

REQUEST FOR PROPOSALS

The Housing Authority of the City of XXXXXXXXXX (Authority) will receive sealed proposals from interested Banking institutions until 4:30 P.M.; October 7, _____ to provide banking services.

Complete proposal documents delineating the specifications can be obtained from the Authority's Central Office, XXXXXXXXXX, TX during regular business hours Monday – Friday 8:00 A.M. - 4:30 P.M., upon deposit of \$25.00 for each set of documents.

Deposit is fully refundable to all bona fide proposers who submit a proposal, upon return of documents in good condition no later than ten (10) days after receipt of proposals.

All proposers shall be a certified public depository under Texas law.

Absolutely no proposal will be accepted for consideration if received after the deadline date and time specified.

The Authority reserves the right to reject any and all proposals as the interest of the Authority may require.

All proposals shall be submitted in a sealed envelope and shall be clearly marked with the words "Proposal Documents" To Provide Banking Services, and show the proposer's name, address, date and time of deadline for submission.

If interested in providing the professional services, please respond with a proposal no later than 4:30 P.M., October 7, _____.

All responses shall be directed to XXXXXXXXXX, Executive Director, Housing Authority of the City of XXXXXX, TX.

Publication dates: The XXXXXXXXXX, September 7, 12 & 21, _____.

INSTRUCTIONS TO PROPOSERS

PREPARATION AND SUBMISSION

Proposers are expected to examine the specifications in their entirety.

All proposals must be in the format required by the Authority.

Proposers shall furnish all the information required by the solicitation and RFP.

The proposer must sign proposals.

The person signing the proposal must initial all erasures and/or other changes.

Proposers signed by an agent shall be accompanied by evidence of that agent's authority. (Proposers should retain a copy of the proposal for their record).

An original and one (1) copy of the proposal must be submitted in a sealed envelope, which shall be clearly marked as follows:

“PROPOSAL DOCUMENTS”
To Provide Banking Services
Name and Address of Proposer
Date and time of deadline for submission

Proposals may be transmitted by mail or hand delivered to the following address:

Executive Director
Housing Authority of the City of

EXPLANATION AND INTERPRETATION

Any prospective proposer desiring an explanation or interpretation of the specifications must request it at least 7 days before the scheduled deadline for proposal submission. No oral explanation or interpretation will be provided.

Any information obtained by or provided to a prospective proposer other than by formal amendment to the solicitation shall not constitute a change to the solicitation.

AMENDMENTS TO THE RFP

If the solicitation/specifications are amended, then all items and conditions, which are not modified, remain unchanged.

Amendments will be on file in the office of the Authority at least 72 hours prior to receipt of proposals deadline.

RESPONSIBILITY OF PROSPECTIVE PROPOSER

In determining a responsible proposer the Authority will consider such matters as the Proposer's:

1. Integrity;
2. Compliance with public policy;
3. Record of past performance; and
4. Financial and technical resources.

LATE SUBMISSION

Any Proposal received at the place designated in the solicitation after the exact date and time specified for receipt will not be considered.

CONTRACT AWARD

The Authority will evaluate proposals in response to the RFP and will award a contract to the responsible proposer whose proposal, conforming to the solicitation, will be most advantageous to the Authority based on qualification and giving consideration to price.

INTENT

It is the intent of this proposal to solicit a qualified bank to provide banking services that will meet the needs of the Authority.

PROFILE OF THE AUTHORITY

Under the United States Housing Act of 1937, as amended, the U.S. Department of Housing and Urban Development (HUD) has direct responsibility for administering low rent housing programs in the United States. Accordingly, HUD has entered into an Annual Contributions Contract with the Authority for the purpose of assisting the Authority in financing the acquisition, construction and leasing of housing units and to make annual contributions (subsidies) to the Authority for the purpose of providing decent, safe, sanitary and affordable housing to low-income citizens.

The Authority was established under the statutes and laws (LGC 392) of the State of Texas with its current central office located at XXXXXXXXXXXX

A _____ member Board of Commissioners governs the Authority. The Mayor of the City of XXXXXXXXXXXX appoints the Commissioners. Each member of the Board serves a two-year term and may be reappointed for consecutive terms, except that Tenant Commissioners may serve only two consecutive terms.

The Authority currently employs approximately _____ employees. The Authority's current operation consists of (describe PHAs programs and locations)

DESCRIPTION OF CURRENT SERVICES

Rental payments and other fees (i.e. maintenance charges, late fees, excess utilities, etc.) are paid by checks or money orders, to the Authority's Central Processing Department where daily deposits are made to the general fund account. Funding from HUD is received through wire transfers to the general fund account. The Accounting department makes other deposits as funds are received in our main office.

The checks produced by the Authority each month are Magnetic Ink Character Recognition (MICR) encoded with both the account number and check number. Computer generated checks are used and have a facsimile signature, printed by the Authority's check signing or check printing equipment.

The Authority has accounts, which include the following:

1. Checking accounts:
 - a. General fund account that generates approximately 6 checks annually;
and
 - b. Special fund account that generates approximately 6 checks annually.
2. Savings accounts:
 - a. Section 8 Certificate Family Self-Sufficiency escrow account that generates approximately, 2 transactions annually;
 - b. Section 8 Voucher Family Self-Sufficiency escrow account that generates approximately, 2 transactions annually; and
 - c. Public Housing Family Self-Sufficiency escrow account that generates approximately, 2 transactions annually.

The Authority currently has funds invested in the following banks;

1. Hibernia National Bank:
 - a. Certificates of Deposits totaling an estimated value of \$_____; and
 - b. Investment agreement totaling an estimated value of \$_____.
2. Bank One:
 - a. Certificate of Deposit totaling an estimated value of \$_____.

BANKING SERVICES TO BE PROVIDED

Open and maintain a single “Operating Account” for the Authority’s use in paying vendors, employees, and contractors, that is an interest bearing money market or sweep account which yield the highest interest.

Open and maintain a single “Section 8 Account” for the Authority’s use in paying Section 8 Residents and landlords, that is an interest bearing money market or sweep account that will yield the highest interest.

Open and maintain three separate savings accounts for Family Self-Sufficiency participants.

Make periodic review of the Authority’s money and investments held.

Make investment sales and purchases, subject to the Authority’s approval, based upon written guidelines agreed upon by both parties. Such written guidelines shall include, but not be limited to, the requirements set forth in the U.S. Department of Housing and Urban Development Notice PIH 96-33 (Required HA Cash Management and Investment Policies and Procedures).

Documents and services customarily provided by banks. (i.e. coin wrappers, endorsement stamps, check-stock and encoded deposit slips.) If cost is involved, list on Exhibit C.

Prepare and provide monthly bank statements, a copy of each canceled check and a copy of each deposit slip, and have ready for Authority pickup not later than five (5) business days after the last day of each month.

Prepare and provide monthly account analysis for each account, and have ready for Authority pickup not later than ten (10) business days after the last day of each month.

All checks returned due to insufficient funds will be forwarded to the Authority.

Adjustments to deposits will be corrected on the same day of deposit with notification sent to the Authority.

Provide on-line wire transfer processing and Automated Clearinghouse (ACH) capability.

Provide stop payment service.

Provide for telephone transactions.

Describe any other services available.

COMPENSATION

The proposer must specify a method of compensation by which the Authority will pay the proposer for its services. The Authority will consider a traditional compensating balance arrangement, a “hard dollar arrangement of fees and interest earnings, or a combination of the two.

The compensation arrangements proposed by a proposer shall be presented on Exhibits A, B, and C, and must include the following information:

2. The interest or earnings rate, which will be applied to account balances, the specific source of such rates, and the exact basis for the estimated frequency of changes in such rates.
3. The formula for calculating the monthly compensating balances necessary to support the monthly service charges and a sample calculation.
4. Of interest earned by the Authority or fees charged to the Authority. (i.e. if a compensating balance payment arrangement is proposed, describe the proposer’s policy when the Authority’s balances are in excess of the amount necessary to offset the fees.) Note whether the policy is affected by time periods, (i.e., end of a quarter, end of the year, or end of the contract). Include the opposite situation, if the Authority’s balances are less than necessary to offset fees.

Note: The proposer may propose more than one compensation arrangement. The Authority will select the compensation arrangement most advantageous to the Authority.

1. Payments for services due the proposer and interest or other funds due the Authority will be posted to the bank account each month as a debit or credit.

FORMAT FOR PROPOSAL

The proposal shall be divided into two sections.

1. The first section shall be in the following format:
 - a. Profile of proposer—A general description of the proposer including its principal local business address and addresses of all locations to service the accounts, authorized representative to act on behalf of the bank, contact person and its parent or holding company, if any;
 - b. The proposer shall state if it is currently under or anticipates any indictment or court order or investigation by any government regulatory agency which would affect, in any way, the proposer's ability to provide the requested banking services to the Authority, or if it is "subject to regulatory oversight";
 - c. Organization and Resources – A description of the proposer's management organization, especially the organizational relationship of the offices, which will be providing the banking services to the Authority;
 - d. Include a brief description of the experience and professional background of the proposer's officers in these offices;
 - e. Loan Practices – Provide the most recent Community Reinvestment Act Report;
 - f. Provide a statement describing any steps taken by the bank to foster economic development or ensure equitable lending throughout the City of XXXXXXXX ;
 - g. Description of Services to be provided – Describe the manner in which banking services requested in this RFP will be provided to the Authority;
 - h. Financial Data – Attached the proposer's most recent annual report and the last four quarterly call reports submitted to the Federal Financial Institutions Examinations Council;
 - i. Non-Collusive Affidavit; and
 - j. Public Depository Certification.
2. The second section shall contain the cost information set forth in Exhibits A through C.
 - a. The proposal amounts will be on a variable cost basis. Under the variable cost basis, actual monthly services will be counted and the volume of transactions will be computed to determine the compensating balance or fee required to support the activity.

- b. A calculation is required by the proposer to determine “Balance Required to support “\$1.00 of Services” (Exhibit B). Proposers will calculate their reserve requirements as of January 1, 1999, and clearly define their earnings credit yield. A second calculation multiplying the average monthly charges by “Balance Required to Support \$1.00 of Services” is necessary to determine an average “Required Monthly Compensating Balance.” Proposers are required to show all computations.
- c. The proposal form requires all proposers to calculate a monthly compensating balance amount to acquaint the Authority with the necessary calculations. The Authority is primarily interested in “Total Proposal,” the reserve requirement, the earnings rate, and overall services that can be provided to meet the Authority’s Needs. The calculation and rationale used to determine the overdraft charge rate and earnings credit rate, and one year of historical rates, must be included in the response (Exhibit C).

EVALUATION CRITERIA

Proposals will be evaluated in accordance with the following criteria with the maximum score being 100 points.

- | | |
|--|-------|
| 1. General Response to the Request for Proposals | 0-30. |
| 2. Ability of the proposer to provide the banking services set forth in the RFP. | 0-20 |
| 3. Non-Collusive Affidavit | 0-5 |
| 4. Public Depository Certification | 0-5 |
| 5. Experience and success in providing banking services to Housing Authorities, municipal governments, and non-profit organizations in Louisiana | 0-20 |
| 6. Fee Structure | 0-20 |

Note: The Authority will evaluate qualifications and select the most responsible, responsive proposal, subject to a fair and reasonable compensation.

EQUAL EMPLOYMENT OPPORTUNITY

The proposer shall not discriminate against any employee or applicant for employment because of race, color, religion, sex, national origin, age or disability. The proposer will take affirmative action to ensure that applicants are employed and that employees are

treated during employment without regard to their race, color, religion, sex, national origin, age or disability. Such action shall include but not be limited to, the following: employment, up-grading, demotion, or transfer, recruitment advertising, layoff or termination, rates of pay or other forms of compensation; and selection for training, including apprenticeship.

CONFLICT OF INTEREST

No Officer or employee of the Authority, no member of the governing body of the locality in which the Authority is situated, no member of the governing body of the locality in which the Authority was activated, and no other public official of such locality or localities who exercises any functions or responsibilities with respect to the Authority, during his/her tenure or for one year thereafter, shall have any interest, direct or indirect, in this contract or the proceeds thereof.

TERM OF AGREEMENT

The Agreement shall be for a period of three (3) years commencing on the date of the Agreement. The parties may extend the terms of the contract for three additional years subject to the negotiation of acceptable terms and conditions herefore.

TERMINATION

Either party to the Agreement shall be entitled to terminate the Agreement at anytime, with or without cause, upon thirty days written notice to the other party. Upon termination proposer shall be entitled to receive monies due for actual work performed and billed to the Authority, less the amount of damages, if any, suffered by the Authority because of the party's breach of Agreement.

HOLD HARMLESS

The proposer must agree to hold the Authority harmless for any acts of negligence or any other obligations.

OFFICIALS NOT TO BENEFIT

No Member of or Delegate to Congress or Resident Commissioner of the United States shall be admitted to any share or part of this contract, or to any benefit that may arise therefrom, but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

INQUIRIES

Questions about this Request for Proposals may be directed to **XXXXXXX**.

REJECTION OF PROPOSALS

The Authority reserves the right to reject any and all proposals as the interest of the Authority may require.

ATTACHMENTS

Exhibit A (Banking Services Consolidated Price Proposal)
Exhibit B (Balance Calculation)
Exhibit C (Charges and Earnings Calculations)
Exhibit D (Banking Services Contract)
Exhibit E (Affidavit)
Exhibit F (Public Depository Certification)
Exhibit G (Selection Criteria)
Exhibit H (Notice PIH 96-33)

EXHIBIT A

BANKING SERVICES CONSOLIDATED PRICE PROPOSAL

REQUIRED "SWEEP ACCOUNT" SERVICES

Can the Bank provide some type of "Zero Balance Account" (ZBA) system which will allow the Authority to aggregate all of its bank accounts balances for investment purposes?

Yes _____ No _____

If your bank has an alternative method through which the Authority may accomplish its stated goals, please describe:

Describe the method by which the daily interest rates will be calculated on Authority balances:

- (1) Quotation for the previous week's average "fed funds effective" rate as quoted in the Wall Street Journal, minus ____%.

OR

- (2) Description of alternative interest rate calculation:

The bank would be satisfied for the Authority to maintain an average monthly balance of approximately \$_____ on account to cover items clearing after investment deadline.

Will the sweep account utilize a repurchase agreement or some kind of specially-designed "Super Now" account? If "Super Now", please describe.

EXHIBIT B

CALCULATIONS TO DETERMINE BALANCE REQUIRED TO SUPPORT \$1.00 OF SERVICES

EXHIBIT C

CALCULATIONS AND RATIONALE FOR DETERMINING THE NEGATIVE BALANCE CHARGE AND EARNINGS CREDIT RATES

EXHIBIT D

HOUSING AUTHORITY OF THE CITY OF XXXXXXXXXX

BANKING SERVICES CONTRACT

This agreement made _____, between the Housing Authority of the City of XXXXXXX, hereinafter referred to as the "Authority" and _____, hereinafter referred to as the "Bank."

1. SERVICES TO BE PROVIDED:

Services to be provided under this contract will be according to the Request for Proposal, dated _____ and included here as "ATTACHMENT A" and the Response of Bank, _____, with all negotiated changes included here as "ATTACHMENT B."

2. TIME OF PERFORMANCE:

The services hereunder will be provided by the Bank commencing _____, and this contract will be effective for three (3) years from that date.

3. COMPENSATION:

The authority agrees to pay the Bank, and Bank agrees to accept, as full and complete compensation for all of its services and expenses under this agreement, including payments to any subconsultant, a sum of money not to exceed the volumes each month multiplied by the cost per service as shown on the attached fee schedules (EXHIBITS A, B AND C), plus any other service provided for the Authority by the Bank at a fee agreed upon prior to performance. Such compensation will be payable upon the timely and satisfactory completion of the work to be done hereunder, and the timely and satisfactory delivery by the Bank to the Authority of all items to be delivered hereunder.

Should this contract be terminated prior to the completion of the effective date, the Bank will be paid the amounts corresponding to the phase or phases which have been satisfactorily completed as of the date of termination.

4. AUTHORITY'S REPRESENTATIVE:

All services to be performed hereunder will be fully coordinated by the Bank with the Authority through the Executive Director, or his designee, who will be the authority's representative for purposes of this agreement.

5. INFORMATION AND REPORTS

The Bank will provide monthly:

- a. A 3 1/2" diskette and associated printout, a list of checks paid by check number, amount and date paid. Also, the tape should include deposit information such as: encoded reference number, amount of deposit, and date posted.

AFFIDAVIT

STATE OF _____)

PARISH OF _____)

_____, Being
first duly sworn, deposes and says:

That he/she is

_____ the party making the forgoing
proposal, that such proposal is genuine and not collusive or sham; that said proposer has not colluded,
conspired, connived, or agreed directly or indirectly, with any proposer or person, to put in a sham proposal
or to refrain from submitting a proposal, and has not in any manner, directly or indirectly, sought by
agreement or collusion, or communication or conference, with any person, to fix the proposal of affiant or
any other proposer, or to secure any advantage against the Housing Authority of the City of Shreveport or
any person interested in the proposed agreement; and that all statements contained in said proposal are true.

Signature

By

Title

Address

SUBSCRIBED AND SWORN to before me

this _____ day of _____, 2 _____

My commission expires _____.

- b. Bank statements with all copies of canceled checks sorted by check number, to be ready for Authority pickup not later than seven (7) business days after the last of each month.
- c. A monthly account analysis to be available for pickup by the Authority within ten (10) business days after the last day of the month.

6. RECORDS AND INSPECTION:

The Bank will maintain full and accurate records with respect to all matters covered under this Agreement. The Authority, the Department of Housing and Urban Development, and the Comptroller General of the United States, will have free access at all times to such records, and to right to examine and audit the same and to make transcripts therefrom, and to inspect all Authority data, documents, proceedings and activities.

7. CHANGES:

The Authority will have the right at any time to make changes to this contract. If any such change causes an increase or decrease in the cost of, or the time required for, performance of this contract, an equitable adjustment will be negotiated in this contract price or delivery schedule, or both, and the contract will be modified in writing accordingly.

8. SERVICES AND MATERIALS TO BE FURNISHED BY THE AUTHORITY:

The Authority will furnish the Bank with all available necessary information, data and materials pertinent to the accomplishment of this Agreement. The Authority will cooperate with the Bank in carrying out the work herein, and will provide available staff for liaison in the Bank's performance of the Contract.

9. AUTHORITY NOT OBLIGATED TO THIRD PARTIES:

The Authority will not be obligated or liable hereunder to any party other than Bank.

10. PERSONNEL ASSIGNMENTS:

All of the professional personnel who are identified in Section IV, Part 2, of the RFP will be assigned by the Bank to perform the work under this Agreement, in accordance with the identified assignments in that section. Any changes in such personnel assignments, including the substitution of any persons for those identified in said Section, will be approved by the Executive Director in writing prior to the performance of services by any substitute personnel. Actions taken by the Authority under this Article will not relieve the Bank of its responsibility for deficiencies, errors, or omissions in the services performed.

11. STATUS OF BANK:

It is understood and agreed by and between the parties that the status of the Bank will be that of an independent contractor and of a person retained on a contractual basis to perform professional or technical services for limited periods of time. It is not intended, nor will it be construed, that the Bank or any employee or subconsultant is an employee, officer, or agent of the Authority.

12. ASSIGNMENT:

The Bank will not assign, transfer, convey, sublet or otherwise dispose of the Contract or its right, title, or interest in or to the same or any part thereof without prior written consent of the Authority, by means of a Contract Change.

13. BANK LIABILITY IF AUDITED:

The Bank will assume that all financial and statistical information provided to the Bank by the Authority employees or representatives is accurate and complete. If the Bank becomes aware of any inaccuracy or incompleteness in such information, it will immediately notify the Authority. Any subsequent disallowance of funds paid to the Authority by any source, which is solely attributable to any such inaccuracy or incompleteness on the part of the Authority or its agents, is the sole responsibility of the Authority. Bank will, however, provide direct assistance to the Authority should an audit be undertaken of the Authority's indirect costs which are determined under the Contract, regardless of the reason for the audit.

14. TERMS OF PAYMENT:

Payments for services due the Bank and interest or other funds due the Authority will be posted to the bank account each month as a debit or credit as applicable.

15. EQUAL EMPLOYMENT OPPORTUNITY:

The Bank will not discriminate against any employee or applicant for employment because of race, color, religion, sex, national origin, age or disability. The Bank will take affirmative action to ensure that applicants are employed and that employees are treated during employment without regard to their race, color, religion, sex, national origin, age or disability. The Bank will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

16. TERMINATION OF AGREEMENT:

The Authority may terminate this Agreement at any time on ten (10) days notice if the Bank's services are not being satisfactorily performed in accordance with the Agreement. The Authority may otherwise terminate Agreement without cause, for its convenience, upon thirty (30) days notice to the Bank. If the Bank's services are terminated, they will be paid only for that portion of services satisfactorily completed in accordance with this Agreement at the time of notice of such action.

17. WHEN RIGHTS AND REMEDIES NOT WAIVED:

In no event will any payment by the Authority hereunder constitute or be construed to be a waiver by the Authority of any breach of covenant or condition or any default which may exist on the part of the Bank, and the making of any such payment when any such breach or default will exist will not impair or prejudice

any right or remedy available to the Authority with respect to such breach or default; and no assent, expressed or implied, to any breach of any one or more covenants, provisions, or conditions for the Agreement will be construed as a waiver of any succeeding or other breach.

18. AGREEMENT AS COMPLETE INTEGRATION; AMENDMENTS:

This agreement is intended as the complete integration of all understanding between the parties. No prior or contemporaneous addition, deletion, or other amendment will have any force or effect, unless embodied herein in writing. Amendments to this Contract will become effective when approved by both parties and executed in the same manner as the Contract.

19. CONFLICT OF INTEREST:

No officer or employee of the Authority, no member of the governing body of the locality in which the Authority is situated, no member of the governing body of the locality in which the Authority was activated, and not other public official of such locality or localities who exercises any functions or responsibilities with respect to the Authority, during his tenure or for one year thereafter, shall have any interest, direct or indirect, in this contract or the proceeds thereof.

20. COVENANT AGAINST CONTINGENT FEES:

The Bank warrants that no person or selling agency has been employed or retained to solicit or secure this Contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bonafide employees or bonafide established commercial or selling agencies maintained by the Bank for the purpose of securing business. For breach or violation of this warranty, the Authority will have the right to annul this Contract without liability or, at its discretion, to deduct from the Contract price or consideration, or otherwise recover, the full amount of such commission, percentage, brokerage, or contingent fee.

21. COUNTERPARTS OF THIS AGREEMENT:

This Agreement will be executed in two (2) counterparts, each of which will be deemed to be an original of the Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

THE BANK

HOUSING AUTHORITY OF THE CITY OF ~~XXXXXXXXXX~~

Signature

Signature

Dated

Dated

HOUSING AUTHORITY OF THE CITY OF SHREVEPORT

TO PROVIDE BANKING SERVICES

SELECTION CRITERIA

Description	Points (100)	Proposer	
General Response to the Request for Proposals	30		
Ability of the proposer to provide the banking services set forth in the RFP	20		
Non-Collusive Affidavit	5		
Public Depository Certification	5		
Experience and success in providing banking services to Housing Authorities, municipal governments, and non-profit organizations in Louisiana	20		
Fee structure	20		

Public Housing Agencies; Indian
Housing Authorities; Secretary's
Representatives; State/Area
Coordinators; Directors, Public
Housing Divisions; Administrators,
Offices of Native American Programs;
Resident Management Corporations
(RMCs)

Notice PIH 96-33(HA)
Issued: June 4, 1996
Expires: June 30, 1997

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

HUD APPROVED INVESTMENT INSTRUMENTS

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 trusters. 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 objective 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.