



**Massachusetts Housing Finance Agency**

# **DEBT MANAGEMENT POLICY**

**Re-adopted March 8, 2016**

## **1. Purpose**

This policy was prepared to satisfy the Debt Management Policy requirements of 976 CMR 2.01 et seq as promulgated by the Finance Advisory Board. The purpose of the Debt Management Policy is to provide a framework for the issuance, management, and reporting of MassHousing's debt obligations. The policy shall be reviewed at least every two years with the Members of MassHousing. Matters arising under this policy shall be under the purview of the Investment and Audit Sub-Committee of MassHousing.

## **2. General Policy**

All debt obligations of MassHousing will be issued in compliance with Chapter 708 of the Acts of 1966 of The Commonwealth of Massachusetts (MassHousing's Enabling Act), the bond resolutions adopted by the Members of MassHousing and other applicable security agreements, and applicable state and federal laws governing the issuance of debt. As required by the Enabling Act, all new debt issuances, including refundings, must be presented to the Members of MassHousing for approval. It will be the MassHousing's policy to:

- Finance multi-family and single family loans in accordance with MassHousing's Enabling Act and public purpose mission;
- Maximize MassHousing's ability to access the capital markets through a strong credit rating and maintaining investor interest in the issuances;
- Match loan and bond maturities to the extent required to provide for bond debt service; provided that reasonable assumptions on loan performance and prepayments can be utilized; and
- Manage its debt financings responsibly, mindful of generational equity and long-term financial impacts.

## **3. Debt Limits**

MassHousing's debt is issued in compliance with its Enabling Act and new or existing bond resolutions and other applicable security agreements. As of December 14, 2010, the statutory limit of total debt outstanding was \$4.9 billion.

## **4. Use and Purpose of Debt Proceeds**

All debt issuances will finance single family or multifamily whole loans or single family or multifamily mortgage back securities consistent with MassHousing's various lending programs and adhering to MassHousing's Enabling Act, bond resolutions and other applicable security agreements and all applicable state and federal laws. Debt proceeds may also be used to fund reserves created under the applicable bond resolutions and to pay costs of issuance.

**5. Internal Debt Management Organizational Structure, Personnel Qualifications, Training**

Debt issuance and management activities will be the primary responsibility of the Chief Financial Officer/Finance Director. MassHousing will employ staff with experience and education sufficient to allow it to properly administer this policy. The Chief Financial Officer/Finance Director shall make recommendations, if any, to the Audit and Investment Committee on deficiencies of staffing qualifications on a regular basis, and at least once every two years.

MassHousing's Treasury Department will be responsible for debt service payments. MassHousing's Financial Reporting Department will report on bond program activity as part of its financial reporting obligations.

MassHousing encourages appropriate staff training, continuing education and professional accreditation, consistent with its personnel manual, including attendance and participation in National Council of State Housing Agency conference and training seminars.

**6. Professional Services**

MassHousing will retain such outside expertise as needed, including, but not limited to:

- Qualified investment banking firms;
- Bond Counsel to advise it on debt issuances and related matters;
- A Quantitative Cash Flow Consultant to provide analytical support and information;
- From time-to-time, a Financial Advisor, to advise it on new or complicated transactions or as required by Finance Advisory Board regulations. As a general matter, MassHousing does not employ a Financial Advisor on routine debt issuances;
- A Derivative Advisor on new derivative financial products as defined by the Finance Advisory Board and the termination of existing derivative products;
- Auditing or accounting expertise on financial reporting, and arbitrage issues.

MassHousing will procure such services using a request for proposal or request for qualifications process consistent with its procurement procedures.

**7. Process of Debt Issuance**

**a. Method of Sale Determination**

From time to time, MassHousing will conduct a competitive process to qualify an investment banking team of senior and co-senior managing underwriters to structure and sell MassHousing's debt. Due to the highly structured nature of housing finance agency debt, MassHousing generally issues debt through a negotiated process with its investment banking team. Under the Enabling Act such sales are subject to the written approval of the Treasurer and Receiver-General of the Commonwealth.

**b. Circumstances to Refund Bonds**

MassHousing will monitor its debt portfolio for opportunities to refund any outstanding debt when debt service savings will be realized. Generally, MassHousing considers a refunding transaction if the refunding will provide 4% or greater net present value savings to final maturity inclusive of costs of issuance. In addition, there must be net present value savings assuming the loans financed by the refunded debt prepay at their earliest prepayment date (or other reasonable assumptions) for multifamily loans and based on reasonable pre-payment speeds for single family loans. At the direction of the Board, MassHousing may refund or restructure existing debt to meet particular organizational and/or strategic needs when it is advantageous to do so.

**8. Debt Affordability/Borrowing Capacity**

For special obligation debt (non-MassHousing General Obligations), MassHousing shall perform or have performed a cash flow analysis demonstrating sufficient resources to make timely debt service payments. Generally MassHousing will assume loans that are current in their obligations will be fully performing for the purpose of its cash flow analysis. It should be understood that future loan performance, investment return and other factors cannot be predicted precisely at the time of debt issuance.

**9. Risk Controls/Monitoring**

MassHousing will report on the financial performance of each bond program on a quarterly basis. Quarterly financial information on each bond program will be made available on MassHousing's website. Any change in the underlying rating of a MassHousing bond will be reported to the Members of MassHousing. The Members of MassHousing will be provided with a monthly report on loan delinquencies in the portfolio.

MassHousing will retain a Director of Internal Audit who, along with Agency's auditing firm, shall present internal control issues to the Audit and Investment Committee.

**10. Debt Structure Parameters**

**a. Amount of Outstanding Debt**

See "Debt Limits" above.

**b. Maturity Structure/principal repayment**

Generally, the maximum term for MassHousing bonds will not exceed the underlying loan term or loan amortization that the debt finances and should be consistent with MassHousing's applicable lending program's underwriting criteria. The debt service should generally be level and include extraordinary call provisions (in the case of default or prepayment of the underlying loans) as well as a call option after ten years where appropriate. The Enabling Act limits the maturity of bonds issued by MassHousing to not exceeding fifty years.

**c. Credit Enhancement/Insurance**

Credit enhancements, such as bond insurance and letters of credit, will only be used when the anticipated present value savings in terms of reduced interest expense exceeds the cost of the enhancement.

**d. Proportion of Variable Rate Interest Rates to Fixed Interest Rates**

MassHousing's interest rate mode will to the extent possible match the underlying loans it finances. From time to time, for a variety of economic, market access, and programmatic reasons MassHousing may issue variable rate debt to finance fixed rate loans or vice versa. In these circumstances, MassHousing will try to reduce its interest rate risk by entering into such arrangements for shorter-terms (five years or less) or through the use of synthetic fixed-rate products or other risk-reducing measures.

**11. Credit Ratings and Rating Agencies Management and Communications**

While high credit ratings generally reduce MassHousing's cost of debt and increase its market access, credit ratings must be balanced with maintaining flexibility to meet its operational and capital needs. Generally, MassHousing will attempt to maintain its current ratings while at the same time strive to enhance its overall credit quality. MassHousing shall provide information to rating agencies to support existing ratings.

**12. Investor Relations Management**

MassHousing shall provide an Information Statement or other such document with its public offering of bonds. Such Information Statement shall include information that MassHousing, along with its relevant counsel, deem complete and sufficient enough to market and sell bonds and to comply with applicable federal and state disclosure standards. Each such Information Statement shall provide a contact person with sufficient expertise and information on MassHousing and the relevant transaction to communicate with investors. MassHousing will update the Information Statement from time to time and generally on at least a quarterly basis. MassHousing will circulate the Information Statement among relevant staff to verify its accuracy. MassHousing shall retain such bond, disclosure or other relevant issuer counsel to assist it in its investor relations activity.

**13. Derivative Financial Products**

The use of derivatives in connection with debt must comply with the terms of MassHousing's Master Swap Policy adopted by MassHousing on January 10, 2006. Bond Counsel and MassHousing's swap advisor will be consulted in the event MassHousing is considering entering into or terminating any derivative product. MassHousing will comply with Finance Advisory Board requirements relative to Derivative Financial Products.

**14. Post Sale Monitoring, Management, Compliance**

MassHousing will maintain an adequate system of internal controls to provide compliance with applicable laws, rules, regulations, and covenants associated with outstanding debt. Such controls will include, but not be limited to the timeliness and accuracy of compliance with:

- Debt Service Payments
- Financial Reporting
- Bond Resolution Compliance
- Arbitrage Compliance
- Loan Portfolio Performance
- Other Contractual Agreements

MassHousing will prepare reports, on at least a quarterly basis, identifying:

- Outstanding Debt by Series
- Unscheduled Debt Payments
- Variable Rate Debt by Series
- Loan Delinquencies
- Fair-Market Value of Swaps Outstanding (as prepared by a third-party valuator)

## **15. Continuing Disclosure**

MassHousing has and will enter into Continuing Disclosure Agreements with its trustees to file certain continuing disclosure information in accordance with the provisions of Rule 15c2-12(b)(5) under the Securities Exchange Act of 1934 (as amended, the “Rule”). The form of such Continuing Disclosure Agreements may be modified to the extent necessary to conform to changes in the Rule.

In the existing Continuing Disclosure Agreements, MassHousing has agreed for the benefit of the bondholders to provide certain financial information and operating data relating to MassHousing by no later than 180 days after the end of each fiscal year (the “MassHousing Annual Information”), and to provide notices of the occurrence of certain enumerated events. MassHousing Annual Information will be filed by MassHousing with the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) system. Notices of enumerated events will be filed by MassHousing with the MSRB through EMMA.

## **16. Other Reporting Requirements**

MassHousing may enter into arrangements to provide such other reporting as may be required. Counsel shall be consulted before any such arrangement is executed.



**Massachusetts Housing Finance Agency**

# **INVESTMENT POLICY**

**Adopted March 10, 2015**

The purpose of the Investment Policy is to identify the policies that will govern the investment activities of the Massachusetts Housing Finance Agency “MassHousing”. The Policy will serve as a source of information for the Board of Directors, the Executive Director, credit rating agencies, and financial institutions. The Policy is designed to ensure the prudent management of funds, and the availability of operating and capital funds when required, while earning a competitive return within the Policy framework.

## I. Governing Authority

Investment activity shall be conducted in conformance with federal, state, and other legal requirements.

The MassHousing Statute, Section 1-4 (i), General Grant of Powers, authorizes MassHousing to “Invest any funds held in reserves or sinking funds or any funds not required for immediate disbursement in such investments as may be lawful for fiduciaries in the Commonwealth.”

Massachusetts General Laws Chapter 203C, the “Massachusetts Prudent Investor Act,” broadly defines the standards for investments by trustees and other fiduciaries.

The Investment and Audit Committee shall periodically review the investment performance and policies of MassHousing. Authority to invest funds (including money in the Mortgage Insurance Fund and other moneys entrusted to MassHousing), subject to the governing authority noted above, this Investment Policy and contracts with MassHousing bondholders, is delegated to the Financial Director by the Agency’s Board of Directors. Personnel of the Financial Division are responsible for executing the investment plans and providing necessary reports as required.

## II. Scope

This Policy applies to the investment of all funds, excluding the investment of employee retirement funds. Where applicable, this Policy will also apply generally to the investment of funds held under MassHousing’s bond resolutions and other security agreements. However, investment of such funds is also governed by the provisions of such resolutions and agreements which define the permissible investments for such funds and required rating agency, bond insurer, and other reviews and approvals. Please see the discussion in Section III, a).

Except for cash in restricted and special funds, MassHousing will consolidate cash and reserve balances to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. Cash held in separate funds and accounts established under a specific bond resolution or other security agreement may also be consolidated for investment to the extent permitted by the resolution or other agreement. Investment income earned on such consolidated funds or accounts will be allocated and deposited as provided in the bond resolution or other agreement.



### III. Objectives

The MassHousing portfolio shall be structured with the objective of maximizing return on investments considering the risk constraints and the cash flow requirements of MassHousing. Preservation of principal is the foremost objective of the Investment Policy where investment safety is defined as the certainty of receiving principal plus accrued interest at a security's maturity.

Funds are invested in vehicles that provide the liquidity necessary to enable MassHousing to meet operating, debt service, and other cash flow requirements. Portfolio liquidity is defined as the ability to sell a security on short notice near the security's par value. An adequate amount of funds will be kept in short-term money market investments or flexible guaranteed investment agreements to accommodate the reasonable cash needs of MassHousing.

The primary objectives, in order of priority, of investment activity shall be safety, liquidity, and yield.

1. Safety: Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
  - a) Credit Risk. MassHousing will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:
    - i) Limiting investments to securities listed in Section VI of this Investment Policy, subject, where applicable, to the provisions of any bond resolution or other security agreement;
    - ii) Ensuring that financial institutions, trustees, broker/dealers, intermediaries, and advisers meet the requirements of Section V of this Investment Policy;
    - iii) Diversifying the investment portfolio to minimize the impact of potential losses from one type of security or individual issuer, excluding U. S. Treasuries, Federally Guaranteed Obligations, Government Sponsored Enterprises and the Massachusetts Municipal Depository Trust "MMDT". When making new investment decisions, MassHousing will seek to limit new investment concentration to no more than approximately 15 percent with any single counterparty. This limit may be exceeded under appropriate circumstances that mitigate risk, which may include, but are not limited to, the short term of the investment, the amount and nature of the investment, the rating of the counterparty, or pledged collateral by the counterparty.
  - b) Interest Rate Risk. MassHousing will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- i) Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity;
  - ii) Investing operating funds primarily in money market funds backed with U. S. Treasury obligations, Government obligations. Money market funds shall have ratings of at least “AAA” from Standard & Poor’s Rating Services, or at least “Aaa” from Moody’s Investors Service Inc, or at least “AAA” from Fitch Ratings.
  - iii) Investing in the MMDT.
- 2. Liquidity: The investment portfolio shall remain sufficiently liquid to meet all operating, debt service, and other cash flow requirements that may be reasonably anticipated.
- 3. Yield: The investment portfolio shall be designed with the objective of attaining a market rate of return considering the investment risk constraints and liquidity needs described in this Policy. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. A security with declining credit may be sold early to minimize loss of principal. A security may also be sold to meet the liquidity needs of the portfolio. With respect to the investment of funds under MassHousing’s bond resolutions, such investment portfolios shall be designed with the objective of maintaining compliance with all yield restrictions imposed under applicable federal tax law.

a) Investment Strategy

Bond resolutions generally require that bond moneys be invested to ensure that principal and interest is paid no later than the dates on which the trustee needs such moneys for debt service and other disbursements provided by the bond resolution. Staff will strive to maximize investment income within the restrictions of the bond resolutions, including federal tax law, and guidelines of this Policy without speculation on future interest rates or market trends.

Derivative products are purchased as interest rate hedges. MassHousing enters into swap agreements and other derivative investments to hedge against rising interest rates in conjunction with the issuance of variable rate bonds or to produce a “synthetic” fixed-rate or variable-rate debt instrument. Except as authorized by the Board of Directors, the Executive Director, or the Financial Director for a particular financial transaction, MassHousing does not invest cash required to meet operating, debt service, and other cash flow requirements in derivatives such as swaps, caps, collars, warrants, options, or futures.

The Financial Division shall direct any security sales. Such sales may be for the purpose of obtaining liquid funds for authorized disbursements such as loans, bond calls, or the semi-annual payment of bondholders as required by bond resolutions, federal tax law, and other security agreements.

b) Cash Management

The Treasury Department has the operational responsibilities for cash management, including all disbursements, transfers of funds, and deposits of receipts. In addition, the Treasury Department is responsible for ensuring that receipts of bond moneys are handled in accordance with the applicable bond resolution, federal tax law, or other security agreement.

IV. Standards of Care

All participants in the investment process shall act responsibly and professionally. The MassHousing portfolio shall be invested and managed in accordance with the “Prudent Investor Rule” set forth in MGL Ch. 203C. In general, MassHousing will invest and manage the assets under its control as a prudent investor would, considering the purposes of MassHousing and the terms under which such assets are held by MassHousing, exercising reasonable care, skill, and caution.

1. Ethics

In addition to all applicable statutory and MassHousing Standards of Conduct, employees involved in the investment process shall refrain from personal business activity that may conflict with the proper management of the investment program or impair their ability to make impartial decisions. No employee shall use their position to secure anything of value or the promise or offer of anything of value that would create an improper influence upon the employee with respect to their duties. Any employee involved in investment decisions shall file a Statement of Financial Interests with the State Ethics Commission annually.

2. Delegation of Authority

The Financial Director is authorized by the Board of Directors to transact investments and may delegate authority to the Comptroller and Treasury personnel. Staff must consider all applicable factors for each investment under consideration within the framework of the investment objectives, the restriction, if any, imposed by the applicable bond resolution, including federal tax law, or other security agreement and the basic characteristics of the investment. Personnel of the Financial Division are responsible for executing the investment plans and providing necessary reports as required. As directed, bond trustees and depository banks are responsible for the execution of MassHousing’s investment decisions regarding funds held under bond resolutions or other security agreements, the safekeeping of investment securities and providing necessary reports as required to comply with arbitrage restrictions applicable to MassHousing bonds and notes.

### 3. Indemnification of Employees

Employees of MassHousing are indemnified under Section 1-16A of the MassHousing statute, Chapter 708 of the Acts of 1966 as amended and Article VII of the Bylaws of MassHousing. Section 1-16A provides, in part:

“No person shall be liable to the Commonwealth of Massachusetts, to MassHousing, or to any other person as a result of his activities, whether ministerial or discretionary, as a member, officer or employee of MassHousing except for willful dishonesty or intentional violation of the law; provided, however, that such person shall provide reasonable cooperation to MassHousing in the defense of any claim. Failure of such person to provide reasonable cooperation shall cause him to be jointly liable with MassHousing, to the extent that such failure prejudiced the defense of the action.

MassHousing may indemnify or reimburse any person, or his personal representative, for losses or expenses, including legal fees and costs, arising from any claim, action, proceeding, award, compromise, settlement, or judgment resulting from such person’s activities, whether ministerial or discretionary, as a member, officer, or employee of MassHousing; provided that the defense or settlement thereof shall have been made by counsel approved by MassHousing.”

### V. Authorized Financial Institutions

**Commercial Banks:** MassHousing shall maintain accounts with commercial banks that have an IDC rating of 150 or better. IDC rates banks based on several criteria such as capitalization, profitability, and loan loss expense. MassHousing can make exceptions with deposits in banks with an IDC rating below 150 if there is acceptable collateral to cover the deposit.

**Trustees:** MassHousing shall select trustees among banks, national banking associations, or trust companies doing business in the Commonwealth of Massachusetts, with trust power, in good standing, and have a reported capital and surplus of not less than \$50,000,000 or such greater amount as may be provided in the applicable bond resolution or other security agreement.

**Investment Agreement Providers:** Funds held under a bond resolution or other security agreement shall be invested with companies that have a rating of at least “AA-” from Standard & Poor’s Rating Services, or at least “Aa3” from Moody’s Investors Service Inc, or at least “AA-” from Fitch Ratings for investment durations of three or more years. Short term investments with durations of less than three years shall be invested with companies that have short term ratings of at least “SP-1” from Standard & Poor’s Rating Services, or at least “VMIG1” from Moody’s Investors Service Inc, or at least “F1” from Fitch Ratings. Ratings must otherwise satisfy any additional requirements imposed by the applicable bond resolution or such rating agencies.

### VI. Authorized Investments

The MassHousing Statute, Section 1-4 (i), General Grant of Powers, authorizes MassHousing to “Invest any funds held in reserves or sinking funds or any funds not required for immediate disbursement in such investments as may be lawful for fiduciaries

in the Commonwealth.” MGL Ch. 203C(3)(e) provides that a trustee or other fiduciary may invest in any kind of property or type of investment consistent with the standards of that chapter. Each bond resolution or other security agreement sets forth specific deposits and investments that are authorized for investment of funds held under such bond resolution or other security agreement. All other cash held by MassHousing may be invested with the approval of the Financial Director in the following deposits and investments, subject to this Policy and the standards set forth in MGL Ch. 203C, and provided that any such investment would not adversely affect the then current ratings on any MassHousing bonds:

1. direct general obligations of the United States of America and obligations (including obligations of any federal agency or corporation), 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 full faith and credit of the United States of America, or any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this clause (1);
2. bonds, debentures, participation certificates (representing a timely guaranty of principal and interest), notes, or similar evidences of indebtedness of any of the following: Federal Financing Corporation, Federal Home Loan Bank System, Federal Farm Credit Bank, FannieMae (excluding “stripped” securities), Federal Home Loan Mortgage Corporation (excluding “stripped” securities), Resolution Funding Corporation, Government National Mortgage Association, or Student Loan Marketing Association;
3. obligations of any state of the United States of America or of any political subdivision or public agency or instrumentality thereof, provided that at the time of their purchase under this Resolution such obligations are rated by each Credit Rating Agency no lower than the then current rating assigned to the Bonds (or Working Capital Fund if applicable) by each Credit Rating Agency;
4. prime commercial paper of a corporation incorporated under the laws of any state of the United States of America, having at the time of their purchase the highest rating available from S&P, Moody’s, or Fitch;
5. interest-bearing time deposits, certificates of deposit, bankers’ acceptances, or other similar banking arrangements with banks (which may include any trustee or depository);
6. shares of a diversified open-end management investment company as defined in the Investment Company Act of 1940, which is a money market fund, that invests in the Investment Securities described in clauses 1, 2, and 4 above;
7. shares in the MMDT;
8. repurchase agreements for obligations of the type specified in clauses 1 and 3 above; and

9. investment agreements with investment agreement providers described in Section V of this Policy.

## VII. Internal Controls

The Financial Director shall establish a system of internal controls, which shall be documented in writing. The Comptroller and the independent auditor shall review and periodically test the controls. The controls shall be designed to prevent the loss of funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of MassHousing.

Internal controls shall address the following points:

- Clear delegation of authority to staff members
- Separation of transaction authority from financial reporting
- Dual authorizations of wire transfers
- Written confirmation of transactions for investments and wire transfers
- Timely reconciliation of transactions
- Avoidance of physical delivery of securities

Authorized signatories for the purchase and sale of investments shall be designated by the Board of Directors and may include the Executive Director, Deputy Director, Financial Director, and Comptroller.

## VIII. Reporting

Investment Committee Report: The Financial Director shall periodically report the status of the investment portfolio to the Investment and Audit Committee of the Board of Directors.

## IX. Approval of Policy

The Investment Policy shall be reviewed periodically by the Financial Director and the Investment and Audit Committee of the Board of Directors. The Investment and Audit Committee of the Board of Directors may recommend changes for adoption by the Board of Directors. Any changes to the Investment Policy shall be adopted by the Board of Directors.