

NEW YORK STATE HOUSING FINANCE AGENCY

GUIDELINES FOR INTEREST RATE EXCHANGE AGREEMENTS, adopted September 12, 2013

Authorization

Subject to the provisions of Article 5-D of the State Finance Law (“Article 5-D”) certain public authorities (the “Authorized Issuers”), including the New York State Housing Finance Agency (the “Agency”), are authorized to enter into interest rate exchange and similar agreements (commonly referred to as “swaps”). Subject to certain requirements and procedures, the maximum total notional amount of interest rate exchange and similar agreements other than excluded agreements that can be entered into by all of the authorized authorities under Article 5-D shall not exceed fifteen percent of total outstanding State-Supported debt. These policy, procedures, reporting and control guidelines (the “Guidelines”) establish the requirements to be met and the process to be used by the authorized public authorities, including the Agency, when entering into interest rate exchange agreements.

Purpose of Agreement

The Agency may enter into an interest rate exchange or similar agreement(s) (“Agreements”) based on the International Swap and Derivatives Association (“ISDA”) Master Agreement as further described in the section “**Form of Agreements**”, in connection with State-supported debt obligations if the Agreement is reasonably expected to:

- A. reduce or hedge an exposure to changes in interest rates;
- B. result in a lower net cost of borrowing with respect to the State-supported debt obligations; or
- C. provide benefits and/or flexibility to the State or the Agency with respect to financial exposure or financial position.

The Agency shall not enter into an Agreement unless the Agreement is reasonably expected to achieve one or more of the objectives listed above. In addition, before entering into an Agreement, the Agency, in consultation with staff from the Division of the Budget (the “Division”) shall consider the Agreement’s impact on other agreements entered into in connection with other State-supported obligations, and periodically evaluate such Agreements entered into by the Agency for risks and exposures including, but not limited to, the following categories:

- counterparty risk;
- termination risk;

- rollover risk;
- basis risk;
- tax event risk; and
- amortization risk.

The Agency, in consultation with the Division, shall also consider the long-term implications associated with entering into such agreements including, but not limited to, the following:

- costs of borrowing;
- historical trends;
- use of capacity for variable rate bonds and related credit enhancements; and
- any potential impact on the future ability to call bonds, including opportunities to refund related debt obligations.

Under an Agreement, the Agency may be either the floating rate or fixed rate payor. The Agreement may also 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.

For each Agreement, the Agency shall obtain an independent finding from an 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”)), which shall be PRAG or another QIR selected in consultation with the Division of the Budget, that the terms and conditions of the Agreement reflect a fair market value as of the date of its execution, regardless of whether such Agreement was solicited on a competitive or negotiated basis.

The Agency shall not enter into any Agreement for the purpose of speculation.

Term of the Agreement

The term of any Agreement shall not exceed the final maturity of the bonds, notes or other obligations of the Agency issued or outstanding in connection with such agreement.

Selection of Counterparties

The Agency shall select counterparties through an evaluation of qualifications based upon a Request for Qualifications solicited from interested providers. The evaluation of prospective counterparties shall include consideration of the following criteria:

- A. the requirements of Article 5-D;
- B. substantial and significant experience and presence in the municipal swap market;
- C. maintenance of a two-way swap book which facilitates hedging of exposure,
- D. demonstrated capability to develop creative and innovative ideas,
- E. relationship with and understanding of the needs of the Agency and the State; and
- F. other factors deemed appropriate by the Agency.

Upon the completion of the evaluations, a list of approved counterparties shall be prepared. Such list may include senior and other counterparty designations. Such Request for Qualifications may establish maximum limits on any one approved counterparty, such as a maximum notional amount per firm. The Agency shall consult with the Division of Budget on the notional amount limit for each counterparty. In no event shall the aggregate notional amount of outstanding interest rate exchange agreements with the approved counterparties exceed the maximum notional amount permitted under Article 5-D.

The counterparty for a particular transaction will be selected from the approved list in accordance with the procedures provided in this section and in accordance with a competitive process based on the lowest overall net cost of the transaction, and such additional factors as the Agency deems pertinent. 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.

Credit Ratings of Counterparties

As required by Article 5-D, a counterparty shall have credit ratings from at least one nationally recognized statistical rating agency that is within the two highest investment grade categories and ratings which are obtained from any other nationally recognized statistical rating agencies shall also be within the three highest investment grade categories, or the payment obligations of the counterparty shall be unconditionally guaranteed by an entity with such credit ratings.

In the event a counterparty is downgraded or the Agency is notified of the termination of a transaction, the Agency will promptly provide the Director of the Division of the Budget (the "Director") with notification of such downgrade or termination in writing and comply with the collateralization provisions in Article 5-D.

Collateralization

Pursuant to the provisions of Article 5-D, in the event that the rating of any counterparty, or of the entity unconditionally guaranteeing its payment obligations, is downgraded so that the counterparty, or such guarantor if applicable, does not have credit ratings meeting the criteria contained in the section “**Credit Ratings of Counterparties**” above, the Agency shall require the counterparty to deposit collateral with the Agency or a custodian acting on its behalf pursuant to a written collateral agreement. Such collateral shall consist of direct obligations of, or obligations the principal and interest on which are guaranteed by, the United States of America (including cash) with a net market value of at least one hundred two percent of the net market value of the contract to the Agency ("collateral requirement"). Any collateral agreement shall require that the net market value of the contract and the collateral be marked-to-market periodically, but not less than once each month. If the market value of the collateral shall be found to be less than one hundred two percent of the net market value of the contract to the Agency, then the counterparty shall be required to post additional collateral to meet such requirement.

Form of Agreements

The Agency shall enter into written Agreements based on the ISDA Master Agreement and Schedule to the Master Agreement (the "Master Agreement") with each approved counterparty. Such Master Agreement shall be substantially approved as to form by Resolution of the appropriate Board or Committee of the Agency but may be amended from time to time in such respects as are necessary to effectuate the purpose of Article 5-D, these Guidelines, and a particular transaction provided that such amendments do not alter or amend the requirements under these Guidelines. Transactions entered into under the Master Agreement shall be evidenced by written Confirmations.

Monitoring and Reporting Requirements

Pursuant to the provisions of Article 5-D, the Agency shall monitor its interest rate exchange program and all transactions made thereunder. On or before the 15th of each month, the Agency will report to the Director of the Division of the Budget, the chairs of the Senate Finance Committee and the Assembly Ways and Means Committee, and the State Comptroller, with respect to:

- A. the value of the Securities Industry and Financial Markets Association (SIFMA) index and/or such other indices applicable to the Agency’s Agreements;
- B. payments required to be paid and received, and payments actually paid and received under each agreement;
- C. the status of individual Agreements in effect, including a summary of the terms and conditions thereto, such as notional amounts, rates, terms, bases or indices

employed, a description of each counterparty thereto and their respective credit ratings, and the method of their procurement;

- D. the status of any credit enhancement, liquidity facility or reserves associated with the Agreement 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;
- E. the mark-to-market valuations of each Agreement, and an assessment of counterparty risk, termination risk, and other associated risks, and the amount of collateral which has been required to be posted, if any, and the amount which has been actually posted;
- F. identification of each transaction placed in the preceding month, including a summary of the terms and conditions thereof; and

A copy of these Guidelines shall also be included with the monthly report submitted following their adoption and/or any subsequent modification thereto.

Based on information provided by the Agency and other Authorized Issuers, the Division of Budget will provide the Agency with a monthly report of the total outstanding swap agreements and the current value of the swap cap as set forth in Article 5-D.

Execution

To assist the State in monitoring the impact, including the costs and risks, of Agreements entered into by the Agency and other Authorized Issuers on the overall portfolio of State-supported debt, each such Agreement, including provisions and actions regarding extensions, reversals, options and terminations of such Agreement, shall be entered into in consultation with the Division and shall be subject to the written approval of the Director.

Use of Swap Advisors

For purposes of evaluating the associated risks and benefits of entering into any Agreement and to facilitate ongoing monitoring of its risks exposure, the Agency shall in consultation with the Division of the Budget, engage PRAG or one or more other 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.

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 Agreements 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 Agreements 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 the Agency's Board of Members, the Agency will amend its Agreements 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 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.