NEW YORK STATE OF OPPORTUNITY™ | Homes and Community Renewal

2014

Fiscal Year Annual Report

State of New York Mortgage Agency

State of New York Mortgage Agency

Financial Statements

Fiscal Year Ended October 31, 2014 and 2013

Contents

RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the State of New York Mortgage Agency (the "Agency"), for the fiscal years ended October 31, 2014 and 2013, are the responsibility of management. The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The Agency maintains a system of internal control. The objectives of an internal control system are to provide reasonable assurance as to the protection of, and accountability for, assets; compliance with applicable laws and regulations; proper authorization and recording of transactions; and the reliability of financial records for preparing financial statements. The system of internal control is subject to periodic review by management and the internal audit staff.

The Agency's annual financial statements have been audited by Ernst & Young LLP, independent auditors appointed by the Directors of the Agency. Management has made available to Ernst & Young LLP all the financial records and related data of the Agency and has provided access to all the minutes of the meetings of the Directors of the Agency. The independent auditors periodically meet with the Directors of the Agency.

The independent auditors conducted their audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that they plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. The audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, the independent auditors do not express an opinion on the effectiveness of the Agency's internal control over financial reporting. The audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The independent auditors' unmodified report expresses that the financial statements are presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

Darryl C. Towns	Sheila Robinson
President/Chief Executive Officer	Senior Vice President/Chief Financial Officer

January 29, 2015

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Report of Independent Auditors

The Board of Management and Directors
State of New York Mortgage Agency
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the State of New York Mortgage Agency (the Agency), a component unit of the State of New York, as of and for the years ended October 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of October 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that Management's Discussion and Analysis and schedule of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The Supplementary Section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the Supplementary Section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated January 29, 2015, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Ernst & Young LLP

January 29, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended October 31, 2014 and October 31, 2013

Overview of the Financial Statements

The following is a narrative overview of the financial performance of the State of New York Mortgage Agency (the "Agency" or "SONYMA") for the fiscal years ended October 31, 2014 ("fiscal 2014") and 2013 ("fiscal 2013") with selected comparative information for the fiscal year ended October 31, 2012 ("fiscal 2012"). Please read this analysis in conjunction with the financial statements.

The annual financial statements consist of five parts: (1) management's discussion and analysis (this section); (2) the financial statements; (3) the notes to the financial statements; (4) the required supplementary information and (5) the supplementary schedules that report programs of the Agency individually.

The Agency's financial statements are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Management's Discussion and Analysis

- This section of the Agency's financial statements, Management's Discussion and Analysis (the "MD&A"), presents an overview of the Agency's financial performance during the fiscal year ended October 31, 2014 compared with the fiscal year ended October 31, 2013 and fiscal year ended October 31, 2012. It provides a discussion of financial highlights and an assessment of how the Agency's financial position has changed from past years. It identifies the factors that, in management's view, significantly affected the Agency's overall financial position. It may contain opinions, assumptions or conclusions by the Agency's management that should not be considered a replacement for, and must be read in conjunction with, the financial statements and other information described below.

The Financial Statements

- The "Statement of Net Position" provides information about the liquidity and solvency of the Agency by indicating the assets, deferred outflows, liabilities and net position.
- The "Statement of Revenues, Expenses and Changes in Net Position" accounts for all of the current year's revenues and expenses in order to measure the success of the Agency's operations over the past year. It can be used to determine how the Agency has funded its costs. By presenting the financial performance of the Agency, the change in net position is similar to net profit or loss for a business.
- The "Statement of Cash Flows" is presented on the direct method of reporting. It provides information about the Agency's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. Cash collections and payments are presented in this statement to arrive at the net increases or decreases in cash for each year.

The Notes to the Financial Statements

- The notes provide information that is essential to understanding the financial statements, such as the Agency's accounting methods and policies as well as providing information about the content of the financial statements.
- Details include contractual obligations, future commitments and contingencies of the Agency.
- Information is given regarding any other events or developing situations that could materially affect the Agency's financial position.

Required Supplementary Information ("RSI")

- The RSI presents the information regarding the Agency's progress in funding its obligation to provide postemployment benefits other than pensions to its employees.

Supplementary Information

- Presentations of the Agency's financial information are listed by program.

Background

The Agency is a corporate governmental Agency, constituting a public benefit corporation and a component unit of the State of New York (the "State"). The Agency and its corporate existence shall continue until terminated by law; provided, however, that no such law shall take effect so long as the Agency has bonds, notes or other obligations outstanding.

The Agency has two primary lines of operations: Single Family Operations and Mortgage Insurance Fund Operations.

Single Family Operations are dedicated to providing affordable mortgage financing to New York State home purchasers with low and moderate incomes. The Agency provides such financing through a network of participating lenders for the purchase of newly constructed and existing homes; homes in need of renovation; permanently affixed manufactured homes and financing for cooperatives and condominiums.

Mortgage Insurance Fund (the "MIF") Operations are dedicated to providing mortgage insurance and credit support for multi-family affordable residential projects and special care facilities, as well as providing pool and primary mortgage insurance on single family mortgages purchased by the Agency.

The Student loan program is dedicated to offering education loans to eligible students attending colleges and universities in the State. The program has been on hiatus since fiscal 2012. There have not been any Student Loan purchases since May 1, 2012.

Financial Markets

The Agency operated in 2014 in a market continuing to recover from the great recession with some notable signs of stability. The equity markets, consumer spending and employment all exhibited increases this year. At the same time treasury yields declined during the year, especially at the long end with 10 year and 30 year bonds declining by 83 and 117 bps respectively, which was the largest decline in ten years.

The municipal bond market was much improved from the prior year. Supply in the first half of the year was down significantly but issuance by year end totaled $334 billion, up from the prior year, and approximately 87% of the ten year average. Housing bonds continue to play a diminished role in the market- accounting for only 3.43% of total issuances. As with the treasury market referenced above, municipal yields trended downward during the year, particularly at the long end with 30 year MMD ending at 2.86%, for a 134 basis point drop. Credit concerns, so prevalent in 2013, abated with Detroit, MI and Stockton, CA obtaining approval of their plans to exit bankruptcy, increased funding of pension obligations, and state and local budgets improving. Also in contrast to 2013, investor demand increased with mutual fund assets up a net $21 billion.

The single family housing market showed signs of improvement in 2014 with sales, construction and housing prices all increasing, albeit with sales and housing starts still not recovered to pre-crash levels and housing price increases tapering off from 2013 levels. Delinquency rates, underwater mortgages and foreclosure all have seen steady declines, though judicial foreclosure states like New York continue to experience a backlog.

Even though 30 year mortgage rates decreased by approximately 70 basis points by year end, mortgage originations in 2014 were the lowest in 14 years and new purchase borrowing experienced a 13% decline in 2014, according to the Mortgage Bankers Association. Furthermore, first time buyers (SONYMA's target audience) continue to be a smaller than usual portion of the market. Typically accounting for 40% of the market, they currently account for only 33%. This decrease in first time homebuyer participation is widely attributed to a range of factors including higher student loan debt, stricter lending standards and flat wage growth, among others.

As was the case in previous fiscal years, one of the largest factors affecting the single family housing market has been the federal government's Quantitative Easing ("QE") programs, under which the federal government had been purchasing $45 billion of Treasury securities and $40 billion of mortgage bonds monthly since September 2012. The Fed brought a measured end to its purchases in 2014 but has indicated its intention to hold its mortgage bond portfolio, providing continued support to conventional mortgage rates.

These QE purchases served to keep conventional mortgage rates low and therefore SONYMA and other housing finance agencies have not enjoyed their typical tax-exempt rate advantage vs. conventional rates. SONYMA's mortgage originations have lagged from our ten year norms in this competitive rate environment. However we have taken advantage of the low interest environment and sought opportunities to lower our borrowing costs on outstanding bonds through economic refunding transactions. These refunding opportunities generated subsidy which SONYMA used to lower its single family lending rates. After actively pursuing these opportunities in the recent low rate environment, fewer refunding candidates remain. In 2014, the Agency issued $420 million of bonds, with economic refunding bonds representing over three quarters of issuance.

Despite the programmatic and market challenges described above, the Agency continued to benefit from investor interest and its group of Community Reinvestment Act ("CRA") motivated buyers who actively participate in the Agency's bond sales. This interest has complemented retail investor demand and has helped the Agency continue to achieve strong positive reception for its bond offerings.

Single Family Operations Highlights

General

As in prior years and as discussed previously, continued uncertainty in the housing market coupled with Federal Reserve's policy of keeping interest rates low impacts SONYMA's ability to maintain its traditional interest rate advantage. As a result of this difficult environment, SONYMA's loan production decreased significantly from fiscal year 2013. During fiscal year 2014, SONYMA assisted 991 low and moderate-income households (compared to 1,599 households in fiscal 2013 and 746 fiscal 2012) by purchasing $161.5 million in mortgages (compared to $288.2 million in fiscal 2013 and $124.8 million in fiscal 2012). In fiscal year 2014, the Agency purchased 38% less in mortgages than during the last fiscal year, and 33% more than in fiscal year 2012. SONYMA's performance more closely tracked the results of fiscal year 2012. SONYMA's increased production in fiscal year 2013 was due primarily to an increase in conventional mortgage rates during the summer months of that fiscal year, which led to a temporary but significant spike in mortgage reservations. Most of the bond financed loans were purchased under SONYMA's two primary programs - the Low Interest Rate and Achieving the Dream Programs.

During fiscal 2014, the Low Interest Rate Program provided financing to 325 households (compared to 658 households in fiscal 2013 and 258 in fiscal 2012), and the Achieving the Dream Program, which assists lower-income homebuyers (70% of area median income or less, raised to 80% in September, 2014), provided financing for 536 households (compared to 755 households in fiscal 2013 and 373 in fiscal 2012). The continuing success of the Achieving the Dream Program, which currently outperforms the Low Interest Rate Program in terms of production, indicates the success of the Agency, even in a period of market challenges, in assisting borrowers who would otherwise find it difficult to attain homeownership. Of the loans purchased under all of the Agency's programs, 527 borrowers (53%) received down payment assistance totaling $3.9 million in fiscal year 2014, compared to 700 borrowers, totaling $4.8 million in fiscal 2013 and 316 borrowers, totaling $1.9 million in fiscal 2012.

SONYMA continues to provide financing to underserved populations and communities. In fiscal year 2014, the percent of loans made to low-income households increased 22% and the percent of loans made to minorities increased 3%. In addition, loans made to households living in Federally-designated target areas represented nearly 17% of total loan purchases in fiscal year 2014.

During fiscal 2014, SONYMA continued to better serve its borrowers and industry partners by:

- Focusing its efforts on Low-Income and Minority Homebuyers: During fiscal year 2014, the Agency directed its energies towards providing mortgage loans to those individuals and families for whom SONYMA mortgages make the difference in achieving sustainable homeownership. This was accomplished by continuing to target mortgage financing activities on the Achieving the Dream Program, which assists lower-income homebuyers. In fiscal year 2014, 54.1% of the Agency's mortgages were originated under this program, up from 47.8% in 2013. Overall, 61% of the mortgages purchased were made to low-income homebuyers (80% of area median income or less), up from 50% in 2013, and almost 19.5% of the 991 loans SONYMA purchased statewide were made to low-income, minority households, up from 15% in 2013.

- Continuing to promote and expand the reach of the Conventional Plus Program in fiscal 2014: Conventional Plus was launched in November 2012 and complements SONYMA's existing tax-exempt bond financed programs and the FHA Plus Program described below. The product takes advantage of certain pricing and underwriting benefits afforded to SONYMA by Fannie Mae. The features of Conventional Plus are as follows:

    - No loan level price adjustments;
    - Lower mortgage insurance coverage requirements than standard loans;
    - The availability of mortgage insurance provided by Genworth Mortgage Insurance (or SONYMA's MIF, in the event that Genworth is unwilling to insure the loan); and
    - Down payment and/or closing cost assistance up to 3% of the home purchase price (SONYMA allows its Down Payment Assistance Loan to be used to pay a one-time upfront mortgage insurance premium, thus eliminating the monthly mortgage insurance premium and significantly lowering the monthly payment).

The product is available for home purchases <u>and</u> for limited cash-out refinances.

Under Conventional Plus, 64 mortgages of $12 million in total principal and $138,000 in Down Payment Assistance were originated in fiscal year 2014. In addition, as of October 31, 2014, the Agency had 21 mortgages of $3.5 million in total principal and $56,000 in Down Payment Assistance in its pipeline.

- Continuing to promote and expand the footprint of the FHA Plus Program SONYMA launched in December 2013. Complementing SONYMA's existing tax-exempt bond financed programs and the Conventional Plus Program, FHA Plus takes advantage of a special exemption from HUD that enables state housing finance agencies to offer down payment assistance on FHA-insured mortgages, where the down payment assistance may be used towards the borrower's minimum cash investment. The benefits of FHA Plus are:

  - Eligible borrowers do not have to be first-time homebuyers;
  - No income or purchase price limits; and
  - Availability of SONYMA down payment assistance:
    - for purchase transactions, up to 3% of the home purchase price.
    - for refinance transactions, up to 3% of the lower of the unpaid principal balance or the appraised value. (The assistance may be used as a credit against closing costs and prepaids.)

  Under this program, 110 mortgages of $22.5 million in total principal and $667,000 in Down Payment Assistance were originated in fiscal year 2014. In addition, as of October 31, 2014, the Agency had 28 mortgages of $5.8 million in total principal and $182,000 in Down Payment Assistance in its pipeline.

- Launched on a pilot basis with SONYMA's two highest producing lenders, the SONYMA *Express®* automated system that has been developed to assist participating lenders by providing expedited decisions on SONYMA loan eligibility. The system is expected to: (a) streamline the Agency's loan origination process and dramatically reduce the time it takes participating lenders to originate SONYMA loans; (b) eliminate uncertainty of a borrower's eligibility early in the mortgage application process; (c) lower overall lender costs; and (d) provide lenders with the capacity to submit electronic loan files to the Agency, thus eliminating the need to submit paper files. The system is expected to be rolled out to additional lender partners in the first quarter of 2015. SONYMA *Express®* will improve the Agency's relationships with lenders, other industry partners and potential borrowers. Ultimately, the system is expected to increase loan production and improve profitability.

- Continuing to work with SONYMA's Advisory Council in gathering insights and recommendations on future direction from expert industry professionals. The Council helps SONYMA maximize its effectiveness as an important provider of affordable and sustainable mortgages to low- and moderate-income first-time homebuyers across New York State while simultaneously providing a forum for knowledge-sharing and relationship building among different members of SONYMA's distribution and supply-networks. The Agency held two meetings with the Advisory Council in fiscal 2014 as well as monthly subcommittee meetings.

- Continuing Outreach Efforts to Industry Partners: SONYMA continued to cultivate its relationships with industry partners by participating in many events with homeownership counseling organizations, realtors, lenders, not-for profits, veterans groups, community groups and others. Of particular note, SONYMA sponsored the Annual CXHE Statewide Conference for homeownership counseling groups, reinforcing the Agency's commitment to sustainable homeownership through borrower education and preparation. The outreach efforts and collaboration in planning events have deepened the Agency's relationships with its partners in the housing community and provided additional opportunities to promote SONYMA products and services.

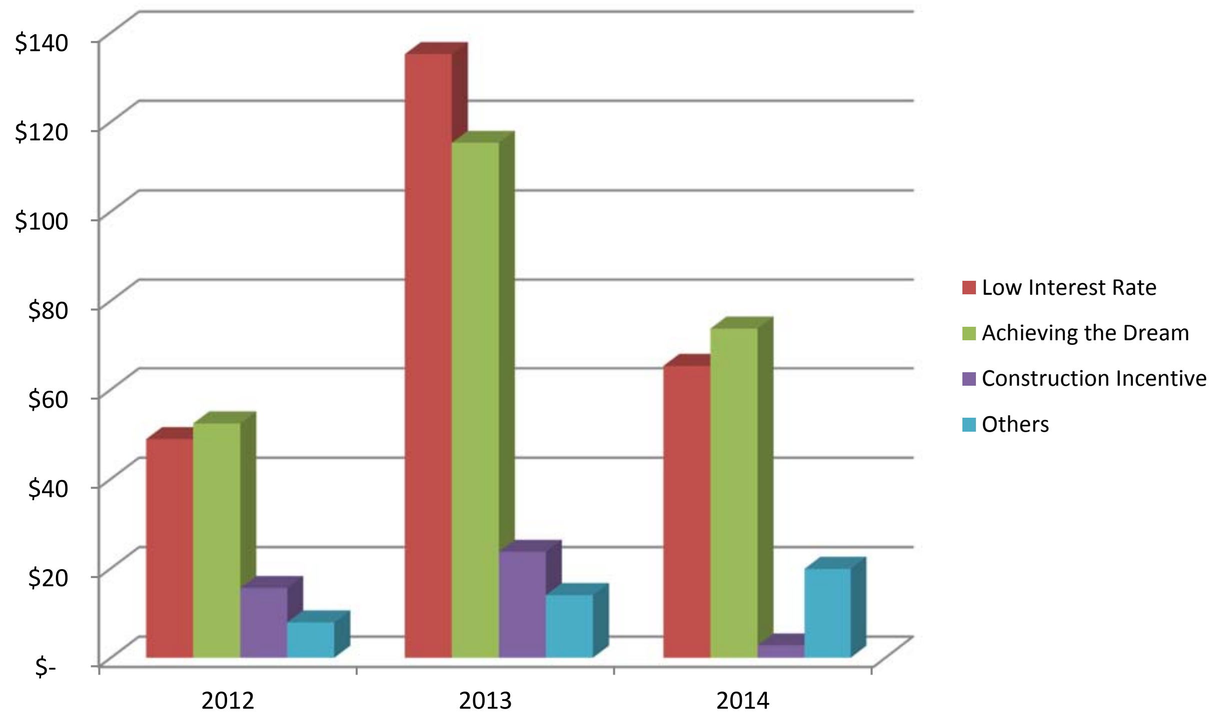
- Beginning in February 2014, SONYMA University webinars were offered on a twice per month basis. Content has been developed and presented to lender partners, realtors, and homeownership counselors with topics coming from attendee feedback and the SONYMA Advisory Council. To date, more than 1,000 attendees have participated in web-based training on SONYMA programs. The course content has also been used to create consistent presentations for onsite trainings that are given by our three Business Development Officers throughout the state.

- Development and rollout of enhanced Remodel New York Program: As the existing housing stock continues to age, many homebuyers are faced with the need to complete renovations to properties they are purchasing. This can be burdensome to first-time homebuyers adjusting to homeownership, and can keep homebuyers from being able to purchase properties in need of significant repair. In order to address this increasing need, SONYMA has enhanced our Remodel NY program in a number of ways.

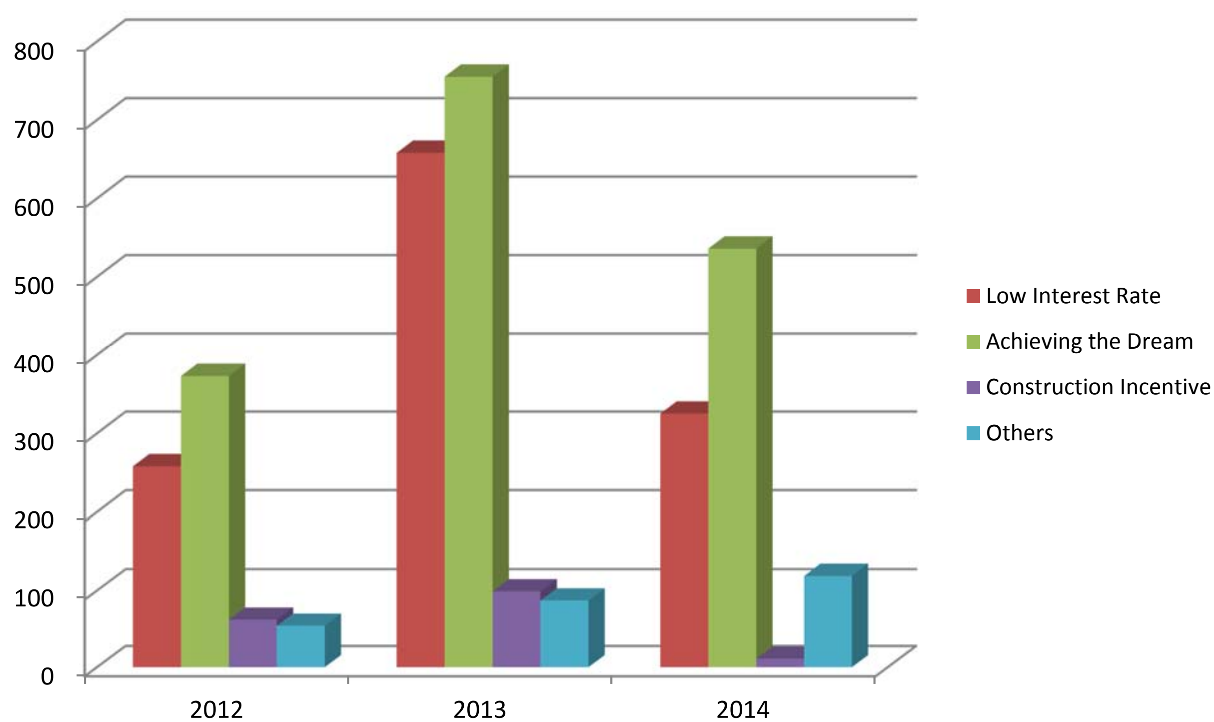
  - We transitioned the Remodel NY to an add-on program, so that borrowers who meet the income requirements for Achieving the Dream, can utilize the program and obtain the same low interest rate they would receive if they were not financing property improvements.
  - We built the infrastructure to service the renovation escrow accounts internally. This enables SONYMA lender partners, without the servicing capability, to administer renovation draws, the ability to offer the program. This is anticipated to increase homebuyer access to the program through a larger lender network.
  - Consolidation of Remodel NY and Own It Fix It, NY programs and elimination of caps on repair amounts based on total dollars and percentage of after-improved value.
  - Expansion of eligible improvements to include necessities for first-time homebuyers, such as appliances, when after-improved value permits.
  - Alignment with HUD and Fannie Mae renovation guidelines and form usage for work write-up preparation. This enables lenders already offering the FHA 203(k) and Fannie Mae HomeStyle to transition to originating SONYMA Remodel NY with minimal additional technology modifications and training resources needed.
  - Implementation of mandatory certification for Loan Originators taking Remodel NY applications. To ensure borrowers receive proper counseling from their originator, it was important to require that there be a minimum amount of training and education provided prior to an originator taking an application for a Remodel NY loan.

The following table compares SONYMA's loan purchases (based on dollars purchased) by fiscal year and program:

(In millions)



The following table compares SONYMA's loan purchases (based on number of loans purchased) by fiscal year and program:



Performance of Mortgage Portfolio

Despite the continued turbulent economy and real estate market, SONYMA's mortgage portfolio has performed consistently well. At the end of fiscal 2014, SONYMA's 60 days or more delinquencies were 4.68% (based on the number of loans). This compares very favorably to the New York State and national averages of 9.67% and 5.66%, respectively[1]. As of the end of fiscal year 2013, the percentage of 60 days or more delinquencies was 4.48%.

Since the end of fiscal year 2009, the percentage of the Agency's delinquencies has increased by over 130% (from 2.02% as of October 31, 2009 to 4.68% as of October 31, 2014. The increase is primarily due to the significant increases in the elapsed time to complete a foreclosure proceeding. With respect to mortgage loans foreclosed between January 1, 2014 and October 31, 2014, an average of 1,070 days elapsed between the date of default and the date foreclosure proceedings were completed. In contrast, with respect to Agency mortgage loans foreclosed in 2009, 2010, 2011, 2012 and 2013, an average of, respectively, 488 days, 655 days, 800, 959 days and 993 days elapsed between such dates.

Mortgage Insurance Fund Operations

The Mortgage Insurance Fund has two lines of business. It provides insurance on mortgages for affordable multi-family housing and special needs facilities and on other mortgage loans made by government entities and commercial lenders. It also provides both pool and primary insurance on single family mortgages purchased by SONYMA.

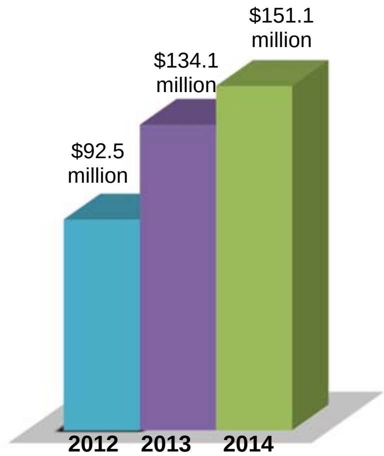
The following graph highlights the MIF's project insurance commitments for the fiscal years indicated.

The substantial decrease in the number of units whose mortgages were insured by the MIF during fiscal 2014 compared to fiscal 2013 was due to the absence of a single $55 transaction with Wells Fargo Bank for the rehabilitation of 15,372 units in Co-op City in the Bronx.

Substantially all of the MIF's revenues are derived from a New York State mortgage recording surtax. Details are indicated in the following chart:

[1] Latest quarterly figure, as of 9/30/14

New York State Mortgage Recording Surtax Receipts



The increase in New York State Mortgage Recording Surtax Receipts from fiscal 2013 to fiscal 2014 is due to an increase in real estate transactions in the State, particularly in commercial real estate transactions in New York City. The MIF also received $24.0 million in insurance recoveries, application fees and insurance premiums during fiscal 2014 as compared with $20.8 million during fiscal 2013 and $16.7 million during fiscal 2012. Interest earned by the MIF during fiscal years 2014, 2013 and 2012 was $18.2 million, $14.8 million and $21.8 million, respectively.

The claims-paying ability of the Project Pool Insurance Account and the Single Family Pool Insurance Account of the MIF are rated "AA-" and "AA+", respectively by Fitch Inc. ("Fitch"). Fitch affirmed its rating on the Single Family Pool Insurance Account with a stable outlook and the Project Pool Insurance Account, with a negative outlook on July 31, 2014.

On July 18, 2011, Moody's affirmed the "Aa1" rating on the Project Pool Insurance Account with a stable outlook. On October 8, 2011, Moody's affirmed its "Aa1" rating on the Single Family Pool Insurance Account and changed its outlook from stable to negative.

Condensed Financial Information

Net Position Summary Schedules

	October 31,			% Change	
	2014	2013	2012	2014-2013	2013-2012
		(in thousands)			
Assets					
Cash	$ 10,925	$ 8,638	$ 18,422	26%	(53%)
Investments	2,271,785	2,256,146	2,288,101	1%	(1%)
Mortgage and Student loans receivables	2,753,256	2,873,878	2,964,418	(4%)	(3%)
Interest receivables	31,726	29,735	28,392	7%	5%
Other assets	13,632	7,177	4,933	90%	45%
Total assets	5,081,324	5,175,574	5,304,266		
Deferred outflows of resources					
Accumulated decrease in fair value of hedging derivatives	26,209	38,979	58,292	(33%)	(33%)
Deferred loss on refunding	5,826	6,118	7,412	(5%)	(17%)
Total deferred outflows of resources	32,035	45,097	65,704		
Liabilities					
Bonds payable	2,707,487	2,828,022	3,037,596	(4%)	(7%)
Derivative instruments - interest rate swaps	39,275	45,679	64,992	(14%)	(30%)
Interest payable	6,307	7,374	8,374	(14%)	(12%)
Allowance for anticipated claims	27,812	22,653	33,204	23%	(32%)
Unearned income, accounts payable and other liabilities	106,398	153,087	30,113	(30%)	408%
Postemployment retirement benefits	42,690	39,000	34,656	9%	13%
Total liabilities	2,929,969	3,095,815	3,208,935		
Net position	$ 2,183,390	$ 2,124,856	$ 2,161,035		

Assets

Investments

Investments held by the Agency increased slightly from $2.26 billion at October 31, 2013 to $2.27 billion at October 31, 2014, an increase of approximately $15.6 million or 1%. The increase was primarily as a result of the bond sale on October 23, 2014 in which $27.9 million was deposited into the acquisition fund for future mortgage purchases. This compares with a slight decrease from $2.29 billion at October 31, 2012 to $2.26 billion at October 31, 2013, a decrease of approximately $32 million or 1%, which was primarily as a result of transfers from the MIF to the State and its Agencies in the amount of $32.5 million.

Mortgage and Student Loans Receivables

Mortgage and student loans receivables are the primary assets of the Agency's Single Family operation constituting 54% of the total assets at October 31, 2014 and 56% as of October 31, 2013 and October 31, 2012.

Mortgage and student loans receivables decreased from $2.87 billion at October 31, 2013 to $2.75 billion at October 31, 2014, a decrease of approximately $120.6 million or 4%. This compares to a decrease from $2.96 billion at October 31, 2012 to $2.87 billion at October 31, 2013, a decrease of approximately $90 million or 3%. The decreases in each year were due to mortgage principal receipts exceeding mortgage purchases.

Interest Receivables

Interest receivables increased from $29.7 million at October 31, 2013 to $31.7 million at October 31, 2014, an increase of approximately $2.0 million or 7%. This compares with an increase from $28.4 million at October 31, 2012 to $29.7 million at October 31, 2013, an increase of approximately $1.3 million or 5%. The increase was primarily a result of the increase in the delinquent interest receivables due on Owned Real Estate (see Other Assets below).

Other Assets

Other assets are primarily comprised of Owned Real Estate held by the Agency. Other assets increased from $7.2 million at October 31, 2013 to $13.6 million at October 31, 2014, an increase of approximately $6.4 million or 90%. This compares with an increase from $4.9 million at October 31, 2012 to $7.2 million at October 31, 2013, an increase of approximately $2.3 million or 45%. The increase in each fiscal year results from increases in the number of loans being moved from the loan portfolio to Owned Real Estate status.

Liabilities

Bonds Payable

At approximately 92% of total liabilities in fiscal 2014 (91% and 95% in fiscal 2013 and 2012, respectively), bonds payable comprise the largest component of liabilities. Funds generated by the sale of bonds are used to purchase mortgage loans or to economically refund outstanding bonds on mortgage loans. Mortgage loan payments together with interest earnings thereon, are the source of funds used for debt service payments due on bonds payable.

Bonds payable decreased from $2.83 billion at October 31, 2013, to $2.71 billion at October 31, 2014, a decline of approximately $120 million or 4%. This compares with a decrease from $3.04 billion at October 31, 2012, to $2.83 billion at October 31, 2013, a decline of approximately of $210 million or 7%. The declines in bonds outstanding are primarily a result of principal payments on bonds exceeding bond issuances and the continued issuance of economic refunding bonds.

Derivative Instruments - Interest Rate Swaps

The Agency has entered into various derivative instruments contracts ("interest rate swaps") in order to manage risk associated with interest on its bond portfolio. The Agency recognizes the fair value of all derivative instruments as either an asset or liability on its statements of net position with the offsetting gains or losses recognized in earnings or as either deferred inflows or outflows if deemed an effective hedge (see note 8). For fiscal 2014, 2013 and 2012, all of the Agency's interest rate swaps were determined to be effective hedges. Therefore, the Agency recorded the amount of the fair values of these interest rate swaps along with a corresponding deferred outflow or inflow of resources.

Due to an increase in interest rates relating to interest swaps, the fair values of the interest rate swaps increased from approximately $45.7 million in fiscal 2013 to $39.3 million in fiscal 2014, an increase of approximately $6.4 million, or 14%. During fiscal 2013, there was an increase in fair value from approximately $65 million in fiscal 2012 to $45.7 million in fiscal 2013, an increase of approximately $19.3 million, or 30%.

Interest Payable

Interest payable decreased from $7.3 million at October 31, 2013 to $6.3 million at October 31, 2014, a decrease of approximately $1 million, or 14%. This compares with a decrease from $8.4 million at October 31, 2012 to $7.3 million at October 31, 2013, a decrease of approximately $1.1 million, or 12%. The decline in interest payable is primarily due to the continued issuance of refunding bonds at lower interest rates and lower bonds outstanding.

Allowance for Anticipated Claims

Allowance for anticipated claims increased from $22.7 million at October 31, 2013 to $27.8 million at October 31, 2014, an increase of approximately $5.1 million or 23%, as compared to a decline from $33.2 million at October 31, 2012 to $22.7 million at October 31, 2013, a decrease of approximately $10.5 million or 32%. The MIF establishes provisions for potential insurance claims on its policies that are non-performing. The balance fluctuates as projects are moved to and from performing status or as periodic claims are paid.

During fiscal 2014, 2013 and 2012 the MIF made claim payments in the amounts of $5.2 million, $11.2 million and $11.5 million respectively.

Unearned Income, Accounts Payable and Other Liabilities

Unearned income, accounts payable and other liabilities decreased from $153.1 million at October 31, 2013 to $106.4 million at October 31, 2014, a decrease of approximately $46.7 million or 30%. This decrease is primarily a result of a reduction in commitments made by the MIF to transfer funds to the State and its Agencies from $103.5 million in fiscal 2013 to $32 million in fiscal 2014. This compares to an increase from $30.1 million at October 31, 2012 to $153.1 million at October 31, 2013, an increase of approximately $123 million or 408%. The increase was primarily a result of the commitment by the MIF to transfer an additional $103.5 million to the State and its Agencies in fiscal 2014 combined with a surplus of surtax receipts in the amount of $22.4 million.

Postemployment Retirement Benefits

The Agency provides certain group health care benefits to eligible retirees (and for eligible dependents and survivors of such retirees). The postemployment retirement benefits balance represents the accumulated unfunded actuarial liability required to pay the cost to eligible retirees. The accumulated amount of postemployment retirement benefits increased from $39 million in fiscal 2013 to $42.7 million in fiscal 2014, an increase of approximately $3.7 million, or 9%. This compares with an increase from $34.7 million in fiscal 2012 to $39.0 million in fiscal 2013, an increase of approximately $4.3 million, or 13%. The increase in fiscal 2014 of 9% is primarily due to lower NYSHIP premiums and decreases in projected NYSHIP premiums, offset slightly by a change in the discount rate from 3.5% to 3.25%.

Summary of Revenues, Expenses and Changes in Net Position

	Fiscal Year Ended October 31, 2014	2013	2012	% Change 2014-2013	% Change 2013-2012
		(in thousands)			
Operating Revenues					
Interest on loans	$ 140,756	$ 147,635	$ 162,551	(5%)	(9%)
Recoveries	13,049	11,185	10,546	17%	6%
Investment Income:					
Investment earnings	25,070	21,813	30,548	15%	(29%)
Decrease from hedge termination	(6,367)	—	—	N/A	N/A
Net change in fair market value of investments	3,559	(28,774)	(7,380)	(112%)	290%
Other operating revenues	15,821	14,822	13,722	7%	8%
Total operating revenues	191,888	166,681	209,987		
Operating Expenses					
Interest expense and amortization of discount on debt	93,233	106,758	124,918	(13%)	(15%)
Provision for estimated claims	14,835	6,181	8,628	140%	(28%)
Pool insurance	671	508	1,031	32%	(51%)
Expenditures related to federal grants	766	909	828	(16%)	10%
Other operating expenses	40,399	42,729	38,386	(5%)	11%
Total operating expenses	149,904	157,085	173,791		
Net operating revenue	41,984	9,596	36,196	338%	(73%)
Non-operating revenues (expenses)					
Mortgage insurance reserves retained	91,202	89,268	87,256	2%	2%
Federal grants	766	909	828	(16%)	10%
Transfers to New York State and its Agencies	(75,418)	(135,952)	(100,000)	(45%)	36%
Total non-operating revenues (expenses)	16,550	(45,775)	(11,916)		
Increase (Decrease) in net position	58,534	(36,179)	24,280		
Total net position - beginning of fiscal year	2,124,856	2,161,035	2,136,755		
Total net position- end of fiscal year	$ 2,183,390	$ 2,124,856	$ 2,161,035		

N/A - Not applicable

Operating Revenues

Interest on Mortgages

Interest on mortgage loans from Single Family operations represent the primary source of funds available for the Agency to pay interest due on bonds payable. Interest on mortgage loans declined from $147.6 million in fiscal 2013 to $140.8 million in fiscal 2014, a decrease of approximately $6.8 million or 5%. This compares with a decline from $162.6 million in fiscal 2012 to $147.6 million in fiscal 2013, a decrease of approximately $15.0 million or 9%. The continued decline in fiscal years 2014, 2013 and 2012 was a result of historic low interest rates on loans purchased by the Agency during this period.

Recoveries

Recoveries result from the reclassification of certain loans insured by the MIF from non-performing status to performing status. Recoveries also include payments made to the MIF after a final claim payment was made. Recoveries increased from $11.2 million in fiscal year 2013 to $13.0 million in fiscal year 2014, an increase of approximately $1.8 million, or 17%, as compared with an increased from $10.5 million in fiscal year 2012 to $11.2 million in fiscal year 2013, an increase of approximately $639 thousand, or 6%.

During fiscal 2014, the Agency received $8.2 million in cash recoveries ($7.1 million in fiscal 2013 and $4 million in fiscal 2012) and had $4.8 million in non-cash adjustments ($9.2 million in fiscal 2013 and $6.5 million in fiscal 2012)

Of the $8.2 million of cash recoveries received by the Agency, the MIF recorded recoveries of approximately $3.0 million during fiscal 2014 ($3.4 million in both fiscal 2013 and 2012) relating to an Ulster County IDA mortgage on a nursing home in Kingston, New York. The mortgage was assigned to the Agency as a result of a final claim paid by the MIF in July, 2003.

Investment Earnings and Net Change in Fair Value of Investments

During fiscal 2014, the Agency realized $25.0 million in net earnings on investments from maturities, sales and investments amortization (this compares with $21.8 million and $30.5 million during fiscal years 2013 and 2012, respectively). The calculation of realized gains and losses is independent of the calculation of the net increase or decrease in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current fiscal year may have been recognized as an increase or decrease in the fair value of investments reported in prior years. The Agency had recorded mark to market increases of $11.4 million, $7.8 million and $36.6 million, for fiscal years 2014, 2013 and 2012, respectively. The net change in the fair value of investments increased to $3.6 million during fiscal 2014 (this compares with decreases of approximately $28.8 million and $7.4 million for fiscal years 2013 and 2012, respectively). These amounts takes into account all changes in fair value (including purchases, maturities and sales) that occurred during the year.

Decrease from Hedge Termination

During fiscal 2014, the Agency amended one swap agreement to reflect a change in counterparty and as a result received a 0.02% reduction in its fixed interest rate. In accordance with GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, the change in interest rates resulted in a termination of the hedging relationship. As a result, the Agency recorded a loss of $6.4 million on the Statement of Revenues, Expenses and Changes in Net Position as of October 31, 2014 within Investment Income.

Other Operating Revenues

Other operating revenues primary consist of commitment fees, insurance premiums and application fees earned. Other operating revenues increased from $14.8 million at October 31, 2013 to $15.8 million at October 31, 2014, an increase of approximately $1.0 million or 7%. This compares with an increase from $13.7 million at October 31, 2012 to $14.8 million at October 31, 2013, an increase of approximately $1.1 million or 8%. The increase was primarily due to the increase in the commitment fees, insurance premiums and application fees earned in fiscal 2014.

Expenses

Interest Expense

Interest expense decreased from $106.8 million in fiscal 2013 to $93.2 million in fiscal 2014, a decrease of approximately $13.6 million or 13%. This compares with a decrease from $124.9 million in fiscal 2012 to $106.8 million in fiscal 2013, a decrease of approximately $18.1 million or 15%. The decrease was due to the continued issuance of refunding bonds and the decline in the balance of outstanding bonds and the required interest payments.

Provision for Estimated Claims

The MIF sets aside provisions for potential insurance claims on the MIF insured multi-family projects and the special needs facilities that are non-performing. This account fluctuates as projects are moved to and from performing status or as periodic claims are paid. The provision for estimated claims increased from approximately $6.2 million in fiscal year 2013 to $14.8 million in fiscal year 2014, an increase of approximately $8.6 million, or 140%, as compared to a decrease from $8.6 million in fiscal year 2012 to $6.2 million in fiscal year 2013, a decrease of approximately $2.4 million, or 28%

In fiscal 2014, 2013 and 2012, provisions were set aside for multi-family projects insured by the MIF. For the MIF's claim activity, including provisions for estimated claims established and the balance of total reserves for the fiscal years ended 2014 and 2013, see Note 7 to the financial statements.

Other Operating Expenses

Other operating expenses primary consist of bond issuance costs, postemployment retirement benefits expenses, general expenses and the cost recovery fee charged by State of New York. Other operating expenses decreased from $42.7 million at October 31, 2013 to $40.4 million at October 31, 2014, a decrease of approximately $2.3 million or 5%. This compares with an increase from $38.4 million at October 31, 2012 to $42.7 million at October 31, 2013, an increase of approximately $4.3 million or 11%.

Non-Operating Revenues

Mortgage Insurance Reserves Retained

Mortgage insurance reserves retained totaled $91.2 million during fiscal 2014 as compared to $89.3 million during fiscal 2013 and $87.3 million during fiscal 2012. Such reserves are funded by surcharge tax receipts. Mortgage surtax receipts for fiscal years 2014, 2013 and 2012 were received in the amounts of $151.1 million, $134.1 million and $92.5 million, respectively.

Transfers to the State and its Agencies

During fiscal 2014, the 2014-2015 enacted State Executive Budget required the MIF to transfer excess reserves in the amount of $75.4 million to the State and its Agencies. Of this amount, the MIF transferred $43.4 million during fiscal 2014. The remaining $32.0 million was transferred on November 18, 2014 to the New York State Housing Finance Agency.

During fiscals 2013 and 2012, pursuant to the State Executive Budget, the MIF was required to transfer $136 million and $100 million to the State and its Agencies respectively.

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State of New York Mortgage Agency
(A Component Unit of the State of New York)
Statements of Net Position

	October 31, 2014	October 31, 2013
	(in thousands)	
Assets		
Current assets:		
Cash-demand deposits unrestricted	$ 2,084	$ 2,131
Cash-demand deposits restricted	4,740	2,899
Cash-custodian deposits	4,101	3,608
Investments unrestricted	24,740	22,664
Investments restricted	742,091	839,560
Total cash and investments	777,756	870,862
Mortgage loans receivable	170,106	170,985
Accrued interest receivable:		
Mortgage and student loans	21,671	20,511
Investments	10,055	9,224
Other assets	13,632	7,177
Total current assets	**993,220**	**1,078,759**
Non-current assets:		
Investments restricted	1,504,954	1,393,922
Mortgage loans receivable	2,572,607	2,691,215
Student loans receivable	10,543	11,678
Total non-current assets	**4,088,104**	**4,096,815**
Total assets	**5,081,324**	**5,175,574**
Deferred outflows of resources		
Accumulated decrease in fair value of hedging derivatives	26,209	38,979
Deferred loss on refunding	5,826	6,118
Total deferred outflows of resources	**32,035**	**45,097**
Liabilities		
Current liabilities:		
Bonds payable, net	155,215	110,935
Interest payable	6,307	7,374
Allowance for anticipated claims	27,812	22,653
Unearned income, accounts payable and other liabilities	74,398	49,553
Amounts due to New York State and its Agencies	32,000	103,534
Total current liabilities	**295,732**	**294,049**
Non-current liabilities:		
Bonds payable, net	2,552,272	2,717,087
Derivative instruments - interest rate swaps	39,275	45,679
Postemployment retirement benefits payable	42,690	39,000
Total non-current liabilities	**2,634,237**	**2,801,766**
Total liabilities	**2,929,969**	**3,095,815**
Net position		
Restricted for bond obligations	590,362	578,576
Restricted for insurance requirements	1,612,867	1,564,826
Unrestricted (deficit)	(19,839)	(18,546)
Total net position	**$ 2,183,390**	**$ 2,124,856**

See notes to financial statements.

State of New York Mortgage Agency

(A Component Unit of the State of New York)

Statements of Revenues, Expenses and Changes in Net Position

	Fiscal Year Ended October 31,	
	2014	2013
	(in thousands)	
Operating revenues		
Interest earned on loans	$ 140,756	$ 147,635
Recoveries	13,049	11,185
Investment income:		
Investment earnings	25,070	21,813
Decrease from hedge termination	(6,367)	—
Net change in fair market value of investments	3,559	(28,774)
Commitment fees, insurance premiums and application fees earned	15,060	14,129
Other income	761	693
Total operating revenues	**191,888**	**166,681**
Operating expenses		
Interest and amortization of discount on debt	93,233	106,758
Bond issuance costs	4,278	5,618
Postemployment retirement benefits expense	4,302	4,898
General expenses	19,956	18,854
Overhead assessment by State of New York	4,556	4,556
Pool insurance	671	508
Provision for estimated claims	14,835	6,181
Expenses related to federal grants	766	909
Other	7,307	8,803
Total operating expenses	**149,904**	**157,085**
Operating income	**41,984**	**9,596**
Non-operating revenues (expenses)		
Mortgage insurance reserves retained	91,202	89,268
Federal grants	766	909
Transfers to New York State and its Agencies	(75,418)	(135,952)
Total non-operating revenues (expenses)	**16,550**	**(45,775)**
Increase (Decrease) in net position	**58,534**	**(36,179)**
Total net position, beginning of fiscal year	**2,124,856**	**2,161,035**
Total net position, end of fiscal year	**$ 2,183,390**	**$ 2,124,856**

See notes to financial statements.

State of New York Mortgage Agency
(A Component Unit of the State of New York)
Statements of Cash Flows

	Fiscal Year Ended October 31, 2014	2013
	(in thousands)	
Cash flows from operating activities		
Interest received on loans	$ 141,087	$ 147,891
Principal payment on loans	282,457	378,894
Purchase of loans	(161,508)	(288,208)
Commitment fees, insurance premium and application fees earned	25,142	22,148
General expenses	(26,132)	(23,528)
Expenditures related to federal and state grants	(766)	(909)
Other	(22,042)	(30,223)
Net cash provided by operating activities	**238,238**	**206,065**
Cash flows from non-capital financing activities		
Interest paid on bonds	(93,130)	(107,471)
Mortgage recording surtax receipts	151,081	134,104
Payments to New York State	(186,930)	(60,466)
Federal grants	766	909
Bond proceeds	419,690	424,725
Retirement and redemption of bonds	(539,565)	(633,885)
Net cash used in non-capital financing activities	**(248,088)**	**(242,084)**
Cash flows from investing activities		
Earnings on investments	33,799	36,943
Proceeds from the sale or maturities of investments	3,232,111	5,423,991
Purchase of investments	(3,253,773)	(5,434,699)
Net cash provided by (used in) investing activities	**12,137**	**26,235**
Net increase (decrease) in cash	2,287	(9,784)
Cash at beginning of fiscal year	8,638	18,422
Cash at end of fiscal year	**$ 10,925**	**$ 8,638**
Reconciliation of operating revenues to net cash provided by operating activities:		
Operating income	$ 41,984	$ 9,596
Adjustment to reconcile operating income to net cash provided (used in) by operating activities:		
Earnings on investment	(25,070)	(21,813)
Interest payments and amortization	93,233	106,758
Unrealized gain (loss) on investment	(3,559)	28,774
Hedge termination	6,367	—
Other	(1,081)	1,679
Changes in assets and liabilities		
Mortgage loans and other loans, net	119,487	89,665
Interest, fees and other receivables	(7,615)	(4,824)
Student loans	1,135	874
Allowance for anticipated claims	5,159	(10,552)
Unearned income, accounts payable and other	4,508	1,564
Postemployment retirement benefits payable	3,690	4,344
Net cash provided by operating activities	**$ 238,238**	**$ 206,065**
Non-cash investing activities		
Decrease in fair value of investments	**$ (3,559)**	**$ (34,349)**

See notes to financial statements.

1. Organization and Basis of Presentation

The State of New York Mortgage Agency (the "Agency") is a public benefit corporation of the State of New York (the "State") created by statute in 1970 and for financial reporting purposes is a component unit of the State. The purpose of the Agency is to make mortgages available to low and moderate income first-time homebuyers and to other qualifying homebuyers through its various mortgage programs. The Agency provides mortgage insurance for qualifying real property loans. In addition credit support is provided for obligations of the Convention Center Development Corporation through its Mortgage Insurance Program, in exchange for a one-time fee received by the Agency in fiscal year 2006. Under State statutes, the Agency's operating provisions are subject to periodic legislative renewal. The Agency is exempt from Federal, State and local income taxes. In April 2009, the Agency's statutory authority to purchase education loans was updated and expanded in order to permit the Agency to work with the New York State Higher Education Services Corporation ("HESC") in developing a new program to offer education loans to eligible students attending colleges and universities in New York State ("Student Loan Program"). The financial statements of the Agency include the accounts of the respective bondholder funds as well as the Mortgage Insurance Fund, Student Loan Program and the General Operating Fund.

Pursuant to the general resolutions for the Agency's bond issues and in accordance with the Mortgage Insurance Program legislation, separate funds have been established to record all transactions relating to each of the bond resolutions and for the Mortgage Insurance Program. Generally, the Mortgage Insurance Fund and each bond fund's assets are available only for the purposes specified under the respective bond resolutions and/or pursuant to the Agency's enabling legislation.

a. Bondholder Funds

Prior to 1983, the Agency issued tax-exempt mortgage revenue bonds and applied the proceeds to the purchase of existing residential mortgage loans from financial institutions operating in the State, on the condition that the purchase proceeds be made available for new residential mortgage loans within the State. In 1982, the enabling legislation was amended to permit application of bond proceeds for direct issuance of forward commitments for new mortgage loans through participating originators. The newly originated loans are approved and acquired by the Agency and are serviced by eligible servicers doing business in the State. Mortgages originated through the Agency's mortgage programs are subject to certain Federal and/or State regulations and limitations. The Agency is authorized, however, and has issued obligations, the interest on which is federally taxable.

All acquired mortgage loans are collateralized by first liens. If required, the mortgages are insured with primary mortgage insurance. In addition, pool insurance coverage is provided in amounts ranging from 4%-10% of the original mortgage pool amount of a bond series. The assets of the Agency's bondholder funds are restricted as to purpose under the respective bond resolutions.

Mortgage escrow balances are maintained by each financial institution servicing the mortgages for the credit of the mortgagors. The servicers are responsible for the collections and disbursements made to and from the mortgagors' escrow accounts. Mortgage servicers annually receive a credit equal to 2.93% of actual mortgage payments collected less prepayments and curtailments which they apply as a credit to their applicable New York State tax liability.

1. Organization and Basis of Presentation (continued)

b. Mortgage Insurance Fund

The Agency operates its Mortgage Insurance Fund (the "Program" or the "MIF") pursuant to a statute enacted in 1978 to encourage the investment by approved lenders in communities where mortgage capital is found to be insufficient for the preservation and rehabilitation of affordable housing. Under the Program, qualifying mortgages granted by approved lenders within the State may be insured, up to 50% of the principal balance, but up to 75% with respect to rehabilitation loans under certain conditions, and 100% of the principal balance for loans made by public pension funds and specified public benefit corporations of the State. The net assets of the program are restricted by statutory provisions.

In 1989, the MIF was enhanced by State legislation that expanded the Program's authority to issue mortgage insurance for loans in specified economic development zones and to projects providing affordable housing or are financed by government entities. In addition, the Program was granted authorization to underwrite mortgage pool insurance for the Agency's mortgage programs. The 1989 enhancements to the statute are subject to periodic renewal by the legislature.

Moody's Investors Service rates the claims paying ability of the MIF's Project Pool Insurance Account and the Single Family Pool Insurance Account each rated "Aa1"; Fitch Ratings rates the claims paying ability of the Project Pool Insurance Account and the Single Family Pool Insurance Account "AA-" and "AA+", respectively.

As of October 31, 2014 and 2013, the MIF has outstanding mortgage insurance policies of approximately $3.09 billion and $3.00 billion, respectively, of which at least 20% has been provided and reported as part of the restricted net position. Insurance reserves for performing mortgage loans are established at 20% of the original principal amount except for special needs facilities where the insurance reserve is established at 40% of the original principal amount. When an insured mortgage is in default, the insured amount is immediately reserved as a liability reserve at 100% of the original principal amount of the insured mortgage loan.

By statute, all costs of providing mortgage insurance, including claims, are chargeable against a State mortgage recording tax surcharge. The State mortgage recording tax surcharge is a dedicated tax revenue stream received directly by the Agency and recorded in the MIF's Special Account (the "Special Account"). Surcharge tax receipts and application fees in excess of expenses and reserve requirements are held in the Special Account. Annually, the excess amount on deposit in the Special Account amount as of March 31, is remitted to the State by June 18 of that year.

Legislation adopted in 2004 added an account to the Agency's MIF, the Development Corporation Credit Support Account, and expanded the powers of the MIF to permit the Agency to provide credit support for the bonds and ancillary bond facilities of the Convention Center Development Corporation, a subsidiary of the New York State Urban Development Corporation. The legislation further limits the aggregate annual amount to be transferred from the Special Account to the Development Corporation Credit Support Account within the MIF during any twelve month period ending on March 31st to the lesser of $50 million or the aggregate of the amounts required under such contracts. The Agency set aside $34.4 million for this purpose. Such funds remain on deposit for this purpose as of October 31, 2014 and 2013.

1. Organization and Basis of Presentation (continued)

c. General Operating Fund

The expenses of administrative services provided for the Agency are accounted for within the General Operating Fund. Services provided for the Mortgage Insurance Fund are accounted for separately within the Mortgage Insurance Fund.

2. Significant Accounting Policies

a. Basis of Accounting

The Agency utilizes the accrual basis of accounting wherein revenues are recognized when earned and expenses when incurred. The financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB").

b. Cash

Cash demand deposit accounts are used for the collection of funds received from the servicing banks throughout the month.

Cash custodian deposits represent mortgage payments in-transit held by the servicing financial institutions and not yet remitted to the Agency.

c. Investments

Investments other than collateralized investment agreements are recorded at their fair values, which are based on quoted market prices and matrix pricing for securities that do not trade actively. Collateralized investment agreements are reported at amortized cost. For the purpose of financial statement presentation, the Agency does not consider any of its investments to be cash equivalents.

d. Mortgage Loans Receivable

Mortgage loans on real estate are stated at their unpaid principal balance where appropriate.

The Agency does not provide a reserve against uninsured mortgages receivable because all loans had at least 20 percent equity at origination. Further, most of these loans (70%) were originated in 2004 or earlier and all mortgages are covered by a pool insurance policy.

2. Significant Accounting Policies (continued)

e. Bonds Payable

Serial and term bonds are stated at their principal amounts outstanding, net of unamortized bond discount or premium. Serial and term bonds are maintained at their accreted values for purposes of financial reporting to the date of the respective Statement of Net Position.

In accordance with the respective bond resolutions, funds are available to the trustee to pay debt service on bonds when due, principally April 1 and October 1.

f. Unamortized Bond Discount and Premium

Bond discount and premium are amortized using the bonds-outstanding method which yields a level rate of expense over the respective lives of each bond series. The remaining unamortized portions of such costs relating to bonds which are retired prior to maturity by the Agency in the open market are included as a deduction in the computation of gain or loss on early extinguishment of debt. The Agency's redemptions using proceeds of refunding bonds resulted in losses that were deferred and amortized over the original life of the refunded bonds or the life of the refunding bonds, whichever is shorter.

g. Bond Issuance Costs

Bond issuance costs are recognized as an expense in the period incurred.

h. Interest on Loans

Interest on loans is accrued and recognized as revenue when earned.

i. Use of Estimates

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures included in the Agency's financial statements during the reporting periods. Actual amounts could differ from these estimates.

j. Derivative Instruments

The Agency has entered into various interest rate swaps contracts in order to manage risks associated with interest on its bond portfolio. The Agency recognizes the fair value of all derivative instruments as either an asset or liability on its statements of net position with the offsetting gains or losses recognized in earnings or as either deferred inflows or outflows, if deemed an effective hedge.

2. Significant Accounting Policies (continued)

k. Recently Adopted Accounting Pronouncements

In February 2013, GASB issued Statement No. 70, Accounting and Financial Reporting for Non-exchange Financial Guarantees ("GASB No. 70"). The objective of this Statement is to improve the comparability of financial statements among governments by requiring consistent reporting by those governments that extend and/or receive non-exchange financial guarantees. The provisions of this Statement are effective for fiscal reporting periods beginning after June 15, 2013. The implementation of this standard did not have an impact on the Agency's financial statements.

l . Accounting Pronouncements Issued But Not Yet Adopted

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB No. 68"). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The Agency is currently evaluating the impact of the implementation of this standard will have on the Agency's financial statements.

In January 2013, GASB issued Statement No. 69, Government Combinations and Disposals of Government Operations ("GASB No. 69"). The objective of this Statement is to improve the accounting for mergers and acquisitions among state and local governments by providing guidance specific to the situations and circumstances encountered within the governmental environment. The provisions of this Statement are effective for government combination and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. The Agency does not anticipate that the implementation of this standard will have an impact on the Agency's financial statements.

m. Federal Grants

Grants received from the Federal governments are recognized as non-operating revenue when eligibility requirements are met.

n. Revenue and Expense Classification

Operating revenue consists primarily of interest on loans, earnings on investments, recoveries, insurance premiums, commitment fees and application fees. Revenue is accrued and recognized as revenue when earned. Operating expenses include interest expense on bonds, general and administrative expenses and certain insurance claims activity. All other revenue and expenses are considered non-operating.

o. Use of Net Position

When both restricted and unrestricted assets are available for a particular restricted use, it is the Agency's policy to use restricted resources first, and then unrestricted as needed.

p. Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to current year presentation.

3. Investments

The Agency's investments at October 31, 2014 and October 31, 2013, excluding accrued interest, consisted of the following:

October 31, 2014: Category	Time Deposits, Money Market and Savings Accounts	U.S. Treasury Obligations	U.S. Government Agencies	Total Fair Value
		(in thousands)		
Invested revenues	$ 4,587	$ 224,027	—	$ 228,614
Mortgage insurance reserves	—	1,647,831	70,064	1,717,895
Mortgage acquisition and other bond proceeds	—	41,800	—	41,800
Bondholder reserves	57,095	226,381	—	283,476
Total	$ 61,682	$ 2,140,039	$ 70,064	$ 2,271,785

October 31, 2013: Category	Time Deposits, Money Market and Savings Accounts	U.S. Treasury Obligations	U.S. Government Agencies	Total Fair Value
		(in thousands)		
Invested revenues	$ 1,883	$ 317,935	$ 458	$ 320,276
Mortgage insurance reserves	—	1,619,847	97,946	1,717,793
Mortgage acquisition and other bond proceeds	—	19,509	—	19,509
Bondholder reserves	48,973	138,849	10,746	198,568
Total	$ 50,856	$ 2,096,140	$ 109,150	$ 2,256,146

Agency funds are invested in accordance with the investment guidelines approved annually by the Agency's board, which are in compliance with the New York State Comptroller's Investment Guidelines.

All of the above investments that are securities are in registered form, and are held by agents of the Agency or by the trustee under the applicable bond resolution, in the Agency's name. The agents or their custodians take possession of the securities.

3. Investments (continued)

Permitted Investments

All bond proceeds and revenues can only be invested in Securities [defined as (i) obligations the principal of and interest on which are guaranteed by the United States of America; (ii) obligations of the United States of America; (iii) obligations the principal of and interest on which are guaranteed by the State; (iv) obligations of the State; (v) obligations of any agency of the United States of America; (vi) obligations of any agency of the State; (vii) obligations the principal of and interest on which are guaranteed by an agency or instrumentally of the United States of America; (viii) obligations of the Federal National Mortgage Association ("FNMA")], Time Deposits and Certificates of Deposit. Securities are purchased from Primary and approved Dealers, and Securities are delivered to the applicable Custodian/Trustee who records the investment.

Collateralized Time Deposit Agreements and Certificates of Deposit may only be entered into with banks or trustees rated at least within the second highest rating category without regard to gradations within such category by Moody's Investors Service or Standard & Poor's. Collateralized Time Deposit Agreements and certificates of deposit are collateralized at a minimum of 103% of the principal amount of the agreement and marked to market weekly.

The collateral consists of United States government obligations, other securities the principal of and interest on which are guaranteed by the United States, Government National Mortgage Association obligations and obligations of agencies and instrumentalities of the Congress of the United States and obligations of FNMA. The collateral is delivered to the Custodian and held for the benefit of the Agency.

Investment Maturities in Years at October 31, 2014 are as follows:

	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
			(in thousands)		
Time Deposits	$ 57,095	$ —	$ 14,073	$ 2,115	$ 40,907
Trust Savings Accounts/ CDs	4,072	4,072	—	—	—
Municipal Bonds	515	—	—	—	515
U.S. Treasury Bills	406,015	406,015	—	—	—
U.S. Treasury Notes & Bonds	1,734,024	280,659	1,007,872	445,493	—
U.S. Government Agencies	70,064	62,689	7,336	—	39
Total	$ 2,271,785	$ 753,435	$ 1,029,281	$ 447,608	$ 41,461

Interest Rate Risk

The Agency's exposure to fair value losses arising from rising interest rates is limited by the short term duration of 33% and 38% of the Agency's investments for fiscal years ended 2014 and 2013, respectively.

4. Mortgage and Student Loans Receivables

The principal balances of mortgage and student loans receivables for the years ended October 31, 2014 and October 31, 2013 were as follows:

October 31, 2014:

		Balance at October 31, 2013		Scheduled Principal Payments		Prepayments, Transfers and Other Credits		Purchase of New Loans		Balance at October 31, 2014
						(in thousands)				
Homeowner Mortgage Revenue	$	2,035,716	$	(78,073)	$	(92,594)	$	131,263	$	1,996,312
Mortgage Revenue		823,362		(22,728)		(87,202)		30,245		743,677
Homeownership Program		3,122		(205)		(193)		—		2,724
Student Loan		11,678		—		(1,135)		—		10,543
Total Mortgage and Student Receivable	$	2,873,878	$	(101,006)	$	(181,124)	$	161,508	$	2,753,256

October 31, 2013:

		Balance at October 31, 2012		Scheduled Principal Payments		Prepayments, Transfers and Other Credits		Purchase of New Loans		Balance at October 31, 2013
						(in thousands)				
Homeowner Mortgage Revenue	$	2,139,637	$	(76,627)	$	(219,353)	$	192,059	$	2,035,716
Mortgage Revenue		808,531		(24,104)		(57,214)		96,149		823,362
Homeownership Program		3,698		(214)		(362)		—		3,122
Student Loan		12,552		—		(874)		—		11,678
Total Mortgage and Student Receivable	$	2,964,418	$	(100,945)	$	(277,803)	$	288,208	$	2,873,878

4. Mortgage and Student Loans Receivables (continued)

Mortgage loans outstanding were as follows at October 31, 2014 and October 31, 2013:

October 31, 2014:	Number of Mortgage Loans	Outstanding Principal Balance (in thousands)
Homeowner Mortgage Revenue:		
Uninsured	7,842	$ 658,111
F.H.A. (insured)	1	5
Private mortgage insurance (at time of purchase)	16,557	1,340,930
Deferred Participation	—	(2,734)
	24,400	1,996,312
Mortgage Revenue:		
Uninsured	2,395	295,666
F.H.A. (insured)	8	72
Private mortgage insurance (at time of purchase)	3,835	445,205
Participation	—	2,734
	6,238	743,677
Homeownership Program:		
Uninsured	4	226
Private mortgage insurance (at time of purchase)	55	2,498
	59	2,724
Total	30,697	$ 2,742,713

October 31, 2013:	Number of Mortgage Loans	Outstanding Principal Balance (in thousands)
Homeowner Mortgage Revenue:		
Uninsured	7,895	$ 653,324
F.H.A. (insured)	2	213
Private mortgage insurance (at time of purchase)	16,961	1,385,399
Deferred Participation	—	(3,220)
	24,858	2,035,716
Mortgage Revenue:		
Uninsured	2,727	315,532
F.H.A. (insured)	9	106
Private mortgage insurance (at time of purchase)	4,770	504,504
Participation	—	3,220
	7,506	823,362
Homeownership Program:		
Uninsured	4	246
Private mortgage insurance (at time of purchase)	63	2,876
	67	3,122
Total	32,431	$ 2,862,200

4. Mortgage and Student Loans Receivables

The principal balances of mortgage loans receivables in arrears for the years ended October 31, 2014 and October 31, 2013 were as follows:

October 31, 2014:

Days in Arrears	Number of Loans in Arrears	Principal (in thousands)	Percent of Principal Outstanding of Loans in Arrears to Total Loans
Homeowner Mortgage Revenue:			
60	201	$ 17,637	0.88%
90 plus	967	102,674	5.14%
	1,168	120,311	6.02%
Mortgage Revenue:			
60	54	5,412	0.73%
90 plus	208	23,391	3.16%
	262	28,803	3.89%
Homeownership Program:			
60	4	186	6.83%
90 plus	4	243	8.92%
	8	429	15.75%
Combined:			
60	259	23,235	0.84%
90 plus	1,179	126,308	4.61%
	1,438	$ 149,543	5.45%

October 31, 2013:

Days in Arrears	Number of Loans in Arrears	Principal (in thousands)	Percent of Principal Outstanding of Loans in Arrears to Total Loans
Homeowner Mortgage Revenue:			
60	247	$ 19,791	0.97%
90 plus	931	98,727	4.84%
	1,178	118,518	5.81%
Mortgage Revenue:			
60	66	6,570	0.80%
90 plus	201	21,353	2.60%
	267	27,923	3.40%
Homeownership Program:			
60	2	121	3.88%
90 plus	6	354	11.34%
	8	475	15.21%
Combined:			
60	315	26,482	0.93%
90 plus	1,138	120,434	4.21%
	1,453	$ 146,916	5.14%

5. Bonds Payable

Changes in bonds payable, net for the year ended October 31, 2014 and October 31, 2013 were as follows:

October 31, 2014:

	Bonds Outstanding at October 31, 2013	Matured/ Called/ Redeemed	Issued	Amortization of Bond Premium and Deferred Loss Amounts	Bonds Outstanding at October 31, 2014
			(in thousands)		
Homeowner Mortgage Revenue	$ 2,001,862	$ (381,090)	$ 419,690	$ 295	$ 2,040,757
Mortgage Revenue	812,777	(157,665)	—	(862)	654,250
NYHELPs (Student Loan program)	13,383	(810)	—	(93)	12,480
Total Bonds Outstanding	$ 2,828,022	$ (539,565)	$ 419,690	$ (660)	$ 2,707,487

October 31, 2013:

	Bonds Outstanding at October 31, 2012	Matured/ Called/ Redeemed	Issued	Amortization of Bond Premium and Deferred Loss Amounts	Bonds Outstanding at October 31, 2013
			(in thousands)		
Homeowner Mortgage Revenue	$ 2,223,488	$ (447,520)	$ 225,900	$ (6)	$ 2,001,862
Mortgage Revenue	800,263	(185,980)	198,825	(331)	812,777
NYHELPs (Student Loan program)	13,845	(385)	—	(77)	13,383
Total Bonds Outstanding	$ 3,037,596	$ (633,885)	$ 424,725	$ (414)	$ 2,828,022

5. Bonds Payable (continued)

Homeowner Mortgage Revenue Bonds

One hundred eighty-nine Homeowner Mortgage Revenue Bond series have been issued between 1988 and 2014 in a total original amount of $10,311,503,000. At October 31, 2014, the interest rates for the fixed rate bonds outstanding ranged from .12% to 5.0% and the interest on the variable rate debt ranged from .02% to .16%.

The schedule of Total Annual Maturities as of October 31, 2014 was as follows:

Fiscal Year Ending Oct 31,	Serial Bonds	Term Bonds	Total Bonds Payable	Interest Payable	Total Debt Service
			(in thousands)		
2015	$ 94,040	$ —	$ 94,040	$ 51,751	$ 145,791
2016	92,085	100	92,185	50,490	142,675
2017	84,575	420	84,995	48,849	133,844
2018	65,650	6,350	72,000	47,188	119,188
2019	72,770	7,325	80,095	45,520	125,615
2020-2024	288,900	182,205	471,105	188,256	659,361
2025-2029	38,010	386,385	424,395	110,326	534,721
2030-2034	—	392,810	392,810	59,962	452,772
2035-2039	—	245,325	245,325	28,804	274,129
2040-2044	—	82,220	82,220	9,648	91,868
2045-2047	—	675	675	1	676
Total Debt Service Requirement	736,030	1,303,815	2,039,845	640,795	2,680,640
Unamortized bond premium	—	—	912	—	—
Total	$ 736,030	$ 1,303,815	$ 2,040,757	$ 640,795	$ 2,680,640

5. Bonds Payable (continued)

Outstanding Homeowner Mortgage Revenue Bonds

At October 31, 2014, the interest rate for fixed rate Homeowner Mortgage Revenue Bonds outstanding ranged from .12% to 5.0%.

The schedule of Homeowner Mortgage Revenue Bonds outstanding by series as of October 31, 2014 was as follows:

Series	Originally Issued	Currently Outstanding	Range of Interest Rates	Last Remaining Maturity
	(in thousands)			
109	$ 125,000	$ 50,270	4.9%-4.95%	2034
115	35,000	35,000	Reset Weekly	2034
116	125,000	24,100	4.8%	2034
121	400	120	4.0%	2017
122	40,000	40,000	Reset Weekly	2035
123	28,760	15,960	4.6%-4.75%	2029
124	36,240	3,355	4%	2015
125	35,000	35,000	Reset Weekly	2036
127	20,605	4,000	4.8%-4.95%	2036
129	34,000	34,000	Reset Weekly	2035
130	48,055	25,155	4.5%-4.8%	2037
131	28,725	3,935	3.95%-4.0%	2017
132	34,000	34,000	Reset Daily	2037
133	73,970	135	4.60%	2015
135	34,000	34,000	Reset Daily	2037
137	75,205	55,595	4.55%-4.7%	2031
138	15,795	6,925	3.8%-3.9%	2017
139	34,000	34,000	Reset Daily	2037
140	40,435	19,040	4.6%-4.75%	2037
141	15,565	4,295	3.9%-4.0%	2017
142	34,000	34,000	Reset Daily	2037
143	60,000	32,800	4.75%-4.9%	2037
144	30,000	30,000	Reset Daily	2037
146	37,020	7,505	3.9%-4.0%	2017
147	50,000	50,000	Reset Weekly	2037
148	53,905	2,220	4.90%	2022
149	21,095	8,345	3.8%-3.95%	2017
150	50,000	50,000	Reset Daily	2037
152	29,765	3,125	4.0%	2016
153	50,000	50,000	Reset Weekly	2047
155	32,145	3,505	3.95%	2017

5. Bonds Payable (continued)

Outstanding Homeowner Mortgage Revenue Bonds (continued)

Series		Originally Issued		Currently Outstanding	Range of Interest Rates	Last Remaining Maturity
		(in thousands)				
159	$	60,000	$	60,000	Reset Weekly	2038
160		11,560		4,495	3.3%-4.0%	2018
162		25,000		25,000	Reset Weekly	2039
163		66,825		61,005	1.85%-4.45%	2031
164		84,365		48,105	1.35%-3.4%	2022
165		50,000		48,045	4.0%-4.75%	2042
166		107,585		87,635	1.886%-3.999%	2021
167		10,695		10,695	3.1%-4.1%	2022
168		50,065		45,860	2.10%-5.0%	2040
169		43,060		36,950	1.0%-2.6%	2021
170		19,940		19,940	2.4%-3.9%	2027
171		12,000		12,000	3.40%	2022
172		150,000		146,330	1.23%-4.203%	2027
175		82,660		80,210	1.019%-4.116%	2028
176		66,835		66,745	1.45%-3.75%	2042
177		33,200		26,380	.55%-3.05%	2027
178		79,370		74,900	3.5%-4.9%	2043
179		13,090		13,090	.65%-1.65%	2017
180		33,405		33,405	.90%-4.10%	2023
181		38,255		38,255	4.65%-4.80%	2044
182		25,385		22,050	.30%-4.40%	2034
183		96,480		95,280	.45%-4.6%	2031
184		18,960		17,225	.52%-2.685%	2020
185		12,000		12,000	3.95%	2029
186		80,190		80,190	1.20%-4.30%	2029
187		31,650		26,900	.28%-1.59%	2018
188		27,920		27,920	3.60%-3.85%	2044
189		88,850		88,850	.12%-3.85%	2034
Unamortized bond premium		—		912		
Total	$	2,747,030		2,040,757		

5. Bonds Payable (continued)

Outstanding Homeowner Mortgage Revenue Bonds (continued)

As of October 31, 2014, the additional debt service requirements of the Agency's hedged variable rate debt on associated derivative instruments for the period hedged are as follows:

Fiscal Year Ending Oct 31,	Swap Nominal Amount	Fixed Interest Payments	Swap Offset Payments	Net Swap Interest
	(in thousands)			
2015	$ —	$ 14,204	$ 1,279	$ 12,925
2016	98,000	13,549	1,223	12,326
2017	94,675	9,809	830	8,979
2018	161,400	6,528	492	6,036
2019	1,480	2,341	229	2,112
2020-2024	8,120	10,879	1,067	9,812
2025-2029	16,040	9,339	917	8,422
2030-2034	33,150	5,157	507	4,650
2035-2039	7,135	395	39	356
Total	$ 420,000	$ 72,201	$ 6,583	$ 65,618

The above amounts assume that current interest rates on October 31, 2014 and the variable-rate offset to the fixed rates of the hedging derivative instruments will remain the same for the term of the respective swaps.

5. Bonds Payable (continued)

Mortgage Revenue Bonds

Fifty-one Mortgage Revenue Bond series have been issued between 1984 and 2014 in a total original amount of $4,379,549,000. At October 31, 2014, the interest rates for the fixed rate bonds outstanding ranged from .6% to 5.0%.

The Schedule of Total Annual Maturities at October 31, 2014 was as follows:

Fiscal Year Ending Oct 31,	Serial Bonds	Term Bonds	Bonds Payable	Interest Payable	Debt Service
			(in thousands)		
2015	$ 23,465	$ —	$ 23,465	$ 21,312	$ 44,777
2016	20,335	—	20,335	20,905	41,240
2017	25,495	—	25,495	20,459	45,954
2018	15,505	—	15,505	25,176	40,681
2019	14,105	2,075	16,180	20,104	36,284
2020-2024	52,110	52,590	104,700	91,192	195,892
2025-2029	—	72,245	72,245	72,291	144,536
2030-2034	—	126,065	126,065	55,448	181,513
2035-2039	—	150,125	150,125	30,973	181,098
2040-2043	—	96,805	96,805	5,578	102,383
Total Debt Service Requirement	151,015	499,905	650,920	363,438	1,014,358
Unamortized bond premium	—	—	3,330	—	—
Total	$ 151,015	$ 499,905	$ 654,250	$ 363,438	$ 1,014,358

5. Bonds Payable (continued)

Outstanding Mortgage Revenue Bonds

At October 31, 2014, the interest rate for fixed rate Mortgage Revenue Bonds outstanding ranged from .60% to 5%.

The schedule of Mortgage Revenue Bonds outstanding by series as of October 31, 2014 was as follows:

Series		Originally Issued		Currently Outstanding	Range of Interest Rates	Remaining Maturity
		(in thousands)				
35th	$	62,760		6,335	4.5%-4.65%	2030
39th		57,385		47,395	3.25%-5.0%	2028
40th		22,615		11,810	2.2%-3.125%	2017
38th B		30,000		27,950	3.07%	2041
41st		14,820		13,870	1.65%-4.0%	2028
42nd		5,180		2,750	1.65%-2.5%	2018
43rd		14,330		4,615	1.65%-2.3%	2017
44th		38,555		29,650	3.40%-4.35%	2024
38th C		66,000		58,690	3.01%	2041
45th		44,000		34,060	1.95%-4.5%	2029
38th D		138,110		125,800	3.55%	2041
38th E		35,000		31,900	3.55%	2035
46th		97,855		62,850	2.1%-5%	2029
47th		17,555		1,730	2.1%	2015
48th		110,905		106,555	2.625%-3.75%	2041
49th		54,755		54,755	2.45%-4.0%	2043
50th		33,165		30,205	.60%-3.15%	2027
Unamortized bond premium		—		3,330		
Total	$	842,990	$	654,250		

5. Bonds Payable (continued)

Student Loan Program

The Agency, doing business as The State of New York Higher Education Finance Authority issued the NYHELPs Educational Loan Revenue Bond, 2009 Series A in a total original amount of $97,795,000. At October 31, 2014, the amount of $12,475,000 remained outstanding with the interest rates ranging from 3.25% to 5.25%.

The schedule of Total Annual Maturities as of October 31, 2014 was as follows:

Fiscal Year Ending Oct 31,	Interest Payable	Bonds Payable	Total Debt Sevice
		(in thousands)	
2015	$ 565	$ 775	$ 1,340
2016	526	1,045	1,571
2017	467	1,540	2,007
2018	401	1,405	1,806
2019	340	1,295	1,635
2020-2024	1,022	2,750	3,772
2025-2027	211	3,665	3,876
Total Debt Service Requirement	3,532	12,475	16,007
Unamortized bond premium	—	5	—
Total	$ 3,532	$ 12,480	$ 16,007

6. Other Assets

At October 31, 2014 and October 31, 2013, other assets consisted primarily of Owned Real Estate for which the balances were as follows:

October 31, 2014:

Bondholder Funds	Number of Loans	Book Value	Appraised Value
		($ in thousands)	
Homeowner Mortgage Revenue	146	$ 11,619	$ 13,686
Mortgage Revenue	22	1,710	2,089
Homeownership	2	24	315
Prepaid Mortgage Insurance	—	279	—
	170	$ 13,632	$ 16,090

October 31, 2013:

Bondholder Funds	Number of Loans	Book Value	Appraised Value
		($ in thousands)	
Homeowner Mortgage Revenue	68	$ 5,912	$ 6,118
Mortgage Revenue	11	874	976
Homeownership	1	119	145
Prepaid Mortgage Insurance	—	272	—
	80	$ 7,177	$ 7,239

7. Allowance for Anticipated Claims

The Mortgage Insurance Fund claim activity for the fiscal years ended October 31, 2014 and October 31, 2013 was as follows:

October 31, 2014:

	Project Insurance	Pool Insurance	Primary Insurance	Total Insurance
	(in thousands)			
Allowance, beginning of year	$ 22,653	$ —	$ —	$ 22,653
Current year provision for estimated claims	11,404	3,044	387	14,835
Current year adjustment to claims status	(13,049)	—	—	(13,049)
Claims paid and recoveries, net	6,804	(3,044)	(387)	3,373
Allowance, end of year	$ 27,812	$ —	$ —	$ 27,812

October 31, 2013:

	Project Insurance	Pool Insurance	Primary Insurance	Total Insurance
	(in thousands)			
Allowance, beginning of year	$ 33,204	$ —	$ —	$ 33,204
Current year provision for estimated claims	3,879	2,175	127	6,181
Current year adjustment to claims status	(11,185)	—	—	(11,185)
Claims paid and recoveries, net	(3,245)	(2,175)	(127)	(5,547)
Allowance, end of year	$ 22,653	$ —	$ —	$ 22,653

8. Synthetic Fixed Rate Swaps

As of October 31, 2014, the Agency has entered into twelve negotiated swaps as part of its risk management program, serving to increase financial flexibility and reduce interest costs. These swaps were entered into with six financial institutions (the "Counterparties") for a current total notional principal of $420,000,000. These synthetic fixed-rate swaps correspond to the State of New York Mortgage Agency Homeowner Mortgage Revenue ("HMB") variable-rate bond series listed below.

The fair value balances and notional amounts of derivative instruments outstanding at October 31, 2014, classified by type, and the changes in fair value of such derivative instruments from the year then ended as reported in the 2013 financial statements are as follows:

	Changes in fair value		**Fair value at October 31, 2014**		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
Cash flow hedge	Deferred outflow	$6,403,411	Debt	($39,275,225)	$420,000,000

The fair value of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Objective and Terms of Hedging Derivative Instruments
The following table displays terms of the Agency's hedging derivative instruments outstanding at October 31, 2014, along with the credit rating of the associated counterparty. The objective of all of the swaps entered into was to hedge changes in cash flows in the associated bond series:

Synthetic Fixed Rate Swaps

		Terms					
Associated Bond Series		**Notional Amount (000s)**	**Effective Date**	**Maturity Date**	**Fixed rate paid**	**Fair Value**	**Counterparty**
HMB Series 129*		$34,000	11/17/05	10/01/35	3.5870%	($6,722,641)	Wells Fargo Bank NA
HMB Series 132*		$34,000	03/09/06	04/01/37	3.4783%	($7,242,157)	JPMorgan Chase Bank NA
HMB Series 135*		$34,000	07/13/06	04/01/16	3.8570%	($1,712,512)	The Bank of New York Mellon
HMB Series 139*(1)		$34,000	09/23/08	10/01/16	2.9520%	($1,582,886)	Goldman Sachs Bank USA
HMB Series 142*		$34,000	02/01/07	04/01/17	3.5650%	($2,374,804)	Wells Fargo Bank NA
HMB Series 144*		$30,000	06/07/07	04/01/17	3.6540%	($2,161,567)	The Bank of New York Mellon
HMB Series 147*		$30,000	09/20/07	10/01/17	3.4250%	($2,272,977)	JPMorgan Chase Bank NA
HMB Series 150*(1)		$40,000	12/14/07	04/01/18	3.1970%	($3,047,206)	Goldman Sachs Bank USA
HMB Series 153*		$30,000	03/27/08	04/01/18	2.9900%	($2,072,262)	Merrill Lynch Der. Products AG
HMB Sr.122/125*		$30,000	08/14/08	10/01/16	3.0860%	($1,476,598)	Royal Bank of Canada
HMB Sr.122/125*		$30,000	08/14/08	10/01/18	3.1760%	($2,456,827)	Royal Bank of Canada
HMB Series 159**		$60,000	10/30/08	10/01/18	3.5400%	($6,152,788)	Royal Bank of Canada

* Variable rate payment received from counterparties is 63% of 1 month LIBOR plus 0.25%.
** Variable rate payment received from counterparties is SIFMA.

8. Synthetic Fixed Rate Swaps (Continued)

(1) On January 27, 2014, the International Swaps and Derivatives Association ("ISDA") Agreement was amended such that the Additional Termination Event and Credit Event Upon Merger sections refer only to Goldman Sachs Bank USA and references to the Credit Support Provider, Goldman Sachs Group, were removed. In connection with this amendment, the fixed rate on Series 139 swap was lowered to 2.952% and the fixed rate on Series 150 swap was lowered to 3.197%, effective February 1, 2014. In accordance with GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, the change in interest rates resulted in a termination of the hedging relationship. As a result, the Agency recorded a loss of $6.4 million on the Statement of Revenues, Expenses and Changes in Net Position as of October 31, 2014 within Investment Income.

COUNTERPARTY RATINGS

Counterparty Name	Moody's/S&P/Fitch
The Bank of New York Mellon	Aa2/AA-/AA-
Goldman Sachs Bank USA	A2/A/A
(Guarantor Goldman Sachs Group)	Baa1/A-/A
JPMorgan Chase Bank N.A.	Aa3/A+/A+
Merrill Lynch Derivative Products AG	Aa3/A+/NR
Royal Bank of Canada	Aa3/AA-/AA
Wells Fargo Bank, NA	Aa3/AA-/AA-

Risks

Credit risk. The Agency is exposed to credit risk on hedging derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Agency's policy to require counterparty collateral posting provisions in its non-exchange-traded hedging derivative instruments. These terms require full collateralization of the fair value of hedging derivative instruments in asset positions (net of the effect of applicable netting arrangements) should the counterparty's credit rating not be within the two highest investment grade categories by at least one nationally recognized statistical rating agency or the rating by any nationally recognized statistical rating agency fall below the three highest investment grade rating categories. The Agency has never been required to access collateral.

It is the Agency's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

Interest rate risk. The Agency is exposed to interest rate risk on its interest rate swaps. On its pay-fixed, receive-variable interest rate swap, as LIBOR or SIFMA decreases, the Agency's net payment on the swap increases.

Basis risk. The Agency is exposed to basis risk on its pay-fixed interest rate swap hedging derivative instruments because the variable-rate payments received by the Agency on these hedging derivative instruments are based on a rate other than interest rates the Agency pays on its hedged variable-rate debt, which is remarketed on either weekly or daily basis. As of October 31, 2014, the weighted-average interest rate on the Agency's hedged variable-rate debt is 0.07%, while the applicable 63% of one month LIBOR plus 0.25% and SIFMA were 0.347% and 0.05%, respectively.

Termination risk. The Agency or its counterparty may terminate a derivative instrument if the other party fails to perform under the terms of the contract. If at the time of termination, a hedging derivative instrument is in a liability position, the Agency would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Rollover risk. The Agency is exposed to rollover risk on hedging derivative instruments should a termination event occur prior to the maturity of the hedged debt.

8. Synthetic Fixed Rate Swaps (Continued)

Contingencies

Five of the Agency's counterparties have derivative instruments that include provisions that require the Agency to post collateral in the event its credit rating falls below certain levels. The collateral posted is to be in the form of U.S. Treasury securities in the amount of the fair value of the hedging derivative in a liability position net of the effect of applicable netting arrangements. If the Agency does not post collateral, the hedging derivative instrument may be terminated by the counterparty.

Two of the five counterparties requiring collateral posting have collateral posting provisions if the Agency's rating falls to Baa1 or below or not rated by Moody's or BBB+ or below or not rated by Standard & Poor's. If the collateral posting requirements were triggered at October 31, 2014, the Agency would be required to post $14,145,226 in collateral to these counterparties ($15,240,556 at October 31, 2013).

Three of the five counterparties requiring collateral posting have collateral posting thresholds relating to various rating levels.

- The threshold amount is $10,000,000 if the Agency's rating falls to Baa1 as rated by Moody's and BBB+ as rated by Standard and Poor's. At these ratings, if collateral posting requirements were triggered at October 31, 2014, the Agency would be required to post $86,213 in collateral to these counterparties.
- The threshold amount is $5,000,000 if the Agency's rating falls to Baa2 as rated by Moody's and BBB as rated by Standard and Poor's. At these ratings, if collateral posting requirements were triggered at October 31, 2014, the Agency would be required to post $9,183,658 in collateral to these counterparties.
- The threshold amount is $1,000,000 if the Agency's rating falls to Baa3 as rated by Moody's and BBB- as rated by Standard and Poor's. At these ratings, if collateral posting requirements were triggered at October 31, 2014, the Agency would be required to post $20,057,737 in collateral to these counterparties.
- The threshold amount is zero if the Agency's ratings fall to below Baa3 as rated by Moody's and below BBB- as rated by Standard and Poor's. At those ratings, if collateral posting requirements were triggered at October 31, 2014, the Agency would be required to post $23,057,737 in collateral to these counterparties.

9. Retirement Benefits

State Employees' Retirement System

The Agency participates in the New York State and Local Employees' Retirement System (the "System") which is a cost sharing multiple employer public employee retirement system offering a wide range of plans and benefits which are related to years of service and final average salary, and provide for death and disability benefits and for optional methods of benefit payments. All benefits vest after five years of credited service. Obligations of participating employers and employees to contribute, and benefits payable to employees, are governed by the System and social security laws. The laws provide that all participating employers in the System are jointly and severally liable for any actuarial unfunded amounts. The Agency is billed annually for contributions.

The financial report of the system can be obtained from:

Office of the State Comptroller
New York State and Local Retirement System
110 State Street
Albany, NY 12244-0001

Generally, all employees, except certain part-time and temporary employees, participate in the System. The System is contributory for a minimum of the first ten years of service at the rate ranging from 3% to 6% of their salary. Employee contributions are deducted from employees' compensation for remittance to the System.

The covered payrolls for the fiscal years ended October 31, 2014, 2013 and 2012 were $8.3 million, $7.4 million and $7.4 million, respectively.

Based upon the actuarially determined contribution requirements, the Agency contributed 100% of their required portion in the amounts of $1.3 million in fiscal 2014 and $1.3 million in fiscal 2013. Agency employees were required to contribute .96% of the current year's covered payroll ($107 thousand in 2014 and $72 thousand in 2013).

Changes in benefit provisions and actuarial assumptions did not have a material effect on contributions during fiscal 2014 and 2013.

Deferred Compensation

Some employees of the Agency have elected to participate in the State's deferred compensation plan in accordance with Internal Revenue Code Section 457. Agency employees contributed $367 thousand during fiscal 2014 ($431 thousand in fiscal 2013).

New York State Voluntary Defined Contribution Program

In March 2012, Chapter 18 of the Laws of 2012 was signed into law and allows Agency employees that meet certain requirements, to participate in the State University of New York (SUNY) optional retirement plan called the NYS Voluntary Defined Contribution Plan (VDC Program).

Beginning July 1, 2013, all non-union employees hired on or after July 1, 2013 with an annual salary of $75,000 or more were given the option of joining the VDC. The VDC Program provides benefits that are based on contributions made by both the Agency and the participant.

9. Retirement Benefits (continued)

Employee contribution rates range from 3% to 6%, dependent upon annual salary. The employer contribution rate is 8% of gross income. All contributions and any subsequent earnings are to be held by the Agency in a segregated account and credited to the individual accounts for each plan participant. Employees vest after one year of service, at which time their entire account balance is transferred to an investment firm of their choosing within the VDC Program. The amount owed to participants upon retirement is based solely on the account balance at the time of withdrawal.

As of October 31, 2014, there was one Agency employee enrolled in the VDC Program.

Other Postemployment Benefits

The Agency is a participating employer in the New York State Health Insurance Program ("NYSHIP"), which is administered by the State of New York as a multiple employer agent defined benefit plan. Under the plan as participated in by the Agency, eligible retired employees receive health care benefits with employees paying 25% of dependent coverage costs and 10% of individual employee costs. The Agency's plan complies with the NYSHIP benefit provisions. In addition, as provided for in Civil Service Law Section 167, the Agency applies the value of accrued sick leave of employees who retire out of service to the retiree's share of costs for health benefits.

The Agency provides certain group health care and reimbursement of Medicare Part B premium for retirees (and for eligible dependents and survivors of retirees). Contributions towards part of the costs of these benefits are required of the retirees.

Retiree contributions towards the cost of the benefit are calculated depending on a number of factors, including hire date, years of service, and/or retirement date. GASB Statement No. 45 requires the valuation must be calculated at least biennially. The most recent biennial valuation was calculated with a valuation date of November 1, 2013 and was used as the basis for the determination of costs for the year ended October 31, 2014 The total number of retirees and surviving spouses receiving OPEB from the Agency as of November 1, 2013 was 51.

The Agency elected to record the entire amount of the net OPEB obligation in the fiscal year ended October 31, 2006. The Agency also elected not to fund the net OPEB obligation more rapidly than on a pay-as-you-go basis. The net OPEB obligation relating to postemployment benefits is in the approximate amounts of $42.7 million and $39.0 million as of October 31, 2014 and 2013, respectively.

Upon the adoption of GASB 45, the Agency is not required by law or contractual agreement to provide funding for other postemployment benefits other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. During the fiscal years ended October 31, 2014 and 2013, the Agency paid $612 thousand and $554 thousand, respectively.

Annual OPEB Cost and Net OPEB Obligation. The Agency's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount that was actuarially determined by using the Projected Unit Credit Method (one of the actuarial cost methods in accordance with the parameters of GASB Statement No. 45).

9. Retirement Benefits (continued)

The Agency is a participating employer in NYSHIP and does not issue a separate stand-alone financial report regarding other postemployment benefits. The NYSHIP financial report can be obtained from:

NYS Department of Civil Service
Employee Benefits Division
Alfred E. Smith Office Building
Albany, NY 12239

The portion of the Actuarial Present Value allocated to a valuation year is called the Normal Cost. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Calculations reflect a long-term perspective. The Agency uses a level dollar amount on an amortization period of ten years on an open basis. The following table shows the elements of the Agency's annual OPEB cost for the year, the amount actually paid, and changes in the Agency's net OPEB obligation to the plan for the years ended October 31, 2014 and 2013:

	2014	2013
	(in thousands)	
Annual Required Contribution (ARC)	$ 7,665	$ 7,852
Interest on net OPEB Obligation	1,268	1,213
Adjustment to ARC	(4,631)	(4,167)
Annual OPEB cost	4,302	4,898
Payments made	(612)	(554)
Increase in net OPEB obligation	3,690	4,344
Net OPEB obligation - Beginning of fiscal year	39,000	34,656
Net OPEB obligation - End of fiscal year	$ 42,690	$ 39,000

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended October 31, 2014, 2013 and 2012 are as follows:

Year ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Paid	Net OPEB Obligation
		(in thousands)	
10/31/2014	$ 4,302	14.2%	$ 42,690
10/31/2013	$ 4,898	11.3%	$ 39,000
10/31/2012	$ 4,754	9.9%	$ 34,656

Actuarial Methods and Assumptions: Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The OPEB-specific actuarial assumptions used in the Agency's November 1, 2013 OPEB actuarial valuations were the projected unit credit method as its actuarial cost method, a 3.25% per annum discount rate and that retiree contributions are assumed to increase at the same rates as incurred claims. The valuation dated as of November 1, 2011 used a per annum discount rate of 3.5%.

9. Retirement Benefits (continued)

The premium rate is used for all non-Medicare eligible retirees and dependents with basic medical coverage. Initial monthly premium rates are shown in the following table:

Monthly Rate Effective as of October 31, 2014	
Eligible-Medicare	
Single	$ 617.51
Family	$ 1,499.61

2009 Medicare Part B premiums are assumed to increase by Part B trend rates. No retiree is assumed to have income in excess of the threshold which would result in increasing Part B premiums above 25% of Medicare Part B costs.

Health Care Cost Trend Rate (HCCTR): Covered medical expenses are assumed to increase by the following percentages:

Year Ending	Rate	Year Ending	Rate
2014	6.7	2028	7.5
2015	6.2	2033	7.0
2016	5.8	2038	6.4
2017	6.0	2043	6.0
2018	6.0	2048	5.7
2023	6.4	2088	4.5

Mortality: Mortality rates listed below are those recommended by the actuary:

Age	Male	Female
60	0.665%	0.581%
65	1.117	0.971
70	1.824	1.569
75	3.150	2.532
80	5.648	4.187
85	10.109	7.162

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

10. Commitments and Contingencies

Office Leases

The Agency is obligated under leases for office locations in the City of New York and Buffalo.

The Agency and the New York State Housing Finance Agency ("HFA") entered into an operating lease for office space which commenced in fiscal year 1994 for a term of fifteen years. The lease was renewed on January 1, 2009 for a term of ten years expiring December 31, 2018.

The leases obligate the Agency to pay for escalations in excess of the minimum annual rental (ranging from $2.4 million to $4.7 million) based on operating expenses and real estate taxes. The Agency bears approximately 50% of the minimum annual lease payments under this lease with the balance paid by HFA, with whom the Agency shares the leased space.

Rental expense for the fiscal years ended October 31, 2014 and 2013 were approximately $2.6 million and $2.5 million, respectively. As of October 31, 2014, the future minimum lease payment, which includes the Agency's pro rata share of the annual payment for the office space leases, under the non-cancelable operating leases are as follows:

	(in thousands)
Fiscal year ending October 31:	
2015	$ 2,364
2016	2,366
2017	2,366
2018	2,366
2019 (Two months)	394
Total minimum lease commitments required	$ 9,856

Litigation

In the course of business, the Agency is party to various administrative and legal proceedings. Although the ultimate outcome of these actions cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the financial position, changes in financial position or cash flows of the State of New York Mortgage Agency as set forth in the Financial Statements.

Risk Management

The Agency is subject to normal risks associated with its operations, including property damage, general liability and crime. Such risks are managed through the purchase of commercial insurance. There have been no decreases in coverage in the last three years.

11. Transfers to New York State and its Agencies

The New York State Fiscal Year 2015 enacted Executive Budget requires the Agency to make certain transfers of money from the MIF's Project Pool Insurance Account totaling $75.4 million ($136 million for fiscal 2013). Each transfer requires a determination by the Agency, that, at the time of such transfer, the reserves remaining in the Project Pool Insurance Account are sufficient to attain and maintain the credit rating required to accomplish the purposes of the Project Pool Account. The MIF transferred $43.4 million during the current fiscal year with the remaining $32 million reported as a payable to New York State at October 31, 2014.

State budget legislation in future years may provide for transfers from the Project Pool Insurance Account or other accounts in the MIF. The Agency makes no representation regarding whether any such transfers, or the amounts thereof, will be enacted.

12. Net Position

The Agency's Net Position represents the excess of assets and deferred outflows over liabilities and deferred inflows and largely consists of mortgage loans and investments. The Agency's net position is categorized as follows:

a. Restricted for Bond Obligations

Such amount represents earned commitment fees and net investment earnings accumulated to date. These amounts are invested in mortgage receivables and reserve investments. The revenues from the investments are necessary to meet scheduled payments of interest and principal on bonds, amortization of bond issuance costs and, if available, used to redeem bonds in advance of scheduled maturities as provided under the various bond resolutions.

b. Restricted for Insurance Requirements

As of October 31, 2014 and 2013, the Mortgage Insurance Fund's net position represent the required reserve for policies in force of $3.09 billion and $3 billion, respectively. Included within policies in force are single family mortgage primary and pool policies (total aggregate loss limit) totaling $509 million and $498 million in 2014 and 2013, respectively. Commitments outstanding as of fiscal years ended 2013 and 2014 were $929 million and $970 million, respectively. The Agency provided $11.3 million and $6.0 million during fiscal 2014 and 2013, respectively, for potential claims on mortgages insured by the Mortgage Insurance Fund.

The Agency recorded recovery income in the amount of approximately $3 million during fiscal 2014 and $3.3 million during fiscal 2013 as a result of an Ulster County Industrial Development Agency mortgage relating to a nursing home in Kingston, New York. The mortgage was assigned to the Agency as a result of a claim paid by the Mortgage Insurance Fund in July 2003.

The Agency remitted to the State excess tax collections during fiscal 2014 in the amount of $40.0 million. The Agency also remitted $28.0 million during fiscal 2013. The Agency was instructed to transfer to the State, Municipalities and Agencies from the project insurance account of $75.4 million and $136 million for fiscal years 2014 and 2013, respectively.

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Required Supplementary Information

State of New York Mortgage Agency

(a component unit of the State of New York)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - POSTRETIREMENT HEALTHCARE PLAN
October 31, 2014 and 2013

(in thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	Ratio of UAAL to Covered Payroll
	(A)	(B)	(C=B-A)	(A/C)	(D)	(C/D)
November 1, 2013	—	$45,619	$45,619	—	$7,418	615%
November 1, 2011	—	$42,682	$42,682	—	$7,382	578%
November 1, 2009	—	$25,461	$25,461	—	$8,630	295%

Supplementary Section

State of New York Mortgage Agency
(A Component Unit of the State of New York)
Schedules of Net Position
October 31, 2014
with comparative totals for 2013

	General Operating Fund	Homeowner Mortgage Revenue	Mortgage Revenue
		(in thousands)	
Assets			
Current assets:			
Cash-demand deposits restricted	$ —	$ 1,954	$ 794
Cash-demand deposits unrestricted	2,084	—	—
Cash-custodian deposits	—	3,047	1,054
Investments unrestricted	24,740	—	—
Investments restricted	—	346,706	49,389
Total cash and investments	26,824	351,707	51,237
Mortgage loans receivable	—	99,308	70,593
Accrued interest receivable:			
Mortgage and student loans	—	17,134	3,785
Investments	3	1,273	637
Other assets	—	11,827	1,777
Total current assets	**26,827**	**481,249**	**128,029**
Non-current assets:			
Investments restricted	—	89,117	28,022
Mortgage loans receivable	—	1,897,004	673,084
Student loans receivable	—	—	—
Total non-current assets	—	—	—
Total non-current assets	**—**	**1,986,121**	**701,106**
Total assets	**26,827**	**2,467,370**	**829,135**
Deferred outflows of resources			
Accumulated decrease in fair value of hedging derivatives	—	26,209	—
Deferred loss on refunding	—	5,826	—
Total deferred outflows of resources	**—**	**32,035**	**—**
Liabilities			
Current liabilities:			
Bonds payable, net	—	130,605	23,465
Interest payable	—	4,134	1,883
Allowance for anticipated claims	—	—	—
Unearned income, accounts payable and other liabilities	6,602	12,151	1,818
Amounts due to New York State and its Agencies	—	—	—
Interfund payables	(2,626)	2,468	98
Total current liabilities	**3,976**	**149,358**	**27,264**
Non-current Liabilities:			
Bonds payable, net	—	1,910,152	630,785
Derivative instruments - interest rate swaps	—	39,275	—
Postemployment retirement benefits payable	42,690	—	—
Total non-current liabilities	**42,690**	**1,949,427**	**630,785**
Total liabilities	**46,666**	**2,098,785**	**658,049**
Net position			
Restricted for bond obligations	—	400,620	171,086
Restricted for insurance requirements	—	—	—
Unrestricted (deficit)	(19,839)	—	—
Total net position	**$ (19,839)**	**$ 400,620**	**$ 171,086**

Homeownership Program		Single Family Programs Total		Student Loan Program		Mortgage Insurance Fund		Total All Funds October 31, 2014		2013
(in thousands)										
$	—	$	2,748	$	1,565	$	427	$	**4,740**	$ **2,899**
	—		2,084		—		—		**2,084**	**2,131**
	—		4,101		—		—		**4,101**	**3,608**
	—		24,740		—		—		**24,740**	**22,664**
	—		396,095		15,916		330,080		**742,091**	**839,560**
	—		429,768		17,481		330,507		**777,756**	**870,862**
	205		170,106		—		—		**170,106**	**170,985**
	50		20,969		702		—		**21,671**	**20,511**
	—		1,913		—		8,142		**10,055**	**9,224**
	28		13,632		—		—		**13,632**	**7,177**
	283		**636,388**		**18,183**		**338,649**		**993,220**	**1,078,759**
	—		117,139		—		1,387,815		**1,504,954**	**1,393,922**
	2,519		2,572,607		—		—		**2,572,607**	**2,691,215**
	—		—		10,543		—		**10,543**	**11,678**
	—		—		—		—		—	—
	2,519		**2,689,746**		**10,543**		**1,387,815**		**4,088,104**	**4,096,815**
	2,802		**3,326,134**		**28,726**		**1,726,464**		**5,081,324**	**5,175,574**
	—		26,209		—		—		**26,209**	**38,979**
	—		5,826		—		—		**5,826**	**6,118**
	—		**32,035**		**—**		**—**		**32,035**	**45,097**
	—		154,070		1,145		—		**155,215**	**110,935**
	—		6,017		290		—		**6,307**	**7,374**
	—		—		—		27,812		**27,812**	**22,653**
	44		20,615		37		53,746		**74,398**	**49,553**
	—		—		—		32,000		**32,000**	**103,534**
	—		(60)		21		39		—	—
	44		**180,642**		**1,493**		**113,597**		**295,732**	**294,049**
	—		2,540,937		11,335		—		**2,552,272**	**2,717,087**
	—		39,275		—		—		**39,275**	**45,679**
	—		42,690		—		—		**42,690**	**39,000**
	—		**2,622,902**		**11,335**		**—**		**2,634,237**	**2,801,766**
	44		**2,803,544**		**12,828**		**113,597**		**2,929,969**	**3,095,815**
	2,758		574,464		15,898		—		**590,362**	**578,576**
	—		—		—		1,612,867		**1,612,867**	**1,564,826**
	—		(19,839)		—		—		**(19,839)**	**(18,546)**
$	**2,758**	**$**	**554,625**	**$**	**15,898**	**$**	**1,612,867**	**$**	**2,183,390**	**$ 2,124,856**

State of New York Mortgage Agency

(A Component Unit of the State of New York)

Schedules of Revenues, Expenses and Changes in Net Position
Fiscal Year Ended October 31, 2014
with comparative totals for 2013

	General Operating Fund	Homeowner Mortgage Revenue	Mortgage Revenue
		(in thousands)	
Operating revenues			
Interest earned on loans	$ —	$ 103,781	$ 35,794
Recoveries	—	—	—
Investment Income:			
Investment earnings	3	5,054	1,780
Decrease from hedge termination	—	(6,367)	—
Net change in fair market value of investments	—	(1,485)	(1,105)
Commitment fees, insurance premiums and application fees earned	—	—	—
Other income	509	250	—
Total operating revenues	**512**	**101,233**	**36,469**
Operating expenses			
Interest and amortization of discount on debt	—	66,658	26,081
Bond issuance costs	—	4,268	10
Postemployment retirement benefits expense	4,302	—	—
General expenses	9,977	5,812	176
Overhead assessment by State of New York	3,417	—	—
Pool insurance	—	383	91
Provision for estimated claims	—	—	—
Expenditures related to federal grants	766	—	—
Other	944	4,903	1,213
Total operating expenses	**19,406**	**82,024**	**27,571**
Operating (loss) income	**(18,894)**	**19,209**	**8,898**
Non-operating revenues (expenses)			
Mortgage insurance reserves retained	—	—	—
Federal grants	766	—	—
Transfers to New York State and its Agencies	—	—	—
Interfund transfers	16,835	(16,118)	—
Total non-operating revenues (expenses)	**17,601**	**(16,118)**	**—**
Increase (Decrease) in net position	**(1,293)**	**3,091**	**8,898**
Net positon, beginning of fiscal year	**(18,546)**	**397,529**	**162,188**
Total net position, end of fiscal year	**$ (19,839)**	**$ 400,620**	**$ 171,086**

Homeownership Program	Single Family Programs Total	Student Loan Program	Mortgage Insurance Fund	Total All Funds Fiscal year ended October 31, 2014	Total All Funds Fiscal year ended October 31, 2013
(in thousands)					
$ 246	$ 139,821	$ 935	$ —	$ **140,756**	$ **147,635**
—	—	—	13,049	**13,049**	**11,185**
—	6,837	8	18,225	**25,070**	**21,813**
—	(6,367)	—	—	**(6,367)**	—
—	(2,590)	—	6,149	**3,559**	**(28,774)**
—	—	—	15,060	**15,060**	**14,129**
—	759	2	—	**761**	**693**
246	**138,460**	**945**	**52,483**	**191,888**	**166,681**
—	92,739	494	—	**93,233**	**106,758**
—	4,278	—	—	**4,278**	**5,618**
—	4,302	—	—	**4,302**	**4,898**
—	15,965	141	3,850	**19,956**	**18,854**
—	3,417	—	1,139	**4,556**	**4,556**
5	479	—	192	**671**	**508**
—	—	—	14,835	**14,835**	**6,181**
—	766	—	—	**766**	**909**
—	7,060	37	210	**7,307**	**8,803**
5	**129,006**	**672**	**20,226**	**149,904**	**157,085**
241	**9,454**	**273**	**32,257**	**41,984**	**9,596**
—	—	—	91,202	**91,202**	**89,268**
—	766	—	—	**766**	**909**
—	—	—	(75,418)	**(75,418)**	**(135,952)**
(717)	—	—	—	—	—
(717)	**766**	—	**15,784**	**16,550**	**(45,775)**
(476)	**10,220**	**273**	**48,041**	**58,534**	**(36,179)**
3,234	**544,405**	**15,625**	**1,564,826**	**2,124,856**	**2,161,035**
$ 2,758	**$ 554,625**	**$ 15,898**	**$ 1,612,867**	**$ 2,183,390**	**$ 2,124,856**

State of New York Mortgage Agency
(A Component Unit of the State of New York)
Schedules of Cash Flows
Fiscal Year Ended October 31, 2014 with comparative totals for 2013

	General Operating Fund	Homeowner Mortgage Revenue	Mortgage Revenue
		(in thousands)	
Cash flows from operating activities			
Interest received on loans	$ —	$ 104,084	$ 36,070
Principal payment on mortgages	—	170,666	109,930
Purchase of mortgage loans	—	(131,263)	(30,245)
Commitment fees, insurance premium and application fees earned	1,152	—	—
Operating expenses	(26,049)	—	—
Expenditures related to federal grants	(766)	—	—
Transfers	16,835	(16,118)	—
Other	10,031	(17,075)	(3,863)
Net cash provided by (used in) operating activities	**1,203**	**110,294**	**111,892**
Cash flows from non-capital financing activities			
Interest paid on bonds	—	(66,471)	(26,054)
Mortgage recording surtax receipts	—	—	—
Payments to New York State	—	—	—
Federal grants	766	—	—
Bond proceeds	—	419,690	—
Retirement and redemption of bonds	—	(381,090)	(157,665)
Net cash provided by (used in) non-capital financing activities	**766**	**(27,871)**	**(183,719)**
Cash flows from investing activities			
Earnings on investments	124	6,507	2,496
Proceeds from the sale or maturities of investments	73,928	1,854,648	498,849
Purchase of investments	(76,068)	(1,942,507)	(428,965)
Net cash (used in) provided by investing activities	**(2,016)**	**(81,352)**	**72,380**
Net (decrease) increase in cash	(47)	1,071	553
Cash, beginning of fiscal year	2,131	3,930	1,295
Cash, end of fiscal year	**$ 2,084**	**$ 5,001**	**$ 1,848**
Reconciliation of operating revenues (expenses) to net cash (used in) provided by operating activities:			
Net operating revenues (expenses)	$ (18,894)	$ 19,209	$ 8,898
Adjustment to reconcile operating income to net cash provided (used in) by operating activities:			
Earnings on investment	(3)	(5,054)	(1,780)
Interest payments and amortization	—	66,658	26,081
Unrealized gain (loss) on investment	—	1,485	1,105
Hedge termination	—	6,367	—
Other	—	(83)	(1,455)
Transfers	16,835	(16,118)	—
Changes in assets and liabilities			
Mortgage loans and other loans, net	—	39,404	79,685
Interest, fees and other receivables	—	(7,020)	(811)
Student loans	—	—	—
Allowance for anticipated claims	—	—	—
Interfund payables	(2,203)	2,992	(129)
Unearned income, accounts payable and other	1,778	2,454	298
Postemployment retirement benefits payable	3,690	—	—
Net cash provided by (used in) operating activities	**$ 1,203**	**$ 110,294**	**$ 111,892**
Non-cash investing activities			
(Decrease) increase in fair value of investments	$ —	$ 1,485	$ 1,105

Homeownership Program	Single Family Programs Total	Student Loan Program	Mortgage Insurance Fund	Total All Funds Fiscal year ended October 31, 2014	Total All Funds Fiscal year ended October 31, 2013
		(in thousands)			
$ 249	$ 140,403	$ 684	$ —	$ **141,087**	$ **147,891**
398	280,994	1,463	—	**282,457**	**378,894**
—	(161,508)	—	—	**(161,508)**	**(288,208)**
—	1,152	—	23,990	**25,142**	**22,148**
—	(26,049)	(83)	—	**(26,132)**	**(23,528)**
—	(766)	—	—	**(766)**	**(909)**
(717)	—	—	—	**—**	**—**
70	(10,837)	(57)	(11,148)	**(22,042)**	**(30,223)**
—	**223,389**	**2,007**	**12,842**	**238,238**	**206,065**
	(92,525)	(605)	—	**(93,130)**	**(107,471)**
—	—	—	151,081	**151,081**	**134,104**
—	—	—	(186,930)	**(186,930)**	**(60,466)**
—	766	—	—	**766**	**909**
—	419,690	—	—	**419,690**	**424,725**
—	(538,755)	(810)	—	**(539,565)**	**(633,885)**
—	**(210,824)**	**(1,415)**	**(35,849)**	**(248,088)**	**(242,084)**
—	9,127	8	24,664	**33,799**	**36,943**
—	2,427,425	35,048	769,638	**3,232,111**	**5,423,991**
	(2,447,540)	(35,048)	(771,185)	**(3,253,773)**	**(5,434,699)**
—	**(10,988)**	**8**	**23,117**	**12,137**	**26,235**
—	1,577	600	110	**2,287**	**(9,784)**
—	7,356	965	317	**8,638**	**18,422**
$ —	$ **8,933**	$ **1,565**	$ **427**	$ **10,925**	$ **8,638**
$ 241	$ 9,454	$ 273	$ 32,257	$ **41,984**	$ **9,596**
—	(6,837)	(8)	(18,225)	**(25,070)**	**(21,813)**
—	92,739	494	—	**93,233**	**106,758**
—	2,590	—	(6,149)	**(3,559)**	**28,774**
—	6,367	—	—	**6,367**	**—**
—	(1,538)	—	457	**(1,081)**	**1,679**
(717)	—	—	—	**—**	**—**
398	119,487	—	—	**119,487**	**89,665**
102	(7,729)	114	—	**(7,615)**	**(4,824)**
—	—	1,135	—	**1,135**	**874**
—	—	—	5,159	**5,159**	**(10,552)**
—	660	(3)	(657)	**—**	**—**
(24)	4,506	2	—	**4,508**	**1,564**
—	3,690	—	—	**3,690**	**4,344**
$ —	$ **223,389**	$ **2,007**	$ **12,842**	$ **238,238**	$ **206,065**
$ —	$ 2,590	$ —	$ (6,149)	$ **(3,559)**	$ **(34,349)**

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Management and Directors
State of New York Mortgage Agency
New York, New York

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of New York Mortgage Agency (the Agency), a component unit of the State of New York, which comprise the statement of net position as of October 31, 2014, and the related statements of revenues and expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 29, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

January 29, 2015