LOUISIANA HOUSING FINANCE AGENCY
STATEMENT OF INVESTMENT POLICY
Amended June 11, 2001

I. INTRODUCTION

The Louisiana Housing Finance Agency Act contained in Chapter 3-A of Title 40 of the Louisiana Revised Statutes of 1950, as amended (the "Act") (LSA–R.S. 40:600.1 through LSA-R.S. 40:600.24, inclusive) empowers the LHFA with the powers necessary or convenient to carry out and effectuate the purposes and provisions of the Act, including but not limited to the power to acquire movable property and to invest the same, subject to the rights of holders of bonds of the agency; and in connection with bonds of the LHFA, to provide for the provision for the custody, collection, securing, investment and payment of any money of or due to the LHFA as desirable as may be determined by resolution(s).

The purpose of this document is to identify policies and procedures that provide for a prudent and systematic approach to the investment and cash management activities in relation to the General Fund of the Louisiana Housing Finance Agency.

This statement will be reviewed, evaluated and expanded on a regular basis to ensure that the procedures and guidelines expressed herein are responsive to the prevailing investment environment.

II. DEFINITIONS

"**Act**" means Chapter 3-A of Title 40 of the Louisiana Revised Statutes of 1950 (LSA-R.S. 40:600.1 through LSA-R.S. 40:600.24, inclusive), as amended.

"**Direct Securities**," means U.S. Treasury Bills, Notes or Bonds.

"**Financial Intermediaries**" means a person or firm who acts as an intermediary by purchasing and selling securities for others rather than for its own account.

"**General Fund**" means the fund which provides for the accounting for general and administrative expenses and any money transferred from other funds to the extent such transfers are permitted by resolutions establishing other funds. Funds transferred from the Agency's programs may be utilized for any lawful purpose of the Agency.

"**LHFA**" means Louisiana Housing Finance Agency, a public body corporate and politic constituting a political subdivision and instrumentality of the State of Louisiana.

"**Primary Securities Dealers**" mean those major investment-banking firms, which are listed by the Market Reports Division of the Federal Reserve Bank of New York as the primary securities dealers. (The dealers are unique within the United States government securities industry in that they both report and are regulated in an industry that is typically non-reporting and unregulated.)

"**State**" means the State of Louisiana.

"State Depository" means any bank selected and designated by the Interim Emergency Board for deposit of state funds by the treasurer and other elected state officials or any department, board, commission or institution of the state.

III. GENERAL GUIDELINES

A. The investment and cash management activities of the LHFA shall be conducted in a manner that is consistent with the prevailing prudent business practices that may be applied by other like organizations of similar size and financial resources. Cash management and investment activities shall be consistent with the Act and with an applicable statute of the State of Louisiana.

B. Investment decisions shall be made with the judgment and care that persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation, but for investment purposes considering the probable safety of their capital, as well as the probable income derived.

C. The policy and procedures adopted by the LHFA shall be designed in the best interest of the Agency and shall require fair, impartial and equitable treatment of any individual or corporate member of the financial or investment community.

D. The LHFA will limit its purchase of investment securities to those that are of the highest quality, including, but not limited to insured or collateralized time deposits in financial institutions chartered and domiciled in the State of Louisiana, certain direct obligations of the United States Government, certain obligations of United States Government agencies or the purchase of such United States government or agency securities under the terms of repurchase agreements, or money market funds which have underlying investments consisting solely of and limited to securities authorized as permissible investments of the LHFA.

E. Financial institutions that serve as State Depositories may serve as depositories of the General Fund.

F. The LHFA will always strive to avoid investment losses. The incurrence of a book or accounting loss does not necessarily indicate inappropriate investment activity or faulty portfolio management strategy. Incurrence of a book loss may actually be part of a transaction that produces an aggregate gain. In other cases, incurrence of a small book loss may be preferable to incurrence of a much larger potential loss. Therefore, LHFA imposes no legal or administrative prohibitions against incurrence of portfolio losses, so long as such transactions can be justified in the overall portfolio management process.

IV. INVESTMENT OBJECTIVES

A. The prime investment objective is to preserve the value and safety of the General Fund’s principal followed by liquidity and yield. Securities transactions should be made in such a manner that capital losses resulting from default or erosion of market value are avoided.

B. LHFA’s investment portfolio shall remain sufficiently liquid to permit all operating requirements to be met.

C. Investment decisions will not cause LHFA to incur any unreasonable investment risks in order to achieve higher current income.

D. LHFA’s investment portfolio shall be sufficiently diversified to avoid any unforeseen risks regarding security type, duration, and credit quality and interest rate.

E. The portfolio shall be designed with the objective of exceeding the average three-month U.S. Treasury Bill rate for the equivalent period. This is considered to be the benchmark for risk less investment transactions and should comprise a minimum standard for investment returns. The investment program shall seek to achieve returns above this benchmark consistent with risk limitations, prudent investment principles and within the laws of the State of Louisiana.

F. Current policy limits cash investments to those listed below. However, there are numerous other money market instruments that are prudent vehicles for effective cash management, even though they are not currently allowable investments under the terms of existing state statutes. As state statutes are revised and amended, the LHFA will carefully examine such new alternatives as may become available.

V. CASH MANAGEMENT PROGRAMS AND ACTIVITIES

The LHFA is committed to the overall success of a cash management program that addresses a variety of cash management issues, including:

A. The establishment of banking relationships that are both favorable to the LHFA and responsive to the day-to-day requirements of the LHFA’s complex financial operations.

B. The establishment of policies that will allow the LHFA to maximize its interest earnings, while ensuring the total safety of the General Fund.

C. The utilization of modern and efficient techniques for the transfer of funds, taking advantage of the technological and operational procedures that have evolved in recent years.

D. The establishment of suitable payment systems, which will ensure that expenses are paid timely, but not in such a way as to jeopardize the earning capacity of the investment portfolio.

VI. CASH MANAGEMENT INVESTMENT GUIDELINES

A. The LHFA, by resolution, may designate and empower certain staff members to direct the investments of the General Fund. The resolution may direct how to invest the General Fund in the event the person(s) designated by resolution are unavailable or unable to direct such investments. The LHFA shall invest the funds of the Agency in those investment instruments which are listed below:

1. Fully-insured and/or fully-collateralized Certificates of Deposit issued by qualified financial institutions located within the State of Louisiana; savings accounts or shares of savings and loan associations and savings banks, as defined by R.S. 6:703(15) and (16), or share accounts and share certificate accounts of federally or state chartered credit unions issuing time certificates of deposits; certain direct obligations of the United States government, including such instruments as Treasury Bills, Treasury Notes, Treasury Bonds, Government National Mortgage Association, Maritime Administration, and Small Business Administration; Federal Home Loan Bank consolidated discount notes, notes, debentures and bonds; Federal Home Loan Bank Mortgage Corporation discount notes, notes, debentures, bonds, participation certificates, guaranteed mortgage backed securities, collateralized mortgage obligations and adjustable rate mortgages; Federal National Mortgage Association discount notes, short-term notes, master notes, floating rate notes, notes, debentures, subordinated debentures, bonds, guaranteed mortgage backed securities, and adjustable rate mortgages; Farm Credit System consolidated system wide discount notes, notes and bonds; Student Loan Marketing Association discount notes, floating rate notes, notes and bonds; **as amended by the Board on June 13, 2001, Risk Sharing Mortgage Notes, secured by a mortgage upon real estate and fully insured by FHA.**

   Collateralized mortgage obligations shall not comprise more than 10% of the portfolio and shall not include any interest only or principal only STRIPS or Inverse Floaters. Zero coupon bonds shall not comprise more than 10% of the portfolio. Guaranteed Investment contracts shall not be permitted.

2. Mutual or trust fund institutions registered with the Securities and Exchange Commission under the Securities Act of 1933 and the Investment Act of 1940, and which have underlying investments consisting solely of and limited to securities of the United States Government or its agencies. Said mutual or trust fund institutions must be organized as a Massachusetts Business Trust and not subject to any sales charges upon purchase or redemption (NO LOAD funds, NO 12(b) 1 fees). Investment of funds in such mutual or trust fund institutions shall be limited to twenty-five percent of the monies considered available for investment.

3. Purchases of the Direct Securities (U.S. Treasury Bills, Notes or Bonds @ 102%), under the terms of a repurchase agreement that meet the procedures established in part "D" of this section.

4. Purchase of certain other investments as may be authorized by resolution of the LHFA.

B. The LHFA will endeavor to use the services of a bank trust department for the purpose of purchasing securities. When a bank trust department is utilized for said purpose, the broker/dealers must be on the approval list of such trust department and are not required to complete the Broker/Dealer Questionnaire & Certification outlined below.

C. Criteria for Selection of Financial Intermediaries:

Although the LHFA's policies for the purchase of investment securities are designed to ensure complete safety, accompanied by appropriate liquidity and competitive yields, the providers of such securities must also meet specific financial and operational standards.

Deposits in financial institutions, whether they are time deposits, demand deposits, or deposits in special interest-bearing accounts ("NOW", "Super-NOW", etc.), shall only be made in banks which are authorized by the Interim Emergency Board to accept public-sector deposits and are protected under the terms of prevailing Louisiana State Statutes. (Refer to Sections VI [1&2].)

Certain sweep or automatic repo accounts, and certain funds held under the terms of a repurchase agreement arrangement may not be protected under the provisions of prevailing Louisiana State Statutes, since "Regulation D" specifically excludes such balances from its definition of deposits. Therefore, such balances shall be protected through the judicious application of securities safekeeping procedures, which will ensure the safety and integrity of all State monies. Refer to Section VI [C].)

Financial intermediaries that conduct business (i.e.; execute investment securities transactions) with the LHFA shall be subject to the following types of selection criteria:

1. Commercial Banks:

The creditworthiness, liquidity, and overall financial strength of financial institutions into which deposits are made, as that can be measured through recognized industry rating services, shall be a factor in the LHFA's investment decisions.

2. Savings and Loan Associations:

Deposits of LHFA monies in savings and loan associations shall be subject to the same rating criteria that are applied to commercial banks.

3. Securities Dealers:

Current policy is to restrict transactions relating to the purchase and sale of U.S. Government securities to this list of primary Securities Dealers and to certain in-state, minority and women-owned firms that are approved by the State. This policy will preclude the LHFA from doing business with other brokers and dealers whose financial strength and operational capabilities cannot be confidently determined, given the absence of reporting and regulation requirements.

D. Procedures for Delivery, Possession, & Safekeeping of Securities:

It provides insufficient protection for the LHFA to simply limit its cash investments to those listed in part "A" of this section. To ensure total protection, LHFA has established delivery, possession, and safekeeping procedures that will be followed in every case. Specifically:

1. All ownership of securities shall be evidenced by an acceptable safekeeping receipt issued by a third party financial institution that is acceptable to LHFA (or by a safekeeping receipt from the Federal Reserve Bank, should services become available.)

LHFA will accept a safekeeping receipt issued by its central depository that clearly indicates that the securities are being held by LHFA's central depository in LHFA's name, accompanied by a copy of the central depository's safekeeping receipt from the Federal Reserve Bank. (The latter receipt will indicate that the securities are held in the central depository's name on behalf of a customer, as indicated by an "02" classification; or, in the case of trust assets, the appropriate special classification.) However, the central depository may not provide securities safekeeping services in cases in which the central depository is a principal counterpart in the investment transaction itself. In such cases, safekeeping documentation similar to that described in the preceding paragraph must be provided by a third party custodian that is acceptable to the State.

[Note: In cases in which the LHFA's central depository merely executes the necessary wire transfer services to support the LHFA's investment transaction, and is not a principal in the transaction, the bank's role is defined as that of a Settlement Agent, rather than that of a counterpart, as described by the Governmental Accounting Standards Board.]

In addition to the securities which are owned by LHFA, Louisiana State Statutes provide that all deposits of LHFA in commercial banks be fully collateralized by acceptable securities, as defined in Section 39:1271 (and other Sections) of the Revised Statutes of the State of Louisiana

The Federal Reserve Bank (the "Fed") has specifically designed a system by which the Fed itself may act as the safekeeping agent of both LHFA and the bank that is pledging the collateral (to secure LHFA deposits). Upon proper transfer by the pledging bank into a joint custody account (classification "07"), the Fed will issue a joint custody receipt to both the pledging bank and LHFA. Thereafter, the Fed will not release the securities prior to their maturity (for purposes of reassignment or liquidation) without the express consent of both parties.

There are four types of transactions that require securities safekeeping. LHFA anticipates that all four transaction types can be satisfactorily consummated by the receipt of either a safekeeping receipt issued by its central depository (as described above) or a Federal Reserve Joint Custody Receipt (classification #07). These four transaction types and the related safekeeping requirements are discussed below:

a. Purchases of book entry securities from acceptable securities dealers shall typically be evidenced by a safekeeping receipt issued by LHFA's central depository, naming LHFA as owner of the securities, and accompanied by a copy of the central depository's safekeeping receipt from the Fed (classification "02"; or in the case of trust assets, the appropriate special classification).

b. Purchases of book entry securities under the terms of a qualified repurchase agreement shall be held in the same manner as described in part V[C][1][a] if the transaction is executed with a primary dealer.

The safekeeping of such securities with regard to repurchase agreements or sweep accounts with commercial banks shall be held only by a third party custodian other than the selling bank. (Such a third party custodian shall be acceptable to the State, and shall accompany its own safekeeping receipt with a copy of the safekeeping receipt issued to it by the Fed.)

c. Purchases of other types of non-book entry securities shall be evidenced by a third party bank's safekeeping receipt, subject to precise requirements that shall be dictated at LHFA's discretion. (Generally, the LHFA only purchases wirable securities.)

d. Securities (both wirable and physical) that are held as collateral on bank deposits in Louisiana banks (whether time or demand deposits) shall be held at a third party bank acceptable to the LHFA and evidenced by Joint Custody Receipts.

2. All investment (or divestment) transactions will be implemented on a delivery vs. payment (or payment vs. delivery) basis. In the absence of acceptable delivery, LHFA will refuse to enter into the transaction.

3. Repurchase agreements will meet the aforementioned delivery criteria, and will be accompanied by satisfactory evidence of compliance with the required 102% collateralization ratio. (i.e.; excess of market value of securities and accrued interest over principal amount of investment).

The required minimum collateralization ratio will be established by the State Investment Officer and shall be specifically addressed in a written Master Repurchase Agreement that supports the repurchase transaction. The extent of the minimum collateralization ratio requirement will increase in direct proportion to the length of maturity of the securities purchased under the terms of the repurchase agreement.

Securities purchased under the terms of a repurchase agreement shall have maturity dates of ten years or less, and shall be wirable instruments through the U.S. Federal Reserve System. Any departure from these maturity or wirability standards shall require the specific, written authorization of the Investment Officer. In the absence of authorization to the contrary, the LHFA will require the following minimum ratios of market value of securities purchased (under the terms of the repurchase agreement) to the principal dollar amount of such investments:

U.S. Treasury Bills, Notes, and Bonds that mature in one year or less: 102%
U.S. Treasury Notes and Bonds that mature in 1 to 10 years: 102%
U.S. Government Agency securities that mature in up to 10 years: 102%

Naturally, the minimum ratios listed above must be examined on a daily basis, to ensure that the margin does not drop below minimum acceptable levels. In cases of securities, which require physical rather than book entry delivery and safekeeping, the LHFA will require a higher minimum ratio, and must approve the acceptability of such securities. Similarly, if securities have maturities in excess of ten years, LHFA may require a higher minimum ratio and must approve the acceptability of such securities.

When possible, LHFA will only accept wirable securities with maturities of 10 years or less. However, LHFA may accept (at its discretion) certain physical delivery and safekeeping of non-wirable and/or longer-term securities.

VII. UTILIZATION OF OUTSIDE PROFESSIONAL SUPPORT SERVICES

LHFA may, from time to time, employ legal, financial, technical experts and consultants, and such other officers, agents, and permanent and temporary employees as the LHFA deems necessary or advisable and shall determine their qualifications, duties, and compensation consistent with civil service requirements, if applicable.

This statement of investment policy, guidelines and the accompanying procedures will be subject to an ongoing review and evaluation process. This document will be expanded upon and the procedures herein updated to reflect current investment policy, investment climate and the laws of the State of Louisiana.