MONTCLAIR

CITY OF MONTCLAIR HOUSING CORPORATION

Statement of Investment Policy
for the Year Ending December 31, 2008

I. PURPOSE

The purpose of this investment policy is (1) to fix the responsibility for investing surplus moneys with the Corporation Treasurer and his designee; (2) to establish criteria for selecting investments; (3) to outline investment media in which a local agency may invest its surplus money; (4) to establish internal control procedures to assure the investment program is operated in a safe and prudent manner; and (5) to set forth the investment strategy for calendar year 2008.

II. SCOPE

It is intended that this policy cover all funds and investment activities under the direct authority of the City of Montclair Housing Corporation.

III. TREASURER'S AUTHORITY TO INVEST SURPLUS MONEYS

It is the responsibility of the Corporation Treasurer and his designee, the Assistant Finance Director, to invest the Corporation's surplus moneys. Government Code Section 53607 enables a public housing corporation's board to delegate its responsibility to invest surplus moneys to the treasurer, provided he submits to the board a monthly report of investment transactions (Treasurer's Report).

IV. PUBLIC TRUST

All participants in the investment process shall act as custodians of the public trust. The Corporation Treasurer or his designee, the Assistant Finance Director, shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

V. PRUDENCE

The City of Montclair adheres to the guidance provided by the "prudent investor standard," which obligates a fiduciary to insure that all persons investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds shall act with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a

like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Corporation.

VI. DIVERSIFICATION

The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

VII. MARKET-AVERAGE RATE OF RETURN

The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City of Montclair Housing Corporation's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances, or resolutions that restrict investments.

VIII. CRITERIA FOR INVESTMENT SELECTION

In accordance with Government Code Section 53600.5, the primary criteria, in priority of order, which investment decisions shall be based upon are as follows:

(a) SAFETY: Safety of principal is the most important criteria of investment. Attention must be given to the continued solvency of financial institutions in which the Corporation invests money. Also, investments in long-term securities must be considered from the standpoint of potential losses incurred upon sale of securities to meet operating needs.

(b) LIQUIDITY: The Corporation's investment portfolio will remain sufficiently liquid to meet all operating requirements, which might be reasonably anticipated.

(c) YIELD (RETURN ON INVESTMENT): Investments should be made with the objective of maximizing the rate of return consistent with safety and liquidity requirements.

IX. PERMISSIBLE INVESTMENTS

Government Code Section 53635 authorizes a local agency to deposit a portion or all of its moneys in state or national banks, savings associations or federal associations, credit unions, or any federally insured industrial loan company in this state. Also, Code Section 53635 enumerates investment media in which a local agency may invest its surplus moneys pursuant to Code Section 53601. The following list of permissible investment media is verbatim from Government Code Section 53601:

(a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the local agency or by a department, board, agency, or authority of the local agency.

(b) United States Treasury notes, bonds, bills or certificates of indebtedness or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

(c) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the state or by a department, board, agency or authority of the state.

(d) Registered treasury notes or bonds of any of the other 49 United States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California.

(e) Bonds, notes, warrants or other evidences of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the local agency or by a department, board, agency or authority of the local agency.

(f) Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

(g) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as banker's acceptances, which are eligible for purchase by the Federal Reserve System. Purchases of banker's acceptances may not exceed 180 days maturity or 40 percent of the agency's surplus funds, which may be invested pursuant to this section. However, no more than 30 percent of the agency's surplus funds may be invested in the banker's acceptances of any one commercial bank pursuant to this section.

(h) Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by Nationally Recognized Statistical-Rating Organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragragh (1) or paragraph (2):

(1) The entity must be organized and operating in the United States as a general corporation having total assets in excess of five hundred million dollars ($500,000,000) and having an

"A" or higher rating for the issuer's debt, other than commercial paper, as provided for by a nationally recognized statistical-rating organization.

(2) The entity must be organized within the United States as a special purpose corporation, trust, or limited liability company having program-wide credit enhancements including, but not limited to, over-collaterization, letters of credit, or surety bond, and having commercial paper that is "A-1" or higher rating, or the equivalent, by a nationally recognized statistical-rating organization.

Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation. No more than 40 percent of the agency's money may be invested in eligible commercial paper.

(i) Negotiable certificates of deposit issued by a nationally or state-chartered bank or a savings association or federal association or a state or federal credit union or by a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed 30 percent of the agency's surplus money, which may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the money are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or any person with investment decision-making authority in the administrative office, manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

(j) (1) Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of any securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.

(2) Investments in repurchase agreements may be made, on any investment authorized in this section, when the term of the agreements does not exceed one year. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed

against those securities and the value shall be adjusted no less than quarterly.

(3) Reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met:

(A) The security to be sold on reverse repurchase agreement or securities lending agreements has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale.

(B) The total of all reverse repurchase agreements and securities lending agreement owned by the local agency does not exceed 20 percent of the base value of the portfolio.

(C) The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sales of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

(D) Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty by way of a reverse repurchase agreement or securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

(4) (A) Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security may only be made upon prior approval of the governing body of the local agency and shall only be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency.

(B) For purposes of this chapter, "significant banking relationship" means any of the following activities of a bank:

(i) Involvement in the creation, sale, purchase, or retirement of a local agency's bonds, warrants, notes, or other evidence of indebtedness.

(ii) Financing of a local agency's activities.

(iii) Acceptance of a local agency's securities or funds as deposits.

(5) (A) "Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.

(B) "Securities," for purpose of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity.

(C) "Reverse repurchase agreement" means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date, and includes other comparable agreements.

(D) "Securities lending agreement" means an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.

(E) For purposes of this section, the base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.

(F) For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.

(k) Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated "A" or better by a nationally recognized rating service. Purchases of medium-term notes shall not include other instruments authorized by this section and may not exceed 30 percent of the agency's money that may be invested pursuant to this section.

(l) (1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (j), inclusive, or subdivisions (m) or (n) and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). However, notwithstand-ing these restrictions, a counterparty to a reverse repurchase agreement or securities lending agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company's board of directors finds that the counter-party presents a minimal risk of default, and the value of the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.

(2) Shares of beneficial interest issued by diversified management companies that are money market funds registered with the securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.).

(3) If investment is in shares issued pursuant to paragraph (1), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by subdivisions (a) to (j), inclusive, or subdivisions (m) or (n)

and with assets under management in excess of five hundred million dollars ($500,000,000).

(4) If investment is in shares issued pursuant to paragraph (2), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000).

(5) The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that the companies may charge and shall not exceed 20 percent of the agency's money that may be invested pursuant to this section. However, no more than 10 percent of the agency's funds may be invested in shares of beneficial interest of any one mutual fund pursuant to paragraph (1).

(m) Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

(n) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

(o) Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pass-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum of five years' maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of "AA" or its equivalent or better by a nationally recognized rating service. Purchase of securities authorized by this subdivision may not exceed 20 percent of the agency's surplus money that may be invested pursuant to this section.

(p) Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (n), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (n), inclusive.

(3) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

Government Code Section 16429.1 authorizes a local agency to deposit a portion or all of its surplus moneys in the Local Agency Investment Fund (LAIF). LAIF is an account established by the state that offers a local agency a safe, highly liquid means to invest its surplus funds. Government Code Section 16430 limits LAIF to investing in securities, which are essentially the same as those prescribed in Section 53635 above. An agency may deposit $40,000,000 with LAIF and engage in 15 transactions per month.

X. INTERNAL CONTROL PROCEDURES

The following internal control procedures are established to assure that the investment program is operated in a safe and prudent manner. An employee of the Corporation, other than the Corporation Treasurer or his designee, will verify on a monthly basis to Corporation's board that all investment activity undertaken during the month has been conducted in compliance with the investment policy, including the below internal control procedures.

(a) SAFEKEEPING: Securities purchased from brokers/dealers must be held in a third-party custodial safekeeping account. The securities should be held in a manner that establishes the Corporation's right of ownership.

(b) CONFIRMATION: Confirmation receipts for purchase of authorized securities should include the following information: trade date, par value, maturity value, interest rate, price, settlement date, description of securities purchased, agency's name, net amount due, and third-party custodial information. The confirmation receipt must be issued by the third-party custodian and must be received by the Corporation prior to remitting payment for the security.

(c) PAYMENT: Payment for securities should be on a Delivery Versus Payment (DVP) basis. This must be done via the Corporation's third-party safekeeping agent. NOTE: Book entry is considered delivery.

(d) WIRE TRANSFERS: All wire transfers for the purchase of securities should be initiated by the Corporation Treasurer or his designee who is authorized to invest on behalf of the Corporation. The bank document used to initiate a wire transfer must be approved by the employee responsible for monitoring compliance with internal control procedures prior to executing the wire transfer. NOTE: This procedure does not apply to deposits with the LAIF.

XI. BANKS AND SECURITIES DEALERS

In selecting financial institutions for the deposit or investment of the City of Montclair Housing Corporation funds, the Treasurer or his designee, the Assistant Finance Director, shall consider the creditworthiness of institutions. The Treasurer and his designee, the Assistant Finance Director, shall continue to monitor financial institutions' credit characteristics and financial history throughout the period in which funds are deposited or invested.

XII. RISK TOLERANCE

The City of Montclair Housing Corporation recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. The Corporation Treasurer and his designee, the Assistant Finance Director, are expected to display prudence in the selection of securities, as a way to minimize default risk. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio. The Treasurer or his designee, the Assistant Finance Director, may periodically establish guidelines and strategies to control risks of default, market price changes and illiquidity.

XIII. INVESTMENT STRATEGY FOR CALENDAR YEAR 2008

The Corporation will invest at least 50 percent of its surplus moneys in the LAIF and in certificates of deposit issued by banks and savings and loans provided, however, that money deposited with banks and savings and loans are fully insured by FDIC and have maturities of no more than one year. The balance of the Agency's surplus moneys may be invested in any of the investment media discussed in (a) to (p) of Section IX above, provided the investment term is no greater than three years and no investments are made in reverse repurchase agreements. Further, pursuant to Government Code Section 53601.6, no moneys will be invested in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages.