

STATE OF NEW YORK MORTGAGE AGENCY
GUIDELINES FOR USES OF CERTAIN FINANCIAL HEDGES

ADOPTED JULY 28, 2005
AS AMENDED OCTOBER 18, 2006 AND JULY 11, 2013

I. Purpose of Guidelines

The purpose of these guidelines (“Guidelines”) is to set forth policies, procedures, reporting requirements, and control requirements for the State of New York Mortgage Agency (the “Agency”) for the use of certain Qualified Hedges (as defined in the Agency’s Homeowner Mortgage Revenue Bonds General Resolution, adopted September 10, 1987, as amended and restated (“Hedges”).

II. Conditions Under Which Hedges Can Be Used

The conditions under which the Agency may enter into a Hedge are:

- (a) The Hedge transaction, including the Agency’s analysis of whether or not to enter into such Hedge, must meet the terms of these Guidelines.
- (b) The Hedge must be entered into in connection with an Agency debt obligation issue, either contemporaneously with a debt obligation issuance, or in connection with previously issued debt obligations or on a forward basis in connection with debt obligations that the Agency expects to issue in the future. A forward Hedge can provide that the Agency can terminate such Hedge if the Agency determines to not issue the related debt obligations.
- (c) The Agency may enter into a Hedge only in connection with its debt management policy and only if it reasonably expects such Hedge to achieve one or more of the following:
 - (1) eliminate or mitigate the Agency’s exposure to changes in interest rates;
 - (2) result in a lower net cost of borrowing with respect to Agency debt obligations for all or a portion of the term of the debt obligation issue;
 - (3) lock in fixed interest rates in current markets for use at a later date; or
 - (4) correspond to interest rate changes on mortgage loans related to Agency debt obligations or mortgage loan portfolio.
- (d) The Hedge must not be for the purpose, in whole or in part, of speculation.
- (e) Under a Hedge, the Agency may be either the floating rate or fixed rate payor. The Hedge may provide for the establishment of maximum or minimum interest rates (or both) payable thereunder and contain any other protections designed to limit exposure to changes in interest rates.

- (f) With respect to each Hedge, either the Members of the Agency's Board of Directors shall have adopted a resolution authorizing the execution and delivery of such Hedge (which resolution shall conclusively evidence that such Hedge is in conformance with these Guidelines), or the Chief Financial Officer of the Agency shall certify that such Hedge is in conformance with these Guidelines.
- (g) The Agency has obtained a finding from its independent swap advisor and/or other independent financial advisor (in any case, who shall be a qualified independent representative within the meaning of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act") and the Commodity Futures Trading Commission's external business conduct regulations (the "Regulations") ("QIR")) that the terms and conditions of the Hedge reflect a fair market value as of the date on which the Agency commits to enter into such Hedge.
- (h) Scheduled payments under a Hedge may be made on a parity basis with, or on a subordinate basis to, payment of debt service on the related Agency debt obligations. Termination, or similar, payments can only be payable on a subordinate basis to payments due from pledged assets with respect to Agency debt obligations. Any obligation of the Agency to provide collateral for its obligations under a Hedge may only be satisfied from assets not pledged to secure Agency debt obligations or from assets then currently so pledged but only when they no longer secure Agency debt obligations.
- (i) The term of any Hedge may not exceed the final maturity date (or an immaterial period not to exceed three months past such final maturity date) of the Agency debt obligations issued in connection with such Hedge and must also bear a logical relationship to the Agency financing related to the Hedge.

III. Factors That Must Be Considered

In addition to considering the risks associated with the form of debt obligations the Agency is issuing in relation to a Hedge (such as, the risks of variable rate debt obligations, including rollover risk (risk that a new liquidity facility will not be available, or available for a reasonable fee, upon the expiration of the initial liquidity facility), and the risk that the relationship between long term and short term interest rates has changed since the related debt obligations were issued), the Agency must consider the following factors related to the Hedge:

- (a) In entering into any Hedge, the Agency must consider the risks of the Hedge transaction, including the Agency's exposure to:
 - (1) counterparty risk;
 - (2) termination risk;
 - (3) basis risk, if any;
 - (4) tax-event or tax-basis risk; and
 - (5) mismatched amortization risk, if any.

- (b) Before entering into a Hedge, the Agency must consider the long-term implications of entering into such Hedge, including but not limited to:
 - (1) costs of borrowings,
 - (2) historical trends, especially in evaluating basis risk, termination risk, and mismatched amortization risk;
 - (3) possible limitations on the use of variable rate debt obligations, including capacity limitations;
 - (4) any potential impact on the future ability to issue, redeem or refund related Agency debt obligations;
 - (5) excessive credit exposure to a single counterparty; and
 - (6) effect on existing outstanding Agency debt obligations.
- (c) The Agency may take into account the existence and the terms of any credit enhancement for the related Agency debt obligations or the Hedge when considering the matters set forth in (a) and (b) above.
- (d) The Agency shall not enter into any Hedge without evaluating associated risks and determining that the expected benefit such Hedge offers more than offsets the associated risks.

IV. Hedge Procurement

The Agency may procure Hedges either through a competitive bidding process or through negotiation with one or more potential counterparties. During a competitive bidding process, the Agency shall have the option to negotiate agreements or use a bidding process involving a combination of competitive bids and negotiations with counterparties to effectuate other sound business purposes.

V. Form of Hedges

- (a) For each Hedge, the Agency shall enter into a written Hedge agreement based on the ISDA Master Agreement and ISDA Schedule to the Master Agreement, with a related Confirmation and Credit Support Annex, if applicable, setting forth the terms of the particular Hedge.
- (b) The Agency may include such provisions in a Hedge, including termination provisions, that it believes best suit its purpose for such Hedge.

VI. Counterparty Standards

The Agency shall select entities eligible to be counterparties to Hedges through an evaluation of qualifications. Such evaluation shall include consideration of the following criteria:

- (a) Unless the counterparty collateralizes its obligations under the applicable Hedge in a manner acceptable to the Agency, a counterparty shall have a long-term credit rating from Moody's Investor Services, Inc. that is within its two highest investment grade categories and a long-term credit rating from any other nationally recognized rating agency within the three highest investment grade categories, or the obligations of the counterparty shall be unconditionally guaranteed by one or more entities with such respective credit ratings.
- (b) A counterparty should have substantial and significant experience in the derivatives market.
- (c) A counterparty should have a substantial and significant position in the municipal bond market.
- (d) A counterparty should run a two-way derivatives book that facilitates hedging.

VII. Collateralization and Termination

The Agency may require a counterparty to collateralize its obligations under a Hedge if one or both of the long-term credit ratings of the counterparty, or an entity unconditionally guaranteeing any of such counterparty's obligations under the Hedge, is reduced below levels stated in the Hedge. The Hedge may include standards for eligible collateral. Subject to the requirements of these Guidelines (in particular, Part II (h) above), the Agency may include a provision in a Hedge in which the Agency agrees to collateralize its obligations under the Hedge in the event of a rating downgrade. Each Hedge may include a provision that allows the Agency to exercise a right to terminate the Hedge prior to its scheduled termination date if the counterparty's, or the counterparty's guarantor's, rating or ratings are lowered to or below a level specified in the Hedge.

VIII. Risk Management

The Agency will manage the risks of its Hedge exposure at two levels: that of each issue of debt obligations which has a related Hedge, and that of the general resolutions under which debt obligations with related Hedges have been issued.

IX. Use of Swap Advisors

For purposes of evaluating the associated risks and benefits of entering into any Hedge and to facilitate ongoing monitoring of its risks exposure, the Agency shall engage one or more swap advisors, each of whom shall be a QIR and shall satisfy the applicable requirements under the Act and the Regulations. Any such QIR shall also have in place written policies, procedures and guidelines reasonably designed to ensure it satisfies the applicable requirements of the Act. The Agency shall ensure that any such swap advisor shall provide the Agency with the following:

- (a) Prior to being engaged as a swap advisor and at least annually thereafter, or, with respect to an entity already engaged as a swap advisor upon request, and at least annually thereafter, a copy of its most recent written policies, procedures and guidelines.

- (b) In its quarterly or other regular statement to the Agency (i) a certification to the effect that those policies, procedures and guidelines are currently in force and that there have been no material change or breach of those policies, procedures and guidelines which may adversely affect the Agency's interest (including but not limited to such swap advisor's status as a QIR) or (ii) if there has been any such material change or breach, a description of such material change or breach, a copy of any related changes to any policy, procedure or guideline, and/or, if applicable, how such swap advisor plans to avoid future similar breaches.

The Agency shall require any engaged swap advisor to agree that, if such swap advisor ceases to be a QIR, such swap advisor shall immediately notify the Agency.

X. Reporting

The Agency will track and report at least quarterly to the Agency Board of Directors on the financial status of existing Hedges. Among the elements the Agency will track are:

- (a) a description of each Hedge, including a summary of the notional amount, terms, conditions, rates, maturity, counterparty, counterparty's rating and method of procurement;
- (b) the mark-to-market of each Hedge, as measured by the economic cost or benefit of terminating such outstanding Hedge at specified intervals;
- (c) for each Hedge, any amounts which were required to be paid and received, and any amounts which were actually paid and received thereunder;
- (d) the amount of exposure the Agency has to each Hedge counterparty under Hedges and any other contracts;
- (e) the Bond Market Association (BMA) Index and/or such other indices applicable to outstanding Hedges and related Agency debt obligations, including the current market value of each such index and information related to the impact of any divergence among these indices that affect existing Hedges;
- (f) for each Hedge, any downgrade and related collateralization and termination and the mark-to-market of any collateral, including the amount of any collateral which has been required to be posted, if any, and the amount which has actually been posted;
- (g) for each Hedge, an assessment of counterparty risk, basis risk, termination risk, mismatched amortization risk, and other risks associated with such Hedge;
- (h) the status of any credit enhancement, liquidity facility or reserves associated with the Hedge including an accounting of all costs and expenses incurred, whether or not incurred in conjunction with the procurement of such credit enhancement or liquidity facilities; and

- (i) any monitoring and reporting required by rating agencies that, at the Agency's request, rate Agency debt obligations that have related Hedges.

XI. Agency Financial Statements

Pursuant to GASB, any Hedges will be reflected in the Agency's annual financial statements.

XII. Arbitrage

The Agency will seek to manage its Hedge strategy in a manner consistent with federal rules and regulations regarding non-arbitrage. The Agency will evaluate each Hedge transaction as to whether full, partial or no integration treatment for federal tax purposes is best from the perspectives of risk-return analysis and compliance with relevant federal arbitrage regulations.

XIII. Compliance with Applicable Law

The Agency will take all necessary or appropriate actions from time to time to comply with the requirements of the Act, the Regulations and other applicable laws or regulations that relate to the Agency's Hedges and similar agreements. The Agency will execute all agreements and take all other actions required in order to adhere to the ISDA August 2012 DF Protocol and to adhere to any other ISDA Protocol as may be necessary to comply with the requirements of applicable laws and regulations, including but not limited to the ISDA March 2013 DF Protocol. In addition to these Guidelines, the Agency will establish any other policies and procedures that are necessary or appropriate in order for the Agency's Hedges and similar agreements to be maintained in accordance with the requirements of the Act, the Regulations and other applicable laws or regulations. These Guidelines and any such additional policies and procedures will be modified from time to time, as necessary, to comply with the Act, the Regulations and other applicable laws or regulations. Subject to the approval of Agency's Board of Directors, the Agency will amend its Hedges and similar agreements, in a manner determined by the Agency to be necessary or appropriate, from time to time, to comply with the requirements of the Act, the Regulations and other applicable laws or regulations.

The Agency shall maintain records of its swaps (as such term is defined in the U.S. Commodity Exchange Act, as amended), including its interest rate exchange and similar agreements, in accordance with the requirements of the Act and other applicable laws and shall provide for retrieval of such records in accordance with the requirements of applicable law.

XIV. No Recourse

No provision in these Guidelines shall be the basis of any claim against any Member of the Agency's Board of Directors or any officer or employee of the Agency in his or her individual or official capacity or against the Agency itself.