

STATE OF NEW YORK MORTGAGE AGENCY  
NEW YORK STATE HOUSING FINANCE AGENCY  
STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY  
NEW YORK STATE AFFORDABLE HOUSING CORPORATION  
GUIDELINES AND POLICIES FOR INVESTING, SECURING, MONITORING  
AND REPORTING ON AGENCY FUNDS AVAILABLE FOR INVESTMENT  
ADOPTED (I) BY THE BOARD OF DIRECTORS OF THE  
STATE OF NEW YORK MORTGAGE AGENCY,  
THE MEMBERS OF THE NEW YORK STATE HOUSING FINANCE AGENCY,  
AND THE MEMBERS OF THE NEW YORK STATE AFFORDABLE HOUSING  
CORPORATION ON SEPTEMBER 10, 1998, AS AMENDED ON APRIL 8, 1999, ON  
NOVEMBER 10, 1999, OCTOBER 11, 2001, ON APRIL 4, 2005, ON JUNE 10, 2010, AND  
ON NOVEMBER 8, 2012. AND (II) THE BOARD OF DIRECTORS OF THE NEW YORK  
STATE MUNICIPAL BOND BANK AGENCY ON SEPTEMBER 10, 1998, AS AMENDED  
ON APRIL 8, 1999, ON NOVEMBER 10, 1999, ON JUNE 26, 2002,  
ON APRIL 4, 2005, ON JUNE 10, 2010, AND ON DECEMBER 13, 2012

**ARTICLE I**

**STATEMENT OF PURPOSE: TITLE**

**Section 101. Statement of Purpose.** These Guidelines and Policies are adopted pursuant to the provisions of the SONYMA Act, the HFA Act, the MBBA Act and Section 2925 of the Public Authorities Law of the State. These Guidelines shall cover all funds of SONYMA, HFA, MBBA and AHC. These Guidelines are within the legal investment parameters established by the SONYMA Act, the HFA Act, the MBBA Act and Section 2925 of the Public Authorities Law of the State and are intended to set forth the framework within which the Agencies' investment activity will be conducted. The attached Appendices establish investment policy parameters for investment activity for each Agency in order to limit risk, ensure diversification and maximize yield and may be further restricted by the Investment Committee.

**Section 102. Title.** Outside of this document, these Guidelines and Policies may be referred to as the "Investment Guidelines and Policies".

**ARTICLE II**

**DEFINITION OF TERMS**

**Section 201. Definitions.** For all purposes of these Guidelines and Policies, the terms listed below shall have the following meanings:

**"Agencies"** shall mean, unless otherwise specifically noted, SONYMA, AHC,

MBBA and HFA.

"AHC" shall mean the New York State Affordable Housing Corporation.

"Bank" shall mean any bank or its holding company which in either case is (i) a member of the Federal Reserve, (ii) has a capital of at least \$50,000,000, (iii) is 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, and (iv) has been approved by the Chairman or President and Chief Executive Officer of the respective Agencies. Wholly owned subsidiaries of such Banks or holding companies shall be included within this definition, provided that the obligations of said wholly owned subsidiaries are guaranteed by such Banks or holding companies. "Bank" shall also mean any foreign bank which is a member of the Federal Reserve Board or is required to report to the Comptroller of the Currency or the Banking Commissioner of the state where the branch of the foreign bank is located.

"Bond Proceeds" shall mean the proceeds from obligations issued by SONYMA, HFA or MBBA, including mortgage loan acquisition funds.

"Bond Resolution" shall mean a resolution of SONYMA, HFA, or MBBA authorizing the issuance of bonds.

"Broker/Dealer" shall mean any Broker/Dealer approved by the Chief Financial Officer upon consideration of any or all of the following criteria: creditworthiness and financial position of the firm, (ii) general reputation of the firm and the individuals providing service, (iii) compliance with the SEC's net capital and other regulatory requirements, (iv) experience with permitted investments, (v) efficiency of trade execution and settlement process, (vi) research capabilities of the firm, (vii) diversity practices, (viii) such other factors as may be deemed relevant.

"Certificate of Deposit" shall mean a deposit of account by SONYMA at a Bank with a defined dollar amount, term, rate and place of payment, which shall be collateralized as set forth herein.

"Collateralized Investment Agreement" shall mean an investment agreement for the purpose of investing Bond Proceeds or Revenues of HFA, AHC or MBBA guaranteeing a fixed or floating rate of return supported by collateral governed by a Repurchase Agreement.

"Comptroller" shall mean the Comptroller of the State of New York.

"Counsel" shall mean the Agencies' Counsel, Deputy Counsel or any Associate Counsel.

"Custodian" shall mean a Bank designated or approved by any of the Agencies to hold collateral pertaining to investments by or securities purchased by said Agency. With

respect to the holding of securities purchased pursuant to a Repurchase Agreement, or securing a deposit of funds of any of the Agencies, such Custodian may not be the party, or an agent of the party, with whom the said Agency has entered into such Repurchase Agreement or deposit arrangement.

"Depository" shall mean a Bank designated by any of the Agencies to hold deposits of the funds of said Agency.

"Directors" shall mean the Board of Directors of SONYMA and MBBA.

"Escrows" shall mean funds received by any of the Agencies from mortgagors or other government entities related to activities of said Agency and held on behalf of third parties but shall include only funds actually received and held by the Agencies. Escrows shall not include moneys received by mortgage loan servicers on behalf of SONYMA.

"Financial Advisor" shall mean any investment banker, broker, agent, dealer or other investment advisor or agent engaged in rendering advice to any of the Agencies regarding its bonds and/or the investment of funds of said Agency.

"Guidelines and Policies" shall mean these guidelines and policies, as they may be amended from time to time.

"HFA" shall mean the New York State Housing Finance Agency.

"HFA Act" shall mean the New York State Housing Finance Agency Act, as amended.

"Insurance Company" shall mean an insurance or surety company and its wholly owned subsidiaries with at least \$1 billion in assets whose obligations have been rated one of the top two ratings by a nationally recognized rating agency.

"Investment Advisor" shall mean any investment banker, broker, agent, dealer or other investment advisor or agent engaged in rendering advice pursuant to a personal services contract to the Agency regarding the investment of any of the Agencies monies.

"Investment Manager" shall, at minimum, be registered with the Securities Exchange Commission ("SEC") as a Registered Investment Advisor under the Investment Advisors Act of 1940 and qualified to do business in the State.

"MBBA" shall mean the State of New York Municipal Bond Bank Agency.

"MBBA Act" shall mean the State of New York Municipal Bond Bank Agency Act, as amended.

"MBBA Funds" shall mean all moneys or other financial resources, other than Bond Proceeds or Revenues, available for investment by MBBA on its own behalf or on behalf of any other entity or individual.

"Members" shall mean the members of the Board of Directors of HFA and AHC.

"Mortgage Insurance Program" shall mean SONYMA's program for the insurance of certain mortgages or pools of mortgages, as authorized by the SONYMA Act.

"Primary Dealer" shall mean any governmental bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York and included in the most current "List of the Primary Government Securities Dealers Reporting to the Market Reports Division of the Federal Reserve Bank of New York"; provided, that in connection with Collateralized Investment Agreements, "Primary Dealer" shall mean a financial institution which is designated as a primary dealer by the Federal Reserve Bank, has capital of at least \$500,000,000, and is rated at least within the AA category by Standard and Poor's Corporation or within the Aa category by Moody's Investors Service for long term investments or, in the absence of a long term rating, is rated P1 by Moody's Investors Service or A1+ by Standard and Poor's Corporation for short term investments and has been approved by the Agency Chairman, or the Agency President and Chief Executive Officer.

"Recording Agent" shall mean the Federal Reserve Bank, the Depository Trust Company or any other nationally recognized firm authorized to hold securities in book entry form.

"Repurchase Agreement" shall mean two simultaneous transactions, one the purchase of securities by HFA, AHC or MBBA from a Bank or a Primary Dealer, the other the commitment on the Bank's or Primary Dealer's part to repurchase the securities at an agreed price at some mutually agreed upon future date.

"Revenues" shall mean moneys or securities received by or on behalf of SONYMA (other than in connection with SONYMA's Mortgage Insurance Program), HFA, MBBA, or AHC, which are other than Bond Proceeds, and which include payments of principal and interest on mortgage loans, mortgage prepayments, advance payments, curtailments and other receipts.

"Securities" shall mean (i) bonds, debentures or other obligations issued by the Federal National Mortgage Association; (ii) obligations the principal of and interest on which are guaranteed by the United States of America; (iii) obligations of the United States of America; (iv) obligations the principal of and interest on which are guaranteed by the State; (v) obligations of the State; (vi) obligations of any agency of the United States of America; (vii) obligations of any agency of the State; and (viii) obligations the principal of and interest on which are guaranteed by an agency or instrumentality of the United States of America; provided, however, that notwithstanding anything to the contrary herein, (A) HFA, MBBA and AHC shall not be

authorized to invest in the Securities set forth in clause (i) hereof; (B) HFA and AHC shall not be authorized to invest in the Securities set forth in clauses (vi) and (vii) hereof, unless specifically authorized under authority of Section 98 of the State Finance Law; (C) MBBA shall not be authorized to invest in the Securities set forth in clause (vii) hereof, unless specifically authorized under authority of Section 98 of the State Finance Law; (D) SONYMA shall only be authorized to invest in the Securities set forth in clauses (vi) and (vii) hereof if said Securities are authorized for investments by savings banks within the State as an investment of funds belonging to them or in their control; and (E) only MBBA shall be authorized to invest in the Securities set forth in clause (viii) hereof.

"SONYMA" shall mean the State of New York Mortgage Agency.

"SONYMA Act" shall mean the State of New York Mortgage Agency Act, as amended.

"State" shall mean the State of New York.

"Time Deposits" shall mean any funds invested by SONYMA or MBBA with a Bank for a specified period of time.

"Trustee" shall mean a bank designated as the custodian of funds pursuant to a Bond Resolution of any of the Agencies, which bank is the official representative of the applicable bondholders to enforce their respective contract with said Agency. Each Trustee shall be (i) a banking organization authorized to do business in the State of New York having a minimum capital of at least \$250,000,000, (ii) be a member of the Federal Reserve Bank, and (iii) is rated at least within the third highest rating category without regard to gradations within such category by Moody's Investor Service or Standard & Poor's.

**Section 202. Construction of Language.** Except where the context otherwise requires, words importing the singular number shall include the plural number and vice versa.

### **ARTICLE III**

#### **INVESTMENT OBJECTIVES**

The primary objectives set forth herein, in priority order, of investment activities shall be safety, liquidity, and yield.

**Section 301. Safety.** Safety of principal is the foremost objective of the Agencies as they invest funds. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. This will be accomplished through security selection, portfolio diversification and maturity limitations, as more fully described below.

a. Credit Risk

The Agencies will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Article VI hereof;
- Pre-qualifying the financial institutions, broker/dealers, and investment managers with which the Agency will do business in accordance with the Section 902 of these Guidelines and Policies, and particularly as set forth in Section 402 hereof; and
- Diversifying the investment portfolio, as set forth in Section 901 of these Guidelines and Policies, so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

The Agencies will minimize market risk in the portfolio. The Agencies will:

- Structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and
- Invest funds, limiting the average maturity of a particular portfolio, in accordance with the attached Appendices.

**Section 302. Liquidity.** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets.

**Section 303. Yield.** The investment portfolio shall be designed with the object of attaining a market rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- Liquidity needs of the portfolio require that the security be sold; and
- Funds of the Mortgage Insurance Fund Program may be managed by an outside Investment Manager and may be sold prior to maturity.

## ARTICLE IV

### ROLES AND RESPONSIBILITIES

**Section 401. Investment Committee.** An Investment Committee, as hereby established, shall

report periodically to each respective Board of Directors (the “Boards”). The Investment Committee will be chaired by the President and Chief Executive Officer and be comprised of the Senior Vice President and Chief Financial Officer, the Senior Vice President and Treasurer, the Senior Vice President for the Mortgage Insurance Fund, the Senior Vice President and Counsel and the Vice President and Deputy Counsel as voting members. The President and Chief Executive Officer shall have the authority to appoint others to the Committee.

The Committee will meet at least quarterly and will be charged with the following responsibilities:

- (a) Reviewing and recommending to the Boards changes to the Guidelines and Policies at least annually;
- (b) Establishing short- and long-term investment strategies;
- (c) Establishing target benchmarks for certain funds within the policies and strategies and giving consideration to the changing market circumstances;
- (d) Reviewing the investment reports prepared by the Senior Vice President and Treasurer;
- (e) Recommending to the Boards when appropriate, qualified investment professionals to provide services as an Investment Manager; and
- (f) Regularly evaluating the performance of the Investment Manager(s), and the Investment Manager(s) compliance with these Guidelines and Policies and contractual obligations.

**Section 402. Investment Managers.** Investment Manager(s) may be retained by an individual Board under a written agreement. Any Investment Manager shall, at minimum, be registered with the Securities Exchange Commission (“SEC”) as a Registered Investment Advisor under the Investment Advisors Act of 1940 and qualified to do business in the State.

**Section 403. Agency Approval of Investments.** All investments shall be reviewed by and are subject to the approval of the Senior Vice President and Chief Financial Officer, the Deputy Chief Financial Officer, or the Senior Vice President/Treasurer. Investments in Securities shall be approved on a daily basis by the Senior Vice President/Treasurer and the Deputy Treasurer. Investments in Time Deposits, Repurchase Agreements, and Certificate of Deposit, made in connection with the issuance of Bonds, shall be subject to the prior approval of the Senior Vice President and Chief Financial Officer, the Deputy Chief Financial Officer, or the Senior Vice President/Treasurer. In addition, the Chairman, President and Chief Executive Officer, the Senior Vice President and Chief Financial Officer, the Deputy Chief Financial Officer, or the Senior Vice President/Treasurer shall approve all investments of Bond Proceeds. Investment

decisions may be made by the Senior Vice President and Chief Financial Officer, the Deputy Chief Financial Officer, and the Senior Vice President/Treasurer. The Senior Vice President and Chief Financial Officer and the Deputy Chief Financial Officer shall designate in writing individuals who shall not exceed four in number authorized to place orders. The Senior Vice President and Chief Financial Officer, the Deputy Chief Financial Officer, and the Senior Vice President/Treasurer shall be responsible for the development and maintenance of a detailed operating procedures manual. The President and Chief Executive Officer, with the approval of the Chairman, may authorize the exercise of powers granted by this paragraph by another officer or employee of the Agencies.

## ARTICLE V

### STANDARDS OF CARE

**Section 501. Prudent Person Standards.** The “prudent person” standard shall be applied in the management of the portfolio, and the “prudent person” standard is herewith understood to mean the following:

Investments shall be made with the judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. Competent monitoring and reporting to superiors of material deviations from expected investment performance or risk is expected.

Officers and employees of the Treasury Department who are involved in the investment process shall refrain from personal business activity that could conflict with the proper management of the portfolio or which could impair their ability to make impartial investment decisions. Investment officials and employees shall disclose any material financial interest in any investment firms, or financial institutions that conduct business with the Agencies and shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Agencies. Officers and employees of the Treasury Department must comply with Section 73 and 74 of the Public Officers Law with respect to ethical conduct of New York State employees and other applicable laws governing the Agencies’ treasury functions.

## ARTICLE VI

### PERMITTED INVESTMENTS - SPECIFIC FUNDS

#### **Section 601. SONYMA, HFA, MBBA and AHC Funds.**

(a) All Bond Proceeds, Revenues, and MBBA Funds shall be invested only in (i) Securities (the definition of Securities contains limitations applicable to certain of the Agencies); (ii) Time Deposits; (iii) Certificates of Deposit; (iv) Collateralized Investment Agreements; (iv) Repurchase Agreements; (v) mortgage loans purchased by SONYMA under its programs, and (vi) obligations which the Comptroller is authorized to invest in under Section 98 of the State Finance Law; provided that notwithstanding anything to the contrary herein, (1) SONYMA shall not be authorized to invest in Collateralized Investment Agreements; (2) SONYMA shall not be authorized to invest in Repurchase Agreements; (3) MBBA, HFA and AHC shall not be authorized to invest in Certificates of Deposit; (4) AHC and HFA shall not be authorized to invest in Time Deposits, (5) MBBA's authority to invest in Time Deposits shall be limited to Time Deposits with banks or trust companies secured by (i) obligations of the State or the United States of America, (ii) obligations the principal of and interest on which are guaranteed by the State or the United States of America or by an agency or instrumentality of the United States of America, (iii) obligations of agencies or instrumentalities of the United States of America, or (iv) obligations of agencies or instrumentalities of the State; (6) SONYMA shall not be authorized to invest in obligations which the Comptroller is authorized to invest in under Section 98 of the State Finance Law; (7) HFA, MBBA, and AHC shall not be authorized to invest in mortgage loans purchased by SONYMA under its Program; and (8) SONYMA may only invest Bond proceeds in mortgage loans financed by SONYMA under its programs.

(b) Escrows shall be invested in the investments described in Section 704 of these Guidelines and Policies. HFA and AHC operating funds shall be invested as set forth in Section 705 of Article IV of these Guidelines and Policies.

**Section 602. (a) Mortgage Insurance Program Moneys.** SONYMA funds credited to the mortgage insurance fund of SONYMA's Mortgage Insurance Program may be invested in (i) obligations of the State or the United States of America or of any city of the State, the principal of and interest on which are guaranteed by the State or the United States of America, (ii) obligations of agencies of the United States of America, (iii) Time Deposits in, or Certificates of Deposit issued by, a bank or trust company authorized to do business in the State and secured by a pledge of obligations of the United States of America or obligations of the State, any city of the State, other municipal corporation, school district or district corporation of the State or obligations of agencies of the United States of America, provided that any such investment from time to time (1) may be legally purchased by savings banks of the State as investments of funds belonging to them or in their control and (2) shall be approved by the Comptroller.

**(b) Funds Deposited in the Mortgage Insurance Fund.** Moneys on deposit in

the Mortgage Insurance Fund may be invested (a) in special time deposit accounts in, or certificates of deposit issued by, a bank, trust company, savings bank or savings and loan association located and authorized to do business in New York State, provided, however, that such time deposit account or certificate of deposit shall be payable within such time as the proceeds may be needed to meet expenditures estimated to be incurred by the Agency and provided further that such time deposit account or certificate of deposit be secured by a pledge of obligations of the United States of America or obligations of the State, any city of the State, or other municipal corporation, school district or district corporation of the State or obligations of agencies of the federal government: or (b) in obligations of the United States of America or the State which may from time to time be legally purchased by savings banks within the State as an investment of funds belonging to them or in their control, or in obligations of the Federal National Mortgage Association provided such obligations shall be payable or redeemable at the option of the owner within such times as the proceeds may be needed to meet expenditures estimated to be incurred by the Agency.

## **ARTICLE VII**

### **INVESTMENT AND COLLATERAL REQUIREMENTS**

#### **Section 701. Securities.**

(a) Except as provided in the next succeeding sentence, the Agencies shall purchase Securities from Primary Dealers and Broker/Dealers approved by the CFO. The investments set forth in clause (vii) of the definition of Securities shall be eligible to be purchased by the Agencies from Banks, Primary Dealers, Broker/Dealers or any other financial institution authorized to sell such investments.

(b) Securities which are purchased directly by any of the Agencies must be physically delivered to said Agency, its applicable Custodians or applicable Trustees and payment shall only be made upon delivery of the Securities. If the Securities are in book-entry form, the Agencies shall require that the record books of the Recording Agent be adjusted to record the interests of the applicable Custodian or applicable Trustee and the record books of the applicable Custodian or applicable Trustee be adjusted to record the interest of the respective Agencies.

#### **Section 702. Certificates of Deposit; Time Deposits; Repurchase Agreements.**

(a) Subject to the provisions of Section 601(a) hereof, Bond Proceeds, Revenues, and MIF Funds may be invested in:

(i) Securities (the definition of Securities contains limitations applicable to certain of the Agencies),

(ii) Certificates of Deposits or Time Deposits, fully secured as to principal by Securities, with Banks,

(iii) Collateralized Investment Agreements, entered into with Banks, Insurance Companies or Primary Dealers,

(iv) Mortgage loans purchased by SONYMA under its Program; and

(v) Repurchase Agreements, with Banks or Primary Dealers, for a period no longer than 90 days, substantially in the form of the Bond Market Association Public Securities Association Master Repurchase Agreement (the "PSA Agreement"); provided that the total amount of Repurchase Agreements with a single institution shall not exceed the lesser of \$100,000,000 or 20% of the institution's capital.

(b) Certificates of Deposit and Time Deposits obtained using SONYMA funds credited to the mortgage insurance fund of the Mortgage Insurance Program may only be obtained from Banks, or trust companies, authorized to do business in the State and secured by a pledge of obligations of the United States of America.

(c) Each Collateralized Investment Agreement shall be collateralized with a minimum of 100% of the principal amount of the agreement and marked to market unless otherwise required by the appropriate Bond Resolution. The collateral shall consist 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. The collateral shall be delivered to the Trustee or Custodian and held for the benefit of the Agency entering into the Collateralized Investment Agreement or its bondholders. HFA, AHC or MBBA, as appropriate, is to have a perfected security interest in the collateral. Substitution of the collateral shall be permitted with the approval of HFA, AHC or MBBA, as appropriate. The Collateralized Investment Agreement shall provide the Trustee with the ability to withdraw funds from the agreement for the purpose of making advances for construction, or for other purposes as permitted under the appropriate Bond Resolution with a minimum number of days required for withdrawal of funds.

(d) Certificates of Deposit and Time Deposits shall be collateralized in accordance with the following provisions:

(i) Securities which serve as collateral for any Certificate of Deposit or Time Deposit shall be delivered to either a Trustee or a Custodian selected and approved in writing, by the respective Agencies.

(ii) The respective Agencies shall enter into a written agreement with each Bank from which they purchase a Certificate of Deposit or with which they establish a Time Deposit specifying the type and nature of the collateral to be provided by each Bank. Such

written agreement shall be on forms of the respective Agencies and shall at a minimum include the following:

(aa) The type of collateral, which may include cash or securities, to be provided.

(bb) The frequency of the collateral's valuation to market, such valuation to be provided at least monthly.

(cc) The right and ability of the Bank to substitute like securities as collateral.

(dd) Description of events of default which would permit the respective Agencies or their Custodians or Trustees to liquidate or purchase the underlying securities.

(ee) Description of the party who is to have title to the underlying securities during the terms of the agreement.

(ff) Margin maintenance.

(gg) Certificates of Deposit for amounts in excess of FDIC insurance limits shall be collateralized by an amount equal to 105% of the total outstanding amount of the Certificate of Deposit.

(hh) Time Deposits shall be collateralized by an amount equal to at least 103% of the outstanding principal balance.

(e) The Directors or the Members, as appropriate, of an Agency may change or waive the collateral requirements at any time.

(f) Any investments entered into by SONYMA, HFA, AHC or MBBA pursuant to this subparagraph shall not exceed the terms authorized by law.

**Section 703. Investment of SONYMA Funds Relating to SONYMA's Mortgage Insurance Program.** Except as provided in Section 602 hereof, investments of SONYMA funds relating to SONYMA's Mortgage Insurance Program shall be collateralized only with (i) obligations of the United States of America, (ii) obligations of the State, (iii) obligations of any Agency of the United States of America, or (iv) obligations of the Federal National Mortgage Association.

**Section 704. Investment of Escrows.** Escrows may be invested in (i) the investments described in Section 702(a) hereof, (ii) money market accounts with banks which (A) are members of or report to the Federal Reserve, which are fully secured as to principal by Securities, or insured by the United States of America, or (B) banks whose deposits are insured

by the Federal Deposit Insurance Corporation, or (C) state banks as defined in Article 3 of the New York State Banking Law; and (iii) investments set forth in Sections 98(2), (2-a), (5), (8), (9), (10), (11), (17), and (18) of the State Finance Law.

**Section 705. HFA and AHC Operating Funds.** Moneys in HFA and AHC operating funds and other accounts of said Agencies are held by the Commissioner of Taxation and Finance and are invested in such obligations and secured in such manner as is provided by law.

**Section 706. Custodians; Valuation of Collateral or Security.**

(a) Custodians whose function is to hold collateral shall receive authorization from the respective Agencies prior to delivering or transferring obligations held as collateral out of the respective Agencies' account. Delivery or transfer of collateral shall be made only upon receipt of funds or substitute collateral. Custodians shall confirm to the appropriate Agencies whenever activity has occurred in the respective Agencies' custodial accounts.

(b) A Custodian or Trustee shall be a member of the Federal Reserve Bank or shall maintain accounts with member banks to accomplish book-entry transfer of securities to the credit of the respective Agencies. Transfer of securities, whether by book entry or physical delivery, shall be confirmed in writing to the respective Agencies by the respective Custodian or Trustee.

(c) For any investment required to be collateralized, the collateral must be delivered to the Trustee or Custodian. This requirement may be waived by the Board of Directors or the Members, as appropriate, for all such investments, except Repurchase Agreements. All collateral must be valued to market at least monthly, unless otherwise provided. Valuation of securities included in Repurchase Agreements shall be made in accordance with the provisions of the PSA Agreement.

## **ARTICLE VIII**

### **CERTAIN REQUIREMENTS FOR BANKS ACTING AS CUSTODIANS AND/OR TRUSTEES**

**Section 801. Required Reports.**

(a) The Agencies shall require that each Bank with which any of the Agencies have Time Deposits or Certificates of Deposit shall deliver to the respective Agencies at least annually, (i) a copy of the Bank's FDIC annual report and, if applicable, the Federal Reserve Bank annual report and (ii) an audit report prepared by such Bank's external auditor in accordance with generally accepted auditing standards.

**Section 802. Access for Agencies' Auditors.** The Agencies shall require that any Custodian

which is holding securities for the account of or in trust for any of the Agencies, or pledged to any of the Agencies or their Trustees, permit the respective Agencies or their agents to access such Custodian's books and records to conduct an audit of such securities.

**Section 803. Record of Investments.** A record of each of the Agencies' investments shall be maintained by the Senior Vice President/Treasurer. Such records shall identify the security, the fund for which the investment is held, the place where the investment is maintained, the date of disposition and amount realized, and the market value of collateral and the custodian of collateral.

## **ARTICLE IX**

### **DIVERSIFICATION OF INVESTMENTS; SELECTION OF INVESTMENT FIRMS**

**Section 901. Diversification Standards.** The Agencies' investments authorized under these Guidelines, other than Securities, shall be diversified among Banks by any one Agency, but no more than 35% of any one of the Agencies' total invested funds may be invested with any single such institution, and no investments with any single institution shall exceed 20% of that institution's capital. These standards may be waived only by the Chairman or the President and Chief Executive Officer.

**Section 902. Selection of Investment Firms.**

The Senior Vice President and Chief Financial Officer, the Senior Vice President and Deputy Chief Financial Officer, and the Senior Vice President/Treasurer are authorized to and shall maintain a list of firms to be selected from for each type of investment made by the Agencies. This list shall include:

- (i) Banks with which a depository account may be established,
- (ii) Banks from which Certificates of Deposit are to be purchased,
- (iii) Banks with which Time Deposits may be placed, and
- (iv) Banks authorized to act as a Custodian or Trustee. Such list shall be revised from time to time, as required.

## ARTICLE X

### REQUIREMENT OF INVESTMENTS BY WRITTEN CONTRACTS

**Section 1001. Written Contracts.** With the exception of open market purchases of Securities, investments shall be made pursuant to written contracts unless the Directors or Members of an Agency by resolution waive such requirement for such Agency with respect to a specific investment or transaction because it is not practical or not a regular business practice. In the event that such written contract requirement is waived, the resolution authorizing the waiver shall detail the procedures covering such investment or transaction.

**Section 1002. Contract Provisions.** Each written contract shall provide for sufficient security of the respective Agencies' financial interest as required by the provisions of these Guidelines. Each such contract shall describe (a) the use, type and amount of collateral or insurance for each investment, (b) the method for valuation of any required collateral and procedure for regular monitoring of that valuation, and (c) the monitoring, control, deposit and retention of investments and any required collateral, including, in the case of a Repurchase Agreement, physical or book entry delivery of the purchased obligations to the respective Agency or its Custodian (which shall not be the party, or an agent of the party, with whom the Agency enters into such Repurchase Agreement) or other action necessary to obtain title to such obligations.

**Section 1003. Form of Contracts.** The form of all written contracts shall be approved by the Counsel.

**Section 1004. Execution of Contracts.** All investment contracts shall be approved and executed by the Senior Vice President and Chief Financial Officer or his or her designee or in their absence, by the Chairman or his or her designees.

## ARTICLE XI

### AUDIT AND REPORTS

**Section 1101. Annual Independent Audit.** Each of the Agencies shall secure annual independent audits of all investments.

**Section 1102. Quarterly Reports.** Within forty-five days after the conclusion of each quarter of each of the Agencies fiscal years, the Chief Financial Officer of each of the Agencies shall prepare and deliver to the respective Directors and Members a report on such Agency's investments. Such reports shall include a description of new investments and the Primary Dealer(s), or Bank(s) with whom the investment was transacted, the inventory of existing investments and when applicable the selection of Investment Advisors, auditors, brokers, agents, and Primary Dealers.

**Section 1103. Annual Investment Report.**

(a) Within one hundred eighty (180) days after the close of each fiscal year, the Directors and Members shall approve an annual investment report. Such report will include these Guidelines and any amendments to these Guidelines since the last investment report, an explanation of these Guidelines and any amendments to these Guidelines since the last investment report, the results of the annual independent audit of the investments, an evaluation of the portfolio of each Agency by an independent auditor, the annual investment income record of each Agency and a list of the total fees, commissions or other compensations, by payee, paid to each Investment Advisor since the last annual investment report, and an annual consolidation of any other material contained in the quarterly reports.

(b) This annual investment report, after being approved by the Directors and Members, shall be submitted to the Division of the Budget with copies to the Department of Audit and Control, the Senate Finance Committee and the Assembly Ways and Means Committee.

(c) Copies of the Annual Investment Report shall be available to the public upon reasonable request at the Agencies main office.

**ARTICLE XII**

**MISCELLANEOUS PROVISIONS**

**Section 1201. Operating Procedures Manual.** The Agencies shall develop and maintain a detailed operating procedures manual which shall include:

(a) The establishment and maintenance of a system of internal controls;

(b) Methods for adding, changing or deleting information contained in the investment record, including a description of the documents to be created and verification tests to be conducted;

(c) A data base or record incorporating descriptions and amounts of investments, transaction dates, interest rates, maturities, bond ratings, market prices and related information necessary to manage the portfolio; and

(d) Requirements for periodic reporting and accountability.

**Section 1202. Amendments.** Any modification or amendment to these Guidelines may be made by a Resolution adopted by the appropriate Agency at any duly constituted Directors' or

Members' meeting; provided, however, that no such modification or amendment to these Guidelines shall abrogate the rights and duties of then existing Agency contracts with third parties; and further provided that the Chairman or the President/Chief Executive Officer may make non-material changes in these Guidelines.

**Section 1203. No Recourse under these Guidelines.** No provision in these Guidelines shall be the basis of any claim against any Director, Member, officer or employee of any of the Agencies in his individual or official capacity or against any Agency itself.

**Section 1204. Effect upon Existing Contract.** These Guidelines shall not abrogate the rights and duties of any of the Agencies' contracts with third parties executed prior to the effective date of these Guidelines.

**Section 1205. Effect of Failure to Comply.** Failure to comply with these Guidelines shall not invalidate any investment or affect the validity of the authorization of the Chairman, President/Chief Executive Officer or their designee to make such investments.