

Massachusetts Educational Financing Authority  
Investment Policy

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# Massachusetts Educational Financing Authority

## Investment Policy

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The Massachusetts Educational Financing Authority (“MEFA” or “Authority”) is a body politic and corporate, constituting a public instrumentality of the Commonwealth of Massachusetts, established pursuant to Chapter 803 of the Acts of 1981, as amended, to assist the Commonwealth’s institutions of higher education, students and families in the financing and refinancing of the costs of higher education. MEFA provides low cost education loans to eligible students and families to assist with the cost of attendance at eligible higher education institutions across the Commonwealth and beyond. In addition to the education loan programs, MEFA offers two college savings programs: The U.Plan – The Massachusetts Prepaid Tuition Program and The U.Fund College Investing Plan.

MEFA’s Enabling Act, MGL Chapter 15C, was further amended in 2014 authorizing MEFA to create, establish and maintain a Qualified ABLE Program that conforms to the requirements set forth in the federal ABLE legislation enacted on December 19, 2014, as part of the Tax Increase Prevention Act of 2014, as subsequently amended. The ABLE legislation provides for tax-advantaged investment accounts under a Qualified ABLE Program for future “qualified disability expenses” of individuals with disabilities, without adverse impact on federal means-tested benefits. MEFA’s Attainable Savings Plan launched in the spring of 2017.

MEFA is a self-financing Authority that does not receive state or federal appropriations to support operational expenses.

MEFA’s Enabling Act, MGL Chapter 15C, Section 18 sets forth the broad investment framework for the Authority’s funds. Those funds include the Authority’s General Funds, funds held under MEFA Bond Resolutions by the Bond Trustee, funds held by MEFA under MEFA’s two College Savings Programs - The U.Plan Prepaid Program and The U.Fund College Investing Program, and funds held by MEFA under The Attainable Savings Program.

MEFA’s Investment Policy was most recently approved by MEFA’s Board of Directors on March 30, 2017. The policy is reviewed on at least an annual basis by MEFA’s Board of Directors as it reviews the investment of MEFA’s funds including the General Funds of the Authority, the U.Plan Prepaid Tuition Program, U.Fund College Investing Program, the Attainable Savings Program and Trusteed Funds held under various Bond and Note Resolutions. The policy will continue to be reviewed by MEFA’s Board of Directors and presented to the State Finance and Governance Board pursuant to required regulations.

## **A. Investment of MEFA General Funds**

MEFA General Funds include the funds available for paying the operating expenses of the Authority, purchasing capital assets and supporting capital markets activities. In accordance with MGL Chapter 15C, Section 18 the Authority may invest any Authority General Funds in the following:

- i. direct general obligations of the United States of America;
- ii. obligations the payment of the principal and interest on which, by Act of the Congress of the United States or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the United States of America;
- iii. bonds, debentures, participation certificates, notes or similar evidences of indebtedness payable in cash issued by any one or a combination of any of the following: Federal Banks for Cooperatives, Federal Land Banks, Federal Home Loan Banks, Federal Farm Credit Banks, Federal Intermediate Credit Banks, Export-Import Banks of the United States, Farmers Home Administration, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association and the Student Loan Marketing Association;
- iv. public housing bonds issued by public agencies or municipalities are fully secured as to the payment of both principal and interest by a pledge of annual contributions contract or contracts with the United States of America; or temporary notes, preliminary notes or project notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by requisition or payment agreement with the United States of America;
- v. direct and general obligations of any state or political subdivision thereof or territory of the United States to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase such obligations are rated in one of the four highest rating categories by any nationally recognized rating agency;
- vi. bank time deposits evidenced by certificates of deposit of or time deposit constituting direct obligations of banks which are members of the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, provided that, to the extent such time deposits exceed available federal deposit insurance, such time deposits are fully secured by obligations described in items (i) through (iv) above, which at all times have a market value (exclusive of accrued interest) at least equal to such bank time deposits so secured, including interest, or such deposits are due within one year and are issued by banks the senior long-term

debt securities of which are rated in one of the four highest categories by any nationally recognized rating agency;

- vii. repurchase agreements for obligations of the type specified in clauses (i) through (iv) above with federally insured banking institutions which have a capital and surplus aggregating at least one hundred million dollars, provided such repurchase agreements are fully collateralized and secured by such obligations having market value, exclusive of accrued interest, at least equal to the purchase price of such repurchase agreements and which shall be delivered to a trustee;
- viii. investment agreements with banks the senior long-term debt securities of which are rated in one of the four highest categories by any nationally recognized rating agency and which have a capital and surplus aggregating at least one hundred million dollars;
- ix. any other manner specifically approved for the purpose of the particular investment by resolution of the Authority;

Acting under the forgoing above (ix), the Board has approved the following:

- i. investment companies or money market funds that are assigned a rating in a rating category no lower than the second highest category by Standard & Poor's Corporation or Moody's Investors Service;
- ii. up to 50% of Authority General Funds may be invested in equity indexed funds and the remainder may be in fixed income or money market investments of quality, as required;
- iii. up to 50% of U.Plan funds available for program operations, administration and long term record keeping may be invested in equity indexed funds and the remainder may be in fixed income or money market investments of quality, as required; and
- iv. any such securities may be purchased at the offering or market price thereof at the time of purchase. All such securities so purchased shall mature or be redeemable on a date or dates prior to the time when, in the judgment of the Authority, the funds so invested will be required for expenditure. The express judgment of the Authority as to the time when any funds shall be required for expenditure or be redeemable is final and conclusive.

## **B. Investment of U.Plan Prepaid Tuition Program Funds**

Pursuant to MGL Chapter 15C, Section 5A MEFA established the U.Plan Prepaid Tuition Program to provide families with the ability to 'lock in tomorrow's tuition at today's rates'. The U.Plan is designed to preserve the purchasing power of families' savings through the purchase of tuition certificates representing interests in Commonwealth General Obligation Bonds of various maturities that bear accreting interest at a rate equal to the annual increase in the consumer price index plus 2.5% to match participating colleges' and universities' tuition and mandatory fees lock in as structured by contract with such participating schools. The investment of participants' funds, as detailed below, is restricted and governed by U.Plan Offering Documents:

- i. Between the date deposits are collected and the purchase of the Commonwealth bonds, the amounts collected and a related liability to participants are recorded on the Authority's College Savings Funds Balance Sheet as certificates payable;
- ii. during that period, participants' funds for certificate purchases are held in a tax exempt money market fund in accordance with U.Plan Offering Documents;
- iii. once the Commonwealth bonds are purchased, the liability is removed from the Authority's balance sheet;
- iv. redemptions for U.Plan certificates are also held on the Authority's College Savings Balance Sheet as restricted assets governed by the U.Plan Offering Documents in accordance with MGL Chapter 15C, Section 5A;
- v. following bond redemption, proceeds are held on behalf of U.Plan investors until payment is made to a participating college or university or directly to the investor in an interest bearing money market account as governed by the U.Plan Bond Offering documents.

## **C. Investment of U.Fund College Investing Program Funds**

Pursuant to MGL Chapter 15C, Section 5A MEFA established The U.Fund College Investing Program as a Qualified Tuition Program under Section 529 of the Internal Revenue Code of 1986, as amended. The U.Fund is managed by a third party serving as the U.Fund Program Manager in accordance with the requirements of Section 529. The program allows families to invest for qualified higher education expenses through a tax advantaged method of saving for higher education costs through investment vehicles including stocks, bonds and

money market mutual funds. The Program Manager is selected by MEFA through an RFP process and reports to the MEFA Board of Directors Investment Committee on at least a semi-annual basis. The U.Fund is governed by the terms and conditions of participation described in the Customer Agreement and the U.Fund Supplemental Information;

- i. participants establish accounts to invest in one or more of a variety of investment portfolios invested pursuant to different investment strategies in accordance with the Investment Guidelines set forth in the Amended and Restated Investment Management Agreement by and between MEFA and the Program Manager;
- ii. investment portfolios include (a) portfolios comprised of mutual funds sponsored by the Program Manager's mutual fund complex, and include 'changing allocation portfolios' designed to accommodate beneficiaries of similar ages, 'static allocation portfolios' designed to accommodate beneficiaries without regard to age and 'individual fund portfolios' designed to invest in a single underlying mutual fund to accommodate beneficiaries without regard to age. (b) a portfolio invested in an FDIC-insured bank account and (c) 'changing allocation portfolios' comprised of mutual funds not sponsored by the Program Manager's mutual fund complex or a combination of such funds and mutual funds sponsored by the Program Manager's mutual fund complex, designed to accommodate beneficiaries of similar ages;
- iii. investment portfolios are not included in the Authority's financial statements.

#### **D. Attainable Savings Program**

Pursuant to MGL Chapter 15C, Section 29 The Attainable Savings Plan has been established as a Qualified ABL Program under Section 529A of the Internal Revenue Code of 1986, as amended. The Attainable Savings Plan provides for the creation by plan participants of a tax-advantaged investment account for future "qualified disability expenses" of individuals with disabilities, without adverse impact on federal means-tested benefits. The Attainable Savings Plan is managed by a third party serving as the Program Manager in accordance with the requirements of Section 529A. The Program Manager is selected by MEFA through an RFP process and reports to the MEFA Board of Directors Investment Committee on at least a semi-annual basis. The Attainable Savings Program is governed by the terms and conditions of participation described in the Participation Agreement;

- i. participants establish accounts to invest in one or more of several investment portfolios which are and will be invested under different investment strategies in accordance with the Investment Guidelines set forth in the ABL Investment Agreement by and between MEFA and the Program Manager;

- ii. investment portfolios are not included in the Authority financial statements;

#### **E. Investment of Funds Held Under Bond and Note Resolutions by the Bond Trustee**

MEFA raises proceeds from Educational Loan Revenue Bonds and Notes issued by the Authority to provide education loans to eligible students and families to assist with the cost of attendance at eligible higher education colleges and universities within the Commonwealth and beyond.

The Bonds, which are payable under various resolutions, are special obligations of the Authority, which has no taxing power, payable solely from the revenues and the funds and accounts established and pledged under the resolution. No revenues or other assets of the Authority are available to fund payment of the Bonds except as expressly provided by the resolution. In certain cases, the revenues and other assets of the Authority are pledged to support credit enhancement of its notes and to provide for program costs associated with the Notes. Neither the Commonwealth of Massachusetts nor any political subdivision thereof is or shall be obligated to pay the principal or redemption or purchase price of and interest on the Bonds and Notes, and neither the full faith and credit, nor the taxing power of the Commonwealth or any political subdivision thereof is pledged to such payment.

- i. The Bond and Note Resolutions establish various funds and accounts, to provide for the allocation and disbursement of monies associated with the MEFA debt programs. The investment and uses of the assets of the various funds and accounts is governed and restricted by the applicable Resolutions (as set forth in Section A above) and is subject to review and consent by credit enhancers and rating agencies;
- ii. Except as set forth above with respect to credit enhancement of certain Notes, the liabilities of these funds are the sole responsibility of the specific Trust Estate set up by the individual Bond and Note Resolutions.