

CALSTRS

CALIFORNIA STATE TEACHERS'
RETIREMENT SYSTEM

HOME LOAN PROGRAM POLICY

INVESTMENT BRANCH
FEBRUARY 2006

E. Home Loan Program Policy

EXECUTIVE SUMMARY

The System's assets are to be invested, administered, and managed in a prudent manner for the sole benefit of its participants and beneficiaries, in accordance with the California State Teachers' Retirement Law and other applicable statutes. As stated within Section 22360 of the Teacher's Retirement Law, notwithstanding any other provision of law, the Board may, pursuant to Section 22203 and in conformance with its fiduciary duty set forth in Section 22250, enter into correspondent agreements with private lending institutions within California to utilize the retirement fund to invest in residential mortgages, including assisting members, through financing, to obtain homes within the state. Furthermore, the Board shall include a procedure whereby a borrower may obtain 100% financing for the purchase of a single family dwelling within specified criteria. No investment instrument or activity prohibited by the Investment Resolution adopted by the Board in 1984, as amended from time to time, shall be authorized for the fixed income portfolios/programs.

This document is intended to summarize the fundamental objectives and considerations used in the investment, administration, and management of the CalSTRS' HLP. These policies are designed to set the boundaries that will ensure prudence and care in the implementation of the program, while allowing sufficient flexibility in developing a program that is competitive and relevant. Detailed procedures and guidelines for the HLP are maintained separately.

As with all other Plan assets, these policies cannot be altered without explicit direction from the Board.

A flow chart is included to provide the context for the policies within the general process of implementing the HLP. Words and terms that may be unfamiliar to the reader are referenced in the Glossary.

NOTE: The information addressed in the introductory paragraph and "Laws and Statutes" portion of the 2002 policy document are incorporated within the Executive Summary page of this 2006 revision.

1. **PROGRAM OBJECTIVES** – The strategic objective for CalSTRS' Home Loan Program is to meet the investment goals of the System by generating a mortgage asset, while providing the opportunity for home ownership to qualified participants.
2. **PERFORMANCE OBJECTIVES** – The CalSTRS Home Loan Program generates mortgage assets that are either managed as part of the mortgage allocation within the Fixed Income Portfolio, or sold in the financial markets. As a result, the HLP is held to the same investment standard as the other mortgage related assets within the Fixed Income Portfolio.
3. **PROGRAM BENCHMARK** – Lehman Brothers Mortgage-Backed Securities Index.

4. **PROGRAM STRUCTURE**

- a. **Loan Rates** -- Loan rates shall be periodically reviewed and adjusted to provide Mortgage Loans to borrowers consistent with the financial integrity of the HLP and the sound and prudent investment of the retirement fund. Under no circumstances, however, shall the interest rates offered to borrowers be lower than the market rate. The rate-setting process shall be documented within the HLP Guidelines.
- b. **Property Types** -- Mortgage Loans shall be made available to borrowers for the purchase or refinance of single-family dwellings, two-family dwellings, three-family dwellings, four-family dwellings, single-family cooperative apartments, and single-family condominiums.
- c. **Terms and Conditions** -- Mortgage Loans shall be made available under the following terms and conditions:
 - Borrowers shall occupy the homes as their principal residence.
 - Mortgage Loans shall be secured primarily by the property purchased or refinanced, and shall not exceed the appraised value of that property.
 - Mortgage Loans shall be available only for the purchase or refinance of homes in the State of California.
 - Appropriate administrative costs of implementing this program shall be paid by the participating borrowers. These costs may be included in the loan amount.
 - In no event shall the loan amount exceed two times the conforming loan limit of Fannie Mae or Freddie Mac, whichever is higher.
 - Prepayment penalties may be assessed on the Mortgage Loans in accordance with the rules and regulations established by the Board.
- d. **Loan-to-Value Ratios (LTV)** -- The terms and conditions shall provide a loan-to-value ratio of up to 100% of the appraised value of the property.

The portion of any loan exceeding 80% of value shall be insured by an admitted mortgage guaranty insurer conforming to Chapter 2A (commencing with Section 12640.01) of Part 6 of Division 2 of the Insurance Code, in an amount so that the un-guaranteed portion of the loan does not exceed 75% of the market value of the property, together with improvements thereon.

5. **RISK MANAGEMENT**

- a. **Authorized Signers** -- Authorization letters, which specify who may transact business on behalf of CalSTRS, shall be sent to the appropriate parties, initially at the time an account is opened, and then periodically to all HLP counterparties with whom CalSTRS conducts business. Whenever a change in authorized signers occurs, the affected parties shall be notified in writing within 24 hours, in the event of termination, and as soon as possible, in the event of a newly authorized signer(s).

b. **Authorization Limits** -- The following daily limits apply with respect to the approval of trade activity within the HLP portfolio(s):

- Investment Officer I \$5 million
- Investment Officer II \$10 million
- Investment Officer III \$20 million
- Portfolio Manager \$35 million
- Director of Fixed Income \$50 million
- Chief Investment Officer \$100 million

c. **Trade Processing** -- Prior to being released from Fixed Income, all transactions relating to the HLP shall be authorized within the limits noted above, and approved within the confines of guidelines that require, at a minimum, a dual release for all fixed income trades. It should be noted that the staff person authorizing the trade must not be the trader.

6. **MONITORING AND REPORTING** -- The following reports will be prepared in order to facilitate visibility of compliance monitoring and reporting according to this document:

a. **Compliance Report** -- prepared by Staff to CIO* (monthly)
*this report is not presented to the Board

b. **Home Loan Program Annual Report** -- prepared by Staff (annually)

c. **Business Plan** -- prepared by Staff (annually)

The HLP will be managed in accordance with a Business Plan that will be presented to the Board annually. This plan will include a broad overview of the housing and mortgage environment, along with the key issues associated with the management of the HLP, as well as future objectives and a resource allocation study for the Board's review and approval.

7. **DELEGATION OF AUTHORITY** -- The investment, administration, and management of the HLP is delegated to staff within the boundaries established by these policies and the processes described within the HLP Guidelines.

8. **BOARD REVIEW** -- The Board shall administer and review these policies periodically, as it deems appropriate and in keeping with the investment standard.

Adopted By The Teachers' Retirement Board In November 1986

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