administrative costs and therefore lower yield.

D. Cash Management

The PHA's cash management program will be implemented in accordance with the following principles:

1. As a general rule, the average amount of deposits in the General Fund cash accounts will not exceed the average of one (1) month's routine operating expenses.
2. General Fund deposits in excess of estimated needs for the next ninety (90) days will be invested in securities selected by the PHA, approved by HUD, and backed by the full faith and credit of the United States Government, or a Government agency, or issued by a Government-sponsored agency.

3. Cash Flow forecasting is designed to protect and sustain cash flow requirements of the PHA. Supplemental to the financial and budgetary systems, the Investment Officer will maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes. Cash flow will include the historical researching and monitoring of specific cash flow items, payable and receivables as well as overall cash position and patterns.
4. All investments will be capable of being liquidated on one (1) day's notice. No investments will be made which impose a longer period of redemption, or which are not readily marketable.
5. To the maximum extent possible, investments will be planned so that they mature when the funds are needed. The sale of securities prior to maturity will be avoided.
6. If the PHA is engaged in low-income public housing development programs, it will not borrow funds from HUD in excess of its needs for ninety (90) days.
7. If funds are being obtained by the sale of development notes to a private investor, the amount will be limited to the PHA's needs for six (6) months, or until the next note sale. The PHA will not consider investing these funds in securities which mature in one or more years, unless the securities can be redeemed at par prior to the maturity date, and the yield will be at least equal to that of shorter term securities then available for investment.
8. Investments will be scheduled to mature when the funds are needed. Sale of securities prior to maturity will be avoided due to the inherent risk. (If the market interest rate increases above the yield on the investments, the market value of the securities will decline.) Investments shall be limited to securities maturing in period of up to one year, or such lesser period that coincides with expected disbursements by the PHA, but not beyond the current financing cycle. The PHA may invest in securities up to three (3) years for the investment of operating reserves. Approved investment securities are show on Appendix A.
9. Monies held by the PHA's Fiscal Agent in any of the funds will be invested in strict accordance with the resolution establishing such funds. Where the resolution contains no provision establishing such funds, the monies will be invested in securities approved for General Fund investment, provided the investment will mature or may be redeemed at the option of the purchaser, at not less that the purchase price, on or prior to the date such monies are required to be disbursed by the Fiscal Agent. The funds established by the PHA resolution authorizing the issuance of bonds to finance the development of projects include the Debt Service Fund; Advance Amortization Fund; and Annual Contributions Reduction Account (sometimes called the Supplementary Revenues Account); Bond Service Account; Series A Reserve Fund; General Bond Reserve Fund: Rental Debt Service Fund, and Excess Lands Account.

E. Prudence

The standard of prudence to be used in the investment function shall be the "prudent person" standard and shall be applied in the context of managing the overall portfolio. The standard states:

"Investments shall be made with judgment and care, under circumstances then prevailing, which person of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the expected income to be derived."

The investment officer and those delegated with investment authority under this policy, when acting in

accordance with the written procedures and this policy in accord with the Prudent Person Rule, shall be relieved of personal responsibility and liability in the management of the portfolio, provided that deviations from expectations for a specific security's credit risk or market price change or portfolio shifts are reported in a timely manner and that appropriate action is taken to control adverse market effects.

F. Delegation of Authority

Authority to manage the PHA investment program is derived from a Board of Commissioners' Resolution. Management responsibility for the investment program is delegated to the Finance Director or current Investment Officer who shall establish written procedures for the operation of the investment program consistent with this investment policy.

Procedures should include reference to safekeeping, repurchase agreements, wire transfer agreements, banking service contracts, collateral and depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Board of Commissioners. The Board of Commissioners shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

G. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment decisions. Employees and investment officials shall disclose to the Executive Director any material financial interests in financial institutions that conduct business with this PHA. Employees and investment officials shall further disclose any large personal financial investment positions that could be related to the time of purchase and sale of investments. All federal, state, and Housing Ethic Policies shall be strictly followed.

H. Authorized and Suitable Investments

The PHA is empowered by the U.S. Department of Housing and Urban Development to invest only in approved and fully collateralized by other approved investments. (See Appendix A, B)

I. Collateralization and Safekeeping

Collateralization is required for all PHA Investments. In order to protect the PHA's assets, collateralization of one hundred and two percent (102%) is required at all times. Such collateral, shall, at all times, have a market value at least equal to the amount of the deposits so secured. All pledge collateral shall conform to those identifiable U.S. Government securities as prescribed by HUD. See HUD Authorized investment instruments in Appendix A.

All safekeeping arrangements shall be designated by the Investment Officer. Collateral will always be held by an independent third party with whom the financial institution or broker/agent has a current custodial agreement. All third part custodians shall be required to issue safekeeping receipts to the PHA listing each specific security, rate, description, maturity, identification number and other pertinent information. Each safekeeping receipt shall be clearly marked that the security is being held for the PHA or pledged to the PHA. Each Depository shall provide the PHA with a continuing perfected security interest for the full-term of the deposit in the collateral in accordance with applicable laws and federal

regulations.

All securities pledged to the PHA for certificates of deposit or demand deposits shall be held by an independent third-party bank. The safekeeping bank may be within the same holding company as the bank from which the securities are pledged.

The right of collateral substitution is granted only when the substituted collateral is on the approved list of investments shown on Appendix A.

J. Diversification

The PHA will diversify its investments by security type and institution.

K. Yield

The PHA investment portfolio shall be designed with the objective of attaining a market rate of return without budgetary and economic cycles, taking into account the PHA risk constraints and the cash flow of the portfolio. The PHA will strive to achieve the highest yield consistent with the other factors of this investment policy. It is understood that tax-exempt securities are not appropriate for investment by the PHA because it would not benefit from the tax advantage.

L. Maximum Maturities

The extent possible, the PHA will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the PHA will not directly invest in securities maturing more than three (3) years from the date of purchase. This maximum maturity policy applies to all PHA funds.

M. Internal Controls

The Executive Director shall establish an annual process of independent review as a part of the annual audit. This review will include internal control by assuring compliance with policies and procedures. The controls shall be designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third-parties, unanticipated market changes, or imprudent actions by employees of the PHA. Internal controls will be developed according to HUD Housing Accounting Guide.

N. Reporting (See Appendix B for Texas requirements)

Regular Investment reports shall be prepared and will contain the name of the financial institution or broker/dealer holding the investment, the cost of the investment, interest rate, the purchase and maturity dates of the investment and other pertinent information. The performance will be measured by standards set by the U.S. Department of Housing and Urban Development.

O. Authorized Financial Dealers and Institutions

The Finance Director or current Investment Officer shall maintain a list of all financial institutions authorized to provide investment services for the PHA.

1. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Finance Director or current Investment Officer with annual statements and certification in writing (per Appendix C) that the financial institution or the broker/dealer has

read and will follow the federal and state laws and regulations regarding investment made by the PHA.

2. An annual review of the financial statements will be completed by the Finance Director or current Investment Officer.
3. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the PHA invests.

Appendix A contains a listing and description of approved investments instruments available to the PHA.

P. Exemptions

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements contained herein. At maturity or liquidation, such funds shall be reinvested only as provided by this policy.

Q. Investment Policy Adoption

The PHA investment policy shall be adopted by resolution of the Board of Commissioners. The policy shall be reviewed at least annually according to Texas Government Code, Chapter 2256, Section 2256.005. The Executive Director will revise the policy as necessary.

It is the intent of the PHA that if any changes or federal or State of Texas laws affect this policy, the new law or change becomes effective as stated and this policy is automatically conformed to existing law.

HUD APPROVED INVESTMENT INSTRUMENTS
APPENDIX A

1. Direct Obligations of the Federal Government Backed by the Full Faith and Credit of the United States:
 - a. U.S. Treasury Bills
 - b. U.S. Treasury Notes
 - c. U.S. Treasury Bonds

2. Obligations of Federal Government Agency
 - a. Federal Financing Bank (FFB)
 - b. Government National Mortgage Association (GNMA)
 - c. Mortgage Backed Securities (GNMA I and GNMA II)
 - d. GNMA Participation Certificates
 - e. Maritime Administration Merchant Marine Bonds
 - f. Maritime Administration Merchant Marine Notes
 - g. Maritime Administration Merchant Marine Obligations
 - h. Small Business Administration (SBA)
 - i. Small Business Investment Corporation (SBIC) Debentures
 - j. Tennessee Valley Authority (TVA) Power Bonds
 - k. Tennessee Valley Authority (TVA) Power Notes

3. Securities of Government Sponsored Agencies
 - a. Farm Credit Consolidated System Wide Discount Notes
 - b. Federal Farm Credit Banks Consolidated System Wide Bonds
 - c. Federal Home Loan Banks Consolidated Obligations
 - d. FHLMC Mortgage Participation Certificates (PC) (Guaranteed)
 - e. FHLMC Collateralized Mortgage Obligations (CMOs)
 - f. Federal National Mortgage Association (FNMA) Debentures
 - g. FNMA Notes
 - h. FNMA Short Term Discount Notes
 - i. FNMA Capital Debentures
 - j. Student Loan Marketing Association (SLMA) Obligations

4. Demand and Savings Deposits

5. Money Market Deposit Accounts

6. Local Government Investment Pools

7. Super NOW Accounts

8. Certificates of Deposit

9. Repurchase Agreement (Special Requirements)

10. Sweep Accounts

11. Mutual Funds (Special Requirements)

STATE OF TEXAS RULES AND REGULATIONS
APPENDIX B

A. PUBLIC FUNDS INVESTMENTS

Legal Limitations – Direct specific investment parameters for the investment of public funds in Texas are found in the Public Funds Investment Act, Chapter 2256, Texas Government Code.

B. UNAUTHORIZED INVESTMENTS

The following are not authorized for Governmental Entities:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
3. Collateralized mortgage obligations that have a stated final maturity date of greater than ten (10) years; and
4. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

C. INVESTMENTS TRAINING

The Investments Officer shall attend at least one training session relating to the officer’s responsibilities under Texas Government code, Chapter 22556.008 within twelve (12) months after assuming duties. Training must include education in investment controls, security risks, strategy risks, and compliance with the State of Texas Public Funds Investment Code, Chapter 2256.

D. PERFORMANCE STANDARDS AND REPORTING

The Executive Director or designee will prepare a written investments report (not less than quarterly according to State law) and submit to the Housing Authority Board of Commissioners.

The report must:

1. Describe in detail the investment position of the HA on the date of the report.
2. Be prepared jointly by all investment officers of the HA.
3. Be signed by each investment officer of the HA.
4. Contain a summary statement of each pooled fund group that state that:
 - a. Beginning market value for the reporting period;
 - b. Additions and changes to the market value during the period; and
 - c. Ending market value for the period.
5. State the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested.

E. REQUIRED INVESTMENT RATING

Investments, as rated as to investment quality by a nationally recognized investment rating firm, are not authorized unless the rating is at least an “A” or its equivalent under Texas law. The HA shall take all prudent measures that are consistent with this investment policy liquidate any investment that does not have the minimum rating.

**CERTIFICATION BY BUSINESS ORGANIZATION OR FINANCIAL INSTITUTION
APPENDIX C**

I hereby certify that I have received and thoroughly reviewed the investment policy of the Housing Authority of the City of San Benito and have implemented reasonable procedures and controls designed to preclude imprudent investment activities arising out of investment transactions conducted between this firm and the Housing Authority of the City of San Benito. Transactions between this firm and the Housing Authority of the San Benito will be directed towards protecting the Authority from credit or market risk.

All sales personnel of this firm dealing with the Housing Authority of the City of San Benito accounts have been informed and will be routinely informed of the Authority's investment horizons, limitations, strategy, and risk constraints, whenever we are so informed.

The firm pledges due diligence in informing the Housing Authority of the City of San Benito of foreseeable risks associated with financial transactions connected to this firm.

Name of Business Organization or Financial Institution

Date: _____

By: _____
Signature of Registered Principal of Business Organization
or Financial Institution