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All investments made by the Harris County Housing Authority (HCHA) shall comply with the Public Funds Investment Act (Texas Government Code, Chapter 2256, Subchapter A) and all federal, state and local statutes, rules or regulations. Gov't Code 2256.056. The specific requirements for the investment of HUD funds are found in 24 CFR Part 85 Subpart C, the Annual Contribution Contract (ACC), the General Depository Agreement (FORM HUD-51999) and HUD Notice 96-33 as extended.

### **Policy Statement**

It is the policy of the Harris County Housing Authority (HCHA) to manage its cash flow in order to optimize the use of funds. This will be accomplished by the appropriate planning of receipts and disbursements to assure the availability of funds to meet current expenditures and to maximize the yield from the investment of temporarily surplus funds. As a rule, the average amount on deposit in the cash account will be the amount needed on hand for transaction purposes or as a safeguard against cash shortages and any excess will be invested. In the interest of good cash management, non-interest bearing deposits will be reduced to the amount necessary to maintain a good banking relationship.

Investments shall be made in a manner that emphasizes the safety and liquidity of the principal invested and conforms to all applicable state and federal statutes governing the investment of public funds.

In order to comply with local laws and the Texas Public Funds Investment Act HCHA will strive to obtain a market rate of return on all invested funds that is consistent with the type of investment selected.

Investment earnings will be used in a manner that best serves the public trust, the interests of HCHA and complies with all applicable state and federal statutes governing the use of program income.

### **Written Policies**

Investments shall be made in accordance with written policies approved by the Board. The investment policies must primarily emphasize safety of principal and liquidity and must address investment diversification, yield and maturity and the quality and capability of investment management. The policies must include:

A list of the types of authorized investments in which the Board's funds may be invested;

- a. maximum allowable stated maturity of any individual investment owned by the Board;
- b. For pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date of the portfolio;
- c. Methods to monitor the market price of investments acquired with public funds; and

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- d. A requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis.

**Investment Strategies**

As part of the investment policy, the Board shall adopt a separate written investment strategy for each of the funds or group of funds under the Board's control. Each investment strategy must describe the investment objectives for the particular fund under the following priorities in order of importance:

- a. Understanding the suitability of the investment to the financial requirements of the Board.
- b. Preservation and safety of principal;
- c. Liquidity;
- d. Marketability of the investment if the investment needs to be liquidated before maturity;
- e. Diversification of the investment portfolio; and
- f. Yield Gov't Code 2256.005

**Delegation of Investment Authority**

Investment Officer - The Board shall designate one or more officers or employees as investment officer(s) to be responsible for the investment of its funds. If the Board has contracted with another investing entity to invest its funds, the investment officer of the other investing entity is considered to be the investment officer of the contracting Board's Board. In the administration of the duties of an investment officer, the person designated as investment officer shall exercise the judgment and care, under prevailing circumstances that a person of prudence would exercise in the management of the person's own affairs, but the Board retains the ultimate responsibility as fiduciaries of the assets of the Board. Unless authorized by law, a person may not deposit, withdraw, transfer or manage in any other manner the funds of the investing entity. Authority granted to a person to invest an entity's funds is effective until rescinded by the Board or until termination of the person's employment by the Board. Gov't Code 2256.005(f)

**Investment Training**

Initial - the treasurer or chief financial officer and the investment officer of the Board shall attend at least one training session from an independent source approved either by the board or by a designated investment committee advising the investment officer, as provided for in the Board's investment policy. This initial training must contain at least ten hours of instruction relating to their respective responsibilities under the Public Funds Investment Act.

Within a two-year period the treasurer or chief financial officer and the investment officer must also attend an investment training session not less than once in a two-year period and receive not less than ten hours of instruction relating to investment responsibilities under the Public Funds Investment Act from an independent source approved by the Board or a designated investment committee advising the investment officer, as provided for in the Board's investment policy. A Board that has contracted with another investing entity to invest the Board's funds may satisfy this training requirement by having a Board officer attend four hours of appropriate instruction in a two-year period.

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Investment training shall include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Government Code 2256. Gov't Code 2256.008.

**Standard of Care**

Investments shall be made with judgment and care, under prevailing circumstances that a person of prudence, discretion and intelligence would exercise in the management of his or her own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investments shall be governed by the following objectives in order of priority:

- a. Preservation and safety of principal;
- b. Liquidity; and
- c. Yield

In determining whether an investment officer has exercised prudence with respect to an investment decision, the following shall be taken into consideration:

- a. The investment of all funds, rather than the prudence of a single investment, over which the officer had responsibility.
- b. Whether the investment decision was consistent with the Board's written investment policy. Gov't Code 2256.006

The Investment Officer and those delegated investment authority under this policy, when acting in accordance with the written procedures and this policy and in accord with the Prudent Person Standard, shall be relieved of personal responsibility and liability in the management of the portfolio provided that deviations from expectations for the 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.

**Internal Controls**

The Investment Officer shall establish a system of internal controls to assist in controlling investments and preventing loss or misuse. The controls established shall ensure the following:

- a. Investment transactions are authorized by HCHA's Board of Directors and documented in the board minutes.
- b. Investment documents are kept in a safe fire-resistant locked file cabinet, safe deposit box, or held by an agent.
- c. The Investment Officer shall not also be responsible for maintaining the accounting records of investments.
- d. Investments will be maintained in a custodian or trust account.
- e. Investments will be in the name of HCHA.
- f. Investments will be recorded in detail in an investment ledger.
- g. Interest earned is collected and credited to the appropriate accounting records.
- h. Investments are reconciled periodically to the investment ledger.

A system of cash forecasting is established to ensure that cash needs are adequately planned for and that excess cash balances are invested for periods that maximize returns. HUD Notice 96-33.

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**Personal Interest**

A Board investment officer who has a personal business relationship with a business organization offering to engage in an investment transaction with the Board shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined by Government Code Chapter 573, to an individual seeking to sell an investment to the Board shall file a statement disclosing that relationship with the Board and with the Texas Ethics Commission. For purposes of this policy, an investment officer has a personal business relationship with a business organization if:

- a. The investment officer owns ten percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
- b. Funds received by the investment officer from the business organization exceed ten percent of the investment officer's gross income for the previous year; or
- c. The investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer. Gov't Code 2256.005

**Quarterly Reports**

The investment officer shall prepare and submit to the Board a written report of investment transactions for all funds covered by the Public Funds Investment Act. This report shall be presented to the Board not less than quarterly, within a reasonable time after the end of the period. The report must:

- a. Contain a detailed description of the investment position of the Board on the date of the report.
- b. Be prepared jointly and signed by all Board investment officers.
- c. Contain a summary statement for each pooled fund group (i.e., each internally created fund in which one or more accounts are combined for investing purposes). The report must be prepared in compliance with generally accepted accounting principles and must state:
  - i. Beginning market value for the reporting period.
  - ii. Additions and changes to the market value during the period.
  - iii. Ending market value for the period.
  - iv. Fully accrued interest for the reporting period.
- d. 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. State the maturity date of each separately invested asset that has a maturity date.
- f. State the account or fund or pooled group fund in the Board for which each individual investment was acquired.
- g. State the compliance of the investment portfolio of the Board as it relates to the Board's investment strategy expressed in the Board's investment policy and relevant provisions of law.

If the Board invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or

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similar accounts, the reports shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the Board by that auditor. Gov't Code 2256.023.

**Authorized Investments**

The Board may purchase, sell and invest its funds and funds under its control in investments described below, in compliance with its adopted investment policies and according to the standard of care set out in this policy. Investments may be made directly by the Board or by a nonprofit corporation acting on behalf of the Board or investment pool acting on behalf of two or more local governments, state agencies, or a combination of the two. Gov't. Code 2256.003.

Acceptable investment under this policy shall be limited to HUD approved investments and or those approved under the Public Funds Investment Act, Texas Government Code. In cases where there are discrepancies between HUD authorized investments and those of the State of Texas, the more restrictive of the two shall prevail.

Examples of acceptable investment instruments include the following:

- a. Direct obligations of the Federal Government, which are backed by the full faith, and credit of the United States. These include U.S. Treasury bills, notes and bonds.
- b. Obligations of federal government agencies. These include issuances by the Federal Financing Bank (FFB), Government National Mortgage Association (GNMA), Maritime Administration Merchant Marine Bonds, Notes, and Obligations, Small Business Administration (SBA), and the Tennessee Valley Authority (TVA).
- c. Securities of federal government sponsored agencies. These include issuances by the Farm Credit Consolidated System, Federal Farm Credit Banks, Federal Home Loan Banks, FHLMC Mortgage Obligations, and Student Loan Marketing Association.
- d. Demand and savings deposits at commercial banks, mutual savings banks, savings and loan associations and credit unions if deposits are insured by either the Federal Deposit Insurance Corporations (FDIC) or the National Credit Union Share Insurance Fund (NCUSIF). A deposit in excess of the insurance coverage may be made at a depository institution provided that it is 100 percent collateralized by any of the securities issued by the federal government. Care will be taken to ensure that withdrawals may be made on demand without loss of interest and without penalty.
- e. Municipal depository fund or local government investment pool established by the State of Texas or other State chartered municipality as long as the securities purchased:
  - i. The fund invests only in HUD approved investment securities when HUD funds are involved.
  - ii. HCHA has either an undivided or divided interest in the securities comprising the fund.
  - iii. The fund is under the control of the Investment Company Act of 1940.
  - iv. The investment objectives of the fund are to obtain as much income as possible consistent with the preservation and conservation of capital.
  - v. The fund discloses clearly the basis of earnings and how they are distributed.
  - vi. The fund provides a statement of potential risk and a clear demonstration that withdrawals from the fund will not be so restricted as to impair HCHA's day-to-day cash management.

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Money market deposit accounts not to exceed 30 percent of invested funds at depository institutions that may not be insured fully by the FDIC or NCUSIF provided that the certificates are fully backed by 100 percent collateral consisting of securities back by the federal government and when amounts exceed the \$250,000 insurance limitation, HCHA has control of the underlying collateral which is clearly identified (not pooled) U.S. Government securities.

- a. Super NOW accounts as long as they meet the insurance and collateral requirements as stated in (vi.) above.
- b. Certificates of deposit if issued by institutions that are insured by an agency of the federal government and when federal funds are involved the financial institution executes Form HUD-51999, General Depository Agreement. Certificates can exceed the \$250,000 federal insurance limitation provided that the excess is 100 percent collateralized by clearly identified (not pooled) U.S. Government securities.
  - i. Repurchase agreements for a term not to exceed 30 days when issued by federally insured depositories for securities issued by the U.S. Government and provided that the seller meets the additional requirements of HUD Notice PIH 96-33 as extended.
  - ii. Sweep accounts provided that the agreements include all the requirements applicable to any of the above.

The following are not authorized investments:

- a. An obligation whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
- b. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- c. Collateralized mortgage obligations that have a stated final maturity date of greater than ten years.
- d. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index. HUD Notice 96-33.

**Change in Law**

A Board is not required to liquidate investments that were authorized investments at the time of purchase. Gov't Code 2256.017.

**Sellers of Investments**

A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with an investing entity or to an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. For purposes of this policy, a business organization includes investment pools and an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. The qualified representative of the business organization offering to engage in an investment transaction with the Board shall execute a written instrument in a form acceptable to the Board and the business organization substantially to the effect that the business organization has:

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- a. Received and thoroughly reviewed the Board investment policy; and
- b. Agrees to the terms and types of allowable investments contained herein. Gov't Code 2256.005.003 k and HUD Notice 96-33.

**Annual Review and Audit**

The investment policy and the investment strategy shall be reviewed not less than annually. The board shall adopt a written instrument stating that it has reviewed the investment policy and investment strategies and the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.

The Board shall request an independent compliance audit of management controls on investments and adherence to the Board's established investment policies. The compliance audit shall be performed in conjunction with the annual financial audit.