Housing Authority of the City of Norwalk
P.O. Box 508
24 ½ Monroe Street
Norwalk, CT 06856-0508
Phone (203) 838-8471
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THE NORWALK HOUSING AUTHORITY (NHA)
REQUEST FOR PROPOSAL (RFP)
FOR
ENDOWMENT TRUST FUND

KEY DATES

RFP RELEASE DATE: 07/20/2019
SUBMISSION DUE DATE AND TIME: 08/13/2019 at 2:00 p.m., EDST
SUBMISSION PLACE: Norwalk Housing Authority
24 ½ Monroe Street Norwalk, CT 06854

DIRECT INQUIRIES TO: Guillermo Bendana, Procurement Specialist
gbenda@norwalkha.org By 08/05/2019 no later than 5:00 p.m. All answers and
addendums to the solicitation will be posted on the NHA website: www.norwalkha.org
under the Business tab, RFPs/RFQs
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I. INTRODUCTION

Norwalk Housing Authority (NHA) is requesting proposals from qualified institutions as described. The objective of the institution will be to assist the NHA in ensuring that sufficient assets are available to meet current and future obligations of the endowment trust fund.

NHA is soliciting proposals from:

- Financial institutions or other qualified entities who provide broad investment expertise, investment services and who can provide the best rate of return.

It is the NHA’s intention to contract with a single institution and initiate a multi-year contract.

II. BACKGROUND

NHA is a public corporate body that provides low-income/affordable housing to approximately 2,000 families in Norwalk. NHA owns and operates 995 units of housing, including 200 units as part of the State Moderate Rental Program and 44 State Congregate housing units. NHA administers 952 HUD Section 8 Housing Choice Vouchers, RAP, mainstream vouchers, tenant protection vouchers, and VASH. NHA was established by the City of Norwalk under State of Connecticut enabling legislation on May 25, 1939. NHA is governed by a five-member Board of Commissioners. NHA has approximately 98 full and part-time employees and a total operating budget of approximately $24 million for Fiscal Year 2019.

In 2013 the Housing Authority was awarded a $30 million Choice Neighborhoods Initiative grant from the U.S Department of Housing & Urban Development (HUD). The funds were provided to implement a Washington Village/South Norwalk Transformation Plan which centered around the demolition and replacement of a 136-unit public housing community. The Plan also includes relocation and program services to the Washington Village residents and capital investments into the neighborhood. The new replacement community, Soundview Landing, will expand to 273 apartments and will include an NHA operated Resource Center to continue to provide program services to the residents. These services will be supported by the Endowment Trust which is a required component of the Choice Neighborhoods Initiative and $1.5 million in federal grant funds must be used for this purpose. The NHA is also required to match these funds, dollar-for-dollar, with cash or in-kind contributions. It is anticipated that a minimum of $500,000 will be contributed as matching cash to the Trust.
III. NORWALK HOUSING AUTHORITY RIGHTS
NHA reserves the right to reject any or all proposals, to advertise for new proposals or proceed to accomplish this solicitation by any means determined to be in the best interest of the NHA. NHA will evaluate proposals to determine which best satisfies the needs of the Authority.

IV. SCOPE OF SERVICES
NHA is seeking services from a qualified institution to manage approximately two million dollars endowment trust fund. NHA realizes that to obtain the best investment return with the least amount of risk requires extensive expertise due to today’s complex markets and timing. Therefore, the NHA would seek services which will include but are not limited to the following:

- Invest in HUD approved securities only. (See attachment, Notice PIH 96-33 (HA) )
- Investment Policy and Procedures – reviewing investment-related policies and procedures and making appropriate recommendations for changes.
- Portfolio Analysis – reviewing asset allocations and structures and making recommendations for appropriate changes.
- Reporting – provide monthly reports and quarterly performance reports, including but not limited to, performance data and analysis for the total fund, detailed analysis, including return attribution analysis, portfolio characteristics, style and risk analysis, peer universe comparisons; and holdings analysis relative to benchmarks.
- Research – to perform the necessary due diligence on investment markets to ensure optimal performance, including monitoring, rebalancing and reporting
- Agree to the terms and conditions of the General Depository Agreement HUD-51999. (See attachment, HUD-51999)

V. PROPOSAL SPECIFICATIONS
Response Deadline - Completed responses must be delivered by 08/13/2019, 2:00 p.m., Eastern Daylight Savings Time. Any response delivered after the response deadline will not be considered. Faxed transmissions are not acceptable. An unbound original and two copies of the response are to be sent to:

Norwalk Housing Authority
Guillermo Bendana, Procurement Specialist
24 ½ Monroe Street
Norwalk, CT 06854
The questions and/or requests made in this RFP shall be duplicated in their entirety in the response with each question and/or request repeated before the answer or response. The response must be accompanied by a cover letter that should be signed by at least one individual who is authorized to bind the firm contractually. The cover letter must include: a) the institution name, address, E-mail address and telephone/fax numbers; b) the client contact; c) the title or position which the signer of the cover letter holds in the firm; and d) a statement to the effect that the response is a firm and irrevocable offer of the firm.

The Representations and Warranties contained in Section VIII of this RFP, signed by an authorized officer of the firm, must be included as an attachment to the cover letter previously referenced.

**Communications with Norwalk Housing Authority**

Firms which intend to submit a response should not contact any member of the Norwalk Housing Authority Staff or Faculty, as well as any member of the Board of Commissioners. An exception applies to any firm currently doing business with Norwalk Housing Authority, but any contact should be limited to that business, and should not relate to this RFP.

**Questions Relating to this RFP**

All questions concerning this RFP must be received in writing via E-mail by 08/05/2019 at 5:00 p.m., Eastern Time. Please see page one of this RFP for the point of contact and E-mail address. Questions submitted after the deadline will not be considered.

**VI. SELECTION PROCESS**

**Non-Qualifying Responses**

Norwalk Housing Authority will evaluate each response to determine if it was submitted in accordance with the requirements set forth in this RFP, including whether the proposing firm meets the minimum criteria. All non-qualifying responses not subject to the waiver/cure of minor information will be rejected at this time and the responding firm so notified.

**Selection of institution**

Norwalk Housing Authority reserves the right to reject any and all responses. Staff will evaluate all responses having met established criteria. Based upon this review, Staff will present the responses most closely meeting the requirements of the RFP to the NHA Executive Director. NHA may discuss with the finalist the scope of services, fees and clarify issues with the Board of Commissioners.
VII. TENTATIVE TIMETABLE
Please review page one of this RFP for all related dates. NHA will open the account at an agreed upon time.

VIII. CRITERIA
Minimum Qualifications
All firms submitting responses must meet the following minimum criteria:
1. Agree to act as a “fiduciary” with respect to Norwalk Housing Authority;
2. Have provided similar endowment account services to other non-profit agencies.
3. Have individuals assigned to Norwalk Housing Authority with a minimum of five (5) years professional experience in the investment consulting field;
4. Provide and execute General Depository Agreement HUD-51999.

Selection Criteria
The criteria for selection will include, but are not limited to the following:
1. Stability and experience of financial firm. 20 points
2. Stability and experience of the personnel assigned to NHA account. 20 points
3. Anticipated return on investment including any fees and methodology for calculation. 50 points
4. Community involvement. 5 points
5. Minority / Women Owned Business. 5 points

IX. REPRESENTATIONS AND WARRANTIES
All respondents are required to submit an executed copy of the following Representations and Warranties as an attachment to the cover letter.

A. Respondent warrants that it will not delegate its fiduciary responsibilities.
B. Respondent warrants that it has completed, obtained, and performed all registrations, filings, approvals, authorizations, consents or examinations required by government or governmental authorities.
C. Respondent warrants that it meets all of the minimum qualifications applicable to the firm under Section VIII of this RFP as follows (list each and specifically describe how your firm meets each item):
D. Respondent warrants that it has not paid and will not pay, has not given and will not give, an remuneration or thing of value directly or indirectly to Norwalk Housing Authority or any of its board members, officers, employees, or agents, or any third party except as disclosed to Norwalk Housing Authority with its response to this RFP or otherwise, including, but not limited to, a finder’s fee, cash solicitation fee, or a fee for consulting. Lobbying or otherwise.
E. Respondent warrants that it has established ethics and conflicts of interest policies and procedures, and proper internal compliance controls are in place.
X. QUESTIONNAIRE

Responses to the following questions should repeat the question and be answered in order. Limit responses to no more than one-half page if possible. If you have pre-printed material that answers the question, it may be submitted.

A. FIRM

1. Provide a description of your firm’s endowment management organization including history, ownership, and percentage of revenues derived from investment.
2. List the names, experience and background of your endowment management personnel.
3. Please provide your firm’s (i.e., your clients’) record of endowment performance (if available). Please indicate whether results are net or gross of investment management fees.
4. List your firm’s key strengths, competitive advantages, and weaknesses.
5. Indicate whether your firm is registered with the SEC or state agency and if so, provide a copy of form ADV part II.
6. Has your firm, its principals or affiliates ever (a) been the focus of a non-routine SEC inquiry or investigation or a similar inquiry or investigation from a federal, state or self-regulatory organization, or (b) been a party to any litigation concerning fiduciary responsibility or other investment related matters? If yes to any of the above, please provide details.
7. List of non-profit entities who have Endowment accounts.
8. How will the Endowment Trust be established (where will the funds be deposited, e.g., bank, community foundation).
9. The name and location of the institution with which the grantee establishes the endowment and a description of that institution.
10. Description of the account and how it will be maintained.

B. SERVICES

1. List all of the firm’s standard services provided in a typical investment management relationship, including the firm’s endowment management philosophy and what approach would be utilized for Norwalk Housing Authority in fulfilling this RFP.
2. Describe the firm’s process for analyzing a client’s existing Investment Policy. Describe the firm’s method for recommending modifications and monitoring the Investment Policy and strategy.
3. Describe the firm’s asset/liability modeling capability, and portfolio structure analysis. Describe the manner in which the firm would assist Norwalk Housing Authority in recommending changes and monitoring asset mix.
4. Describe the firm’s process for evaluating a client’s investment performance and how this is communicated to the client.
5. Provide samples of investment performance reports.
XI. FEES
Please outline your fee structure for this service. Indicate all services you propose to provide and their associated fees. The quote should assume an approximately (5) five-year contract. Please include a sample contract.

XII. TERMS AND CONDITIONS
Norwalk Housing Authority makes no representations or warranties, expressed or implied, as to the accuracy or completeness of the information in the RFP and nothing contained herein is or shall be relied upon as a promise or representation, whether as to the past or the future. The RFP does not purport to contain all of the information that may be required to evaluate the RFP and any recipient hereof should conduct its own independent analysis of Norwalk Housing Authority and the data contained or referenced herein. Norwalk Housing Authority does not anticipate updating or otherwise revising the RFP. However, this RFP may be withdrawn, modified, or re-circulated at any time at the sole discretion of Norwalk Housing Authority.

Norwalk Housing Authority reserves the right, at its sole discretion and without giving reasons or notice, at any time and in any respect, to alter these procedures, to change and alter any and all criteria, to terminate discussions, to accept or reject any Response, in whole or in part, to negotiate modifications or revisions to a Response and to negotiate with any one or more respondents to the RFP.

Norwalk Housing Authority is not and will not be under any obligation to accept, review or consider any response to the RFP, and is not and will not be under any obligation to accept the lowest offer submitted or any offer at all. Norwalk Housing Authority is not and will not be under any obligation to any recipient of, or any respondent to, the RFP except as expressly stated in any binding agreement ultimately entered into with one or more parties, either as part of this RFP process, or otherwise.

This RFP is not an offer but a request to receive a response. Norwalk Housing Authority will consider a response as an offer to develop an agreement based upon the contents of the response. Respondents agree that the contents of their responses are valid for one year from the date of submission. Norwalk Housing Authority will not be liable for any cost incurred in the preparation of a response and will not reimburse any respondents for their submission. Expenses related to the production of a response are the sole responsibility of the respondent.

Norwalk Housing Authority reserves the right to retain all responses submitted, and to use any information contained in a response except as otherwise prohibited by law. All proprietary information, "trade secret", if clearly marked as such, will not be disclosed except as required by law.
XIII. ATTACHMENT

- General Depository Agreement HUD-51999 (total of 2 pages)

- Notice PIH 96-33(HA) Required HA Cash Management and Investment Policies and Procedures. (total of 20 pages)
Public reporting burden for this collection of information is estimated to average 1 hour per response. HUD may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number. HUD will use this information to ensure PHAs use all Program Receipts received from HUD or otherwise associated with public housing funds for purposes of public housing, by requiring such financial assistance to be deposited into interest-bearing accounts at certain financial institutions. The information requested does not lend itself to confidentiality.

This Agreement, entered into this ______ day of _______. 20____, by and between ______(herein called the “HA”), a duly organized and existing public body corporate and politic of the ______ of _______ ___________ (herein called the “Depository”), located at _______ _______.

Witnesseth:

Whereas, the Department of Housing and Urban Development (herein called “HUD”) has entered into one or more Annual Contributions Contracts (herein called the “ACC” with the HA for the purpose of providing financial assistance to develop and operate lower income housing projects, as authorized by the United States Housing Act of 1937, as amended (42 USC 1437, et seq.); and

Whereas, under the terms of the ACC the HA is required to select as depositories of its funds, financial institutions whose deposits or accounts are insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund (NCUSIF) as long as this Agreement is in force and effect.

Now Therefore, in consideration of the mutual covenants hereinafter set forth, the parties hereto agree as follows:

1. All moneys deposited by the HA with the Depository shall be credited to the HA in a separate interest-bearing deposit or interest-bearing accounts, designated Accounts” (herein the “Accounts”). Any portion of HA Funds not insured by a Federal insurance organization shall be fully (100%) and continuously collateralized with specific and identifiable U.S. Government or Agency securities prescribed by HUD in a notice. Collateralization is required on a daily basis at the end of the business day. Such securities shall be pledged and set aside in accordance with applicable law or Federal regulations. The HA shall have possession of the securities (or the HA will take possession of the securities) or an independent custodian (or an independent third party) holds the securities on behalf of the HA as a bailee (evidenced by safe keeping receipt and a written bailment for hire contract) and will be maintained for the full term of deposit. The Depository may substitute other securities as collateral to equal or increase the value. If the HA is an agency of an Indian tribe, the collateral shall be in United States bonds and otherwise as may be prescribed for public funds by the United States Secretary of the Treasury.

3. Except as stated in Paragraph 5, the Depository shall honor any (a) check or other order to pay from the Accounts, or (b) directive to purchase investment securities with monies from the Accounts or to sell securities, if such order or directive is in writing and signed on behalf of the HA by an officer or member designated by resolution of the Board of Directors of the HA to have such authority. To assist the Depository in its obligation, the HA shall furnish the Depository with a certified copy of the resolution.

4. Any securities received from the HA or purchased by the Depository with monies from the Accounts shall be considered to be a part of the Accounts and shall be held by the Depository in safe-keeping for the HA until sold. Interest on such securities and the proceeds from the sale thereof shall be deposited in the Account upon receipt.

5. If the Depository receives written notice from HUD that no withdrawals by the HA from the Accounts are to be permitted, the Depository shall not honor any check or other order to pay from the Accounts or direct payment to purchase or sell securities, or permit any withdrawals by the HA from said Accounts until the Depository is authorized to do so by written notice from HUD.

6. The Depository is not obligated to be familiar, and shall not be charged, with knowledge of the provisions of the ACC, and shall be under no duty to investigate or determine whether any action taken by either the HA or HUD in respect of the Accounts are consistent with or are authorized by the ACC or whether either HA or HUD is in default under the provisions of the ACC. The Depository shall be fully justified in accepting and acting on, without investigation, any certificate or notice furnished to it pursuant to the provisions of this Agreement and which the Depository shall in good faith believe to have been duly authorized and executed on behalf of the party in whose name the same purports to have been made or executed.

7. The rights and duties of the Depository under this Agreement shall not be transferred or assigned by the Depository without the prior written approval of the HA and HUD. This Agreement may be terminated by either party hereto upon thirty days’ written notice to the other party, and HUD. The rights and duties of the Depository hereunder shall not be transferred or assigned nor shall this Agreement be terminated during any period in which the Depository is required to refuse to permit withdrawals from the Accounts as provided in Paragraph 5.
8. HUD is intended to be a third-party beneficiary of this Agreement and may sue to enforce its provisions and to recover damages for failure to carry out its terms.

9. The Depository shall provide the HA with remote, electronic access to the Accounts for the purpose of monitoring the crediting or depositing of any monies in the Accounts.

10. The provisions of this Agreement may not be modified by either Party without the prior written approval of HUD.

11. Strike this paragraph if inapplicable: Previous General Depository or Savings Depository Agreements, if any, entered into between the Depository and the HA are hereby terminated and all monies and securities of the HA on deposit with or held by the Depositories pursuant to the terms of said Agreement shall continue to be held for account of the HA pursuant to and in accordance with the provisions of this Agreement.

12. Strike this paragraph if paragraph 2 applies: For use only in certain States that have statutes that prohibit HAs from implementing paragraph 2.

At no time shall the HA Funds in the Accounts be permitted to exceed the amount insured by Federal deposit insurance (herein the “Insured Amount”). At any such time as the amount of funds in the Accounts reach the Insured Amount, whether by the accrual of interest or otherwise, the Depository shall promptly, as directed by the HA, and in an amount sufficient to limit the funds in the Accounts to the Insured Amount, either: (a) remit payment to the HA or, (b) on behalf of the HA, purchase securities approved for investment by the HA. Such securities shall not be considered to be a part of the Account pursuant to Paragraph 4 hereof but shall be held by the Depository as custodian or trustee for the HA in a separate account established for that purpose by the Depository (herein the “Securities Account”). The Securities Account shall be designated as

Income or other proceeds from securities held in the Securities Account shall, as directed by the HA, upon receipt, be paid to or on behalf of the HA; provided, however, that such proceeds shall, to the extent consistent otherwise with the provisions of this Paragraph, be deposited in the Accounts. If the Depository receives written notice from HUD pursuant to Paragraph 5 hereof that no withdrawals by the HA from the Accounts are to be permitted, the Depository shall not honor any directive from the HA to sell securities, or permit any withdrawals by the HA, from the Securities Account until the Depository is authorized to do so by written notice from HUD. During the pendency of such restrictions on the Accounts and the Securities Account, the Depository, except as directed in writing by HUD, shall not remit any payment to the HA for the purpose of limiting the amount of funds in the Account to the Insured Amount but shall instead purchase securities approved for investment by the HA and hold such securities in the Securities Account.

13. Notice required under the terms and conditions of this agreement shall be deemed to have been given when it made by:

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Notice shall be made in writing. Notice may be delivered in person, by United States Postal Service mail, by receipted commercial mail delivery, by facsimile machine or other electronic means that clearly identifies the sender as one of the persons so authorized in this paragraph. Notice under the terms of this agreement shall be implemented by the Depository within 24 hours of actual receipt.

In Witness Whereof, the HA and the Depository have caused this Agreement to be executed in their respective names and their respective seal to be impressed hereon and attested as of the date and year first above written.

HA
(SEAL)
ATTEST:
By
Chairman
Secretary

Depository
(SEAL)
ATTEST
By
Required HA Cash Management and Investment Policies and Procedures

1. PURPOSE

The purpose of this Notice is to advise public housing agencies and Indian housing authorities (herein referred to as HAs) and Area Offices of the Department's HA requirements governing cash management and approved investment instruments. The Notice extends and reissues, with minor editorial changes, the policies and procedures, including the list of HUD approved investment instruments, previously set forth in Notice PIH 95-27.

2. BACKGROUND

The Annual Contributions Contract (ACC) requires the HA to deposit and invest all program funds for projects under an ACC in accordance with the terms of a General Depository Agreement. The General Depository Agreement must be in a form approved by HUD and is executed between the HA and the depository. In addition, the ACC requires the HA to invest General Fund (program) monies only in HUD approved investments.

The Federal Code of Regulations, Part 85, Subpart C, (24 CFR § 85.20) requires HAs to establish cash management procedures. Cash management is the process of managing the cash flow of a HA to optimize its use of funds. This process involves the timing of receipts and disbursements to assure the availability of funds to meet expenditures and to maximize the yield from the investment of temporarily surplus funds. Effective cash management calls for organized planning. Good relations between the HA and the financial institution can improve the effectiveness of a cash management program.
3. **APPLICABILITY**

   This Notice applies to the Low Rent Public Housing Program, the HA Owned/Leased Housing Homeownership Program (Turnkey III Program), the Section 23 Leased Housing Program, and the Mutual Help Homeownership Program.

4. **BANKING SERVICES**

   Banking services shall be arranged by selecting a bank through competitive solicitation to assure the HA that it receives the banking services provided at the lowest cost. It should be noted, however, that HAs must designate a single bank account for the deposit of all payments that are received from HUD through Direct Deposit-Electronic Funds Transfer (DD-EFT). (A Standard Form 1199A, Direct Deposit Sign-Up Form, must be submitted to designate this account.) A copy of the General Depository Agreement (see below) with the financial institution shall be attached with the SF-1199A. Once the funds are received, they may be transferred to separate accounts according to the applicable program.

   a. **General Depository Agreement**

      The General Depository Agreement (Form HUD-51999) shall be executed by the HA and the depository. The depository must be a financial institution whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance Fund (NCUSIF). An original HUD-51999 should be maintained by the HA and the financial institution. A copy of the HUD-51999 should be sent to the HUD Area Office and the Field Accounting Office (along with the SF-1199A).

   b. **Procurement Procedure and Period of Service**

      Banking services should be periodically solicited through competitive negotiation. The solicitation in the form of a Request for Proposal (RFP) would permit the HA to evaluate the quality of the services received as well as the price. This periodic process should prevent the bank supplying the services from becoming complacent in its dealings with the HA.

5. **COLLATERALIZATION OF DEPOSITS**

   HAs shall require their depositories to continuously and fully (100%) secure all deposits regardless of type (i.e. regular, savings, etc.) that are in excess of the
$100,000 insured amount. This may be accomplished by the pledging or setting aside collateral of identifiable U.S. Government securities as prescribed by HUD. The HA has possession of the securities (or the HA will take possession of the securities) or an independent custodian (or an independent third party) holds the securities on behalf of the HA as a bailee (evidenced by safe keeping receipt and a written bailment for wire contract) and will be maintained for the full term of the deposit. Such securities shall be owned by the depository and the manner of collateralization shall provide the HA with a continuing perfected security interest for the full term of the deposit in the collateral in accordance with applicable laws and Federal regulations. Such collateral shall, at all times, have a market value at least equal to the amount of the deposits so secured.

6. **INVESTMENT OF FUNDS**

a. **Funds Available for Investment**

1) Funds on deposit in the General Fund are comprised of four components: (1) funds for current transaction purposes, (2) development and/or modernization funds (see #2 below), (3) funds exceeding those necessary for the daily operation of the HA which are considered available for investment and (4) any operating reserve funds. As a general rule, the average amount on deposit in the General Fund cash accounts (the targeted maximum cash balance) should be the amount needed on hand for transaction purposes or as a safeguard against cash shortages. In the interest of good cash management, non-interest bearing deposits should be reduced to the amount necessary to maintain a good banking relationship.

2) Under the Modernization and Development Programs, the term "cash management" also means minimizing the time elapsing between the drawdown and disbursement of funds by the HA. HUD has established the maximum time to be generally three working days. Therefore, reference to "excess funds" also means the amount of modernization or development funds drawn down, but not needed for immediate disbursement (see 24 CFR § 85.21 (b)). Interest income earned on modernization funds is included as operating income in the calculation of operating subsidy eligibility under the Performance Funding System (PFS). Interest income earned on development funds is credited to the development program and reduces the development cost of the project.
b. **Approved Investment Securities**

In most cases, purchases of securities shall have maturities which coincide with expected disbursements by the HA. For the purpose of investing operating reserves, issues shall be limited to maturities three years or less. Although some of the following securities have maturities longer than three years, they can be traded in the secondary market. A list of investments approved by HUD for the investment of HA funds is attached. HAs are required to choose from these financial instruments. Within the HUD approved instruments, HAs are permitted to modify their investment policy without prior HUD approvals. The choice of investments from the approved list should be made using the criteria developed in the remainder of this paragraph.

c. **Determination of Investment Type**

The determination of the best or appropriate types and mixtures of investments is dependent on several factors. The primary objective is safety. Once that objective is attained, the optimum return on the investment should be consistent with the goals of the cash management program of the HA. The factors that should be taken into account include the following:

1. **Safety** - Safety is achieved through adherence to the list of permitted investments which are backed by the full faith and credit of, or a guarantee of principal and interest by, the U.S. Government, a Government agency or issued by a Government-sponsored agency, coupled with an appropriate maturity date.

2. **Yield** - The HA should strive to achieve the highest yield consistent with the other factors of the investment policy. Tax-exempt securities are not appropriate for investment by a HA because it would not benefit from the tax advantage.

3. **Liquidity** - All investments must be capable of being liquidated on one day's notice. Therefore, no investments may be made which impose a longer notice period for redemption or which are not readily marketable.

4. **Maturity** - Investments should be scheduled to mature when the funds are needed. Sale of securities prior to maturity should be avoided due to the inherent risk. (If the market interest rate increases above the
yield on the investment, the market value of the securities will decline.) Investments shall be limited to securities maturing in periods of up to one year, or such lesser period that coincides with expected disbursements by the HA, but not beyond the current financing cycle. HAs may invest in securities up to three years for the investment of operating reserves.

(5) **Amount** - The best or most appropriate type of investment depends, to some degree, on the amount available for investment because certain investments require a large initial amount.

(6) **Administrative Cost** - In choosing an investment, a HA must consider the administrative work involved, particularly with regard to investments of short duration. Substantial amounts can be invested for periods as short as one or two days. However, the administrative costs with small amounts may be greater than the return on the investment, thus would not be justified or cost effective. Administrative costs will be higher with a more frequent turnover of investments and must be taken into account together with the yield and term in determining the optimum investment strategy.

d. **INVESTMENT OF FUNDS HELD BY HA FISCAL AGENTS**

Funds held by the Fiscal Agent in any trust funds shall be invested in strict accordance with the Resolution establishing such funds. Where the Resolution contains no provision concerning the investment of funds, the funds shall be invested in securities approved for General Fund Investment provided such investment will mature or may be redeemed at the option of the purchaser at not less than the purchase price on or prior to the date such funds are required to be disbursed by the Fiscal Agent. A description of funds established by HA resolutions authorizing the issues of bonds is attached.

e. **Investment Register**

An investment register or other record shall be maintained by the HA or its agent. The register/record shall be maintained in such a manner that a determination can be made as to the amount of investment securities purchased from each fund and at a minimum provide for recording a complete description of investment instrument, date of purchase, purchase price, interest rate, and applicable date of sale or maturity. The investment
register/record may also be used to identify the source of funds invested (i.e., modernization or development funds, tenant security deposit funds, operating funds).

f. Internal Controls

HAs shall implement the following internal controls to assist in controlling investments and preventing loss or misuse.

(1) Investment transactions shall be authorized by the HA governing board and documented in the board minutes.

(2) Investment documents shall be kept in a safe fire-resistant locked file cabinet, safe deposit box, or other similarly secured location.

(3) Individuals responsible for custody of securities shall be someone other than an individual maintaining the accounting records.

(4) Investments shall be maintained in a custodian or trust account.

(5) Investments shall be in the name of the HA.

(6) Investments shall be recorded in detail in an investment ledger.

(7) A system shall be in place to insure that all interest earned is collected and credited to the appropriate HA records.

(8) Investments shall be reconciled periodically to the detailed record (investment ledger).

7. CASH MANAGEMENT

A major factor contributing to the success of an investment program is the delegation of responsibility and authority for developing and executing it. A HA should compare the cost of establishing a cash management program in-house (if qualified professional staff are available) to contracting out. If HAs contract for cash management and investment services, then the organization should have qualified personnel to achieve cost-effectiveness. Commercial banks and savings and loans association offer such services.
Good cash management, which is an objective of management, creates responsibilities for the use of funds. Such responsibilities are placed on both the HA and HUD for a successful program to benefit both. The primary goals of cash management are to assure the availability of cash for transaction needs, preserve the value of cash resources and earn the maximum return on funds until disbursed.

a. **Cash Management by the HA**

   The HA should compare the return from an in-house cash management program with a program managed by an agent. If the HA finds that administrative costs of an in-house program are such that the net yield on investments is less than that obtainable through an alternative, the general rule is that the HA should use that alternative.

b. **Cash Management by an Agent**

   As an alternative to an in-house cash management program, a HA may enter into a contract with an approved governmental unit such as a State agency established for this purpose (see attachment A, #6, Municipal Depository Fund), or a financial institution (excluding investment bankers and brokerage houses) to administer its cash management program.

   Such a program may include any of the functions of cash management, i.e., receipts, disbursements and investments. Such a contractual arrangement will give a small HA the expertise and administrative skills which it would not otherwise be expected to have and often can make a cash management program cost-effective.

c. **Temporary Funds Available for Investment**

   (1) Each HA with an average cash balance of $20,000 or more shall invest such funds in HUD-Approved Investment Securities in order to meet the PFS Target Investment requirements (24 CFR Section 990.109 (e), 24 CFR §950.725 (e)).

   HAs with average cash balances of less than $20,000 shall also invest such funds in HUD-Approved Investment Securities. For the purpose of calculating operating subsidy eligibility under the PFS (24 CFR Section 990.109 (e), 24 CFR §950.725 (e)) these HAs shall make a reasonable estimate of investment income for the requested budget.
year. Please note that investment income estimates for these HAs are not subject to the mandatory year-end adjustment.

(2) See Handbook 7475.13, Performance Funding System (PFS), regarding reporting requirements for projecting investment income for the purpose of calculating PFS operating subsidy eligibility. These requirements mandate a minimum investment income (Target Investment Income) for calculating operating subsidies and allow HAs to retain investment income in excess of the required amount. HAs should review these requirements carefully in developing their cash management programs.

8. **MONITORING**

The Office of Finance and Budget, PIH, will continue to oversee the overall cash management policy and programs for HAs. Actual monitoring of each HA's cash management will continue to be the responsibility of the respective Area Office. Monitoring will be accomplished through review of documentation submitted to support the investment income shown in the calculation of operating subsidy and during on-site monitoring reviews.

If there are questions regarding the contents of this Notice, please contact the Office of Finance and Budget at 202-708-1872.

_Casimir Bonkowski for Acting
Assistant Secretary for Public and Indian Housing_

Attachments
1. **Direct Obligations of the Federal Government Backed by the Full Faith and Credit of the United States**

   a. **U.S. Treasury Bills**

   These securities are short-term obligations which a HA or its agent may purchase directly. Treasury Bills with 3-month and 6-month maturities are issued weekly and those with 9-month and 12-month maturities are issued monthly. The minimum denomination is $10,000. They are issued on a discount basis and are redeemed at par upon maturity.

   U.S. Treasury Bills are available for purchase at any time after issuance from investment departments of banks and from dealers in investment securities. Purchases may be made conveniently using the HA's depository bank. Treasury Bills may be acquired by subscription on the issue date from a Federal Reserve Bank or branch in amounts not in excess of $200,000. Detailed information is contained in the weekly or monthly announcements which may be received regularly upon application to a Federal Reserve Bank or branch.

   b. **U.S. Treasury Notes and Bonds**

   These securities are issued periodically by the Treasury Department through Federal Reserve Banks and branches. They are medium to long-term obligations which a HA or its agent can only purchase in the secondary market to assure that they will mature at a date which coincides with scheduled disbursements by the HA. Outstanding issues may be purchased from banks or dealers in investment securities at the market price which on any given day may be more or less than the face amount.

   (1) **U.S. Treasury Notes**

   These notes mature in not less than one and not more than 10 years from the issue date and bear interest at fixed rates payable semi-annually.
(2) **U.S. Treasury Bonds**

These bonds mature after ten years from the issue date and bear interest at fixed rates payable semi-annually. Many issues of bonds are redeemable on call by the Treasury Department before maturity. The yield of such issues usually is computed to the first call date which may be as much as 5 years prior to maturity.

2. **Obligations of Federal Government Agencies**

   a. **Federal Financing Bank (FFB)**

   The Federal Financing Bank is authorized to purchase obligations held by Federal agencies and to issue obligations to the public.

   b. **Government National Mortgage Association (GNMA), Mortgage-Backed Securities (GNMA I and GNMA II)**

   The securities, guaranteed by GNMA are issued by an issuer (a GNMA-approved mortgage lender). The securities are backed by a pool of government-insured or guaranteed mortgages. The holders of the securities receive monthly payments of principal and interest. The minimum denomination issued is $25,000. The difference in GNMA I and GNMA II is that the GNMA II payment date is on the 20th of the month and the GNMA I payment date is on the 15th; GNMA II uses a central paying agency whereas GNMA I has individual issuers sending checks to investors; and GNMA II has interest rates that vary within a one percent range. The maximum maturity for GNMA I and GNMA II is 30 years, except that GNMA I project loans mature in 40 years.

   c. **GNMA Participation Certificates**

   These securities, guaranteed by GNMA, were sold by GNMA as the trustee with various other Federal agencies as trustees. They represent beneficial interest in future payments of principal and interest on mortgage pools. Their maturities range between one and 20 years and the minimum denomination is $5,000.
d. **Maritime Administration Merchant Marine Bonds, Notes, and Obligations**

These securities are issued by shipping companies and are backed by the full faith and credit of the U.S. Government. Each issue is further secured by a first preferred ship or fleet mortgage. Maturities and denominations vary.

e. **Small Business Administration (SBA), Small Business Investment Corporation (SBIC) Debentures**

When authorized by appropriation acts, the SBA may guarantee principal and interest payments on debentures of SBIC. The SBA may also pool these debentures and sell SBA- guaranteed debentures. These issues have maturities of 10 years and are issued in $10,000 denominations.

f. **Tennessee Valley Authority (TVA) Power Bonds and Notes**

These securities are secured by a first charge on net power proceeds. Payment of interest and principal on them is ranked ahead of annual payments to the U.S. Treasury. They have been issued in multiples of $1,000.

3. **Securities of Government-Sponsored Agencies**

   a. **Farm Credit Consolidated System-Wide Discount Notes**

   These notes are the secured joint and several obligations of the Farm Credit System which consists of the Federal Land Banks, the Federal Intermediate Credit Banks, and the Banks for Cooperatives. They are issued in denominations of $5,000 and maturities are authorized from 5 to 365 days.

   b. **Federal Farm Credit Banks Consolidated System-wide Bonds**

   These bonds are the secured joint and several obligations of the Farm Credit Banks. Their issuance supersedes individual bond issues by the Federal Land Banks, the Federal Intermediate Credit Banks, and the Banks for Cooperatives. They are issued in multiples of $1,000 for maturities in excess of 13 months and in multiples of $5,000 for shorter maturities.
c. Federal Home Loan Banks Consolidated Obligations

These securities are the secured joint and several obligations of the Federal Home Loan Banks comprised of:

(1) **Bonds**

Bonds which have maturities of one year or more. They are issued in multiples of $10,000, $25,000, $100,000 and $1,000,000.

(2) **Notes**

Notes which have maturities of less than one year. They are issued in multiples of $10,000, $25,000, $100,000 and $1,000,000.

(3) **Discount Notes**

Discount notes which have maturities ranging from 30 to 170 days. They are issued in denominations of $100,000 and $1,000,000.

d. **FHLMC Mortgage Participation Certificates (PC) (Guaranteed)**

These certificates represent undivided interest in specific fixed rate, first lien conventional and residential mortgages. FHLMC provides monthly interest and principal payments. The final payment is the first of the month and year in which the last monthly payment on the last maturing mortgage is scheduled to be paid.

e. **FHLMC Collateralized Mortgage Obligations (CMOs)**

CMOs are general obligations of FHLMC that are secured by a single pool of conventional mortgages owned by FHLMC. CMOs are issued in several classes with varying stated maturities. Semiannual principal payments are allocated to each class of the CMOs in the order of the stated maturity of each class so that no principal payments are made to holders of a class until classes with an earlier maturity are retired.

f. **Federal National Mortgage Association (FNMA) Debentures**

These debentures are issued in denominations ranging from $10,000 and with maturities ranging from 20 to 25 years.
g. **FNMA Notes**

The minimum investment in these notes is $50,000 with maturities ranging from 1 to 20 years.

h. **FNMA Short-Term Discount Notes**

These notes are similar to commercial paper and are tailored to the individual needs of investors. They are sold at published rates with maturities of 30 to 270 days and in denominations ranging from $5,000.

i. **FNMA Capital Debentures**

These debentures are subordinated to the non-capital debentures, notes, and short-term discount notes. They were last issued in 1975 in a $10,000 minimum denomination and with maturities of 5 and 25 years.

j. **Student Loan Marketing Associations (SLMA) Obligations**

SLMA issues obligations comprises of guaranteed student loans as follows:

1. **Floating Rate and Master Notes.**

   These notes bear interest at rates that vary with the 91-day Treasury Bill rate. Short-term borrowing have an original or remaining term maturity of one year or less.

2. **The Series E and F Floating Rate Notes.**

   These notes bear interest at rates which vary with the 91-day Treasury Bill, except that each issue has fixed minimum and maximum rates known as interest rate "collars" for any quarterly interest period.

3. **Zero Coupon Notes**

   These notes are shown at net proceeds adjusted for accretion of discount.
4. **Demand and Savings Deposits**

Demand and savings deposits at commercial banks, mutual savings banks, savings and loan associations and credit unions are permitted for HA funds provided that the entire deposit is insured by the Federal Deposit Insurance Corporation (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 listed under paragraphs 1, 2, and 3 of this Attachment. Care should be taken that withdrawals may be made on demand without loss of interest and without penalty.

5. **Money-Market Deposit Accounts**

Money-Market Deposit Accounts at depository institutions that may not be insured fully by the FDIC or NCUSIF are permitted provided that the certificates are fully backed by 100 percent collateral consisting of securities listed under paragraphs 1, 2, or 3 of this Attachment. When accounts exceed the $100,000 insurance limitation, their safety also may depend on the HA’s control of the underlying collateral which must consist of clearly identified (not pooled) U.S. Government securities. Possession of the collateral securities and a continuous perfected security interest may be the only sure protection against loss in case of financial institution failure.

6. **Municipal Depository Fund**

A Municipal Depository Fund (Fund) or Local Government Investment Pool which is established by States, municipalities, units of local government or other political subdivisions to serve as an investment fund for HAs is permitted. The securities purchased by a Fund shall be on the HUD-approved list of investment securities. HA shall have either an undivided or divided interest in securities comprising the Fund. The Fund shall be under the control of the Investment Company Act of 1940, and its objectives shall be clearly stated. The investment objective of the Fund shall be to obtain as much income as possible consistent with the preservation and conservation of capital. The Fund shall disclose clearly the basis of earnings and how they are distributed. HA shall obtain a statement of potential default and risk and a clear demonstration that withdrawals from the Funds will not be so restricted as to impair a HA’s day-to-day cash management.
needs. The management fee shall be fixed at a reasonable amount and management shall be passive. HA shall limit the amount of funds invested in the Fund to no more than 30 percent of a HA's available investment funds. The Fund shall disclose the relationships of the investment advisor, manager, trustees, custodian and transfer agent. Each financial advisory relationship shall be evidenced by a written document executed prior to, upon, or promptly after the inception of the financial advisory relationship, or promptly after the creation or selection of the issuer. If the issuer does exist or has not been determined at the time the relationship commences, that written document shall set forth the basis of compensation for the financial advisory services to be rendered.

7. **Super NOW Accounts**

Super NOW accounts have been available and approved for public funds since January 1983. They offer a relatively high market rate and are fully transactional (have no limitations on the number of checks or transfers). Insurance and collateral requirements are as above for subparagraph e Demand and Savings Deposits.

8. **Certificates of Deposit**

a. Certificates of Deposit are permitted at depository institutions that are insured by an agency of the Federal Government. Caution must be exercised for certificates exceeding the $100,000 insurance limit or when the term is longer than 30-90 days. Although the certificates' rate of return may be attractive for larger amounts and longer terms, U.S. Treasury securities offer superior safety and liquidity for the same amounts and terms. Certificates shall be in the HA's name. In addition a General Depository Agreement must be executed by each financial institution that issues a Certificate of Deposit.

b. Certificate amounts above $100,000 are permitted provided that the excess is 100 percent collateralized by clearly identified (not pooled) U.S. Government securities. Possession of the collateral securities and a continuous perfected security interest may be the only sure protection against loss in case of bank failure.

c. Brokered deposits should be avoided because it is impossible to get $100,000 federal insurance on a number of deposits placed by brokers.
9. Repurchase Agreements

Repurchase (repos) agreements for a term not to exceed 30 days may be entered into with Federally insured depository institutions to purchase and sale of securities identified under paragraphs 1, 2, and 3. A repurchase agreement is an agreement negotiated with a bank usually for a short period (1 to 7 days) wherein securities approved for investment are purchased from that bank at a stated price with the bank agreeing to repurchase them on a specified date for a specified amount. The minimum may vary, although it is usually $100,000. There are three main types: (1) fixed term, where both parties are bound to the negotiated time period, (2) demand, where the agreement stays in effect until terminated by either party, and (3) day-to-day, where daily renewal is by mutual consent and 24-hour notice is required for termination. The HA should review existing and future repos for compliance with the following certifications. Prior approval by HUD is not necessary, however, the repos seller depository or its agency must provide a written certification to HUD, Assistant Secretary for Public and Indian Housing (Office of Finance and Budget), the Area Office, and to the HA.

a. that the depository's repo program complies with applicable Federal and State statutes and regulations and that the program does not involve sales or loans of Federal securities by securities dealers that are not regulated or that report to the Federal Reserve Board;

b. that the depository owns the underlying Federal securities (approved for repurchase under HUD guidelines) when the repo interest is sold and that the value of the securities is equal to or greater than the amount the HA pays for the repo;

c. that the HA has possession of the securities (or the HA will take possession of the securities) or an independent custodian (or an independent third party) holds the securities on behalf of the HA as a bailee (evidenced by a safe keeping receipt and a written bailment for hire contract), from the time the repo interest is sold to the HA and will be (or is expected to be) maintained for the full term of the repo;

d. that the repo agreement and any related documents identify specific Federal securities related to the specific repo purchased by the HA;
e. that the repo interest does not represent any interest in a pool or fund of Federal securities for which registration under the Investment Company Act of 1940 may be required;

f. that the HA will have a continuous perfected security interest in the underlying Federal securities under State or Federal law for the full term of the repo (disclosing the method by which perfection has or will be accomplished, i.e., by possession, filing, registration of book-entry securities and/or Federal preemption of State law by Federal regulation);

g. that the depository or a reporting dealer selling the repo has not received any adverse financial report from a credit reporting agency, State or Federal regulatory agency; and

h. that the depository will not substitute other securities as collateral, except to increase the value of the repo security to match the repos's purchase price.

10. **Sweep Accounts**

Sweep Accounts is a contractual agreement between a bank and a HA which provides that the bank will regularly "sweep" or transfer any available collected balances from the HA's account into repurchase agreements. The Sweep Accounts agreement shall include all the certification provided in the Repurchase Agreement and adherence to paragraph 4-3, Collateralization of Deposits.

11. **Separate Trading of Registered Interest and Principal of Securities**

Separate Trading of Registered Interest and Principal of Securities (STRIPS) are Treasury-based zero-coupon securities which consist of interest or principal on U. S. Treasury securities. STRIPS were issued in minimum increments of $1,000. STRIPS pay no interest until maturity and the rate of return is "locked in" at the time of purchase. The delivery of STRIPS is accomplished by wire transfer through the Federal Reserve book entry system. STRIPS shall be in the name of the HA.

12. **Mutual Funds**

A Mutual Fund (Fund) is an investment company that makes investments on behalf of individuals and institutions. The Fund pools the money of the investors and buys various securities that are consistent with the Fund's objective.
a. **Mutual Fund Criteria**

The Fund shall be organized as a no-load, open-end, diversified management company and its shares shall be registered under the Securities Act of 1933. The Fund shall be under the control of the Securities Exchange Act of 1934, Investment Advisers Act of 1940 and the Investment Company Act of 1940. The investment objective of the Fund shall be to obtain as much income as possible consistent with the preservation, conservation and stability of capital. The mutual fund objective cannot be changed without the prior approval of fund shareholders.

b. The securities purchased by the Fund shall be on the HUD-approved list of investment securities. The Fund will not engage in options or financial futures. The HA shall limit the amount of funds invested in the Fund to no more than 20 percent of the HA's available investment funds. The Fund shall disclose clearly the basis of earnings and how they are distributed. The HA shall obtain a statement of potential default and risk. The HA's invested funds shall be accessible to the HA daily. It shall be demonstrated that any limitations on withdrawals will not impair the HA's day-to-day cash management needs.

c. The management fee shall be fixed at a reasonable amount. The Fund shall disclose the relationships of the investment advisor, manager, trustee, custodian and transfer agent. The Fund shall clearly state all services (such as wire transfers and check writing privileges) and charges.

d. Investment in the Fund shall be authorized by a Board Resolution. A certified copy of the resolution shall accompany the initial application for the Fund.

e. The Fund (or custodian) and the HA shall sign the General Depository Agreement, HUD-51999 dated June 1991, modified as follows:

1. In the title, "(Mutual Fund)" shall be added after General Depository Agreement. Whenever "depository" appears in the text it also refers to "mutual fund."

2. The HA's name and location (including county or city) will be filled in the first clause of the General Depository Agreement. The name, location and the HA's mutual fund account number also will be filled in the first clause. The second clause remains unchanged.
(3) The third clause is substituted as follows: "Whereas, under the terms of the Contract the HA shall invest in a mutual fund (herein called the depository) only on the terms set forth hereafter. Mutual fund is defined as an investment company that makes investments on behalf of individuals and institutions. The depository shall be organized as a no-load, open-end, diversified management company and its shares shall be registered under the Securities Exchange Act of 1933. The depository shall be under the control of the Securities Exchange Act of 1934, the Investment Advisers Act of 1940 and the Investment Company Act of 1940. HA shall acquire shares in a mutual fund whose portfolio includes only securities on the HUD-approved list of investment securities."

(4) Paragraphs 1, 3, 11 and 12 are deleted.

(5) Paragraphs 4 through 6 are modified to read as follows:

(a) Paragraph 4: Any shares purchased from HA funds shall be held by the depository in safe-keeping for the HA until sold. Dividends and distributions on such shares and the proceeds from the sale thereof shall be used to purchase additional shares or remitted directly to the HA.

(b) Paragraph 5: The language "from said Accounts" is deleted.

(c) Paragraph 6: The language "in respect of the Accounts" is deleted.

(d) Paragraphs 7 through 10 are not changed.

(e) The additional language can be typed on a separate page, attached and duly executed. The following language shall be added to the bottom of the page: Page number __ incorporated in and made a part of the General Depository Agreement between ___(HA) and ___ (Depository).
INVESTMENT OF FUNDS HELD BY HA FISCAL AGENTS

Description of Funds

The funds established by HA resolutions authorizing the issuance of bonds to finance the development cost of projects are as follows:

(1) Debt Service Fund

This Fund is established pursuant to the Annual Contributions Contracts and HA Resolutions providing for the issuance of new HA bonds. The Fiscal Agent is explicitly required under the form of the Fiscal Agency Agreement entered into since 1964 to purchase and sell investment securities as the HA, with the approval of the Federal Government, may direct. Where a Fiscal Agency Agreement does not contain a specific requirement for the investment of Debt Service Funds, such investment must, nevertheless, be made since it is a general power and duty of a trustee, (implied if not expressed) to keep funds properly invested in order to attain safety and produce income for the trust funds.

(2) Advance Amortization Fund

(a) Since 1952, the form of Fiscal Agency Agreement in use requires the Fiscal Agent to invest funds on deposit in the Advance Amortization Fund as the HA, with the approval of the Federal Government, may direct.

(b) With respect to the investment of funds resulting from a consolidated sale of bonds by an Agency Authority, only the Agency Authority of HUD may issue investment instructions to the Fiscal Agent. These instructions shall be consistent with HUD guidelines.

(3) Annual Contributions Reduction Account (sometimes called Supplementary Revenues Account); Bond Service Account; Series A Reserve Fund; General Bond Reserve Fund; Rental Debt Service Fund; and Excess Lands Account.

The Resolution authorizing Series A and Series B Bonds issued prior to 1951 established these funds and the Resolution usually contains limitations on the investment of funds on deposit in one or more of such accounts.