



HOUSING DIVISION - MONTANA BOARD OF HOUSING

Investment Policy

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PROGRAM:	Accounting
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DOCUMENT REVISION HISORY					
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4/12/2022	Update language	JMG	3/18/22	Board	4/12/2022
10/13/2022	Update references	AF Mgr	10/13/22	Board	4/18/2023



I. PURPOSE AND SCOPE

The purpose of this policy is to give guidance to the program managers, the Accounting and Finance Manager generally, and the Montana Board of Housing (“Board”) regarding investment of funds held and invested by a trustee pursuant to the Board’s bond trust indentures.

Other Board (non-indenture) funds are deposited in the appropriate state treasury account and invested through the unified investment program under the direction of the Board of Investments. Board moneys (non-indenture) held by the State Treasurer in the Housing Authority Enterprise Fund or otherwise invested with the State shall be invested in the State’s Short-Term investment pool.

II. GOAL/OBJECTIVE

The goal/objective of this policy is to ensure Board adherence with the Housing Act of 1975 and the Board’s bond indentures and other agreements with its bondholders and noteholders (“Indenture” or “Indentures”).

III. RISK ASSESSMENT

Hazard: Investments are not made according to State and Indenture requirements

Risk: Government fines; non-taxable bonds could become taxable; loss of investments or investment value

Risk Level: Low

Control: All investments are prepared by the Accounting and Finance Manager or other authorized officer following investment procedures based on this policy. Indenture Trustees also review the policy and are required to ensure that all Indenture requirements are followed.

IV. POLICY

A. Investment Committee

1. The Board shall be responsible for oversight of the Investment of assets of the Montana Board of Housing.
2. Frequency of Board Review: The Board shall perform the review and other functions specified below at least once a year.
3. Functions of the of the Board shall be:
 - a) To review compiled investment reports
 - b) To review the function of the investment policy for potential enhancement



- c) To review the return on assets of the Board
- d) To address any staff concerns regarding investments or the investment policy
- e) To monitor compliance with the investment policy

B. Sections 90-6-112 and 116, Montana Code Annotated

Provisions of Bond Resolutions; Trust Indenture: (Summary) The Board is authorized to provide by resolution for the terms of bonds and notes, including vesting the bond trustee with property, rights, powers, and duties as the Board determines. In the discretion of the Board, its bonds may be secured by a trust indenture, which may contain provisions for protecting and enforcing the rights and remedies of the bondholders, including provisions for the custody, safeguarding and application of all money, the payment of bond proceeds and revenues and method of disbursement, and safeguards and restrictions the Board considers necessary.

The Board's Indentures provide for investment of indenture funds by the Trustee in authorized investments at the written direction of an authorized officer of the Board.

V. PRUDENT EXPERT PRINCIPLE

All Investments shall be made in accordance with the requirements of the particular Indenture and the Internal Revenue Code, and the Board's officers, in directing which permitted investments the Trustee shall make, shall act in accordance with the prudent expert principle which requires an investment manager to: (a) discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims; (b) diversify investment holdings to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and (c) discharge the duties solely in the interest of and for the benefit of the portfolio.

VI. PRIMARY CONCERNS

Permissibility of investments, security, liquidity, and rate of return on investments are primary concerns. The Board has a responsibility in the investment of funds to seek the highest return available in the market consistent with the legality, security, liquidity, cash flow and programmatic requirements of each fund for which they are invested. The Board also has a responsibility to diligently monitor and calculate (or cause to be calculated) any arbitrage rebate required to be remitted to the federal government.



VII. LEVERAGED INVESTMENT

The Board shall not invest in leveraged investments, including but not limited to derivative investments which involve leveraging. Investments are to be made with the expectation that they will be held to maturity; investments are not to be made with the intention of participating in trading activities to generate investment return.

VIII. SALES OF INVESTMENT

Should be limited to the following:

- A. A sale and subsequent purchase would improve the quality or yield of the portfolio.
- B. Liquidity needs of the portfolio require that the security be sold.
- C. A sale of an investment is necessary as a result of refunding a bond issue.

Sales other than the abovementioned should be approved by the Executive Director.

IX. TYPES OF INVESTMENTS

- A. The Board may invest in the following securities provided that such investments meet the requirements of this policy:
 - 1. Direct obligations of or obligations guaranteed by the United States of America, which includes certificates of ownership in the guaranteed portion of loans guaranteed by the Rural Housing and Community Development Service of the United States Department of Agriculture (formerly the Farmers Home Administration), participation certificates in obligations of the General Services Administration, obligations guaranteed by the U.S. Maritime Administration pursuant to Title XI, Small Business Administration guaranteed participation certificates and guaranteed pool certificates, mortgage-backed securities and pool certificates guaranteed by the Government National Mortgage Association, and Veterans Administration guaranteed REMIC securities and passthrough certificates;
 - 2. Obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following:
 - a) Farm Credit System or predecessors (the Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives);
 - b) Federal Home Loan Bank System;
 - c) Export-Import Bank of the United States;



- d) Federal National Mortgage Association (only senior debt obligations or mortgage-backed securities, but excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts and excluding interest-only strips);
 - e) Federal Home Loan Mortgage Corporation (only senior debt obligations and participation certificates, but excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts and excluding interest-only strips);
 - f) Tennessee Valley Authority;
 - g) Federal Financing Corporation;
3. Certificates of deposit issued by, or time deposits with, any bank or trust company organized under the laws of the State, any national banking association which is a member of the Federal Reserve System, or any savings and loan association (including the trustee, a lender or a paying agent), which is insured by the Federal Deposit Insurance Corporation (FDIC) and provided that any such lender has capital stock, surplus and undivided profits aggregating at least \$1,000,000, and provided further that such time deposits or certificates of deposit, to the extent not insured by the FDIC, are fully secured by obligations of the type specified in parts 1 and 2 above which have a market value, exclusive of accrued interest, at least equal to the amount of such deposits. In no case shall the investment result in a reduction of the ratings by Standard & Poor's Rating Services or by Moody's Investors Services on the applicable bond series.
4. Repurchase agreements or guaranteed investment agreements but only if:
- a) The agreement is fully collateralized as to both principal and interest by obligations of the type specified in part 1 or 2 above and which collateral is delivered out and held by the Trustee or its agent, and the collateral is marked to market at least weekly; and



- b) The agreement is with (i) a financial institution as described under part 3 above (and including the subsidiary of a foreign bank) organized under the laws of the United States of America or any state thereof and subject to supervision by the appropriate authorities of either the United States of America or the state under which whose laws it is organized, or (ii) a financial institution (i.e. banks, insurance companies, etc.) organized under the laws of the United States of America or any state thereof and either (a) whose unsecured obligations are rated in either of the two highest rating categories by the agency or agencies rating the indenture or (b) whose obligations under such agreement are unconditionally guaranteed by such a financial institution which is rated as provided in (ii)(a).
 - c) In no case shall the investment result in a reduction of the ratings by the agency or agencies rating the applicable bond series; and
 - d) The Agreements shall be written to give the Board the maximum practical flexibility in the case of a downgrade in the rating of the provider.
5. Any other investment permitted for moneys held by the trustee pursuant to the governing bond indenture(s), including any investment permitted pursuant to any expanded or new definition of Authorized Investments and related provisions which may be added to the Indentures, or permitted by a Supplemental Indenture, provided that, at the time of investment, the investment will not, in and of itself, adversely affect the Rating Quality of the Outstanding Bonds.
6. In no case may the Board or a trustee invest in any one financial institution an amount in excess of the net worth of that financial institution or its guarantor.

X. Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interest in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Montana Board of Housing. Employees and officers shall disclose any material interest in financial institutions to the Executive Director and/or the Board



within 30 days of acquiring a material interest. The Board and/or the Executive Director shall be updated as changes in material interests occur.

XI. Authorized Management

Authority to manage the investment programs is granted to the Accounting & Finance Manager. The Executive Director, Single Family Manager and Multifamily Program Manager are authorized to handle investments in the absence of the Accounting and Finance Manager. Responsibility for the operation of the investment program is hereby delegated to these officers, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy. The Accounting & Finance Manager shall have the primary responsibility for all investment transactions and shall establish a system of controls to regulate the activities of subordinate officials.

XII. Internal Control Structure

The Accounting & Finance Manager is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Montana Board of Housing are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. Accordingly, the Accounting & Finance Manager shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Written confirmation of transactions for investments

XIII. Investment Report

The Accounting & Finance Manager shall prepare, and present to the Board, an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio transactions made over the last quarter. The summary will be prepared in a manner which will allow the Board to determine if the investment activities during the reporting period have conformed to the investment policy. The report should include:

- A. Listing of individual securities held at the end of the reporting period.
- B. Average weighted yield to maturity of the investment portfolio



- C. Listing of investments by maturity date
- D. Percentage of total portfolio which each type of investment represents

XIV. Responsibility

- A. Investment officers acting in accordance with these Investment Guidelines shall be relieved of personal responsibility for an individual security's credit risk or market price changes provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.
- B. It is the responsibility of those Agency staff authorized to direct investments, primarily the Accounting & Finance Manager, to keep abreast of the latest developments within the investment community. Particular attention should be paid to both interest rate trends and items relating to the credit of and the Montana Board of Housing's exposure to various dealers, banks and securities.
- C. Each Trustee and rating agency will be furnished copies of this policy, and amendments to it.