D.C. HOUSING FINANCE AGENCY

INVESTMENT POLICY

OCTOBER 2007

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Investment Policy

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INVESTMENT POLICY

I. PURPOSE AND SCOPE

This policy shall establish guidelines for the efficient management and safeguarding of Agency funds. Its purpose is to outline management responsibilities, set investment goals, establish strategies to achieve stated objectives establish internal controls and operational procedures and create performance measures.

This investment policy applies to financial assets held by or for the benefit of the DC Housing Finance Agency (Agency) in excess of those required to meet short-term obligations. Agency funds include the General Fund, McKinney Act Savings Fund, Section 8 HAP Funds, Risk Sharing Reserve Funds, Servicing Escrows for Risk Sharing and Section 8 and all other funds and accounts created by the Agency, either for itself or on behalf of other parties. The policies herein do not apply to funds and accounts established under Indentures of Trust in connection with the Agency's single family and multifamily bond programs except as provided for herein.

While the Office of the Chief Financial Officer will review this Policy at least annually, it is expected that the Policy will be modified only infrequently. Specifically, short-term changes in the financial markets will not in and of themselves cause changes to the Policy.

II. INVESTMENT PHILOSOPHY

The Agency's financial assets will be invested and managed with the intention of obtaining the highest possible long-term total return consistent with a prudent level of investment risk.

III. INVESTMENT OBJECTIVES

The Agency's overall objectives are (1) the safety of principal, (2) investment yield (income), and (3) liquidity of funds. The following investment objectives will be applied in the management of the Agency's funds.

1. Safety of principal:

The Agency's investment strategy will ensure the preservation of principal in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk: The Agency will minimize credit risk, i.e., the risk of loss due to the failure of the security issuer or guarantor by:
    - Limiting investments to the safest types of securities.

- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Agency will do business.
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

b. Interest Rate Risk: The Agency will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:
   - 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.
   - Investing operating funds primarily in shorter-term securities money market mutual funds, or similar investment pools.

2. Investment Yield:

The Agency's portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints. Securities shall not be sold prior to maturity, with the following exceptions:

- A security with declining credit rating may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

3. Liquidity of Funds:

The Agency's investment strategy will provide sufficient liquidity to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs.

IV. INVESTMENT COMMITTEE

The Agency shall establish an Investment Committee whose responsibilities are outlined below in the appropriate sections. The Investment Committee is composed of the Executive Director, Deputy Executive Director and Chief Financial Officer.

V. PERFORMANCE MEASUREMENT

The investment performance of the Agency will be evaluated quarterly by the Investment Committee by comparing to established benchmarks. In general, the portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis with the approval of the Investment Committee.

The specific investment performance objectives for the Agency Funds are as follows:

A. Absolute Performance Objective. The Office of the Chief Financial Officer seeks to achieve, over time, an average annual total return for the Agency portfolio that equals or exceeds the Merrill Lynch 1-3 year Treasury Index.

B. Relative Performance Objective. The Office of the Chief Financial Officer seeks competitive investment performance relative to appropriate securities indices (e.g., the Russell 1000 Index, the Lehman Brothers Aggregate Bond Index). The selection of specific indices will be a function of the target asset allocation. The Chief Financial Officer will determine the indices that will be used as benchmarks, in consultation with Investment Committee, managers and consultants, as appropriate.

Lehman Brothers Intermediate Aggregate Bond can be used for limited maturity, while ML US Corp & Govt 1-3 years A rated and above can be employed for low durations as benchmarks.

Investment risk, as measured by the variability of quarterly returns (i.e., standard deviation), should not exceed that of a benchmark without a corresponding increase in performance above the benchmark.

C. Comparative Performance Objective. From its investment manager/ consultant, the Office of the Chief Financial Officer seeks competitive investment performance versus investment manager/consultant employing the same or similar investment style or strategy. Over time, each investment manager/consultant is expected to perform in the upper third of the investment manager/consultant's peer group.

Investment risk, as measured by the variability of quarterly returns, should not exceed that of a peer group without a corresponding increase in performance above the peer group.

VI. STANDARDS OF CARE

1. Prudence

The "prudent person" standard shall be used by investment officials in the management of the overall investment portfolio.

The "prudent person" standard is understood to mean: 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 of their capital as well as the probable income to be derived.

2. Ethics and Conflicts of Interest

Employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees are prohibited from undertaking personal investment transactions with the individual with whom business is conducted on behalf of the Agency.

VII. AUTHORIZED INVESTMENTS

Authorized investments are detailed below. No single investment may exceed 5% of the market value of an investment manager's portfolio at the time of purchase or on an ongoing basis unless reviewed by the Investment Committee and prior written approval is obtained from the Executive Director of the Agency.

Equities Authorized equity investments are: common stocks, preferred stocks, and American Depository Receipts (ADRs) listed on the New York Stock Exchange, American Stock Exchange, NASDAQ, and foreign exchanges.

Equity investments must be readily marketable and may not include illiquid securities.

No more than 25% of the amount of the portfolio invested in equities (at market value) may be invested in any one industry (as defined by Standard & Poor's) unless reviewed by the Investment Committee and written approval is obtained from the Executive Director of the Agency.

No more than 5% of the amount of the portfolio invested in equities (at market value) may be invested in any one company unless reviewed by the Investment Committee and written approval is obtained from the Executive Director of the Agency.

No more than 20% of the international component of the portfolio (at market value) may be invested in a single foreign country.

Fixed Income Authorized investments are: direct obligations of the United States Treasury; federal agencies and instrumentalities obligations, which have a liquid market with a readily determinable market value; corporate bonds and notes including convertible bonds and notes; municipal bonds and notes; and mortgage-backed securities. Generally, fixed income investments must be rated no lower than "A" by a nationally recognized rating agency.

With the exception of U.S. government and agency securities, no more than 5% of the portfolio invested in fixed income securities (at market value) may be invested in any one investor unless reviewed by the Investment Committee and written approval is obtained from the Executive Director of the Agency.

Fixed income investments must be readily marketable and may not include illiquid securities.

Real Estate. Authorized real estate investments are Real Estate Investment Trusts (REITs), partnerships that invest in real property managed by third-party real estate professionals, and direct investments in real property. Direct investments in real property will be made only upon specific authorization of the Agency's Investment Committee, and must be appraised at purchase and periodically thereafter by a qualified third-party appraiser.

Alternative Assets. Authorized alternative asset investments are private equity funds, buy-out funds, and hedge funds. The employment of alternative assets investments is expected to provide significant opportunity for portfolio stabilization. No more than 3% of the total market value of the portfolio may be invested with any single fund manager in the alternative asset class. A qualified third party must value alternative assets periodically.

Mutual Funds, Unit Investment Trusts, and Pooled Investment Vehicles. Authorized investments include shares in open-end or closed-end management investment trusts or investment companies registered under the Investment Company Act of 1940 as amended. Shares of unit investment trusts are also permitted. However, shares for which there is a sales charge in the form of a front-end, contingent deferred (back-end), or level load may not be purchased unless specifically authorized in writing by the Executive Director, nor may the investment manager/consultant receive 12(b)(1) fees or any other commissions from the distributor of the fund.

Permitted investments include commingled investment funds such as common trust funds managed by bank trust departments.

Any pooled investment vehicles must invest in investment grade companies as reflected by such factors as ratings, capitalization, financial strength, quality of earnings, competitive position, and executive management.

Sector funds may be employed consistent with the limitation on exposure to any single industry.

Passively managed (i.e., index) funds may be employed.

Mutual funds must have at least a five-year record of performance and at least a three-star rating from Morning Star. Exceptions to this provision must be reviewed by the Investment Committee and approved in writing by the Executive Director.

Cash. The following cash equivalents are authorized for purchase: registered money market funds; commercial paper of prime quality with a stated maturity of 270 days or less from date of issuance, rated in the highest tier (e.g., A-1, P-1, F-1, or higher) by a nationally recognized rating agency; bankers' acceptances which have a stated maturity of 180 days or less from the date of issuance, and have the highest letter and numerical ratings as provided for by at least one nationally recognized rating service, and are drawn on and accepted by commercial banks and which are eligible for purchase by the Federal

Reserve Bank; certificates of deposit with terms of one year or less, not to exceed $100,000 (FDIC max) per issuer unless collateralized at 102% of market value; and U.S. government and agency bills.

VIII. ASSET ALLOCATION

It is a fundamental policy of the Agency that the portfolio should be diversified to reduce the risk of undue exposure to any sector or security. Accordingly, the Agency's financial assets must be allocated within the following parameters:

Asset Class	Minimum Allocation	Maximum Allocation
U.S. Equities	20%	30%
International Equities	5%	10%
U.S. Fixed Income	45%	55%
Alternative Assets	0%	5%
Real Estate	0%	5%
Cash/Cash Equivalent	5%	25%

The Investment Committee will establish the target asset allocation for the Agency's Fund. Cash inflows and outflows will be deployed in a manner consistent with the target asset allocation.

The Chief Financial Officer will cause the overall portfolio to be re-balanced at least annually to maintain the target asset allocation. In order to minimize transaction costs, new cash flows will be applied first toward meeting spending requirements and then toward re-balancing the portfolio.

The Agency expects generally that the portfolio will remain fully invested and that market timing will not be employed. However, the investment manager/consultant may invest in cash when, in its judgment, such action is necessary to achieve investment objectives and minimize risk. Under normal market conditions, investment managers/consultants may not invest or hold more than 5% of the market value of the investment account in cash (excluding transactional cash balances) without prior written approval from the Executive Director and the Chief Financial Officer.

IX. INVESTMENT MANAGERS/CONSULTANTS

The Agency may utilize the services of external investment management companies to assist in the investment and management of the Agency's Fund. The responsibilities and the investment services to be provided by investment managers/consultants will be specified in a written agreement. The investment managers/consultants will invest in accordance with its written agreement and this Policy.

X. PROHIBITED TRANSACTIONS

Investments not authorized in Section VIII above are prohibited without review of the Investment Committee and written approval of the Executive Director. Prohibited transactions include, but are not limited to: direct margin transactions, direct foreign currency transactions, direct commodities transactions, and foreign fixed income transactions.

XI. CONTROL PROCEDURES

A. Duties and Responsibilities of Investment Manager/Consultant. An investment manager/consultant retained by the Agency will:

1. Invest the Agency's money only in financial institutions regulated or insured by a Federal or District Agency.

2. Invest the Agency's Financial Assets, utilizing the care, skill, prudence, and diligence, under the circumstances then prevailing, that experienced professionals acting in a like capacity and fully familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

3. Acknowledge and agree in writing its fiduciary responsibility to comply fully with this Policy and any subsequent modifications.

4. Recommend appropriate portfolio investment strategy, asset allocation, and investment vehicles.

5. Manage the Agency's Financial Assets under its care, custody, and/or control in accordance with the objectives and guidelines set forth in this Policy and any written agreement between the investment manager/consultant and the Agency.

6. Promptly inform the Agency's Investment Committee in writing regarding all significant and/or material matters and changes pertaining to the investment of Agency's Financial Assets, including, but not limited to:

- Investment strategy
- Portfolio structure
- Ownership
- Organizational structure
- Financial condition
- Professional staff
- Legal and/or regulatory proceedings and actions
- Recommended changes to this Policy

7. Promptly vote all proxies and related actions in a manner consistent with the long-term interests of the Agency's Fund and this Investment Policy guideline. Each investment manager/consultant will provide an annual report of proxy votes and related actions to the Investment Committee and will comply with all associated legal and regulatory obligations.

8. Provide the Investment Committee, for assets under its care, with quarterly statements of activity and portfolio holdings, and quarterly investment performance reports showing investment returns on a total return basis. Returns for each asset class will be compared against a specific benchmark and peer group. The investment manager should be available to meet with the Investment Committee on request, to make presentations, and provide additional reports upon request.

9. Meet in person, at least annually, with the Investment Committee to review the performance of assets under management, including actions taken by the investment manager/consultant to achieve its performance objectives.

B. Brokerage Policy. All transactions effected for the portfolio will be "subject to best price and execution." The investment manager/consultant will keep records of brokerage used to effect soft dollar transactions and will provide periodic reports on soft dollar transactions to the Agency's Chief Financial Officer.

C. Monitoring of Investment Manager/Consultant. The Office of the Chief Financial Officer will evaluate investment manager/consultant performance on a regular basis to assess progress toward the attainment of long-term performance objectives.

At least twice a year, the Office of the Chief Financial Officer will review: a) the investment manager/consultant's adherence to the Investment Policy; b) any material changes in the investment manager/consultant's organization, investment philosophy, or personnel; and c) the investment manager/consultant's performance versus benchmarks and peer groups.

D. Review for Underperformance. The Office of the Chief Financial Officer will conduct a review of an investment manager/consultant if the manager/consultant:

1. Performs in the bottom quartile of its peer group over a quarterly or annual period.

2. Consistently generates a negative alpha.

3. Fails to provide reports on a timely basis or to respond to requests for information.

E. Replacement for Underperformance. The Executive Director and the Chief Financial Officer may replace an investment manager/consultant if the manager/consultant:

1. Performs in the bottom quartile of its peer group for three consecutive quarters.

2. Consistently performs below the upper third of its peer group over rolling three-year periods.

3. Generates a negative alpha for three and/or five-year time periods.

3. Repeatedly fails to provide reports on a timely basis or to respond to requests for information.

F. Review for Reasons Other than Underperformance. The Agency will conduct a review of an investment manager/consultant if the manager/consultant experiences or exhibits:

1. Significant turnover in professional staff.

2. Significant loss of business.

3. Significant new business.

4. Style drift.

5. A change in ownership.

6. Significant legal action initiated by a client or regulatory agency.

G. Replacement for Reasons Other than Underperformance. The Executive Director is authorized to take corrective action by replacing an investment manager /consultant at any time at his/her discretion.

XII. ADMINISTRATIVE EXPENSES

The administrative expenses of the portfolio, including expenses reasonably related to the operations, will be paid solely from the fund assets.

XIII. MUTUAL FUNDS

Notwithstanding anything contained in this Policy to the contrary, the Agency's Financial Assets invested in mutual funds will be invested and managed in accordance with the investment fees, expenses, policies, procedures, and guidelines set forth in the prospectuses for such mutual funds.

XIV. AMENDMENTS AND EXCEPTIONS

The Executive Director, may in his discretion, waive any of the provisions contained herein, as determined in the best interests of the Agency.

IN WITNESS WHEREOF, the Executive Director has authorized this Policy on this 23 day of October, 2007.

By: [signature]

Title: Executive Director

Approved and adopted by Board on 23 October 2007.

XV. GLOSSARY

Benchmarks - Standards against which the performance of a security, mutual fund or investment manager can be measured. Generally, broad market and market-segment stock and bond indexes are used for this purpose.

Financial Assets - The entries on a balance sheet showing all properties, both tangible and intangible, and claims against others that may be applied to cover the liabilities of a person or business. Assets can include cash, stock, inventories, property rights, and goodwill.

Mutual Funds - A security that gives small investors access to a well-diversified portfolio of equities, bonds and other securities. Each shareholder participates in the gain or loss of the fund. Shares are issued and can be redeemed as needed.

Negative Alpha - A measure of underperformance on a risk-adjusted basis.
Alpha takes the volatility (price risk) of a mutual fund and compares its risk-adjusted performance to a benchmark index. When a fund returns less than the return of the benchmark index, the difference in the returns is negative alpha.

Peer Groups - Contemporaries of the same status- Managers of similar style and process.

Pooled Investment Vehicles - Funds which pool together the money from hundreds of investors into a fund, which in turn invests in the stock market. These vehicles spread the risk of investing around. Some examples are hedge funds, venture capital funds, private equity funds, listed close-end funds, and mutual funds.

Proxies - A formal power of attorney document that may be signed by a shareholder to authorize another shareholder, a representative of the shareholder or the company's management, to vote on behalf of the shareholder at the annual meeting. Proxy documents are meant to provide shareholders with the information necessary to make informed votes on issues important to the company's performance.

Quartile - A statistical term describing a division of observations into four defined intervals based upon the values of the data and how they compare to the entire set of observations. Each quartile contains 25% of the total observations.

Soft Dollar Transactions - A means of paying brokerage firms for their services through commission revenue, as opposed to through normal payments (hard-dollar fees).

Style Drift - The tendency of a broker or investment portfolio manager to alter his or her investment style over time. This occurs for any number of reasons, but one main force is changing trends in the general investing environment. During the dotcom boom, for example, many managers - regardless of the strategies they were initially bound by - were able to justify tech stocks in their portfolio because everybody was buying them.

Unit Investment Trusts - A registered trust in which a fixed portfolio of income-producing securities are purchased and held to maturity. Commonly used with municipal bonds, investors receive an undivided interest of the portfolio's principal as well as income proportionate to the amount they invested. Each unit typically costs $1,000 and is sold to investors by brokers. UITs can be resold in the secondary market.

12(b)(1) Fees - Annual charges which investors pay to mutual funds. These fees are used to pay for the marketing and distribution costs of the fund.