



Request for Proposals – Bank Depository Services

ISSUE DATE: May 18, 2022

TABLE OF CONTENTS

- I. Introduction**
- II. Qualifications, Communications, Submission & Selection**
- III. Financial Environment Overview**
- IV. Financial Institution Qualifications**
- V. Required Services**

Attachment A: Proposed Fees

Attachment B: Investment Policy

I. INTRODUCTION

The Texas State Affordable Housing Corporation (“TSAHC”) is requesting proposals for a three (3) year bank depository services contract with one possible two-year extension. The initial contract period is to begin September 1, 2022 and extend through August 31, 2025.

Through this contract TSAHC intends to minimize banking costs, improve operational efficiency, and maximize its investment capabilities. This Request for Proposal (RFP) which represents TSAHC's cash management goals, also specifies all required qualifications, the banking services required, the estimated activity volumes on all accounts, the method of compensation, submission instructions and contract award provisions.

TSAHC is a 501(c)(3) nonprofit organization created at the direction of the Texas Legislature to serve as a self-sustaining, statewide affordable housing provider. TSAHC’s mission is to meet the housing needs of underserved Texans through innovative programs and solutions. We are driven by a shared belief that every Texan deserves the opportunity to live in safe, decent and affordable housing. TSAHC is governed by a five-member Board of Directors appointed by the Governor of Texas. TSAHC receives no state appropriated funding but is subject to state oversight. It complies with public statutes regarding investment and required collateral.

Institutions responding to this Request for Proposal (RFP) must be insured through the Federal Deposit Insurance Corporation (FDIC) and must be able to demonstrate a capacity to meet TSAHC’s service requirements as stated in the RFP.

II. QUALIFICATIONS, COMMUNICATIONS, SUBMISSION & SELECTION

By submitting a proposal in response to this RFP, depositories will be deemed to agree to the mandatory contract and service provisions contained herein. This RFP and the proposal submitted will be incorporated into and form the basis of the bank depository services contract.

Local Presence Required

To assure a close working relationship and to facilitate services, depository institutions with full depository service capabilities within the geographic boundaries of Austin are invited to submit a proposal.

Proposal Format

To equitably evaluate each depository’s ability to meet the banking service needs of TSAHC, a standard format for all proposals is required. A response is required for each question in Sections

IV and V of this RFP along with completion of Attachment A-Proposed Fees. Responses must be in the same order as the questions presented with an answer to each question, stating acceptance of modifications or additions to, or a statement of the inability to provide said service. Additional information describing the service or requirement may be included.

Only proposals submitted in the prescribed format and using the provided Attachment A will be considered and evaluated for contract award. Additional explanatory information may be included as part of a proposal.

This RFP and the proposal submitted will be incorporated into and form the basis of the bank depository services contract. This RFP is being issued only in an electronic format. Submission of the Proposal must also be in electronic form.

Timeline

TSAHC will accept responses until **5:00 PM CDT on Wednesday, June 22, 2022**. TSAHC retains the right to extend the submission deadline and selection period depending on responses to the RFP. The selected Respondent will enter into a three-year contract with TSAHC beginning September 1, 2022.

Proposal Submission

To be eligible for consideration, a complete electronic copy must be submitted by email at msmith@tsahc.org on or before **5:00 pm CST on June 22, 2022**. Proposals received after that time will not be accepted.

An accompanying cover letter must be signed by an individual authorized to bind the institution, state that the proposal is valid for 180 days from the submission date and give full contact information regarding the proposal. The transmittal letter must be no longer than one page. The cover letter should not contain any information not included in the proposal itself.

Communications with TSAHC

All questions and communications concerning the RFP must be submitted to Michael Wilt, TSAHC's designated point of contact, via email at mwilt@tsahc.org.

To protect the integrity of the RFP process, potential Respondents may not contact TSAHC's staff and Board of Directors Members ("Board Members") regarding issues or questions pertaining to this RFP. This contact limitation period begins when the RFP is made available and continues through the selection process. If a potential Respondent contacts a staff member or Board Member with an issue or question pertaining to the RFP, that staff member or Board Member

shall not discuss the RFP and shall forward the inquiry to the designated point of contact. TSAHC reserves the right to disqualify submissions from Respondents that fail to adhere to this contact limitation policy.

Selection Criteria

The following criteria will be used by TSAHC as the weighting basis for evaluation of the proposals and the award recommendation.

- Banking services costs and earnings potential,
- Responsiveness and ability to provide services and reports required,
- Experience, references, and continuity of bank and bank officials, and
- Creditworthiness and stability of the bank.

TSAHC will consider the availability of services and the cost of those services as well as the earnings potential on idle funds under the contract to achieve the best value for the organization. All these elements are evaluated. A demonstration of the online services may be required for the top two proposals at the option of TSAHC.

Award may not be made to the institution submitting the lowest price proposal. TSAHC will choose the institution submitting the best, most responsive overall proposal to satisfy TSAHC's needs.

TSAHC Rights

TSAHC reserves the right to:

- waive any defect, irregularity or informality in the proposal or proposal procedures,
- reject any and all proposals,
- accept any proposal or portion thereof most advantageous to TSAHC,
- request additional information or require a meeting with bank representatives for clarification,
- cancel, revise, and/or reissue this request for proposal or any portions thereof,
- negotiate any conditions with proposers,
- retain all other provisions even if any provision of the proposal is deemed invalid,
- modify deadlines, and
- select any proposal deemed to be in its best interest as determined by TSAHC.

Proprietary Information

To the extent permitted by law, proposals will be opened in a manner that avoids disclosure of the contents until after award of the contract. Proprietary information contained in the proposal should be designated as such on each page containing the restricted information.

Fees and Charges

TSAHC reserves the right to utilize either a fee basis or compensating balance basis (or a combination of each) for payment of banking services under the contract. TSAHC reserves the right to change the payment methodology during the contract period upon no less than 30 days written notice to the bank with the change commencing on the first of a next calendar month. This will enable TSAHC to take advantage of changing interest rate environments. A complete monthly account analysis for each account and on a relationship basis will be required regardless of the payment basis.

All item and account charges will remain at the proposal price quoted on Attachment A for the duration of the contract period regardless of changes in service volumes during the period. Should new services be required during the contract period not contemplated by this RFP, those services will be provided at fees not more than the bank's then-current published rate and approved by the TSAHC.

III. FINANCIAL ENVIRONMENT OVERVIEW

TSAHC currently maintains the seven accounts as shown below. TSAHC has a Zero-Based Account (ZBA) internal sweep structure in place with the one operating reserve account. When an external sweep is utilized as rates increase the sweep should be to an SEC registered money market mutual fund. The average *relationship* balance in the last 12 months has been approximately \$5 million. TSAHC anticipates the use of an external sweep as rates increase using a money market fund.

The number of accounts may change during the contract period. Historical balances in 2021 for the current accounts are shown below:

OPERATING ACCOUNT	\$	4,775,807
RESTRICTED GRANT FUNDS	\$	19,265
RESTRICTED GRANT FUNDS	\$	417,954
RESTRICTED REPLACEMENT RESERVE	\$	127,986
RESTRICTED REPLACEMENT RESERVE	\$	75,701
RESTRICTED REPLACEMENT RESERVE	\$	3,841
RESTRICTED OPERATING RESERVE	\$	10,000

- Most bank activity occurs in the operating account. All wires, securities transactions, and inter-account transfers will occur in this account.
- Approximately \$4 million in payables flows through the account monthly.
- The payroll is approximately \$300 thousand per month and 100% is direct deposit.

An external sweep will be into an approved SEC registered government money market fund which strives to maintain a \$1 Net Asset Value (NAV). No repurchase agreement or offshore accounts will be authorized for the sweep.

Any or all TSAHC funds may be maintained and invested by TSAHC outside this contract. TSAHC will be under no obligation to maintain time or demand funds in the bank, except under a compensating balance situation. TSAHC will continue to direct liquid funds to pools or specific investments. Safekeeping services for TSAHC securities will be required.

TSAHC's Finance Department controls all banking, treasury, and investment activities. The Finance Department contains all accounts payable, receivables, payroll, and financial reporting functions. The CFO is responsible for the department and reports to the President and Board of Directors. TSAHC uses remote deposit and will require the service under this contract. Vault services are not needed but an occasional change order may be necessary at a branch.

Approximately 136 checks are received each month and processed through remote deposit. The majority of payments are received electronically. TSAHC's Finance Department completes all reconciliations. Paper statements are not acceptable.

TSAHC has approximately 30 FTE employees with 100% of TSAHC employees currently paid by direct deposit. No commercial card is used.

TSAHC requires *automated* banking services wherever efficient and cost effective. This proposal should address automation availability and potential on any and all services.

TSAHC currently utilizes interest bearing or money market accounts for smaller balance accounts and will decide on the use of the account as interest rates and conditions vary. All account decisions will be made by the TSAHC.

TSAHC will not use the depository institution brokerage as a broker for any security trades in order to assure complete separation on delivery versus payment settlement requirements.

IV. FINANCIAL INSTITUTION QUALIFICATIONS

To be considered the proposal must include a response to each question in this section.

TSAHC's banking services described in this RFP are directed toward five major goals:

- timely and accurate information flow,
- 100% utilization of idle funds and continuous investment of TSAHC funds,
- safety of TSAHC funds and securities,
- efficient utilization of available banking services, and
- minimization of banking costs to TSAHC.

1. Creditworthiness

In order to fulfill fiduciary responsibility and to protect public funds, each bank submitting applications shall:

- a. Provide a link to the latest available audited annual financial report. The bank will be required to submit an audit report to TSAHC each year of the contract period, as soon as it is available. Confirm agreement to this requirement.
- b. Provide the bank's Community Reinvestment Act (CRA) rating by its regulatory agency.
- c. Provide the bank's current senior and subordinate debt ratings. If the bank has no debt or is privately owned it may, as an alternative, provide the most recent four quarters rating from an independent bank rating agency such as Highline, Veribanc, or comparable bank rating agency.
- d. The bank will be contractually responsible for notifying TSAHC within thirty (30) days of any change in any of these ratings during the contract period. Confirm agreement to this requirement.

2. Customer Service

Service will be a primary focus of the contract on a continuing basis. In this section, please describe the bank's philosophy and approach to satisfying this need.

- a. How will the bank satisfy TSAHC's need for superior customer service?
- b. Is there a formal bank process for escalation of problems/issues that are unresolved?
- c. Is the bank offering any transition or retention incentives? Describe fully and quantify completely.
- d. TSAHC requires the right to use a third-party auditor to review the records of its accounts, collateral, transactions, and bank records at any reasonable time. Confirm agreement with this condition.

3. References

- a. List references from three comparable Texas non-profit clients. For each reference, include the length of time under contract, a client contact, title, and email address.

4. Depository Agreement and Service Agreements

This contract will be executed under a Master Depository Agreement executed under the terms of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA).

- a. Provide a copy of all depository and service agreements which will be required to be executed under the contract for services rendered. Any changes required on the agreements will be discussed and agreed upon before award of the contract.

5. Implementation Timeline

The timeline should reflect the number of calendar days required to put the services in place or the end date of when such services will be in place and available. Default in promised delivery of services, without acceptable reasons, or failure to meet the terms or conditions of the depository contract without remedy, will result in TSAHC's right to terminate the contract, but the exercising of such right to terminate the contract does not limit any other remedies for damages or other relief under law.

Collateral should be in place at least one day before any funds are transferred.

- a. Provide a proposed timeline for implementation of the contract. Include required activities as defined by its responsible party and assigned responsibilities. Denote any limitations or potential delay points.

V. REQUIRED SERVICES

To be considered, the proposal must include a response to each of the questions in this Section V and all associated fees must be detailed on Attachment A. Add any level of detail necessary.

1. Account Structure

TSAHC is interested in assuring that all funds are continuously earning at the best, then-current interest rates. TSAHC currently uses an internal ZBA structure for one account but as rates rise is expecting to use an external sweep to an SEC registered money market mutual fund striving to maintain a \$1 NAV.

TSAHC must have the option to pay for services on a fee or compensating balance basis. If the external sweep is established TSAHC is considering use of an automated, daily sweep in order to reach its full investment goal and to minimize collateral requirements and rates will determine the methodology used. If a compensating balance basis is used with the sweep the sweep will be to the target balance as set by the bank.

An SEC registered government money market fund which strives to maintain a \$1 NAV used for the sweep must be rated AAA by at least one nationally recognized rating service. If the bank has a valid alternative to an SEC money market fund which is in compliance with TSAHC's Investment Policy, it may be presented. Neither a repurchase agreement or an offshore account is acceptable as a sweep investment vehicle.

- a. Fully describe the bank's proposed account structure.
- b. Can the bank structure ZBA accounts to one master for an external sweep to an authorized money market fund?
- c. If the bank is proposing an alternative to a sweep, such as an indexed interest-bearing account, detail and describe fully. Insured Cash Sweep (ICS) is not recognized as a sweep vehicle though it could be used as an alternative investment.
- d. Describe how sweep activity will be reported on a monthly or daily report. Will daily account activity reports show balance amounts being swept in and out of the accounts?
- e. If an SEC registered money market fund is to be utilized for the sweep proposal, provide the full name and identifying cusip of the fund along with a copy of the prospectus.
- f. Are funds swept at end of day or next day? If next day, how are funds collateralized over-night?
- g. Does the bank charge a balance-based assessment? At what rate?
- h. Do interest bearing accounts earn at a bank managed rate or is the rate indexed? Provide the proposed computation basis for interest bearing and money market accounts if rates are directly set on an index.
- i. Interest earned on interest bearing accounts shall not be charged as an expense on the account analysis. Confirm acceptance of this condition.
- j. TSAHC may be required or may desire to open additional accounts or change account types during the contract period. If this occurs the new accounts and their services shall be charged at the same contracted amount. (Unanticipated or new services may be charged at not more than published rates.) Confirm agreement to this condition.
- k. Indicate in the following table the bank's rate average for the past 12 months and currently.

Account Type	12 Month Average	Current Rate
Earnings Credit Rate (ECR)	%	%
Interest bearing accounts	%	%
Money market accounts	%	%
Sweep	%	%

2. Automated Cash Management Information

TSAHC requires a web-based, single portal, automated cash management information system. TSAHC requires timely access to transactions and daily balance reporting for balance and

transaction detail. All reports should be downloadable. No paper reports will be required and are not preferred.

- a. Provide a link to the bank's information system with a password or full demo provision.
- b. Fully describe the bank's on-line service capabilities listing the system's functions/capabilities.
- c. Does the bank have mobile banking? What services are available on the mobile app?
- d. What security protocols are built into the mobile app?
- e. State the system access and update times for previous day and intra-day balance information.
- f. Which entity controls the security and access functions for the online services?
- g. Are all items imaged? Define types and note the online retention periods for each.
- h. Are event messages or alerts available? How are alerts sent? Are alerts emailed or must the individual be online to receive notification?
- i. What events automatically generate an alert?
- j. Are all reports and statements downloadable?

3. Standard Deposit Services

Standard commercial deposit services are required. Most deposits are made electronically to TSAHC (56 incoming ACH credits monthly). Change orders are rarely used.

TSAHC currently does not accept any debit and credit cards. Merchant services are not part of this RFP.

TSAHC expects all deposited checks to clear based on the bank's current published availability schedule. All cleared deposits received by the bank's established deadline must be processed for same day credit.

The bank shall guarantee immediate credit on all incoming wire transfers, ACH transactions, on-us items, and U.S. government security maturities and coupon payments. Failure to credit TSAHC accounts in a timely fashion will require interest payment reimbursement to TSAHC at the then-current daily Fed Funds rate.

- a. Does the bank image all checks, deposit slips, and deposit items?
- b. What is the bank's daily cut-off time to assure same day ledger, and - pending availability - collected credit? Does this vary by location (branch teller, vault)?
- c. Describe how and when credit/debit advices are sent to TSAHC?
- d. Include a list of all the bank's deposit local locations.

4. Remote Deposit

TSAHC is currently using remote check deposit for all incoming checks averaging 136 a month. TSAHC does not own its current scanner. Deposits would include both consumer and commercial checks.

- a. What are the bank's current capabilities in remote check deposit?
- b. What is the cut-off time for deposits made remotely?
- c. What scanner equipment is required? Will the bank provide the scanner?
- d. What deposit reports are generated at the site? Provide a sample. Are any other reports available?
- e. How is activity reported on the bank's reports and online?

5. NSF Checks Received by TSAHC

Currently, NSF checks paid to TSAHC are automatically re-deposited twice for collection. Complete information must be provided on all NSF returned items including name and reason for return.

The TSAHC wants the option of the second presentment to be made by ACH to targeted dates for maximum collection potential.

- a. Describe the bank's current NSF process. Are checks automatically re-deposited? How many times?
- b. How and when is TSAHC to be notified of return items?
- c. Is the bank capable of processing the second presentment as an ACH with a targeted presentment date (i.e., Representation Check Entry (RCK)? Describe in full.
- d. Under RCK or standard processing, how can the NSF and settlement later matched/reconciled most easily? Does the bank system cross reference the two transactions in any way?
- e. Is the NSF information or image available on-line? When and how? How long is it available online?

6. Disbursing Services

Standard disbursing services are required to include the payment of all TSAHC employee checks without charge upon presentation. TSAHC requires positive pay services for all its check issuing accounts.

TSAHC does not use any commercial card.

Payroll is paid semi-monthly and averages \$300,000 a month. TSAHC utilizes direct deposit for payroll for approximately 100 % of employees. TSAHC is always moving toward more vendor payments by ACH.

- a. Will the bank cash all TSAHC payroll checks on presentation without charge to the presenter and TSAHC?
- b. Describe any consolidated or e-payables program available.
- c. Does the bank have its own commercial card program? Describe fully.
- d. Is any rebate available on the commercial card program?

7. Positive Pay and Reconciliation

Positive pay will be required on all check writing accounts. TSAHC currently has positive pay on one account to safeguard against fraudulent checks. The positive pay process should be fully automated and web based. Check information will be transmitted electronically to the bank on each check run and as manual checks are created.

TSAHC intends that positive pay will be used in combination with partial reconciliation services.

- a. Can the bank provide positive pay on all check writing accounts?
- b. Can the bank provide payee positive pay?
- c. Describe the data transmission/transfer requirements and alternatives for computer generated checks.
- d. Online entry for individual checks is required. Describe the online input process and requirements for individual, manually written checks.
- e. How can check records or the entire file be changed or deleted by TSAHC, if necessary?
- f. How is TSAHC to be notified of a positive pay exception?
- g. At what time is exception information reported to TSAHC?
- h. At what time is the response deadline for TSAHC exception elections?
- i. Are all checks, including those received by the tellers and vault, verified against the positive pay file before processing? How often is teller information updated?
- j. Describe your reconciliation processes.
- k. How much flexibility is there for the bank's systems to interface with TSAHCs in-house system? TSAHC uses the QuickBooks Premier 2021 system. Does the bank have other public entities using this system?

8. Funds Transfer and Wire Services

TSAHC currently has an average of sixteen (16) incoming domestic wires each month and an average of five (5) outgoing domestic wires each month

Incoming wire transfers must receive immediate same day collected credit. Wire initiation must be available online. TSAHC requires that wires be released the same business day if information is provided by the established deadline. TSAHC will require compensation for delays caused by bank errors at that day's Fed Funds rate.

- a. Is wire initiation available online? Describe the process of online wire initiation.
- b. Is wire status monitoring available online?
- c. What back-up process is made available for the on-line process?
- d. How and when will the bank notify TSAHC of incoming wires? Alerts?
- e. Describe security provisions for wire initiation.
- f. Is future dating available for both repetitive and non-repetitive wires and transfers?
How far in advance?
- g. Are inter-account transfers able to be completed online?
- h. What is the bank's policy on ledger balances used for outgoing wires?

9. ACH Services

TSAHC originates an average of 118 ACH a month and expects to continue moving toward more ACH transactions. ACH is currently used for payrolls, periodic transfers, vendor payments and debt service. TSAHC requires a pre-notification on all new addresses.

- a. Describe the batch transmission requirements for ACH transactions.
- b. Is TSAHC able to initiate individual ACH transactions online? How?
- c. Are two-day, one-day and same-day ACH transactions available?
- d. What filters and blocks are available for ACH transactions? Define and describe.
- e. Are all ACH addenda shown in their entirety on-line and on reports?
- f. Is the account debited on an ACH debit when the transaction is initiated or on settlement?

10. Safekeeping Services

The bank will be required to provide book-entry safekeeping services for securities owned by TSAHC. All TSAHC investments will be made by TSAHC, or its investment adviser, and instructions for clearing and safekeeping will be transmitted on a trade ticket to the bank in writing. TSAHC holds both fixed income and MBS securities.

Custody must be in the bank and not a brokerage subsidiary of the bank. It can be provided by a correspondent. All securities must be cleared on a delivery versus payment (DVP) basis and ownership documented by original clearing confirmations and safe-keeping receipts provided within one business day of the transaction. Funds for investments will be drawn from a designated TSAHC account. All principal and interest payments, coupon payments, and

maturities must receive automated same day collected credit on TSAHC designated account without requiring any additional TSAHC action.

If the bank is not a member of the Federal Reserve and utilizes a correspondent bank for safekeeping of TSAHC securities, the transactions will be handled through the depository bank's systems and shall not require additional interaction by TSAHC with the correspondent bank. No delay in transactions, wires, or flow of funds will be acceptable under a correspondent relationship.

TSAHC anticipates an average of between 15-20 securities in Federal Reserve Board and/or Depository Trust Company safekeeping at any one time all from third party transactions.

All fees for clearing and safekeeping must be stipulated on Attachment A.

- a. Is the bank offering safekeeping services? Will the service be provided by the bank or another entity?
- b. Is trade data able to be input online? Describe fully. Is it required?
- c. Name the correspondent bank to be used for clearing and safekeeping.
- d. Describe any safekeeping arrangement proposed with a correspondent bank including processing requirements by TSAHC. No delays or additional transactions are acceptable.
- e. What is the deadline for settlement instructions? Is there any charge incurred for late instructions?
- f. Will safekeeping fees be charged on the analysis or hard charged?

TSAHC may choose to purchase time deposits from the bank but all time deposits will be competitively bid at the time of purchase.

11. Collateral Requirements

Authorized collateral, as defined below, must be pledged against the total time and demand deposits net of FDIC insurance with a 102% margin on the collateral maintained daily by the bank. All the requirements, including those beyond the Public Funds Collateral Act, as stated in TSAHC's Investment Policy and below, must be met by the bank. The agreement must be FIRREA compliant.

The proposal must state agreement to the following terms and conditions:

- a. All collateral pledged to TSAHC must be held in an independent, third-party bank outside the bank's holding company.
- b. The depository agreement covering safekeeping shall be executed between TSAHC and the depository for custody of pledged securities in full compliance with FIRREA requiring a bank resolution.

- c. All time and demand deposits above FDIC coverage shall be collateralized at a minimum of 102% of market value principal plus accrued interest daily.
- d. The bank shall be contractually responsible for the daily monitoring and maintaining of collateral at TSAHC's required 102% margin levels.
- e. Pledged collateral shall be evidenced by original safekeeping receipts/report sent directly to TSAHC preferably by the custodian within one business day of receipt.
- f. TSAHC shall receive a monthly report of collateral pledged including description, par, market value and cusip.
- g. Substitution rights shall be granted if the bank obtains TSAHC's prior approval and if substituting securities are received before previously pledged securities are removed from safekeeping. Substitution rights may be waived under certain conditions approved by TSAHC.

Authorized collateral includes only:

- Obligations of the US Treasury
 - Obligations of US Government agencies and instrumentalities including mortgage-backed securities which pass the bank test.
 - Bonds of any state or its subdivisions if rated A or better by at least one nationally recognized rating agency
 - FHLB letters of credit
- a. State the bank's acceptance of the collateral conditions above. Note any exceptions.
 - b. Does the bank propose any collateral charges, if so under what conditions are they charged and how is the charge applied?
 - c. What institution will serve as the custodian for pledged collateral?
 - d. Does the custodian provide online inquiry for TSAHC?
 - e. Does the custodian provide daily mark-to-market pricing?
 - f. How often does the bank monitor collateral levels?
 - g. What entity will provide the monthly collateral report?

12. Stop Payments

TSAHC rarely has stop pays however an automated process is required.

- a. How are stop pays initiated?
- b. How long are the standard stop pay periods?
- c. What are the options for renewals of stop pays?
- d. How is a stop pay renewed?
- e. What is the deadline for same day action on stop pays?
- f. Stop pay orders must be initiated on-line. Is there any paper follow-up document required?
- g. Provide the stop pay authorization levels and notification requirements.

13. Account Analysis

Monthly account analysis reports must be provided for each account and on a consolidated account basis. A complete account analysis will be required monthly regardless of the payment basis. Within five business days of receipt of the monthly account analysis (and subsequent approval of the fees by TSAHC) the bank may direct debit the designated account for fees due if compensation is being calculated on a fee basis.

- a. Provide a sample account analysis including calculation bases. One consolidated statement as well as individual account statements are required.
- b. When and how is the analysis available each month? Online?
- c. How long is the account analysis available online?

14. Monthly Statements

The bank must provide monthly account statements on-line for all accounts with complete supporting documentation. All accounts must be on a calendar monthly cycle and statements made available on a timely basis. Timeliness of statements is critical and non-performance will be grounds for termination of contract.

- a. Provide a sample monthly statement.
- b. When and how are monthly statements made available each month?
- c. How long is the monthly statement available online?
- d. Are paper statements also sent to TSAHC? If so, when?
- e. Is there a cost for paper statements?
- f. Is there a cost for on-line statements?

15. Account Executive

To ensure smooth contract implementation and continuation of services, a specific account executive and a back-up must be assigned to TSAHC's account to coordinate services and expedite the solution of any problems encountered. The account executive should be available to meet with TSAHC staff on banking matters as needed and at a minimum semi-annually.

- a. Provide the name, title and location of the proposed account executive.
- b. Provide the name, title and location of the backup representative.

16. Overdrafts

Every effort will be made to eliminate intra-day and inter-day overdrafts. However, because this situation may arise, state the bank's policy regarding individual and aggregate overdraft charges and the fees, if any.

17. Alternative Services Offered

If the bank has any other alternative or supplemental services (such as e-payables or e-receivables) which may offer enhanced value or be of interest to TSAHC they should be described in this section. The costs of such services should also be identified at least generally.

ALL SUBMISSIONS MUST BE SENT TO:

Melinda Smith, CFO at msmith@tsahc.org

DEADLINE TO APPLY:

June 22, 2022 at 5:00 p.m. CDT

Respondents must certify, by signing below, that they have read and understand this RFP and agree to fulfill the duties and responsibilities required by TSAHC for website services.

By: (print)

Signature:

Date:

Note: Submit this page, signed and dated, with your completed response.

ATTACHMENT A

PROPOSED FEES Fiscal Year 2022

	MONTHLY AVERAGE	PROPOSED UNIT FEE	EXTENDED FEE	NOTES, IF APPLICABLE
AVERAGE COLLECTED BALANCE	5,420,362			
CHECKING SERVICES				
INACTIVE ACCOUNT MAINT	2			
ACCOUNT MAINT	5			
CREDITS POSTED	27			
ACH INCOMING CREDITS	56			
DEBITS POSTED	36			
ACH INCOMING DEBITS	20			
ON-US DEPOSITED ITEMS	1			
SPECIAL SIGNATURE REQUIREMENT	2			
SPECIAL SIGNATURE REQUIREMENT-ITEM	2			
RETURN ITEMS	0			
ACCOUNT TRANSFERS-INTRABANK	0			
REMOTE DEPOSIT CAPTURE				
REMOTE MONTHLY MAINT	1			
REMOTE CREDITS POSTED	28			
REMOTE ON-US DEPOSITED ITEMS	2			
REMOTE DEPOSITED ITEMS	136			
REMOTE INFO REPORTING ITEMS	138			
VAULT SERVICES				
MINIMUM CHANGE ORDER	0			
POSITIVE PAY SERVICE				
POSITIVE PAY SERVICE	1			
POSITIVE PAY PAID REJECT ITEMS	0			
ACH AND FRAUD PREVENTION				
ACH FILTERING MAINT	1			
ACH FILTERS	25			
ACH ORIGATION SERVICES				
ONLINE PAYMENTS ACH	1			
ACH ORIGATION ITEMS	118			
RETURN ITEMS ACH	1			
NOTIFICATION OF CHANGE CORRECTION	0			
WIRE TRANSFER SERVICES				
INCOMING WIRE TRANSFERS	16			
ONLINE PAYMENTS WIRE TRANSFERS	1			
ONLINE BANKING WIRE TRANSFERS	2			
COMMERCIAL ONLINE BANKING				
SECURITY TOKEN	0			
ONLINE ACCESS	5			
ONLINE ACCOUNTS	7			
PREVIOUS DAY ITEMS	164			
FINANCIAL EDI ITEMS	27			
SAFEKEEPING SERVICES				
CLEARANCE FED NON-ABS/MBS	1			
CLEARANCE BNY NON ABS/MBS	0			
CLEARANCE CALLED BOND	0			
CUSTODY MO MAINT	1			
CUSTODY ASSETS PER \$10m BE	2,877			
CUSTODY FIXED INCOME RECEIPTS	14			
CUSTODY INTERST PAYMENTS	2			
CUSTODY MATURITY PAYMENTS	0			
CUSTODY P&I PAYDOWN PAYMENTS	1			

ATTACHMENT B



INVESTMENT POLICY

Fiscal Year 2022
(Approved September 15, 2021)

ATTACHMENT B

TEXAS STATE AFFORDABLE HOUSING CORPORATION

INVESTMENT POLICY

TABLE OF CONTENTS

- I. POLICY**
- II. SCOPE**
- III. PRUDENCE**
- IV. OBJECTIVES**
- V. INVESTMENT STRATEGY**
- VI. DELEGATION OF AUTHORITY AND RESPONSIBILITY**
- VII. ETHICS AND CONFLICTS OF INTEREST**
- VIII. AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS**
- IX. AUTHORIZED INVESTMENTS**
- X. OTHER INVESTMENT POWERS**
- XI. UNAUTHORIZED INVESTMENTS**
- XII. DIVERSIFICATION**
- XIII. EFFECT OF LOSS OF REQUIRED RATING**
- XIV. COLLATERALIZATION**
- XV. SAFEKEEPING AND CUSTODY**
- XVI. INTERNAL CONTROLS**
- XVII. REPORTING**
- XVIII. INVESTMENT POLICY ADOPTION**

ATTACHMENT B

TEXAS STATE AFFORDABLE HOUSING CORPORATION

INVESTMENT POLICY

I. POLICY

It is the policy of Texas State Affordable Housing Corporation (the “Corporation”) to invest public funds in a manner which will fulfill, by priority, the following objectives:

- A.** Safety of principal.
- B.** Sufficient liquidity to meet the Corporation's cash flow needs.
- C.** Diversification to reduce market and credit risk.
- D.** A market rate of return for the risk assumed; and
- E.** Compliance with all applicable state statutes governing the investment of public funds, including (i) the Corporation's enabling legislation, Texas Government Code, Section 2306, Subchapter Y, (ii) the Public Funds Investment Act (the “Act”), Texas Government Code, Section 2256, and (iii) any other applicable law.

II. SCOPE

This Investment Policy (“Policy”) applies to all financial assets of the Corporation, except for any promissory notes payable to the Corporation. A separate portfolio is created for surplus bond funds which are received because of the early redemption of bonds. The long-term nature of these funds requires a distinct portfolio for the purpose of investment. The purpose of the funds is directed solely towards investment income. The fund’s investment shall be in full compliance with all applicable state statutes governing the investment of public funds, including (i) the Corporation’s enabling legislation, Texas Government Code, Section 2306, Subchapter Y, and (ii) the Public Funds Investment Act (the “Act”), Texas Government Code, Section 2256.

III. PRUDENCE

- A.** Prudent Person Standard - Investments shall be made with judgment and care under circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety and liquidity of their capital as well as the probable income to be derived.
- B.** The standard of prudence to be used by the Investment Officer shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment Officers (hereinafter defined) acting in accordance with the Policy and written procedures and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided that

ATTACHMENT B

deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

IV. OBJECTIVES

The investment portfolio shall be designed with the objective of obtaining reasonable yield throughout budgetary and economic cycles commensurate with the Corporation's investment risk constraints and cash flow needs. A maximum dollar-weighted average maturity (WAM) will be two years which is based on the historic cash flows. The benchmarks for risk in the portfolio shall be the one-year and two-year U.S. Treasury Notes mirroring that WAM. The following are the primary objectives of investment activities in order of priority:

A. Safety of Principal

Preservation and safety of principal is the foremost objective of the investment program. Investments of the Corporation shall be undertaken in a manner that seeks to ensure the preservation of capital. The principal will be protected by limiting credit risk through purchase of high credit quality securities and limiting interest rate risk through a structured portfolio which addresses projected cash flow requirements.

B. Liquidity

Liquidity risk is the risk that funds will not be available to pay liabilities or the inability to sell a security for needed cash. To protect liquidity needs the Corporation will prepare a cash flow analysis to direct investments and limit its maximum final stated maturity to three years for non-surplus funds. The Corporation's investment portfolio shall contain a liquidity buffer to meet all unanticipated cash flow needs. In addition, securities with active secondary or resale markets will be used to meet unanticipated liabilities.

C. Diversification

The Corporation shall diversify its portfolio to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of investments. Investment shall always be selected that provide for stability of income and reasonable liquidity.

D. Yield

The Corporation's investment portfolio shall be designed with the objective of attaining a reasonable market yield throughout budgetary and economic cycles, taking into account the investment risk constraints and cash flow needs of the Corporation. Return on investment is of less importance than the safety and liquidity of the investments. Reasonable yield shall be obtained through competitive bidding on all transactions and comparative analysis of all market alternatives available within the parameters of this Policy.

ATTACHMENT B

V. INVESTMENT STRATEGY

- A. The Corporation may commingle its operating funds for maximum investment efficiency and economy of scale. Interest will be distributed as applicable among the funds. The authorized securities, investments or pools utilized for this portfolio will be of the highest credit quality and marketability supporting the Corporation's objectives of safety, liquidity, diversification, and yield.
- B. Securities, when not matched to a specific liability, will be short-term and of a liquid nature to provide adequate cash flow for the Corporation. The portfolio shall be diversified to protect against credit and market risk in any one sector. Diversification requirements can be fully met through use of an authorized pool. The weighted average maturity on the pooled investment group will be no greater than two years. Because the funds are pooled for investment purposes, the portfolio will address the varying needs of all funds in the pooled fund.
- C. Surplus funds of the Corporation) may be invested in certain longer-term, mortgage-backed pass-through investments (not CMOs) than those authorized for operating funds, as described in this paragraph. The maximum stated maturity (from the date of investment of such surplus funds) of such investments will be thirty (30) years. The permitted longer-term investments are pass-through mortgage-backed securities guaranteed by GNMA (Government National Mortgage Association), FNMA (Federal National Mortgage Association) or FHLMC (Federal Home Loan Mortgage Corporation) as authorized under the Corporation's specific bond issues. Investment of surplus funds includes transfers to the Corporation of surplus investments released from a bond trust indenture established to secure bonds of the Corporation.

VI. DELEGATION OF AUTHORITY AND RESPONSIBILITY

A. Board of Directors

1. The Board of Directors of the Corporation (the "Board") shall establish the Corporation's Investment Policy, strategies and objectives, review and adopt the Policy and Strategies in accordance with State law annually, obtain such expert advice and assistance with respect to its actions as is necessary to exercise its responsibilities prudently, and monitor the actions of staff and advisors to ensure compliance with this Policy. It is the Board's intention that this Policy be carried out by those persons who are qualified and competent in their areas of expertise.

The Board shall also review and adopt the list of eligible broker/dealers annually and shall receive and review the quarterly investment report. The Board shall designate the Corporation's Investment Officer(s). Authority granted to a person to invest the Corporation's funds shall remain effective until rescinded by the Board or the termination of the Investment Officer's employment by the Corporation. The Board shall also provide for the training required for Investment Officers.

ATTACHMENT B

2. The delegation of authority as provided below in no way diminishes the Board's ultimate responsibility as the funds' fiduciary.
3. Each member of the Board shall attend at least one training session relating to the person's responsibilities under the Act within six months after taking office or assuming duties. Training under this section may be provided by the Texas Higher Education Coordinating Board and include investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, compliance with the Act and compliance with this Policy.

B. Investment Officer(s)

1. The authority to manage the Corporation's investment program is granted to the President. The President may delegate the responsibility for the operation of the investment program to the Chief Financial Officer and Controller as the Corporation's designated "Investment Officers".
2. The Investment Officer shall be responsible for all transactions undertaken and shall establish internal controls to regulate the activities of subordinate officials. Procedures should include reference to safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. Such procedures may include explicit temporary delegation of authority to persons responsible for investment transactions.
3. The Investment Officer shall establish written procedures for the operation of the investment program consistent with this Policy.
4. The Investment Officer shall attend ten (10) hours of training within twelve (12) months of assuming the position and every two fiscal years thereafter. Training is to include investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Act.
5. The Investment Officer may temporarily delegate investment responsibilities to subordinate staff. Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions.
6. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Investment Officer.

VII. ETHICS AND CONFLICT OF INTEREST

- A. If an Investment Officer of the Corporation has a personal or business relationship with a business organization offering to engage in an investment transaction with the Corporation (as described in Section 2256.005(i) of the Act), the Investment Officer

ATTACHMENT B

shall file a statement disclosing that personal business interest with the Board and the Texas Ethics Commission.

- B.** An Investment Officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the Corporation shall file a statement disclosing that relationship with the Board and the Texas Ethics Commission.

VIII. AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

- A.** The Corporation shall maintain a list with a minimum of three qualified broker/dealers authorized to engage in investment transactions with the Corporation. This list of qualified broker/dealers shall be reviewed, revised, and adopted at least annually by the Board.
- B.** Broker/dealers shall, at a minimum, provide information as required by the Investment Officer and provide evidence of Financial Industry Regulatory Agency (FINRA) membership. Information on the broker/dealers shall be maintained by the Investment Officer or non-discretionary Investment Adviser. The Corporation shall assure that every Corporation authorized broker/dealer is provided a current copy of the Corporation's Investment Policy.
- C.** Financial institutions used for time and demand deposits do not need the prior approval of the Board. The nature of competition for rates in financial institutions within Texas prohibits foreknowledge of applicable financial institutions. These institutions shall, however, fulfill all remaining requirements for authorization including depository/collateral contracts, as applicable.
- D.** Any business organization (defined as pools and contracted discretionary investment advisers) offering to engage in an investment transaction with the Corporation shall be provided a copy of this Policy for review and certification of that review (PFIA 2256.005(k)). Material changes to the Policy will require re-certification. The Corporation will utilize only a non-discretionary investment adviser to assure that cash-flow is monitored and protected.

A certification for business organizations in a form acceptable to the Corporation shall affirm that the business organization:

1. Has received and reviewed this Policy; and
2. Acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by this Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entire portfolio or requires an interpretation of subjective investment standards.

ATTACHMENT B

E. The Investment Officer of the Corporation may not transact any business from a business organization (pool) which has not delivered the signed certification to the Corporation.

F. The brokerage subsidiary of the Corporation's depository banking services bank shall not be used for purchase of securities in order to perfect delivery versus payment (DVP) unless that DVP process can be clearly documented by the firm on all confirmations.

G. No less than every five years, the Corporation shall, through a competitive process chose a banking services institution to serve as its primary depository and a custodian for Corporation owned securities.

IX. AUTHORIZED INVESTMENTS

A. Notwithstanding any grant or program limitations to the contrary, the following are authorized investments of the Corporation:

1. **Obligations of the U.S. Government, its agencies and instrumentalities** including pass-through mortgage-backed and collateralized mortgage obligations (CMOs). In all but the Surplus Funds:

- a. Debentures shall have a stated maturity not to exceed three (3) years and
- b. Pass-through mortgage-backs and CMOs shall have a stated maturity (i) not to exceed ten (10) years and (ii) pass the Federal Reserve's *bank shocktest*.

Surplus funds are authorized to be invested in pass-through mortgage-backed securities (not CMOs) with a maximum maturity of 30 years as described in Section V.C. above.

2. **Depository Certificates of Deposit** issued by any state or national bank doing business in the State of Texas or a credit union doing business in the State of Texas to include the CDARS program as defined by the Act and are:

- a. Guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or its successor or the National Credit Union Insurance Fund or its successor.
- b. Secured by obligations of the US Government, its agencies and instrumentalities as further defined in this Policy; and
- c. Have a stated maturity not to exceed one year.

3. **Fully collateralized repurchase agreements** and reverse repurchase agreements which:

ATTACHMENT B

- a. Have a defined termination date and are executed under the terms of a written Master Repurchase Agreement.
- b. Are secured by collateral defined in this Policy and held by an independent safekeeping agent approved by the Corporation.
- c. Require that the securities being purchased be held in the Corporation's name by an independent custodian approved by the Corporation; and
- d. Are executed with a primary government securities dealer, as defined by the Federal Reserve.

The term of any reverse security repurchase agreement may not exceed 90 days after the date of the reverse. Money received by the Corporation from the reverse security repurchase agreement may be used to acquire authorized investments, but the maturity date of the investment acquired must not be later than the expiration date of the reverse.

4. **AAA-rated, SEC registered money market mutual funds.**

- a. A money market mutual fund is an authorized investment if the fund:
 - i. Is registered with and regulated by the Securities and Exchange Commission.
 - ii. Has a dollar-weighted average stated maturity of 60 days or fewer:
and
 - iii. Includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.
- b. The Corporation is not authorized to invest its funds or funds under its control in any money market mutual fund in an amount that exceeds 10 percent of the total assets of the mutual fund.

5. **Commercial Paper.** Commercial paper is an authorized investment if it:

- a. Has a stated maturity of two hundred-seventy (270) days or fewer; and
- b. Is rated not less than A-1/P-1 or equivalent by at least two nationally recognized credit rating agencies,

6. **Uncollateralized Guaranteed Investment Contracts.** For funds that are pledged under a trust indenture for bonds issued by the Corporation, investment securities that are permitted under the terms of such trust indenture, including, but not limited to, uncollateralized investment agreements.

ATTACHMENT B

7. **Texas Local Government Investment Pools.** Permitted constant dollar investment pools, as defined by the Act, are authorized under this policy if the investment pool:
 - a. Is created to function as a money market mutual fund, marks its portfolio to market daily and strives to maintain a \$1 net asset value.
 - b. If it is rated not less than AAA or V-1 or equivalent rating by at least one nationally recognized rating service.
 8. **State and Municipal Obligations.** Obligations of any state and their subdivisions rated A, or better, by at least one nationally recognized rating agency with a stated maturity not to exceed three years.
 9. **FDIC Insured Brokered Certificate of Deposit Securities. Brokered Certificate of Deposit Securities** from banks in any US state, delivered versus payment to the Corporation's safekeeping depository, not to exceed one year to maturity. Before purchase, the Investment Officer or Investment Adviser must verify the status of the bank on www.fdic.gov to assure that the bank is FDIC insured.
 10. **AAA-Rated. SEC Registered Ultra Short-Term Duration Funds** if the mutual fund has an average weighted maturity of less than two years; and a) if the fund has a duration of one year or more is invested exclusively in obligations approved by this Policy; or b) if the fund has a duration of less than one year the investment portfolio is limited to investment grade securities, excluding asset-backed securities.
- B.** No additional securities or investments are authorized for Corporation use until this Policy has been amended and the amended policy has been adopted by the Board.
- C.** All investment transactions shall require competitive bidding.
- D.** To minimize loss of principal, securities which are downgraded in credit or become unauthorized after purchase should be monitored daily and may be sold prior to maturity after a prudent analysis of market conditions.
- E.** Security swaps may be utilized for improvement in the quality, yield, or target duration in the portfolio but only if analysis proves a positive horizon value for the swap.
- F.** Any investment held prior to changes in this Policy that does not meet the guidelines of this Policy shall be exempted from the requirements of this Policy. The Corporation is not required to liquidate investments that were authorized at the time of purchase (Act Section 2256.017). However, at maturity or liquidation, such monies shall be reinvested only as provided by this Policy.

ATTACHMENT B

X. OTHER INVESTMENT POWERS.

In accordance with Section 2256.024(a) of the Act, the investment authority set forth in Section IX of this Policy is in addition to that granted to the Corporation by other applicable law. In accordance with Section 2256.024(b) and (c) of the Act, the Corporation may invest in mortgage pass-through certificates and individual mortgage loans that are originated in connection with authorized housing bond programs of the Corporation, subject to any limitations otherwise set forth in this Policy.

XI. UNAUTHORIZED INVESTMENTS

The following are not authorized investments:

- A. Interest only obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (IO).
- B. Principal only obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest (PO); and
- C. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years, except as otherwise authorized under this Policy.
- D. Inverse floating collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index (Inverses).

XII. DIVERSIFICATION

The Corporation will diversify its investments by security type and institution. With the exception of U.S. Treasury securities, no more than 50% of the Corporation's total investment portfolio will be invested in a single security type or single issuer.

General diversification parameters will include:

<u>Type of Obligation</u>	<u>Maximum Percentage of Total Portfolio</u>
U.S. Obligations	80%
Obligations of U.S. Agencies	80%
Certificates of Deposit (total)	60%
Certificates of Deposit (by institution)	15%
Repurchase Agreements	30%
Money Market Mutual Funds	25%
Commercial Paper (total)	30%
Commercial Paper (by issuer)	10%
Local Government Pool	75%
Banking Accounts	80%

ATTACHMENT B

XIII. EFFECT OF LOSS OF REQUIRED RATING

An investment that requires a minimum rating under this Policy does not qualify as an authorized investment during the period the investment does not meet or exceed the minimum rating. The Corporation shall take prudent measures that are consistent with its Policy to evaluate possible liquidation of an investment that does not meet or exceed the minimum rating as market conditions dictate (Act Section 2256.021).

The Investment Officer or Investment Adviser shall monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by Policy, the Investment Officer or Investment Adviser shall notify the President of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available, within two weeks after the loss of the required rating.

XIV. COLLATERALIZATION

Collateralization will be required on all time and demand accounts above FDIC insurance levels and on repurchase agreements. To anticipate market changes and provide a level of security for all funds, the collateralization margin level will be 102%.

- A.** For time and demand deposits the following securities are authorized as pledged collateral. Preference to be given to pledged securities over letters of credit:
 - 1. Obligations of the United States or its agencies and instrumentalities including mortgage-backed securities meeting the bank test.
 - 2. Direct obligations of the State of Texas or its agencies and instrumentalities.
 - 3. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of Texas or the United States or their respective agencies and instrumentalities; and
 - 4. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.
 - 5. FHLB Letters of Credit
- B.** For repurchase agreements, obligations of the U.S. Government, its agencies and instrumentalities including mortgage-backed securities are authorized as collateral owned under the transaction. A letter of credit is not authorized for repurchase agreements.
- C.** Collateral for time and demand accounts shall always be held in safekeeping by an independent third party with whom the Corporation has a current custodial agreement executed under the terms of FIRREA (time and demand deposits). A clearly marked

ATTACHMENT B

evidence of pledge or ownership must be supplied to the Corporation and retained. The Corporation shall grant the right of collateral substitution, subject to receiving prior approval from the Investment Officer.

- D.** It shall be the contractual liability of the counterparty pledging or selling the securities to monitor and maintain the appropriate 102% margin daily.
- E.** The custodian of the collateral shall provide an independent, detailed listing of the collateral on a monthly basis directly to the Corporation.
- F.** Any pooled collateral program proposed to the Corporation shall be reviewed by the Investment Officer(s) for risk/reward, but approval of the collateral pool will be by the Board.

XV. SAFEKEEPING AND CUSTODY

All securities owned by the Corporation will be held by an independent third-party custodian approved by the Corporation and under a current custody agreement.

All security transactions will be executed on a Delivery vs. Payment (DVP) basis. This ensures that securities are deposited prior to the release of funds. Securities will be held by an independent third-party custodian and evidenced by safekeeping receipts.

XVI. INTERNAL CONTROLS

A. Internal Controls

The Investment Officer is responsible for establishing and maintaining internal controls to ensure that the assets of the Corporation are protected from loss, theft, or misuse. The internal controls shall address the following points:

1. Control of collusion,
2. Separation of transaction authority from accounting and record keeping.
3. Custodial safekeeping.
4. Clear delegation of authority to subordinate staff members.
5. Written confirmation of all transactions.

In developing controls, the concept of reasonable assurance recognizes that:

1. The cost of control should not exceed the benefits likely to be derived; and
2. The valuation of costs and benefits requires estimates and judgments by management.

ATTACHMENT B

B. Compliance Audit

At least once every two years, the Corporation shall arrange for a compliance audit of management controls on investments and adherence to this Policy and the Act.

1. The compliance audit shall be performed by the Corporation's internal auditor or by a private auditor.
2. The results of the audit performed under this section shall be presented to the Board.
3. The Corporation shall report the results of the audit performed under this section to the Office of the State Auditor not later than January 1 of each even-numbered year. The report shall be prepared in a manner as prescribed by the Office of the State Auditor.
4. The Corporation shall also report to the Office of the State Auditor other information the state auditor determines necessary to assess compliance with laws and policies applicable to the Corporation's investment.

C. Wire Transfers

All wire transfers will be transacted under a written agreement and, if possible, require two signoffs. This agreement shall delineate controls, security provisions, and responsibilities of each party.

D. Monitoring FDIC Insurance

The Investment Officer or Investment Adviser shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by the Corporation based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered CDs are owned, the Investment Officer or Investment Adviser shall immediately liquidate any brokered CD which places the Corporation above the FDIC insurance level.

XVII. REPORTING

A. Quarterly Reports

At least quarterly, the Investment Officer shall prepare and present to the Board an investment report, including a summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This investment report will be prepared in a manner, which will allow the Board to ascertain whether investment activities during the reporting period have conformed to the Policy. The report must:

1. Describe in detail the investment position on the date of the report.

ATTACHMENT B

2. Be prepared jointly by all Investment Officers.
3. Be signed by each Investment Officer.
4. Be prepared in compliance with Generally Accepted Accounting Principles (GAAP) for each fund that states:
 - a. The stated maturity date and call or reset date of each security.
 - b. The book value and market value of each security at the beginning and end of the reporting period by type and market sector.
 - c. Additions and changes in market value during the period.
 - d. Fully accrued interest and total earnings for the reporting period.
 - e. State the fund or pooled group for which each individual investment was acquired; and
5. State the compliance of the investment portfolio as it relates to the investment strategy expressed in this Policy and the Act.

B. Audit Report

An independent auditor shall formally review the investment reports prepared by the Investment Officer under this Policy at least annually and that auditor shall report the result of the review to the Board.

C. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this Policy and the cash flow analysis. The maximum dollar weighted average maturity of the portfolio is one year. To measure performance and the level of risk in the portfolio, the benchmarks of the six-month and one-year Treasury Bills for the comparable period will be reported quarterly.

D. Market Value

The Investment Officer will obtain market prices used to calculate market value from independent, recognized published sources or from other qualified professionals.

E. Changes to Public Funds Investment Act

The Investment Officer shall present to the Board a report on changes to the Act no later than 180 days after the last regular session of the legislature.

ATTACHMENT B

XVIII. INVESTMENT POLICY ADOPTION

The Investment Policy shall be reviewed and adopted by resolution of the Board at least annually. The Board must approve and adopt any amendments made thereto. The Board shall adopt by written resolution a statement that it has reviewed the investment policies and strategies and note any changes made.