State of New York Mortgage Agency

SONYMA

Financial Statements

Fiscal Year

2013

State of New York Mortgage Agency

Financial Statements

Fiscal Year Ended October 31, 2013 and 2012

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RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the State of New York Mortgage Agency (the "Agency"), for the fiscal years ended October 31, 2013 and 2012, 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 Members of the Agency. Management has made available to Ernst & Young LLP all the financial records and related data of the Agency as well as having provided access to all the minutes of the meetings of the Members of the Agency. The independent auditors periodically meet with the Members 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 attests 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
President/Chief Executive Officer

Sheila Robinson
Senior Vice President/Chief Financial Officer

January 29, 2014

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Report of Independent Auditors

Management and Directors of the Board
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, 2013 and 2012, 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.

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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, 2013 and 2012, 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.

Adoption of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities"

As discussed in Note 3 to the financial statements, the Agency restated its financial statements as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities" effective November 1, 2011. Our opinion is not modified with respect to this matter.

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.

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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, 2014 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, 2014

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STATE OF NEW YORK MORTGAGE AGENCY
(A Component Unit of the State of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended October 31, 2013 and October 31, 2012

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, 2013 and 2012 with selected comparative information for the fiscal year ended October 31, 2011. This analysis must be read 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, 2013 compared with the fiscal year ended October 31, 2012 and fiscal year ended October 31, 2011. 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 providing information about the content of the financial statements.
- Details are included of 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.

Overview of the Agency's Financial Performance

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. It 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 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.

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 program to offer 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.

Mortgage and Financial Markets

The Agency continued its activities in fiscal 2013 in a market still impacted by the continued recovery from the housing collapse and recent recession. While the economy, both domestic and international showed signs of improvement, the municipal bond market experienced significant volatility, especially between June and October as investors departed in reaction to both credit and interest rate risk concerns. According to Lipper FMI, municipal mutual funds have reported nearly non-stop outflows since mid-March 2013 resulting in interest rates rising to highs not seen since early 2011.

At the start of the fiscal year, the 30 year Municipal Market Data was 2.82%, and increased to 4.04% by the end of the fiscal year. 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 has been purchasing $45 billion of Treasury securities and $40 billion of mortgage bonds monthly since September 2012. These purchases helped produce the relatively low interest rate environment that the Agency operated in at the beginning of the fiscal year, but remarks that the Federal Reserve could reduce its purchases in late May sent all fixed income markets into a tailspin. Municipal rates jumped 100 bps over the course of four weeks in reaction to the concern about rising interest rates.

Compounding uncertainty in the municipal market were a number of significant credit negatives, most notably the financial deterioration of Puerto Rico and Detroit and the pension funding challenges facing a number of states including Illinois. Other turbulence in 2013 stemmed from October's 16 day government shut down, a looming debt ceiling deadline and the possibility that tax reform could threaten current municipal tax-exemption. While stories of the financial weakness of the above municipalities weighed down the market, they are not representative of most municipal issuers.

The single family housing market is starting to show signs of improvement. Although homeownership rates are down from their pre-recession highs, home prices have been increasing in most markets. Existing new home sales are increasing, and according to Harvard's Joint Center for Housing Studies, after holding steady for the past five years, household growth is also on an upward trend.

To date, federal government mortgage purchases have accounted for approximately 64% of the eligible mortgage bond issuance. With origination volumes falling, analysts have speculated that, unless the Fed scaled back its purchases of MBS, the figure could approach 90% of the market. 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 but with the steep increase in borrowing costs described above, few refunding candidates remain. In fiscal 2013, the Agency issued $425 million of bonds, with economic refunding bonds representing approximately one third of issuance.

Despite the programmatic and market challenges described above, the Agency continued to benefit from broadening 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 above, continued uncertainty in the housing market coupled with Federal Reserve's policy to keep interest rates low impacts SONYMA's ability to maintain its traditional interest rate advantage. Despite the difficult environment, SONYMA's loan production increased significantly from fiscal year 2012. During fiscal year 2013, SONYMA assisted 1,599 low and moderate-income households (746 households in fiscal 2012) by purchasing $288.2 million in mortgages ($124.8 million in fiscal 2012). Most of the bond financed loans were purchased under SONYMA's two primary programs:

During fiscal 2013, the Low Interest Rate Program provided financing to 658 households (compared to 258 households in fiscal 2012), and the Achieving the Dream Program, which assists lower-income homebuyers (70% of area median income or less), provided financing for 755 households (compared to 373 households in fiscal 2012). In fiscal year 2013, the Agency purchased 131% more in mortgages than during the last fiscal year ($288.2 million in 2013 compared to $124.8 million in 2012). Of the loans purchased, 700 borrowers received down payment assistance totaling $4.8 million in fiscal 2013, compared to 316 borrowers, totaling $1.9 million in fiscal 2012.

SONYMA continues to provide financing to underserved populations and communities. As a result, target area lending in fiscal year 2013 increased by 47%, loans made to low-income households increased by 66%, and minority lending has increased 79%. In fiscal 2013, 37% of all SONYMA loans were made to minorities.

During fiscal 2013, SONYMA continued to better serve its borrowers and industry partners by:

- Focusing its efforts on Low-Income and Minority Homebuyers: During fiscal year 2013, the Agency focused its mission on providing mortgage loans to those individuals and families for whom low interest rate mortgages make the difference in achieving sustainable homeownership. This was accomplished by targeting mortgage financing activities on the Achieving the Dream Program, which assists lower-income homebuyers (70% of area median income or less). In fiscal year 2013, 47.8% of the Agency's mortgages were originated under this program. Overall, 50% of the mortgages purchased were made to low-income homebuyers (80% of area median income or less) and almost 15% of the 1,599 loans SONYMA purchased statewide were made to low-income, minority households.

- Launched the Conventional Plus Program in November 2012. Conventional Plus complements SONYMA's existing tax-exempt bond financed programs and the new 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:

  - <u>No</u> 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 will allow 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. (MCCs are not available for refinances.)

- In December 2013, SONYMA launched the FHA Plus Program to complement SONYMA's existing tax-exempt bond financed programs and the Conventional Plus Program described above. 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.)

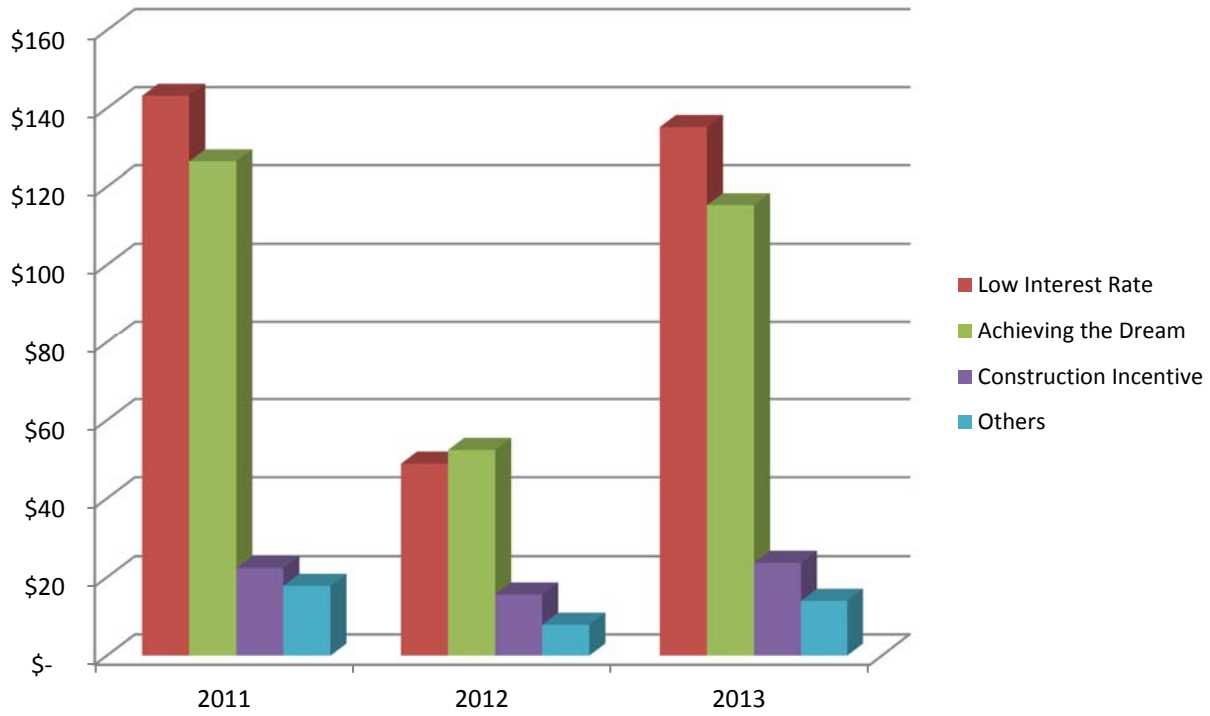
- Completion of the development of the SONYMA *Express* automated system that will assist participating lenders by providing expedited decisions on SONYMA loan eligibility. The system is expected to: (a) streamline the Agency's loan origination process and dramatically reduce the time it takes participating 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 launched in the first quarter of 2014 and will improve SONYMA's relationships with lenders, other industry partners and potential borrowers. Ultimately, the system is expected to increase loan production and improve profitability.

- Continue to work with SONYMA's Advisory Council to get input and recommendations from industry professionals to help SONYMA maximize its role as an important provider of affordable and sustainable mortgages to low- and moderate-income first-time homebuyers across New York State. The Agency held two meetings with the Advisory Council in fiscal 2013.

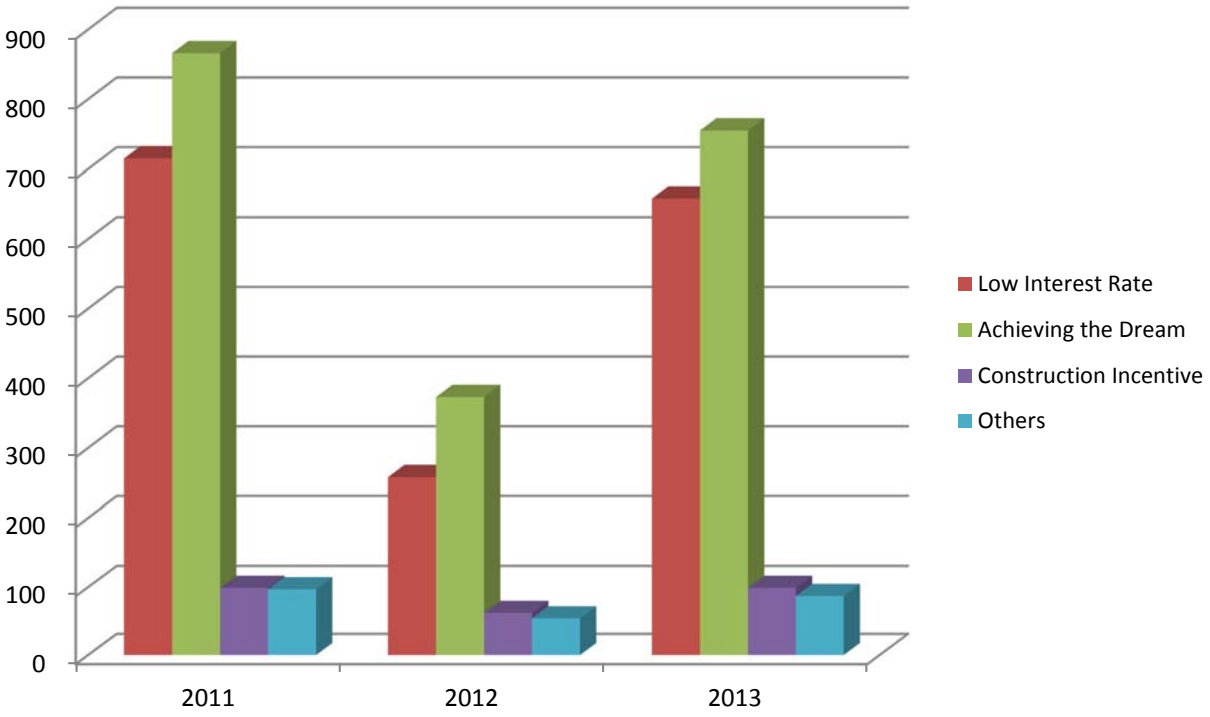
- Continued Outreach to Industry Partners: SONYMA continues to cultivate its relationship with industry partners by participating in many events with realtors, lenders, not-for profits, community groups and others. The partnerships have deepened relationships with our partners in the housing community and have given us additional opportunities to promote our products.

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

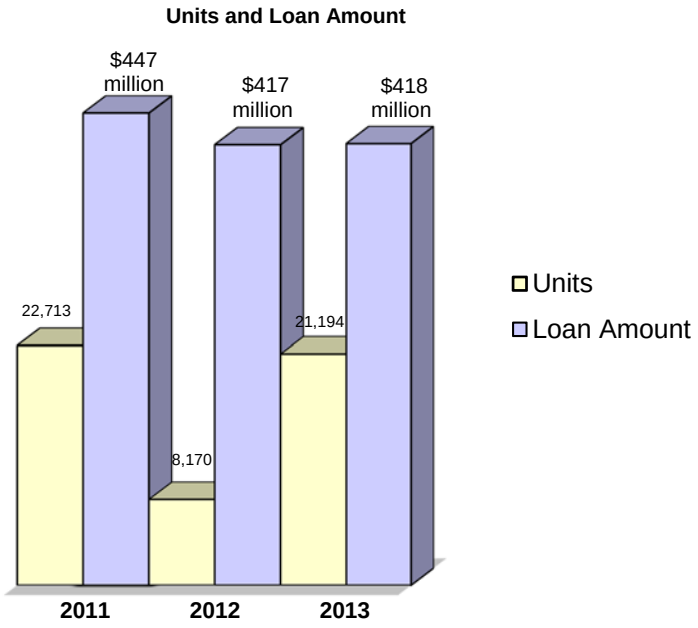
Despite the continued turbulent economy and real estate market, SONYMA's mortgage portfolio has performed consistently well. At the end of fiscal 2013, SONYMA's 60 days or more delinquencies were 4.48% (based on the number of loans). This compares very favorably to the New York State and national averages of 10.43% and 6.78%, respectively. As of the end of fiscal year 2012, the percentage of 60 days or more delinquencies was 3.80%.

The increase in SONYMA's delinquency percentage 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, 2013 and October 31, 2013, an average of 993 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 and 2012, an average of, respectively, 488 days, 655 days, 800 and 959 days elapsed between such dates. Some of these delays were caused by certain servicers who were not complying with SONYMA's servicing guidelines. As such, SONYMA took steps in fiscal year 2013 to transfer the portfolio of a major servicer to its master servicer, M&T Bank. Further, another major servicer's portfolio will be moved to M&T Bank in 2014.

Mortgage Insurance Fund Operations

The Mortgage Insurance Fund (the "MIF") has two lines of business. It provides insurance on mortgages for 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.

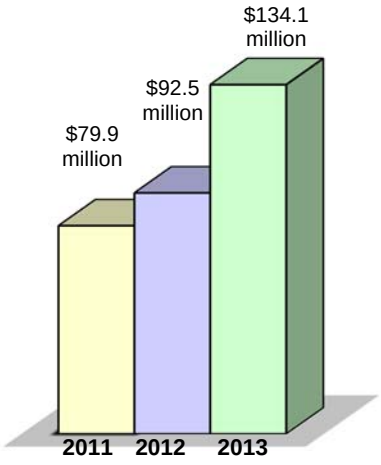
The following graph highlights the MIF's project insurance commitments for the fiscal years indicated.



The substantial increase in the numbers of units in which mortgages will insured by the MIF during fiscal 2013 was due to a single $55 million 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 which had declined prior to 2011 but increased in fiscal 2013 compared to fiscal 2012 as indicated in the following chart:

New York State Mortgage Recording Surtax Receipts



The increase in New York State Mortgage Recording Surtax Receipts from fiscal 2012 to fiscal 2013 is due to an increase in real estate transactions in the State, particularly in commercial real estate transactions in New York City, resulting in an increase in mortgage recordings. The MIF also received $20.8 million in insurance recoveries, application and insurance premiums during fiscal 2013 as compared with $16.7 million during fiscal 2012 and $16.4 million during fiscal 2011. Interest earned by the MIF during fiscal years 2013, 2012 and 2011 was $14.8 million, $21.8 million and $30.4 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 August 6, 2013.

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.

Higher Education Finance Authority Operations

The New York Higher Education Loan Program ("NYHELPs Program" or "Program"), currently on hiatus, is a program under which fixed rate credit based education loans are made available for eligible New York State borrowers attending participating colleges and universities across the State. The New York State Higher Education Services Corporation ("HESC"), an educational corporation of the State, administers the Program, acts as the Servicer for the Program and is responsible for such things as credit underwriting, marketing the Program to prospective borrowers and remedying defaults. HESC engaged Firstmark, a subsidiary of Nelnet, Inc., to perform certain other servicing and reporting functions.

SONYMA, doing business as The State of New York Higher Education Finance Authority ("HEFA") finances the Program. SONYMA: (1) issues bonds based on demand estimates provided by HESC and (2) controls and manages the various accounts and funds held both inside and outside of the bond indenture. On December 15, 2009, HEFA issued its 2009 Series A Bonds (the "Bonds") in the amount of $97.8 million to finance the NYHELPs Program.

Due to lower than expected demand for loans and upon satisfaction of certain rating agency conditions, on April 26, 2010 the initial origination period was extended from April 28, 2010 to March 1, 2011. In order to satisfy rating agency requirements for the extension, an additional $4 million was made available through a state appropriation, and was deposited into the Capitalized Interest Account.

HESC advised SONYMA in February 2011 that demand for the loans under the Program continued to be substantially less than anticipated, and informed the Agency that, as a result, the available proceeds from the Bond issue would exceed the amount necessary for funding the loans. HESC proposed that the origination period be extended again. In order to extend the origination period without additional funds from the State and to satisfy a rating agency requirement, $75,010,000 par amount of the original Bond issue were redeemed on April 15, 2011.

After the bond redemption, the amount of $16.4 million was left in the Loan Account, which, in order to maintain the bond ratings, were required to have been originated by May 1, 2012. The funds left in the Loan Account after May 1, 2012 were used to redeem additional Bonds on August 1, 2012 in the par amount of $7,655,000.

Bonds payable as of October 31, 2013 and October 31, 2012 were $13.3 million and $13.7 million, respectively.
Student Loans receivable as of October 31, 2013 and October 21, 2012 were $11.7 million and $12.6 million, respectively.

Condensed Financial Information

STATE OF NEW YORK MORTGAGE AGENCY

Net Position Summary Schedules

	October 31,			% Change	
	2013	2012*	2011*	2013-2012	2012-2011
	(in thousands)				
Assets					
Cash	$ 8,638	$ 18,422	$ 11,073	(53%)	66%
Investments	2,256,146	2,288,101	2,191,326	(1%)	4%
Mortgage and Student loans receivable	2,873,878	2,964,418	3,214,929	(3%)	(8%)
Other assets	36,912	33,325	33,018	11%	1%
Total assets	5,175,574	5,304,266	5,450,346		
Deferred outflows of resources					
Accumulated decrease in fair value of hedging derivatives	38,979	58,292	60,533	(33%)	(4%)
Deferred loss on refunding	6,118	7,412	—	(17%)	100%
Total deferred outflows of resources	45,097	65,704	60,533		
Liabilities					
Bonds payable	2,828,022	3,037,596	3,213,228	(7%)	(5%)
Derivative instruments - interest rate swaps	45,679	64,992	60,533	(30%)	7%
Interest payable	7,374	8,374	11,169	(12%)	(25%)
Allowance for anticipated claims	22,653	33,204	37,584	(32%)	(12%)
Unearned income, accounts payable and other liabilities	153,087	30,113	21,235	408%	42%
Postemployment retirement benefits	39,000	34,656	30,375	13%	14%
Total liabilities	3,095,815	3,208,935	3,374,124		
Net position	$ 2,124,856	$ 2,161,035	$ 2,136,755		

*Restated for GASB 65 implementation - please see note 3

Assets

Investments

Investments held by the Agency decreased slightly from $2.29 billion at October 31, 2012 to $2.26 billion at October 31, 2013, a decrease of approximately $32 million or 1%. The decrease was primarily as a result of transfers from the MIF to the State and its Agencies in the amount of $32.5 million. This compares with an increase from $2.19 billion at October 31, 2011 to $2.29 billion at October 31, 2012, an increase of approximately $97 million or 4%. The increase was primarily due to the receipt of mortgage prepayments in excess of mortgage purchases by approximately $150 million.

Mortgage and Student Loans Receivable

Mortgage and student loans receivable are the primary assets of the Agency's Single Family operation constituting 56% of the total assets at October 31, 2013 and October 31, 2012 and 59% at October 31, 2011.

Mortgage and student loans receivable decreased from $2.96 billion at October 31, 2012 to $2.87 billion at October 31, 2013, a decrease of approximately $90 million or 3%. This compares with a decrease from $3.21 billion at October 31, 2011 to $2.96 billion at October 31, 2012, a decrease of approximately $250 million or 8%. The decreases in each year were due to mortgage principal receipts exceeding mortgage purchases.

Other Assets

Other assets are primarily comprised of Owned Real Estate held by the Agency. Other assets increased from $33.3 million at October 31, 2012 to $36.9 million at October 31, 2013, an increase of $3.6 million or 11%. This compares with an increase from $33.0 million at October 31, 2011 to $33.3 at October 31, 2012, an increases of $300 thousand or 1%. The increase in each fiscal year result from increases in the number of loans being moved from the loan portfolio to owned real estate status.

Liabilities

Bonds Payable

At approximately 91% of total liabilities in fiscal 2013 (95% in fiscal 2012), bonds payable comprised the largest component of liabilities as of October 31, 2013 and 2012. Funds generated by the sale of bonds are used to purchase mortgage loans or to economically refund bonds outstanding. The payments received on mortgage loans, together with interest earnings there on, are the source of funds used for debt service payments due on bonds payable.

Bonds payable decreased from $3.04 billion at October 31, 2012, to $2.83 billion at October 31, 2013, a decline of $210 million or 7%. This compares with a decrease from $3.21 billion at October 31, 2011 to $3.04 billion at October 31, 2012, a decline of $176 million or 5%. The decline in bonds outstanding during fiscal year 2013 and 2012 was primarily a result of principal payments on bonds exceeding bond issuances and continued economic refunding issues.

Allowance for Anticipated Claims

Allowance for anticipated claims decreased from $33.2 million at October 31, 2012 to $22.7 million at October 31, 2013, a decline of $10.5 million or 32%, as compared to a decline from $37.6 million at October 31, 2011 to $33.2 at October 31, 2012, a decline of $4.4 million or 12%. 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 2013, 2012 and 2011 the MIF made claim payments in the amounts of $11.2 million, $11.5 million and $12.5 million respectively.

Unearned Income, Accounts Payable and Other Liabilities

Unearned Income, Accounts Payable and Other Liabilities increased from $30.1 million at October 31, 2012 to $153.1 million at October 31, 2013, an increase of $123 million or 408%. The increase is 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. This compares to an increase from $21.2 million at October 31, 2011 to $30.1 million at October 31, 2012, an increase of $8.9 million or 42%, which was primarily due to an increase of $2.5 million in unearned income on mortgages and an increase in excess tax receipts of $5.3 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 balance in postemployment retirement benefits represent the accumulated unfunded actuarial liability required to pay the cost to retirees. The accumulated amount of postemployment retirement benefits increased from $34.7 million in fiscal 2012 to $39.0 million in fiscal 2013, an increase of $4.3 million, or approximately 13%. This compares with an increase from $30.4 million in fiscal 2011 to $34.7 million in fiscal 2012, an increase of $4.3 million, or approximately 14%. The increases in fiscal 2013 and 2012 of 13% and 14%, respectively, were primarily due to the reduction in the discount rate used in the actuarial calculation, when compared to 2011, from 4% to 3.5%. The valuation in fiscal 2013 and 2012 were also impacted by the anticipation of increased costs related to the passage of the National Health Care Reform Act (see note 10).

Derivative Instruments - Interest Rate Swaps

The Agency has entered into various derivative instruments contracts ("interest rate swaps") 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 (see note 10). For fiscal 2013, 2012 and 2011, 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 market values of the interest rate swaps declined from approximately ($65) million in fiscal 2012 to ($45.7) million in fiscal 2013, a decrease of $19.3 million, or 30%. During fiscal 2012, there was a decline in market value from approximately ($60.5) million in fiscal 2011 to ($65) million in fiscal 2012, a decline of $4.5 million, or 7%.

STATE OF NEW YORK MORTGAGE AGENCY

Summary of Revenues, Expenses and Changes in Net Position

	Fiscal Year Ended October 31,			% Change	
	2013	2012*	2011*	2013-2012	2012-2011
	(in thousands)				
Operating Revenues					
Interest on mortgages	$ 147,635	$ 162,551	$ 172,999	(9%)	(6%)
Recoveries	11,185	10,546	6,184	6%	71%
Investment Income	21,813	30,548	38,081	(29%)	(20%)
Net change in fair market value of investments	(28,774)	(7,380)	(6,536)	290%	13%
Other operating revenues	14,822	13,722	13,209	8%	4%
Total operating revenues	166,681	209,987	223,937		
Operating Expenses					
Interest expense and amortization of discount on debt	106,758	124,918	142,360	(15%)	(12%)
Provision for estimated claims	6,181	8,628	11,530	(28%)	(25%)
Pool insurance	508	1,031	949	(51%)	9%
Expenditures related to federal grants	909	828	951	10%	(13%)
Other operating expenses	42,729	38,386	35,686	11%	8%
Total operating expenses	157,085	173,791	191,476		
Net operating revenue	9,596	36,196	32,461	(73%)	12%
Non-operating revenues (expenses)					
Mortgage insurance reserves retained	89,268	87,256	79,722	2%	9%
Federal grants	909	828	951	10%	(13%)
Transfers to New York State and its Agencies	(135,952)	(100,000)	—	36%	N/A
Total non-operating (expenses) revenues	(45,775)	(11,916)	80,673		
(Decrease) Increase in net position	(36,179)	24,280	113,134		
Total net position - beginning of fiscal year	2,161,035	2,136,755	2,023,621		
Total net position- end of fiscal year	$ 2,124,856	$ 2,161,035	$ 2,136,755		

*Restated for GASB 65 implementation - please see note 3

"— " Indicates a percentage less than 1%.

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 $162.6 million in fiscal 2012 to $147.6 million in fiscal 2013, a decrease of $15.0 million or 9%. This compares with a decline from $173.0 million in fiscal 2011 to $162.6 million in fiscal 2012, a decrease of $10.4 million or 6%. The continued decline in fiscal years 2013, 2012 and 2011 was a result of historic low interest rates on new loans purchased by the Agency.

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 $10.5 million in fiscal year 2012 to $11.2 million in fiscal year 2013, an increase of approximately $639 thousand, or 6%, as compared with an increased from $6.2 million in fiscal year 2011 to $10.5 million in fiscal year 2012, an increase of approximately $4.3 million, or 71%.

During fiscal 2013, the Agency received $7.1 million in cash recoveries ($4.0 million in fiscal 2012 and $4.7 million in fiscal 2011) and had $9.2 million in non-cash adjustments ($6.5 million in fiscal 2012 and $1.5 million in fiscal 2011) which includes four projects that were re-classified from non-performing to performing status totaling $5.1 million.

During fiscal 2013, 2012 and 2011 the MIF recorded recoveries of approximately $3.3 million annually 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 Income and Net Change in Fair Value of Investments

During fiscal 2013, the Agency realized $21.8 million in net earnings on investments from maturities, sales and investments amortization (this compares with $30.5 million and $38.1 million for fiscal years 2012 and 2011, 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 $7.8 million, $36.6 million and $44 million, for fiscal years 2013, 2012 and 2011, respectively. The net change in the fair value of investments decreased $28.8 million during 2013 (this compares with decreases of $7.4 million and $6.5 million for fiscal years 2012 and 2011, respectively). These amounts takes into account all changes in fair value (including purchases, maturities and sales) that occurred during the year.

Expenses

Interest Expense

Interest expense decreased from $124.9 million in fiscal 2012 to $106.8 million in fiscal 2013, a decrease of approximately $18.1 million or 15%. This compares with a decreased from $142.4 million in fiscal 2011 to $124.9 million in fiscal 2012, a decrease of approximately $17.5 million or 12%. The decrease was due to a decrease in bonds outstanding.

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 decreased from approximately $8.6 million in fiscal year 2012 to $6.2 million in fiscal year 2013, a decrease of $2.4 million, or 28%, as compared with decreased from approximately $11.5 million in fiscal year 2011 to $8.6 million in fiscal year 2012, a decrease of $2.9 million, or 25%.

In fiscal 2013, 2012 and 2011, 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 2012 and 2011, see Note 8 to the financial statements.

Non-Operating Revenues

Mortgage Insurance Reserves Retained

Mortgage insurance reserves retained totaled $89.3 million during fiscal 2013 compared to $87.3 million during fiscal 2012 and $79.7 million during fiscal 2011. Mortgage surtax receipts received for fiscal years 2013, 2012 and 2011 were $134.1 million, $92.5 million and $79.9 respectively.

Transfers to the State and its Agencies

During fiscal 2013, the 2013-2014 enacted State Executive Budget required the MIF to transfer excess reserves in the amount of $136.0 million to the State and its Agencies. Of this amount, the MIF transferred $32.5 million during fiscal 2013. The remaining $103.5 is required to be transferred on or before March 31, 2014 provided that the reserves remaining are sufficient to attain and maintain the credit rating required to accomplish the purposes of the Project Pool Insurance Account (as determined by the Agency).

During fiscal 2012, pursuant to the State Executive Budget, the MIF was required to transfer $100 million to the State.

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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, 2013	October 31, 2012*
	(in thousands)	
Assets		
Current assets:		
Cash-demand deposits unrestricted	$ 2,131	$ 1,785
Cash-demand deposits restricted	2,899	14,551
Cash-custodian deposits	3,608	2,086
Investments unrestricted	22,664	17,348
Investments restricted	839,560	1,076,861
Total cash and investments	870,862	1,112,631
Mortgage loans receivable	170,985	166,965
Accrued interest receivable:		
Mortgage and student loans	20,511	17,930
Investments	9,224	10,462
Other	7,177	4,933
Total current assets	**1,078,759**	**1,312,921**
Non-current Assets:		
Investments restricted	1,393,922	1,193,892
Mortgage loans receivable	2,691,215	2,784,901
Student loans receivable	11,678	12,552
Total non-current assets	**4,096,815**	**3,991,345**
Total assets	**5,175,574**	**5,304,266**
Deferred outflows of resources		
Accumulated decrease in fair value of hedging derivatives	38,979	58,292
Deferred loss on refunding	6,118	7,412
Total deferred outflows of resources	**45,097**	**65,704**
Liabilities		
Current liabilities:		
Bonds payable, net	110,935	217,635
Interest payable	7,374	8,374
Allowance for anticipated claims	22,653	33,204
Unearned income, accounts payable and other liabilities	49,553	30,113
Amounts due to New York State and its Agencies	103,534	—
Total current liabilities	**294,049**	**289,326**
Non-current liabilities:		
Bonds payable, net	2,717,087	2,819,961
Derivative instruments - interest rate swaps	45,679	64,992
Postemployment retirement benefits payable	39,000	34,656
Total non-current liabilities	**2,801,766**	**2,919,609**
Total liabilities	**3,095,815**	**3,208,935**
Net position		
Restricted for bond obligations	578,576	572,382
Restricted for insurance requirements	1,564,826	1,606,967
Unrestricted (deficit)	(18,546)	(18,314)
Total net position	**$ 2,124,856**	**$ 2,161,035**

*Restated for GASB 65 implementation - please see note 3

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,	
	2013	**2012***
	(in thousands)	
Operating revenues		
Interest earned on loans	$ 147,635	$ 162,551
Recoveries	11,185	10,546
Investment income	21,813	30,548
Net change in fair market value of investments	(28,774)	(7,380)
Commitment fees, insurance premiums and application fees earned	14,129	13,171
Other income	693	551
Total operating revenues	**166,681**	**209,987**
Operating expenses		
Interest and amortization of discount on debt	106,758	124,918
Bond issuance costs	5,618	1,893
Postemployment retirement benefits expense	4,344	4,281
General expenses	19,408	20,577
Overhead assessment by State of New York	4,556	4,410
Pool insurance	508	1,031
Provision for estimated claims	6,181	8,628
Expenses related to federal and state grants	909	828
Other	8,803	7,225
Total operating expenses	**157,085**	**173,791**
Operating income	**9,596**	**36,196**
Non-operating (expenses) revenues		
Mortgage insurance reserves retained	89,268	87,256
Federal grants	909	828
Transfers to New York State and its Agencies	(135,952)	(100,000)
Total non-operating expenses	**(45,775)**	**(11,916)**
(Decrease) Increase in net position	**(36,179)**	**24,280**
Total net position, beginning of fiscal year	**2,161,035**	**2,136,755**
Total net position, end of fiscal year	**$ 2,124,856**	**$ 2,161,035**

*Restated for GASB 65 implementation - please see note 3

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,	
	2013	2012*
	(in thousands)	
Cash flows from operating activities		
Interest received on loans	$ 147,891	$ 162,644
Principal payment on loans	378,894	381,786
Purchase of loans	(288,208)	(131,729)
Commitment fees, insurance premium and application fees earned	22,148	16,736
General expenses	(23,528)	(21,885)
Expenditures related to federal and state grants	(909)	(828)
Other	(30,223)	(16,650)
Net cash provided by operating activities	**206,065**	**390,074**
Cash flows from non-capital financing activities		
Interest paid on bonds	(107,471)	(127,758)
Mortgage recording surtax receipts	134,104	92,521
Payments to New York State	(60,466)	(100,000)
Federal grants	909	828
Bond proceeds	424,725	646,005
Retirement and redemption of bonds	(633,885)	(823,160)
Net cash used in non-capital financing activities	**(242,084)**	**(311,564)**
Cash flows from investing activities		
Earnings on investments	36,943	52,528
Proceeds from the sale or maturities of investments	5,423,991	4,281,787
Purchase of investments	(5,434,699)	(4,405,476)
Net cash provided by (used in) investing activities	**26,235**	**(71,161)**
Net (decrease) increase in cash	(9,784)	7,349
Cash at beginning of fiscal year	18,422	11,073
Cash at end of fiscal year	**$ 8,638**	**$ 18,422**
Reconciliation of operating revenues to net cash provided by operating activities:		
Operating income	$ 9,596	$ 36,196
Adjustment to reconcile operating income to net cash provided (used in) by operating activities:		
Earnings on investment	(21,813)	(30,548)
Interest payments and amortization	106,758	124,918
Unrealized gain (loss) on investment	28,774	7,380
Provison for claims	6,181	8,628
Other	(4,502)	(13,039)
Changes in assets and liabilities		
Mortgage loans and other loans, net	89,665	256,840
Interest, fees and other receivables	(4,824)	(2,751)
Student loans	874	(6,329)
Allowance for anticipated claims	(10,552)	(4,380)
Unearned income, accounts payable and other	1,564	8,878
Postemployment retirement benefits payable	4,344	4,281
Net cash provided by operating activities	**$ 206,065**	**$ 390,074**
Non-cash investing activities		
Decrease in fair value of investments	**$ (34,349)**	**$ (7,380)**

*Restated for GASB 65 implementation - please see note 3

See notes to financial statements.

State of New York Mortgage Agency
(A Component Unit of the State of New York)
Notes to Financial Statements
October 31, 2013 and 2012

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 and to provide credit support for obligations of the Convention Center Development Corporation through its Mortgage Insurance Program. Under State statutes, the Agency's operating provisions are subject to periodic legislative renewal. Also, as of January 1, 1991, certain participants in the Low Interest Rate Program may be subject to Federal recapture provisions enacted under federal law. 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 (see Note 2i).

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 are 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, 2013 and 2012, the MIF has outstanding mortgage insurance policies of approximately $3.00 billion and $2.80 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.

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, 2013 and 2012.

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. These amounts are remitted to the Agency during the month following the financial statement date and applied to the mortgage loan and interest accrual balances.

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 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. 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 are well-seasoned (70% were originated in 2004 or earlier) and all mortgages are covered by a pool insurance policy.

Mortgage acquisition costs consist primarily of inspection and initial processing fees incurred either directly by the Agency or by servicing financial institutions relative to the purchase of mortgages that have been reimbursed by the Agency.

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 balance sheet.

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. Accrued Vacation Benefits

Vacation benefits are recorded in the period earned.

i. Mortgage Insurance

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, if the amount on deposit in the Special Account is determined to be in excess of the required amount as of March 31, the excess is remitted to the State by May 31 of that year.

j. Interest and Discount Earnings on Mortgages

Interest revenue is accrued and recognized as revenue when earned. Discount on mortgage loans are deferred and amortized over the average life of the mortgage loans outstanding, which is estimated at ten years.

2. Significant Accounting Policies (continued)

k. 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.

l. 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.

m. Upcoming Accounting Pronouncements

In March 2012, GASB issued Statement No. 66, *Technical Corrections–2012.* The objective of this Statement is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements–Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Agency does not anticipate the implementation of this standard to have an impact on its financial statements.

In June 2012, GASB issued Statement No. 67, Financial Reporting for Pension Plans. The objective of this Statement is to improve the usefulness of pension information included in the general purpose external financial reports (financial reports) of state and local governmental pension plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. The Agency does not anticipate that the implementation of this standard will have an impact on its financial statements.

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 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 its financial statements.

In January 2013, GASB issued Statement No. 69, Government Combinations and Disposals of Government Operations ("GASB 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 financial statements for periods beginning after December 15, 2013. The Agency does not anticipate that the implementation of this standard will have an impact on its financial statements.

2. Significant Accounting Policies (continued)

In February 2013, GASB issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees ("GASB 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 nonexchange financial guarantees. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. The Agency does not anticipate that the implementation of this standard will have an impact on its financial statements.

n. Federal Grants

Grants due from Federal, State and local governments are recognized as non-operating revenue as the related expenditures are incurred.

o. 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 expenses and certain insurance claims activity. All other revenue and expenses are considered non-operating.

p. 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.

q. Reclassifications

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

3. Recent Adoption of GASB Accounting Pronouncements

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"), The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012; however the Agency elected to early-adopt GASB 65 during the year ended October 31, 2013.

Impact of the Adoption of GASB 65

As noted above, the Agency adopted GASB Statement No.65 during the current fiscal year. In connection with the adoption of this new standard all of the Agency's accounts were analyzed by management in order to assess the impact on the financial statements. The implementation of this new standard resulted in the modification of the method previously used to account for the cost of issuance associated with the Agency's numerous bond issuances, commitment and financing fees received by the Agency in connection with the issuance of project loans and the reclassification of the Agency's deferred loss on bond defeasance to a deferred outflow of resources, . In accordance with the requirements of this new standard, the Agency's Net Position as of October 31, 2011 and the Agency's Statement of Revenues, Expenses and Changes in Net Position were restated to retroactively adjust the Agency's financial statements. As a result the following restatements have been made to the Agency's financial statements.

	As Previously Reported	Adjustment	Restated
		(in thousands)	
As of October 31, 2011			
Net Position	$ 2,223,665	$ (86,910)	$ 2,136,755
For the year ended October 31, 2012			
Interest on mortgages	162,588	(37)	162,551
Other operating income	1,167	(616)	551
Amortization of bond issuance costs	(2,768)	2,768	—
Bond issuance costs	—	(1,893)	(1,893)
Other operating expenses	(18,162)	10,937	(7,225)
Changes in net position	13,121	11,159	24,280
As of October 31, 2012			
Unamortized cost of issuance	76,790	(76,790)	—
Mortgage loans receivable, net (Noncurrent)	2,784,087	814	2,784,901
Unearned income, accounts payable and other liabilities	30,338	225	30,113
Bonds payable, net (Noncurrent)	2,812,549	7,412	2,819,961
Deferred outflow of resources-Deferred loss on refunding	—	(7,412)	7,412
Net position	$ 2,236,786	$ (75,751)	$ 2,161,035

4. Investments

The Agency's investments at October 31, 2013 and October 31, 2012, excluding accrued interest, consisted of the following:

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

October 31, 2012: Category	Time Deposits, Money Market and Savings Accounts	U.S. Treasury Obligations	U.S. Government Agencies	Total Fair Value
	(in thousands)			
Invested revenues	$ 2,662	$ 300,027	$ 367	$ 303,056
Mortgage insurance reserves	—	1,537,990	105,678	1,643,668
Mortgage acquisition and other bond proceeds	—	138,437	—	138,437
Bondholder reserves	48,973	153,967	—	202,940
Total	$ 51,635	$ 2,130,421	$ 106,045	$ 2,288,101

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.

4. 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, 2013 are as follows:

	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
			(in thousands)		
Time Deposits	$ 59,765	$ —	$ 10,907	$ 5,525	$ 43,333
Trust Savings Accounts/ CDs	1,883	1,883	—	—	—
Municipal Bonds	458	—	—	—	458
U.S. Treasury Bills	427,625	427,625	—	—	—
U.S. Treasury Notes & Bonds	1,668,515	400,496	702,499	565,520	—
U.S. Government Agencies	97,900	25,718	72,182	—	—
Total	$ 2,256,146	$ 855,722	$ 785,588	$ 571,045	$ 43,791

Interest Rate Risk

The Agency's exposure to fair value losses arising from rising interest rates is limited by the short term duration of 38% and 46% of the Agency's investments for fiscal years ended 2013 and 2012, respectively.

5. Mortgage Loans Receivable

The principal balances of mortgage loans receivables for the years ended October 31, 2013 and October 31, 2012 were as follows:

October 31, 2013:

	Balance at October 31, 2012	Amortization	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
Total Mortgage Receivable	$ 2,951,866	$ (100,945)	$ (276,929)	$ 288,208	$ 2,862,200

October 31, 2012:

	Balance at October 31, 2011	Amortization	Prepayments, Transfers and Other Credits	Purchase of New Loans	Balance at October 31, 2012
			(in thousands)		
Homeowner Mortgage Revenue	$ 2,324,924	$ (81,401)	$ (228,645)	$ 124,759	$ 2,139,637
Mortgage Revenue	879,501	(25,252)	(45,718)	—	808,531
Homeownership Program	4,281	(229)	(354)	—	3,698
Total Mortgage Receivable	$ 3,208,706	$ (106,882)	$ (274,717)	$ 124,759	$ 2,951,866

5. Mortgage Loans Receivable (continued)

Mortgage loans outstanding were as follows at October 31, 2013 and October 31, 2012:

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
Deferred 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

October 31, 2012:	Number of Mortgage Loans	Outstanding Principal Balance
		(in thousands)
Homeowner Mortgage Revenue:		
Uninsured	8,339	$ 662,557
F.H.A. (insured)	1	21
Private mortgage insurance (at time of purchase)	18,474	1,480,847
Deferred Participation	—	(3,788)
	26,814	2,139,637
Mortgage Revenue:		
Uninsured	2,682	300,956
F.H.A. (insured)	12	160
Private mortgage insurance (at time of purchase)	4,985	503,627
Deferred Participation	—	3,788
	7,679	808,531
Homeownership Program:		
Uninsured	5	272
Private mortgage insurance (at time of purchase)	70	3,426
	75	3,698
Total	34,568	$ 2,951,866

5. Mortgage Loans Receivable

The principal balances of mortgage loans receivables for the years ended October 31, 2013 and October 31, 2012 were as follows:

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	5.13%

October 31, 2012: 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	259	$ 21,656	1.04%
90 plus	824	86,577	4.04%
	1,083	108,233	5.08%
Mortgage Revenue:			
60	64	6,235	0.77%
90 plus	157	14,388	1.79%
	221	20,623	2.56%
Homeownership Program:			
60	3	183	4.96%
90 plus	6	419	11.32%
	9	602	16.28%
Combined:			
60	326	28,074	0.95%
90 plus	987	101,384	3.44%
	1,313	$ 129,458	4.39%

6. Bonds Payable

Changes in bonds payable, net for the year ended October 31, 2013 and October 31, 2012 were as follows:

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

October 31, 2012:

	Bonds Outstanding at October 31, 2011	Matured/ Called/ Redeemed	Issued	Amortization of Bond Premium and Deferred Loss Amounts	Bonds Outstanding at October 31, 2012
			(in thousands)		
Homeowner Mortgage Revenue	$ 2,318,281	$ (742,945)	$ 646,005	$ 2,147	$ 2,223,488
Mortgage Revenue	871,530	(71,100)	—	(167)	800,263
NYHELPs (Student Loan program)	23,417	(9,115)	—	(457)	13,845
Total Bonds Outstanding	$ 3,213,228	$ (823,160)	$ 646,005	$ 1,523	$ 3,037,596

6. Bonds Payable (continued)

Homeowner Mortgage Revenue Bonds

One hundred eighty-two Homeowner Mortgage Revenue Bond series have been issued between 1988 and 2013 in a total original amount of $9,976,813,000. At October 31, 2013, the interest rates for the fixed rate bonds outstanding ranged from .40% to 6% and the interest on the variable rate debt ranged from .03% to .27%.

The schedule of Total Annual Maturities as of October 31, 2013 was as follows:

Fiscal Year Ending Oct 31,	Serial Bonds	Term Bonds	Total Bonds Payable	Interest Payable	Total Debt Service
			(in thousands)		
2014	$ 80,705	$ 3,645	$ 84,350	$ 54,793	$ 139,143
2015	85,505	12,400	97,905	52,313	150,218
2016	82,480	13,130	95,610	49,863	145,473
2017	78,540	15,080	93,620	47,236	140,856
2018	47,875	27,735	75,610	44,554	120,164
2019-2023	221,125	221,170	442,295	181,362	623,657
2024-2028	1,670	405,655	407,325	104,700	512,025
2029-2033	—	337,130	337,130	54,359	391,489
2034-2038	—	297,150	297,150	24,178	321,328
2039-2043	—	69,315	69,315	9,319	78,634
2044-2047	—	935	935	2	937
Total Debt Service Requirement	597,900	1,403,345	2,001,245	622,679	2,623,924
Unamortized bond premium	—	—	617	—	—
Total	$ 597,900	$ 1,403,345	$ 2,001,862	$ 622,679	$ 2,623,924

6. Bonds Payable (continued)

Outstanding Homeowner Mortgage Revenue Bonds

At October 31, 2013, the interest rate for fixed rate Homeowner Mortgage Revenue Bonds outstanding ranged from .40% to 6%.

The schedule of Homeowner Mortgage Revenue Bonds outstanding by series as of October 31, 2013 was as follows:

Series	Originally Issued	Currently Outstanding	Range of Interest Rates	Last Remaining Maturity
	(in thousands)			
78A	$ 10,505	$ 1,185	5.0%	2014
87	77,085	50	5.15%	2017
100	9,390	125	4.95%	2015
105	23,215	3,205	3.85%-4.25%	2015
107	1,640	240	4.25%	2014
109	125,000	54,060	4.9%-4.95%	2034
110	99,650	19,940	4.0%-4.4%	2017
111	114,760	58,415	4.0%-4.55%	2023
112	10,240	3,345	3.65%-4.0%	2017
113	90,000	3,010	4.7%-4.95%	2017
115	35,000	35,000	Reset Weekly	2034
116	125,000	94,280	4.05%-4.80%	2034
117	44,280	23,055	4.05%-4.65%	2025
120	35,000	24,380	4.05%-4.75%	2025
121	400	120	4.00%	2017
122	40,000	40,000	Reset Weekly	2035
123	28,760	22,145	4.6%-4.75%	2029
124	36,240	5,370	3.85%-4.0%	2015
125	35,000	35,000	Reset Weekly	2036
127	20,605	15,675	4.7%-4.95%	2036
128	45,395	4,990	4.15% - 4.25%	2015
129	34,000	34,000	Reset Weekly	2035
130	48,055	33,690	4.4%-4.8%	2037
131	28,725	9,155	3.90%-4.05%	2017
132	34,000	34,000	Reset Daily	2037
133	73,970	8,530	4.6%-6%	2032
135	34,000	34,000	Reset Daily	2037
137	75,205	63,815	4.55%-4.7%	2031
138	15,795	9,490	3.75%-3.9%	2017
139	34,000	34,000	Reset Daily	2037
140	40,435	24,380	4.6%-4.75%	2037

6. Bonds Payable (continued)

Outstanding Homeowner Mortgage Revenue Bonds (continued)

Series	Originally Issued	Currently Outstanding	Range of Interest Rates	Last Remaining Maturity
	(in thousands)			
141	$ 15,565	$ 6,340	3.85%-4.0%	2017
142	34,000	34,000	Reset Daily	2037
143	60,000	43,995	4.2%-4.9%	2037
144	30,000	30,000	Reset Daily	2037
145	22,980	1,390	4.95%	2023
146	37,020	15,015	3.8%-4.1%	2017
147	50,000	50,000	Reset Weekly	2037
148	53,905	9,970	4.5%-4.9%	2022
149	21,095	10,870	3.7%-3.95%	2017
150	50,000	50,000	Reset Daily	2037
152	29,765	9,865	3.75%-4.125%	2017
153	50,000	50,000	Reset Weekly	2047
155	32,145	15,160	3.85%-4.375%	2018
158	50,000	3,310	4.75%-5.0%	2015
159	60,000	60,000	Reset Weekly	2038
160	11,560	6,270	3.05%-4.0%	2018
162	25,000	25,000	Reset Weekly	2039
163	66,825	61,005	1.85%-4.45%	2031
164	84,365	68,005	1.0%-3.4%	2022
165	50,000	48,625	4%-4.75%	2042
166	107,585	89,570	1.514%-3.999%	2021
167	10,695	10,695	3.1%-4.1%	2022
168	50,065	47,755	.6%-4.125%	2040
169	43,060	40,225	.6%-2.6%	2021
170	19,940	19,940	2.4%-3.9%	2027
171	12,000	12,000	3.40%	2022
172	150,000	148,175	.7%-4.203%	2027
175	82,660	81,510	.605%-4.116%	2028
176	66,835	66,745	1.45%-3.75%	2042
177	33,200	31,295	.40%-3.05%	2027
178	79,370	79,370	3.5% - 4.9%	2043
179	13,090	13,090	.65% - 1.65%	2017
180	33,405	33,405	.90% - 4.10%	2023
Unamortized bond premium	—	617		
Total	$ 2,961,480	2,001,862		

6. Bonds Payable (continued)

Outstanding Homeowner Mortgage Revenue Bonds (continued)

As of October 31, 2013, the additional debt service requirements of the Agency's hedged variable rate debt on associated derivative instruments for the period hedged are as follows. These amounts assume that current interest rates on October 31, 2013 and the variable-rate offset the fixed rates of hedging derivative instruments will remain the same for the term of the respective swaps.

The table below represents the additional debt service payments resulting from the Homeowner Mortgage Revenue Bond hedged derivative instruments

Fiscal Year Ending Oct 31,	Swap Nominal Amount	Fixed Interest Payments	Swap Offset Payments	Net Swap Interest
		(in thousands)		
2014	$ —	$ 14,219	$ 1,329	$ 12,890
2015	—	14,219	1,329	12,890
2016	98,000	13,564	1,272	12,292
2017	94,675	9,817	869	8,948
2018	161,400	6,532	521	6,011
2019-2023	8,000	11,162	1,122	10,040
2024-2028	11,960	9,729	980	8,749
2029-2033	31,505	6,254	630	5,624
2034-2038	14,460	966	97	869
Total	$ 420,000	$ 86,462	$ 8,149	$ 78,313

6. Bonds Payable (continued)

Mortgage Revenue Bonds

Fifty-one Mortgage Revenue Bond series have been issued between 1984 and 2013 in a total original amount of $4,379,529,000. At October 31, 2013, the interest rates for the fixed rate bonds outstanding ranged from .31% to 5.45%.

The Schedule of Total Annual Maturities at October 31, 2013 was as follows:

Fiscal Year Ending Oct 31,	Serial Bonds	Term Bonds	Bonds Payable	Interest Payable	Debt Service
			(in thousands)		
2014	$ 21,575	$ —	$ 21,575	$ 28,698	$ 50,273
2015	23,765	—	23,765	27,686	51,451
2016	21,890	950	22,840	27,240	50,080
2017	25,495	635	26,130	26,704	52,834
2018	17,080	8,065	25,145	31,294	56,439
2019-2023	64,920	76,560	141,480	119,063	260,543
2024-2028	7,630	119,265	126,895	89,388	216,283
2029-2033	—	135,420	135,420	62,686	198,106
2034-2038	—	151,685	151,685	37,409	189,094
2039-2043	—	133,650	133,650	10,007	143,657
Total Debt Service Requirement	182,355	626,230	808,585	460,175	1,268,760
Unamortized bond premium	—	—	4,192	—	—
Total	$ 182,355	$ 626,230	$ 812,777	$ 460,175	$ 1,268,760

6. Bonds Payable (continued)

Outstanding Mortgage Revenue Bonds

At October 31, 2013, the interest rate for fixed rate Mortgage Revenue Bonds outstanding ranged from .31%to 5.45%.

The schedule of Mortgage Revenue Bonds outstanding by series as of October 31, 2013 was as follows:

Series	Originally Issued	Currently Outstanding	Range of Interest Rates	Remaining Maturity
	(in thousands)			
29th	$ 101,280	$ 2,485	5.45%	2031
31stA	55,780	40,975	5.2%-5.3%	2031
32nd	26,045	2,335	4.55%	2014
33rdA	44,505	16,330	4.1%-4.75%	2023
35th	62,760	53,740	4.5%-4.8%	2030
36th	27,240	1,555	4.10%	2016
39TH	57,385	49,945	3.25%-5.0%	2028
40TH	22,615	15,225	1.9%-3.125%	2017
38THB	30,000	28,810	3.07%	2041
41st	14,820	13,990	1.30%-4.0%	2028
42nd	5,180	3,465	1.30%-2.5%	2018
43rd	14,330	8,060	1.30%-2.3%	2017
44th	38,555	30,135	2.05%-4.35%	2024
38THC	66,000	60,530	3.01%	2041
45th	44,000	37,245	1.5%-4.5%	2029
38THD	138,110	129,610	3.55%	2041
38THE	35,000	32,850	3.55%	2035
46TH	97,855	76,145	2.1%-5.0%	2029
47TH	17,555	6,680	1.5%-2.1%	2015
48TH	110,905	110,905	2.625%-3.75%	2041
49TH	54,755	54,755	2.45 - 4.0%	2043
50TH	33,165	32,815	.31 - 3.15%	2027
Unamortized bond premium	—	4,192		
Total	$ 1,097,840	$ 812,777		

6. 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, 2013, the amount of $13,285,000 remained outstanding with the interest rates ranging from 3.25% to 5.25%.

The schedule of Total Annual Maturities as of October 31, 2013 was as follows:

Fiscal Year Ending Oct 31,	Interest Payable	Bonds Payable	Total Debt Sevice
		(in thousands)	
2014	$ 607	$ 445	$ 1,052
2015	582	775	1,357
2016	544	1,045	1,589
2017	484	1,540	2,024
2018	418	1,405	1,823
2019-2023	1,265	4,270	5,535
2024-2027	390	3,805	4,195
Total Debt Service Requirement	4,290	13,285	17,575
Unamortized bond premium	—	98	—
Total	$ 4,290	$ 13,383	$ 17,575

7. Owned Real Estate

At October 31, 2013 and October 31, 2012 other assets consisted primarily of Owned Real Estate for which the balances were as follows:

October 31, 2013:

Bondholder Funds	Number of Loans	Book Value	Appraised Value
		($ in thousands)	
Homeowner Mortgage Revenue	68	$ 5,120	$ 6,118
Mortgage Revenue	11	666	976
Other Assets	1	90	145
	80	$ 5,876	$ 7,239

October 31, 2012:

Bondholder Funds	Number of Loans	Book Value	Appraised Value
		($ in thousands)	
Homeowner Mortgage Revenue	30	$ 2,302	$ 3,102
Mortgage Revenue	8	659	1,228
Other Assets	—	1,972	—
	38	$ 4,933	$ 4,330

8. Allowance for Anticipated Claims

The Mortgage Insurance Fund claim activity for the fiscal years ended October 31, 2013 and October 31, 2012 was as follows:

October 31, 2013:

	Project Insurance	Pool Insurance	Primary Insurance	Total Insurance
	(in thousands)			
Reconciliation of Allowance for Claims				
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, net	(3,245)	(2,175)	(127)	(5,547)
Allowance, end of year	$ 22,653	$ —	$ —	$ 22,653

October 31, 2012:

	Project Insurance	Pool Insurance	Primary Insurance	Total Insurance
	(in thousands)			
Reconciliation of Allowance for Claims				
Allowance, beginning of year	$ 37,584	$ —	$ —	$ 37,584
Current year provision for estimated claims	7,035	1,489	104	8,628
Current year adjustment to claims status	(10,546)	—	—	(10,546)
Claims paid, net	(869)	(1,489)	(104)	(2,462)
Allowance, end of year	$ 33,204	$ —	$ —	$ 33,204

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

Generally, all employees, except certain part-time and temporary employees, participate in the System. The System is contributory for the first ten years for employees who joined after July 1976 at the rate of 3% of their salary. Employee contributions are deducted from employees' compensation for remittance to the System.

The State Court of Appeals has ruled that the 1990 enactment of the projected unit credit actuarial method for calculating retirement plan funding was unconstitutional. On December 6, 1993, the State announced a return to the aggregate method for funding the plan.

The covered payrolls for the fiscal years ended October 31, 2013, 2012 and 2011 were $7.4 million, $7.4 million and $7.9 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 2013, $1.6 million in fiscal 2012 and $992 thousand in fiscal 2011. Agency employees were required to contribute .98% of the current year's covered payroll ($72 thousand in 2013, $53 thousand in 2012 and $64 thousand in 2011).

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 $431 thousand during fiscal 2013 ($471 thousand in fiscal 2012).

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 heath 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.

9. Retirement Benefits (continued)

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. An actuarially determined valuation of these benefits was performed by a consultant to calculate the impact of GASB accounting rules applicable to the retiree medical benefits for retired employees and their eligible dependents. GASB Statement No. 45 requires the valuation must be performed at least biennially. The most recent biennial valuation was performed with a valuation date of November 1, 2011 and was used as a basis for the determination of costs for the year ended October 31, 2012 and 2013. The biennial valuation was performed with a valuation date of November 1, 2009 and was used as a basis for fiscal year ended October 31, 2010 and fiscal year ended October 31, 2011. The total number of plan participants receiving OPEB from the Agency as of October 31, 2011 was 56.

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 $39.0 million and $34.7 million as of October 31, 2013 and 2012, 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, 2013 and 2012, the Agency paid $554 thousand and $473 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).

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

9. Retirement Benefits (continued)

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, 2013 and 2012:

	2013	2012
	(in thousands)	
Annual Required Contribution (ARC)	$ 7,852	$ 7,343
Interest on net OPEB Obligation	1,213	1,063
Adjustment to ARC	(4,167)	(3,652)
Annual OPEB cost	4,898	4,754
Payments made	(554)	(473)
Increase in net OPEB obligation	4,344	4,281
Net OPEB obligation - Beginning of fiscal year	34,656	30,375
Net OPEB obligation - End of fiscal year	$ 39,000	$ 34,656

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, 2013, 2012 and 2011 are as follow:

Year ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Paid	Net OPEB Obligation
	(in thousands)		
10/31/2013	$ 4,898	11.3%	$ 39,000
10/31/2012	$ 4,754	9.9%	$ 34,656
10/31/2011	$ 2,781	16.5%	$ 30,375

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, 2011 OPEB actuarial valuations were the projected unit credit method as its actuarial cost method, a 3.5% 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, 2009 used a per annum discount rate of 4%.

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 July 1, 2013
Eligible-Medicare	
Single	$ 612.26
Family	$ 1,423.94

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
2013	8.0
2014	7.0
2015	6.4
2016	6.3
2021	6.5
2026	7.2
2031	6.9
2036	6.5
2041	6.1
2046	5.8
2086	4.7

Mortality. Mortality rates are those recommended by the actuary:

Age	Male	Female
60	0.69%	0.59%
65	1.149	0.981
70	1.880	1.584
75	3.240	2573
80	5.763	4.247
85	10.252	7.249

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. Synthetic Fixed Rate Swaps

As of October 31, 2013, 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, 2013, classified by type, and the changes in fair value of such derivative instruments from the year then ended as reported in the 2012 financial statements are as follows:

	Changes in fair value		Fair value at October 31, 2013		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedge	Deferred outflow	$19,313,024	Debt	($45,678,636)	$420,000,000

The fair values 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, 2013, 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*(1)		$34,000	11/17/05	10/01/35	3.5870%	($5,868,535)	Wells Fargo Bank NA
HMB Series 132*		$34,000	03/09/06	04/01/37	3.4783%	($5,816,887)	JPMorgan Chase Bank NA
HMB Series 135*		$34,000	07/13/06	04/01/16	3.8570%	($2,808,765)	The Bank of New York Mellon
HMB Series 139*		$34,000	09/23/08	10/01/16	2.9720%	($2,385,250)	Goldman Sachs Bank USA
HMB Series 142*(1)		$34,000	02/01/07	04/01/17	3.5650%	($3,342,377)	Wells Fargo Bank NA
HMB Series 144*		$30,000	06/07/07	04/01/17	3.6540%	($3,041,585)	The Bank of New York Mellon
HMB Series 147*		$30,000	09/20/07	10/01/17	3.4250%	($3,057,029)	JPMorgan Chase Bank NA
HMB Series 150*		$40,000	12/14/07	04/01/18	3.2170%	($3,981,390)	Goldman Sachs Bank USA
HMB Series 153*		$30,000	03/27/08	04/01/18	2.9900%	($2,685,967)	Merrill Lynch Der. Products AG
HMB Sr.122/125*		$30,000	08/14/08	10/01/16	3.0860%	($2,206,408)	Royal Bank of Canada
HMB Sr.122/125*		$30,000	08/14/08	10/01/18	3.1760%	($3,071,523)	Royal Bank of Canada
HMB Series 159**		$60,000	10/30/08	10/01/18	3.5400%	($7,412,920)	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.

10. Synthetic Fixed Rate Swaps (Continued)

(1) On December 4, 2012, the Citibank NA swaps were transferred to Wells Fargo Bank NA
(2) On July 31, 2013, Series 162 with a remaining unamortized balance of $13,090,000 was terminated with $175,900 in termination payment made to Barclays Bank PLC.

On April 1, 2013, the Series 150 and 153 swaps with notional amounts of $10,000,000 and $20,000,000 matured.

COUNTERPARTY RATINGS

Counterparty Name	Moody's/S&P/Fitch
The Bank of New York Mellon	Aa1/AA-/AA-
Citibank N.A.	A3/A/A
Goldman Sachs Bank USA*	A2/A/A
(Guarantor Goldman Sachs Group)	A3/A-/A
JPMorgan Chase Bank N.A.	Aa3/A+/A+
Merrill Lynch Derivative Products AG	Aa3/AAA/NR
Royal Bank of Canada	Aa3/AA-/AA

** In November 2008, Goldman Sachs Capital Markets L.P. merged into Goldman Sachs Bank USA*

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, 2013, the weighted-average interest rate on the Agency's hedged variable-rate debt is 0.086%, while the applicable 63% of one month LIBOR plus 0.25% and SIFMA were 0.356% and 0.08%, 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.

10. 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, 2013, the Agency would be required to post $15,240,556 in collateral to these counterparties ($22,224,547 at October 31, 2012).

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, 2013, the Agency would be required to post $2,690,851 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, 2013, the Agency would be required to post $12,752,113 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, 2013, the Agency would be required to post $24,752,113 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, 2013, the Agency would be required to post $27,752,113 in collateral to these counterparties.

11. 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.

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 assumed by HFA, with whom the Agency shares the leased space.

Rental expense for the fiscal years ended October 31, 2013 and 2012 were approximately $2.5 million. As of October 31, 2013, 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:

	Amount (in thousands)
Fiscal year ending October 31:	
2014	$ 2,639
2015	2,717
2016	2,766
2017	2,805
2018	2,844
Thereafter	3,366
Total minimum payments required	$ 17,137

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.

12. Transfers to New York State and its Agencies

The New York State Fiscal Year 2014 enacted Executive Budget requires the Agency to make certain transfers of money from the MIF's Project Pool Insurance Account totaling $136 million. 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 $32.5 million during the current fiscal year with the remaining $103.5 million reports as a payable to New York State at October 31, 2014. Similar transfers have been made by the Agency as part of the State's 2013 and 2009 Fiscal Years enacted Executive Budgets in the amount of $100 million each.

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.

13. 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, 2013 and 2012, the Mortgage Insurance Fund's net position represent the required reserve for policies in force of $3.00 billion and $2.80 billion, respectively. Included within policies in force are single family mortgage primary and pool policies (total aggregate loss limit) totaling $498 million and $489 million in 2013 and 2012, respectively. Commitments outstanding as of fiscal years ended 2012 and 2013 were $898 million and $929 million, respectively. The Agency provided $6.0 million and $9.0 million during fiscal 2013 and 2012 respectively, for potential claims on mortgages insured by the Mortgage Insurance Fund.

The Agency recorded recovery income in the amount of approximately $3.3 million during fiscal 2013 and $3.5 million during fiscal 2012 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 2013 in the amount of $28.0 million. There was no excess tax collection remitted during fiscal 2012. The Agency also made transfers to the State from the project insurance account of $32.5 million and $100.0 million for fiscal years 2013 and 2012 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, 2013 and 2012

(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, 2011	—	$42,682	$42,682	—	$7,382	578%
November 1, 2009	—	$25,461	$25,461	—	$8,630	295%
November 1, 2007	—	$18,005	$18,005	—	$8,500	212%

Supplementary Section

State of New York Mortgage Agency

(A Component Unit of the State of New York)

Schedules of Net Position
October 31, 2013
with comparative totals for 2012

	General Operating Fund	Homeowner Mortgage Revenue	Mortgage Revenue
		(in thousands)	
Assets			
Current assets:			
Cash-demand deposits restricted	$ —	$ 1,636	$ (19)
Cash-demand deposits unrestricted	2,131	—	—
Cash-custodian deposits	—	2,294	1,314
Investments unrestricted	22,664	—	—
Investments restricted	—	258,400	104,169
Total cash and investments	24,795	262,330	105,464
Mortgage loans receivable	—	95,570	75,174
Accrued interest receivable:			
Mortgage and student loans	—	15,829	3,808
Investments	60	1,450	706
Other	—	6,112	943
Total current assets	**24,855**	**381,291**	**186,095**
Non-current Assets:			
Investments restricted	—	92,325	44,879
Mortgage loans receivable	—	1,940,146	748,188
Student loan receivable	—	—	—
Unamortized cost of issuance	—	—	—
Total non-current assets	**—**	**2,032,471**	**793,067**
Total assets	**24,855**	**2,413,762**	**979,162**
Deferred outflows of resources			
Accumulated decrease in fair value of hedging derivatives	—	38,979	—
Deferred loss on refunding	—	6,118	—
Total deferred outflows of resources	**—**	**45,097**	**—**
Liabilities			
Current liabilities:			
Bonds payable, net	—	88,915	21,575
Interest payable	—	4,616	2,450
Allowance for anticipated claims	—	—	—
Unearned income, accounts payable and other liabilities	4,824	9,697	1,520
Amounts due to New York State and its Agencies	—	—	—
Interfund payables	(423)	(524)	227
Total current liabilities	**4,401**	**102,704**	**25,772**
Non-current Liabilities:			
Bonds payable, net	—	1,912,947	791,202
Derivative instruments - interest rate swaps	—	45,679	—
Postemployment retirement benefits payable	39,000	—	—
Total non-current liabilities	**39,000**	**1,958,626**	**791,202**
Total liabilities	**43,401**	**2,061,330**	**816,974**
Net position			
Restricted for bond obligations	—	397,529	162,188
Restricted for insurance requirements	—	—	—
Unrestricted (deficit)	(18,546)	—	—
Total net position	**$ (18,546)**	**$ 397,529**	**$ 162,188**

*Restated for GASB 65 implementation - please see note 3

Homeownership Program	Single Family Programs Total	Student Loan Program	Mortgage Insurance Fund	Total All Funds October 31, 2013	Total All Funds October 31, 2012*
		(in thousands)			
$ —	$ 1,617	$ 965	$ 317	$ **2,899**	$ **14,551**
—	2,131	—	—	**2,131**	**1,785**
—	3,608	—	—	**3,608**	**2,086**
—	22,664	—	—	**22,664**	**17,348**
—	362,569	15,916	461,075	**839,560**	**1,076,861**
—	392,589	16,881	461,392	**870,862**	**1,112,631**
241	170,985	—	—	**170,985**	**166,965**
58	19,695	816	—	**20,511**	**17,930**
—	2,216	—	7,008	**9,224**	**10,462**
122	7,177	—	—	**7,177**	**4,933**
421	**592,662**	**17,697**	**468,400**	**1,078,759**	**1,312,921**
—	137,204	—	1,256,718	**1,393,922**	**1,193,892**
2,881	2,691,215	—	—	**2,691,215**	**2,784,901**
—	—	11,678	—	**11,678**	**12,552**
—	—	—	—	—	—
2,881	**2,828,419**	**11,678**	**1,256,718**	**4,096,815**	**3,991,345**
3,302	**3,421,081**	**29,375**	**1,725,118**	**5,175,574**	**5,304,266**
—	38,979	—	—	**38,979**	**58,292**
—	6,118	—	—	**6,118**	**7,412**
—	**45,097**	**—**	**—**	**45,097**	**65,704**
—	110,490	445	—	**110,935**	**217,635**
—	7,066	308	—	**7,374**	**8,374**
—	—	—	22,653	**22,653**	**33,204**
68	16,109	35	33,409	**49,553**	**30,113**
—	—	—	103,534	**103,534**	—
—	(720)	24	696	**—**	**—**
68	**132,945**	**812**	**160,292**	**294,049**	**289,326**
—	2,704,149	12,938	—	**2,717,087**	**2,819,961**
—	45,679	—	—	**45,679**	**64,992**
—	39,000	—	—	**39,000**	**34,656**
—	**2,788,828**	**12,938**	**—**	**2,801,766**	**2,919,609**
68	**2,921,773**	**13,750**	**160,292**	**3,095,815**	**3,208,935**
3,234	562,951	15,625	—	**578,576**	**572,382**
—	—	—	1,564,826	**1,564,826**	**1,606,967**
—	(18,546)	—	—	**(18,546)**	**(18,314)**
$ 3,234	**$ 544,405**	**$ 15,625**	**$ 1,564,826**	**$ 2,124,856**	**$ 2,161,035**

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, 2013
with comparative totals for 2012

	General Operating Fund	Homeowner Mortgage Revenue	Mortgage Revenue
		(in thousands)	
Operating revenues			
Interest earned on loans	$ —	$ 107,889	$ 38,487
Recoveries	—	—	—
Investment Income	6	5,201	1,813
Net change in fair market value of investments	(1)	(3,491)	(1,350)
Commitment fees, insurance premiums and application fees earned	—	—	—
Other income	382	309	—
Total operating revenues	**387**	**109,908**	**38,950**
Operating expenses			
Interest and amortization of discount on debt	—	76,760	29,452
Bond issuance costs	—	3,512	2,106
Postemployment retirement benefits expense	4,344	—	—
General expenses	9,977	5,015	169
Overhead assessment by State of New York	3,417	—	—
Pool insurance	—	221	102
Provision for estimated claims	—	—	—
Expenditures related to federal and state grants	909	—	—
Other	943	4,512	3,346
Total operating expenses	**19,590**	**90,020**	**35,175**
Operating (loss) income	**$ (19,203)**	**$ 19,888**	**$ 3,775**
Non-operating (expenses) revenues			
Mortgage insurance reserves retained	—	—	—
Federal grants	909	—	—
Transfers to New York State and its Agencies	—	—	—
Interfund transfers	18,062	(17,445)	—
Total non-operating revenues (expenses)	**18,971**	**(17,445)**	**—**
(Decrease) increase in net position	**(232)**	**2,443**	**3,775**
Net positon, beginning of fiscal year	**(18,314)**	**395,086**	**158,413**
Total net position, end of fiscal year	**$ (18,546)**	**$ 397,529**	**$ 162,188**

*Restated for GASB 65 implementation - please see note 3

Homeownership Program	Single Family Programs Total	Student Loan Program	Mortgage Insurance Fund	Total All Funds Fiscal year ended October 31, 2013	Total All Funds Fiscal year ended October 31, 2012*
		(in thousands)			
$ 248	$ 146,624	$ 1,011	$ —	$ **147,635**	$ **162,551**
—	—	—	11,185	**11,185**	**10,546**
1	7,021	16	14,776	**21,813**	**30,548**
—	(4,842)	—	(23,932)	**(28,774)**	**(7,380)**
—	—	—	14,129	**14,129**	**13,171**
—	691	2	—	**693**	**551**
249	**149,494**	**1,029**	**16,158**	**166,681**	**209,987**
—	106,212	546	—	**106,758**	**124,918**
—	5,618	—	—	**5,618**	**1,893**
—	4,344	—	—	**4,344**	**4,281**
1	15,162	134	4,112	**19,408**	**20,577**
—	3,417	—	1,139	**4,556**	**4,410**
5	328	—	180	**508**	**1,031**
—	—	—	6,181	**6,181**	**8,628**
—	909	—	—	**909**	**828**
(1)	8,800	—	3	**8,803**	**7,225**
5	**144,790**	**680**	**11,615**	**157,085**	**173,791**
$ 244	**$ 4,704**	**$ 349**	**$ 4,543**	**$ 9,596**	**$ 36,196**
—	—	—	89,268	**89,268**	**87,256**
—	909	—	—	**909**	**828**
—	—	—	(135,952)	**(135,952)**	**(100,000)**
(617)	—	—	—	**—**	**—**
(617)	**909**	**—**	**(46,684)**	**(45,775)**	**(11,916)**
(373)	**5,613**	**349**	**(42,141)**	**(36,179)**	**24,280**
3,607	**538,792**	**15,276**	**1,606,967**	**2,161,035**	**2,136,755**
$ 3,234	**$ 544,405**	**$ 15,625**	**$ 1,564,826**	**$ 2,124,856**	**$ 2,161,035**

State of New York Mortgage Agency

(A Component Unit of the State of New York)

Schedules of Cash Flows

Fiscal Year Ended October 31, 2013 with comparative totals for 2012

	General Operating Fund	Homeowner Mortgage Revenue	Mortgage Revenue
		(in thousands)	
Cash flows from operating activities			
Interest received on loans	$ —	$ 108,490	$ 38,538
Principal payment on mortgages	—	295,979	81,319
Purchase of mortgage loans	—	(192,059)	(96,149)
Commitment fees, insurance premium and application fees earned	1,353	—	—
Operating expenses	(23,108)	—	—
Expenditures related to federal grants	(909)	—	—
Transfers	18,062	(17,445)	—
Other	9,408	(17,082)	(6,053)
Net cash provided by (used in) operating activities	**4,806**	**177,883**	**17,655**
Cash flows from non-capital financing activities			
Interest paid on bonds	—	(77,561)	(29,594)
Mortgage recording surtax receipts	—	—	—
Payments to New York State	—	—	—
Federal grants	909	—	—
Bond proceeds	—	225,900	198,825
Retirement and redemption of bonds	—	(447,520)	(185,980)
Net cash provided by (used in) non-capital financing activities	**909**	**(299,181)**	**(16,749)**
Cash flows from investing activities			
Earnings on investments	(14)	8,971	3,775
Proceeds from the sale or maturities of investments	86,359	2,837,635	814,010
Purchase of investments	(91,714)	(2,727,904)	(823,231)
Net cash (used in) provided by investing activities	**(5,369)**	**118,702**	**(5,446)**
Net increase (decrease) in cash	346	(2,596)	(4,540)
Cash, beginning of fiscal year	1,785	6,526	5,835
Cash, end of fiscal year	**$ 2,131**	**$ 3,930**	**$ 1,295**
Reconciliation of operating revenues (expenses) to net cash (used in) provided by operating activities:			
Net operating revenues (expenses)	$ (19,203)	$ 19,888	$ 3,775
Adjustment to reconcile operating income to net cash provided (used in) by operating activities:			
Earnings on investment	(6)	(5,201)	(1,813)
Interest payments and amortization	—	76,760	29,452
Unrealized gain (loss) on investment	1	3,491	1,350
Provison for claims	—	—	—
Other	1	1,218	(309)
Transfers	18,062	(17,445)	—
Changes in assets and liabilities			
Mortgage loans and other loans, net	—	103,920	(14,830)
Interest, fees and other receivables	—	(5,387)	(545)
Student loans	—	—	—
Allowance for anticipated claims	—	—	—
Interfund payables	2,726	(1,611)	122
Unearned income, accounts payable and other	(1,119)	2,250	453
Postemployment retirement benefits payable	4,344	—	—
Net cash provided by (used in) operating activities	**$ 4,806**	**$ 177,883**	**$ 17,655**
Non-cash investing activities			
(Decrease) increase in fair value of investments	$ (1)	$ (7,805)	$ (2,613)

*Restated for GASB 65 implementation - please see note 3

Homeownership Program	Single Family Programs Total	Student Loan Program	Mortgage Insurance Fund	Total All Funds Fiscal year ended October 31, 2013	2012*
		(in thousands)			
$ 251	$ 147,279	$ 612	$ —	$ **147,891**	$ **162,644**
486	377,784	1,110	—	**378,894**	**381,786**
—	(288,208)	—	—	**(288,208)**	**(131,729)**
—	1,353	—	20,795	**22,148**	**16,736**
(6)	(23,114)	(414)	—	**(23,528)**	**(21,885)**
—	(909)	—	—	**(909)**	**(828)**
(617)	—	—	—	**—**	**—**
(1,272)	(14,999)	(68)	(15,156)	**(30,223)**	**(16,650)**
(1,158)	**199,186**	**1,240**	**5,639**	**206,065**	**390,074**
—	(107,155)	(316)	—	**(107,471)**	**(127,758)**
—	—	—	134,104	**134,104**	**92,521**
—	—	—	(60,466)	**(60,466)**	**(100,000)**
—	909	—	—	**909**	**828**
—	424,725	—	—	**424,725**	**646,005**
—	(633,500)	(385)	—	**(633,885)**	**(823,160)**
—	**(315,021)**	**(701)**	**73,638**	**(242,084)**	**(311,564)**
8	12,740	23	24,180	**36,943**	**52,528**
5,975	3,743,979	58,103	1,621,909	**5,423,991**	**4,281,787**
(4,843)	(3,647,692)	(58,941)	(1,728,066)	**(5,434,699)**	**(4,405,476)**
1,140	**109,027**	**(815)**	**(81,977)**	**26,235**	**(71,161)**
(18)	(6,808)	(276)	(2,700)	**(9,784)**	**7,349**
18	14,164	1,241	3,017	**18,422**	**11,073**
$ **—**	$ **7,356**	$ **965**	$ **317**	$ **8,638**	$ **18,422**
$ 244	$ 4,704	$ 349	$ 4,543	$ **9,596**	$ 36,196
(1)	(7,021)	(16)	(14,776)	**(21,813)**	**(30,548)**
—	106,212	546	—	**106,758**	**124,918**
—	4,842	—	23,932	**28,774**	**7,380**
—	—	—	6,181	**6,181**	**8,628**
—	910	(315)	(5,097)	**(4,502)**	**(13,039)**
(617)	—	—	—	**—**	**—**
575	89,665	—	—	**89,665**	**256,840**
(102)	(6,034)	(163)	1,373	**(4,824)**	**(2,751)**
—	—	874	—	**874**	**(6,329)**
—	—	—	(10,552)	**(10,552)**	(4,380)
(1,272)	(35)	—	35	**—**	**—**
15	1,599	(35)	—	**1,564**	**8,878**
—	4,344	—	—	**4,344**	**4,281**
$ **(1,158)**	$ **199,186**	$ **1,240**	$ **5,639**	$ **206,065**	$ **390,074**
$ —	$ (10,419)	$ 2	$ (23,932)	$ **(34,349)**	$ **(7,380)**

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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*

Management and Directors of the Board
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 (the "Agency"), a component unit of the State of New York, which comprise the statement of net position as of October 31, 2013, 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, 2014.

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.

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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, 2014

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