



INFORMATIONAL REPORT

DATE ISSUED: May 16, 2008
REPORT NO: HCR 08-55
SUBJECT: Third Quarter FY08 Investment Report

NO ACTION IS REQUIRED ON THE PART OF THE HOUSING COMMISSION

SUMMARY

Attachment 1 reflects the status of the \$85.54 million investment portfolio as of March 31, 2008 and includes information on each account, issuer, amount, percentage of total portfolio, term, unrealized gain or loss, accrued interest, yield and remaining days to maturity. For comparative purposes, Attachment 2 reflects the status of the investment portfolio as of December 31, 2007. Overall portfolio yield in the last quarter has fallen from 4.70% to 3.20%.

BACKGROUND

On August 19, 2005 the San Diego Housing Commission approved an Investment Policy which provides the surplus funds not required for the immediate necessities of the local agency may be invested in accordance with the provisions of U.S. Department of Housing & Urban Development (HUD) Notice PIH 96-33 and California Government Code Sections 5922 and 53601. The approved Investment Policy contains provisions concerning the Standard of Care that include Prudence, Ethics, Conflict of Interest and Delegation of Authority. Additional provisions of the Investment Policy covered the General Objectives of Safety, Liquidity, Yield and Local Considerations; Authorized Financial Institutions, Depositories and Broker/Dealer; Safekeeping and Custody of Investment Instruments; Authorized and Suitable Investments; Collateralization and Diversification.

Also, the Investment Policy contains a Reporting requirement that states:

“The Investment Officer shall submit to each member of the Board of Commissioners a quarterly investment report. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, book values and the current market values of each component of the portfolio, including funds managed by third party contractors. The report will also include the source of the portfolio valuation. In the case of funds invested in The Local Agency Investment Fund (LAIF), FDIC Insured accounts or county investment pools, current statements from those institutions will satisfy the above reporting requirement. The report will also include a certification that (1) all investment actions executed since the last report have been made in full compliance with the Investment Policy and, (2) the San Diego Housing Commission will meet its expenditure obligations for the next six months. [DCGC 53646(b)]. The

Investment Officer shall maintain a complete and timely record of all investment transactions.”

DISCUSSION

As predicted, the decrease in the overall portfolio yield from the last quarter from 4.70% to 3.20% reflects maturing investments with higher rates being reinvested at newer, moderately lower rates. The trend of lower rates of return is expected to continue into the fourth quarter as the US economy continues its sharp decline. The Federal Reserve has cut interest rates six times since mid September in an attempt to turn the economy around but increasing oil prices, the housing crisis, the decline in the value of the US Dollar and current bank woes are complicating the task.

Although the blended rate for the existing portfolio of Certificates of Deposit is slightly under the return currently available from the State of California’s LAIF, the Housing Commission is near the investment limit in that fund. In the fourth quarter, staff will continue to optimize the investments in that fund.

Other comparisons between the two attachments show the average original term of investments remains the same at 52 days while the average remaining days for each investment has increased from 23 days to 33 days. Finally, it should be noted that the percentage of the portfolio maturing within the next 6 months remains unchanged at 100%. Following the commitment made in the first quarter, staff has maximized the utilization of the LAIF as these deposit rates exceed rates available for Certificates of Deposit and provide greater liquidity.

This report includes all money under the direction or care of the San Diego Housing Commission. As of March 31, 2008, the monies are invested in the following manner:

1. \$3.70 million is held in the main Housing Commission authorized checking account and it provides for earnings credit on the account balance that is utilized to pay for the normal bank services. The current rate of return is 2.50% and has decreased over the 4.00% last quarter.
2. \$0.61 million is held in several other Housing Commission authorized accounts that provide interest earnings. It includes accounts required by lending institutions that have provided loans for the Housing Commission. The current blended rate of return is 0.21% compared to 1.21% received last quarter.
3. \$39.47 million is held with the State of California LAIF, a \$23.69 billion fund managed by the State Treasurer’s office. State law allows local agencies to invest up to \$40 million in LAIF and HUD permits the investment of 30% of HUD funds with LAIF. LAIF is highly liquid and funds may be accessed easily for immediate needs. The quarterly return is

3.77% which is down moderately from 4.80% last quarter. Barring any significant changes, interest on the account should have us at the \$40 million cap in the next three months.

4. \$41.76 million is held with US Bank in overnight repurchase agreements and Certificates of Deposits that are fully collateralized by US Bank's treasuries as required by HUD and the Housing Commission's banking agreement. The current rate of return is 2.77% as compared to the 4.72% received last quarter.

CONCLUSION

The interest rate outlook/environment continues to decline each quarter. Currently, we continue to be in an easing cycle (lower rates). The International Monetary Fund predicts losses from the current subprime crisis to reach almost \$1 trillion globally. The current subprime crisis also places downward pressure on economic growth spurring the Federal Reserve to continue to ease (lowering rates) which will result in lower portfolio returns.

It is recommended that the Housing Commission continue to work on forward thinking strategies and get away from investing the entire portfolio in short term investments. With almost half of our portfolio invested in the highly liquid LAIF fund and the balance in securities maturing in less than 6 months, the Housing Commission should be able to invest in securities with a longer maturity and still be able to meet its liquidity needs.

Therefore, the Chief Financial Officer is working on a strategy to attract financial advisors interested in doing business with the Housing Commission. Through various methods, we are working to compile a list of preferred agencies to accomplish this. In cooperation with these agencies, we will develop methods to diversify our interest rate risk by investing a portion of our portfolio in higher coupon, longer duration securities. Investing a portion of our portfolio in some types of longer duration securities will help protect the investment portfolio return in this declining market while not reducing the liquidity.

Respectfully submitted,


John Pfeiffer
Chief Financial Officer

Approved by,


Carrol M. Vaughan
Interim President & Chief Executive Officer

- Attachment(s):
1. Summary of Portfolio Balances as of March 31, 2007
 2. Summary of Portfolio Balances as of December 31, 2007
 3. Local Agency Investment Fund Statement as of March, 2007

San Diego Housing Commission
Cash and Investment Report
As of March 31, 2008

A. Description of Investment Portfolio

The San Diego Housing Commission regularly invests monies in excess of prudently estimated needs in HUD approved investments for both HUD and Non-HUD programs. The investment options currently utilized include the Local Agency Investment Fund of the State of California and certificates of deposits. The blended rate of return on the portfolio as of 3/31/2008 is %.

B. Summary of Investment Portfolio for Quarter Ending 3/31/2008										
Account Type	Issuer	Book Value (millions)	Percent of Portfolio	Market Value (millions)	Market Price	Unrealized Gain/(Loss)	Original Term	Yield to Maturity	Days to Maturity	
Checking Account										
1 SDHC Operating Account	U.S. Bank	\$3.70	4.33%	\$3.70	100.00%	\$0.00	1	2.50%	1	
4 CDBG Loan Loss Reserve Account	Wells Fargo	\$0.07	0.08%	\$0.07	100.00%	\$0.00	1	0.90%	1	
5 Maya Apartments Capital Replacement Res	Washington Mutual	\$0.54	0.63%	\$0.54	100.00%	\$0.00	1	0.25%	1	
Sub-total Checking Accounts		\$4.31	5.04%	\$4.31	100.00%	\$0.00	1	2.19%	1	
Local Agency Investment Fund	State of California	\$39.47	46.14%	\$39.47	100.00%	\$0.00	1	3.77%	1	
Treasury Bills										
University Canyon Reserve Account	Bank of Am	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0	0.00%	0	
Cartificate of Deposit (Escrow funds)	U.S. Bank	\$0.26	0.30%	\$0.26	0.00%	\$0.00	365	2.20%	1	
Certificates of Deposit (Collateralized)										
1 Matures 4/07/2008	US Bank	\$2.00	4.82%	\$2.00	100.00%	\$0.00	91	4.32%	7	
2 Matures 4/16/2008	US Bank	\$2.50	6.02%	\$2.50	100.00%	\$0.00	70	2.92%	16	
3 Matures 4/17/2008	US Bank	\$2.00	4.82%	\$2.00	100.00%	\$0.00	90	3.62%	17	
4 Matures 4/30/2008	US Bank	\$3.00	7.23%	\$3.00	100.00%	\$0.00	90	2.87%	30	\$9.50
5 Matures 5/13/2008	US Bank	\$2.00	4.82%	\$2.00	100.00%	\$0.00	90	2.83%	43	
6 Matures 5/16/2008	US Bank	\$3.00	4.82%	\$3.00	100.00%	\$0.00	94	2.81%	46	
7 Matures 6/02/2008	US Bank	\$2.00	4.82%	\$2.00	100.00%	\$0.00	90	2.65%	63	\$7.00
8 Matures 6/12/2008	US Bank	\$2.00	4.82%	\$2.00	100.00%	\$0.00	120	2.75%	73	
9 Matures 6/16/2008	US Bank	\$2.50	6.02%	\$2.50	100.00%	\$0.00	122	2.72%	77	
10 Matures 6/18/2008	US Bank	\$4.50	4.82%	\$4.50	100.00%	\$0.00	90	2.28%	79	
11 Matures 6/20/2008	US Bank	\$2.00	4.82%	\$2.00	100.00%	\$0.00	120	2.71%	81	
12 Matures 6/24/2008	US Bank	\$2.50	6.02%	\$2.50	100.00%	\$0.00	120	2.75%	85	\$13.50
13 Matures 7/01/2008	US Bank	\$2.00	4.82%	\$2.00	100.00%	\$0.00	120	2.57%	92	
14 Matures 7/09/2008	US Bank	\$5.50	4.82%	\$5.50	100.00%	\$0.00	120	2.36%	100	
15 Matures 7/21/2008	US Bank	\$2.00	4.82%	\$2.00	100.00%	\$0.00	150	2.67%	112	
16 Matures 7/24/2008	US Bank	\$2.00	4.82%	\$2.00	100.00%	\$0.00	150	2.74%	115	\$4.00
Sub-total Certificate of Deposits		\$34.00	48.52%	\$41.50	100.00%	\$0.00	104	2.77%	67	
Total Cash & Investments		\$85.54	100.00%	\$85.54	100.00%	\$0.00	52	3.20%	33	

Statement of Compliance

I certify to the best of my knowledge and belief that all investment transactions executed have been in full compliance with the investment policy of the San Diego Housing Commission. I further assert that sufficient investment liquidity and anticipated revenues and subsidies are available to meet the expected obligations of the San Diego Housing Commission expenditures for six months.


 Kevin DeRiux Date
 Investment Officer

San Diego Housing Commission
Cash and Investment Report
As of December 31, 2007

A. Description of Investment Portfolio

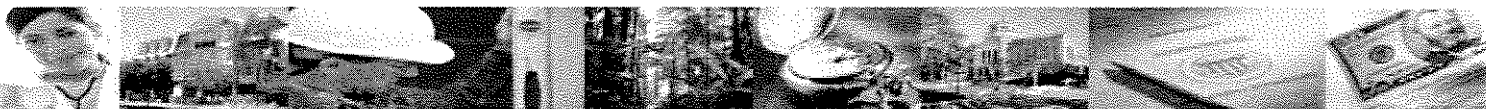
The San Diego Housing Commission regularly invests monies in excess of prudently estimated needs in HUD approved investments for both HUD and Non-HUD programs. The investment options currently utilized include the Local Agency Investment Fund of the State of California and certificates of deposits. The blended rate of return on the portfolio as of 12/31/07 is %.

B. Summary of Investment Portfolio for Quarter Ending 12/31/07										
Account Type	Issuer	Book Value (millions)	Percent of Portfolio	Market Value (millions)	Market Price	Unrealized Gain/(Loss)	Original Term	Yield to Maturity	Days to Maturity	
Checking Account										
1 SDHC Operating Account	U.S. Bank	\$1.06	1.31%	\$1.06	100.00%	\$0.00	1	4.00%	1	
2 University Canyon Reserve Account MMkt	Bank of Am	\$0.36	0.44%	\$0.36	100.00%	\$0.00	1	2.67%	1	
3 University Canyon Residual Receipts Acct	Bank of Am	\$0.21	0.26%	\$0.21	100.00%	\$0.00	1	1.30%	1	
4 CDBG Loan Loss Reserve Account	Wells Fargo	\$0.07	0.09%	\$0.07	100.00%	\$0.00	1	0.90%	1	
5 Maya Apartments Capital Replacement Res	Washington Mutual	\$0.54	0.67%	\$0.54	100.00%	\$0.00	1	0.25%	1	
Sub-total Checking Accounts		\$2.24	2.77%	\$2.24	100.00%	\$0.00	1	2.53%	1	
Local Agency Investment Fund	State of California	\$37.49	46.29%	\$37.49	100.00%	\$0.00	1	4.80%	1	
Treasury Bills										
University Canyon Reserve Account	Bank of Am	\$0.00	0.00%	\$0.00	0.00%	\$0.00	30	0.00%	0	
EuroDollar Account	U.S. Bank	\$0.26	0.32%	\$0.26	0.00%	\$0.00	365	3.95%	1	
Certificates of Deposit (Collateralized)										
1 Matures 1/07/2008	US Bank	\$3.00	3.70%	\$3.00	100.00%	\$0.00	122	5.32%	7	
2 Matures 1/18/2008	US Bank	\$4.50	5.56%	\$4.50	100.00%	\$0.00	74	4.59%	18	
3 Matures 1/31/2008	US Bank	\$5.50	6.79%	\$5.50	100.00%	\$0.00	90	4.58%	31	
4 Matures 2/11/2008	US Bank	\$2.50	3.09%	\$2.50	100.00%	\$0.00	123	4.96%	42	
5 Matures 2/11/2008	US Bank	\$0.50	0.62%	\$0.50	100.00%	\$0.00	94	4.57%	42	
6 Matures 2/13/2008	US Bank	\$5.00	6.17%	\$5.00	100.00%	\$0.00	121	4.90%	44	
7 Matures 2/15/2008	US Bank	\$2.50	3.09%	\$2.50	100.00%	\$0.00	91	4.60%	46	
8 Matures 2/22/2008	US Bank	\$3.50	4.32%	\$3.50	100.00%	\$0.00	120	4.67%	53	
9 Matures 2/25/2008	US Bank	\$5.00	6.17%	\$5.00	100.00%	\$0.00	90	4.67%	56	
10 Matures 3/3/2008	US Bank	\$3.00	3.70%	\$3.00	100.00%	\$0.00	90	4.64%	63	
11 Matures 3/14/2008	US Bank	\$6.00	7.41%	\$6.00	100.00%	\$0.00	95	4.59%	72	
Sub-total Certificate of Deposits		\$41.00	50.62%	\$41.00	100.00%	\$0.00	100	4.72%	44	
Total Cash & Investments		\$80.99	100.00%	\$80.99	100.00%	\$0.00	52	4.70%	23	

Statement of Compliance

I certify to the best of my knowledge and belief that all investment transactions executed have been in full compliance with the investment policy of the San Diego Housing Commission. I further assert that sufficient investment liquidity and anticipated revenues and subsidies are available to meet the expected obligations of the San Diego Housing Commission expenditures for six months.


 Kevin DeRieux Date
 Investment Officer



Local Agency Investment Fund
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Sacramento, CA 94209-0001
(916) 653-3001

www.treasurer.ca.gov/pmia-laif

May 05, 2008

SAN DIEGO HOUSING COMMISSION

PMIA Average Monthly Yields

BUDGET MANGER
1625 NEWTON AVENUE
SAN DIEGO, CA 92113-1012

Account Number: 25-37-001

Transactions

Tran Type Definitions

March 2008 Statement

Account Summary

Total Deposit:	0.00	Beginning Balance:	39,470,927.92
Total Withdrawal:	0.00	Ending Balance:	39,470,927.92