



INFORMATIONAL REPORT

DATE ISSUED: January 17, 2008
REPORT NO: HCR 08-13
SUBJECT: Second Quarter FY08 Investment Report

NO ACTION IS REQUIRED ON THE PART OF THE HOUSING COMMISSION

SUMMARY

Attachment 1 reflects the status of the \$80.99 million investment portfolio as of December 31, 2007 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 September 30, 2007. Overall portfolio yield in the last quarter has fallen from 5.18% to 4.70%.

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 5.18% to 4.70% reflects maturing investments with higher rates being reinvested at newer slightly lower rates. The trend of lower rates of return is expected to continue into the third quarter. Based on a speech from the Federal Reserve Chairman Ben Bernanke, analysts predict the federal funds rate to drop even further late in January fueled by a steep slump in housing and a spreading credit crisis in the United States.

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

Other comparisons between the two attachments show the average original term of investments had decreased from 56 days to 51 days while the average remaining days for each investment has decreased slightly from 24 days to 23 days. Finally, it should be noted that the percentage of the portfolio maturing within the next 6 months remains unchanged at 100%. Following our commitment made in the first quarter, staff has increased 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 December 31, 2007, the monies are invested in the following manner:

1. \$1.06 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 4.00% and is a moderate decrease over the 4.83% last quarter.
2. \$1.18 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 1.23% and is slightly lower than the 1.99 received last quarter.
3. \$37.49 million is held with the State of California LAIF, a \$21.2 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 4.80% which is down moderately from 5.24% last quarter.

4. \$41.26 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 4.72% and is moderately less than the 5.23% received last quarter.

CONCLUSION

The interest rate outlook/environment is changing from the previous quarter. Currently, we are no longer in a tightening cycle (higher rates). The Federal Reserve is continuing to ease (lowering rates) which will result in lower portfolio returns.

The historical analysis of an inverted yield curve we previously experienced show that rate reductions were coming and should continue. It is recommended that the Housing Commission be forward thinking. Given the risk of short term rates continuing their move lower, it is very possible that we are not currently structured to be adequately compensated for potential higher returns because our current strategy is investing a large percentage of our assets in short term investments. The likely results will be the risk of having to reinvest in LOWER rates in the near future. Therefore, the Chief Financial Officer is reviewing methods to diversify our interest rate risk by "locking in" a portion of our portfolio in higher coupon, longer duration securities. Locking in 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 December 31, 2007
 2. Summary of Portfolio Balances as of September 30, 2007
 3. Local Agency Investment Fund Statement as of December, 2007

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 4.7%.

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	1	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	51	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: 1-28-08
 Accounting Supervisor

San Diego Housing Commission
Cash and Investment Report
As of September 30, 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 9/30/07 is 5.19%.

B. Summary of Investment Portfolio for Quarter Ending 9/30/07

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	\$1.10	1.48%	\$1.10	100.00%	\$0.00	1	4.83%	1
2 University Canyon Reserve Account MMkt	Bank of Am	\$0.14	0.19%	\$0.14	100.00%	\$0.00	1	3.20%	1
3 University Canyon Residual Receipts Acct	Bank of Am	\$0.21	0.28%	\$0.21	100.00%	\$0.00	1	2.50%	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	\$0.53	0.71%	\$0.53	100.00%	\$0.00	1	0.25%	1
Sub-total Checking Accounts		\$2.05	2.76%	\$2.05	100.00%	\$0.00	1	3.16%	1
Local Agency Investment Fund	State of California	\$30.17	40.63%	\$30.17	100.00%	\$0.00	1	5.24%	1
Treasury Bills									
University Canyon Reserve Account	Bank of Am	\$0.22	0.30%	\$0.22	100.00%	\$0.00	30	5.25%	3
Eurodollar deposit	U.S. Bank	\$0.31	0.42%	\$0.31	0.00%	\$0.00	365	4.95%	1
Certificates of Deposit (Collateralized)									
1 Matures 10/1/2007	US Bank	\$1.00	1.35%	\$1.00	100.00%	\$0.00	94	5.20%	1
2 Matures 10/11/2007	US Bank	\$8.00	10.77%	\$8.00	100.00%	\$0.00	94	5.18%	12
3 Matures 10/18/2007	US Bank	\$3.00	7.23%	\$3.00	100.00%	\$0.00	94	5.18%	19
4 Matures 10/25/2007	\$14.00 US Bank	\$2.00	2.69%	\$2.00	100.00%	\$0.00	94	5.18%	25
5 Matures 11/2/2007	US Bank	\$1.00	1.35%	\$1.00	100.00%	\$0.00	94	5.19%	33
6 Matures 11/2/2007	US Bank	\$3.00	4.04%	\$3.00	100.00%	\$0.00	93	5.19%	31
7 Matures 11/5/2007	US Bank	\$2.00	2.69%	\$2.00	100.00%	\$0.00	94	5.18%	36
8 Matures 11/9/2007	US Bank	\$1.50	2.02%	\$1.50	100.00%	\$0.00	93	5.23%	40
9 Matures 11/16/2007	US Bank	\$3.00	4.04%	\$3.00	100.00%	\$0.00	93	5.21%	47
10 Matures 11/19/2007	US Bank	\$2.50	3.37%	\$2.50	100.00%	\$0.00	94	5.21%	50
11 Matures 11/23/2007	US Bank	\$1.50	2.02%	\$1.50	100.00%	\$0.00	94	5.20%	54
12 Matures 11/23/2007	\$16.50 US Bank	\$2.00	2.69%	\$2.00	100.00%	\$0.00	91	5.22%	54
13 Matures 12/7/2007	US Bank	\$2.00	2.69%	\$2.00	100.00%	\$0.00	94	5.25%	68
14 Matures 12/10/2007	\$8.00 US Bank	\$6.00	8.08%	\$6.00	100.00%	\$0.00	94	5.38%	71
15 Matures 1/07/2008	\$3.00 US Bank	\$3.00	4.04%	\$3.00	100.00%	\$0.00	122	5.32%	96
Sub-total Certificate of Deposits	\$41.50	\$41.50	55.89%	\$41.50	100.00%	\$0.00	96	5.23%	43
Total Cash & Investments		\$74.25	100.00%	\$74.25	100.00%	\$0.00	56	5.18%	24

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.

 1-28-08
Kevin DeRieux Date
Accounting Supervisor

OFFICE OF THE TREASURER

SACRAMENTO

Local Agency Investment Fund
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 Sacramento, CA 94209-0001
 (916) 653-3001
 www.treasurer.ca.gov/pmia-laif



December, 2007 Statement

SAN DIEGO HOUSING COMMISSION

Attn: BUDGET MANGER

1625 NEWTON AVENUE

SAN DIEGO CA 92113-1012

Account Number : 25-37-001**Transactions**

<u>Effective Date</u>	<u>Transaction Date</u>	<u>Tran Type</u>	<u>Confirm Number</u>	<u>Authorized Caller</u>	<u>Amount</u>
12-18-2007	12-18-2007	RW	1150864	CARROL M. VAUGHAN	- 800,000.00
12-21-2007	12-21-2007	RW	1151562	CARROL M. VAUGHAN	- 900,000.00

Account Summary

Total Deposit :	0.00	Beginning Balance :	39,192,682.18
Total Withdrawal :	- 1,700,000.00	Ending Balance :	37,492,682.18