

State of New York Mortgage Agency

SONYMA

Financial Statements

Fiscal Year

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State of New York Mortgage Agency

Financial Statements

Fiscal Year Ended October 31, 2011 and 2010

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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, 2011 and 2010, are the responsibility of management. The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

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

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

The independent auditors conducted their audit in accordance with auditing standards generally accepted in the United States of America. 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' unqualified 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



Joanne Hounsell
Senior Vice President/
Interim Chief Financial Officer

January 25, 2012

Report of Independent Auditors

The Directors of the
State of New York Mortgage Agency
New York, New York

We have audited the accompanying statements of net position of the State of New York Mortgage Agency (the “Agency”), a component unit of the State of New York, as of October 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended. These financial statements are the responsibility of the Agency’s management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Agency’s internal control over financial reporting. Our audits included 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, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with US generally accepted accounting principles.

As discussed in Note 2, the Agency adopted Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* as of November 1, 2010.

The Management's Discussion and Analysis and the schedule of funding progress, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Agency's basic financial statements. The Supplementary Section, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Ernst + Young LLP

January 25, 2012

STATE OF NEW YORK MORTGAGE AGENCY

(a component unit of the State of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2011 and 2010 with selected comparative information for the fiscal year ended October 31, 2009. Please read this analysis in conjunction with the financial statements.

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

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

Management's Discussion and Analysis

- This section of the Agency's financial statements, Management's Discussion and Analysis (the "MD&A"), presents an overview of the Agency's financial performance during the fiscal year ended October 31, 2011 compared with the fiscal year ended October 31, 2010 and fiscal year ended October 31, 2009. It provides a discussion of financial highlights and an assessment of how the Agency's financial position has changed from the 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 nature and the amount of resources (assets), the obligations to Agency creditors (liabilities) and the Agency's 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 (“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 new program to offer education loans to eligible students attending colleges and universities in the State.

Mortgage and Financial Markets

The Agency’s operations continued to be impacted in fiscal 2011 by the persistent weakness in the global economy and U.S. real estate market and by the continuing disruptions in the capital markets internationally. These factors had a considerable impact on the volume of SONYMA’s mortgage originations. The demand for Agency-financed mortgages was 46% lower in fiscal year 2011 than the 10-year average. In total, mortgage reservations were \$399 million, down 26% from fiscal year 2010. However, the low interest rate environment provided significant opportunities to refund outstanding SONYMA bonds, lowering the Agency’s cost of borrowing, and improving the Agency’s financial condition.

The Agency continued to utilize the New Issue Bond Program (“NIBP”) until its allocation was thoroughly depleted in March 2011. With NIBP, the Treasury created a vehicle for housing finance agencies to lock borrowing costs at a rate tied to 10 year U.S. Treasuries by purchasing 60 percent of a bond issue through Fannie Mae and Freddie Mac. This initiative resulted in a significant reduction in the Agency’s borrowing costs and consequently, the Agency was able to offer mortgage rates lower than conventional and FHA programs.

Under NIBP, the Agency issued \$705 million of both market and program bonds to purchase \$604 million of mortgages and to provide for the down payment assistance loans, including paid points and funded reserves in the amount of \$14 million. The Agency also used the bond proceeds to issue \$87 million in economic refunding bonds. Given the dislocation in the historical municipal to treasury relationship, without NIBP, the Agency has lost its typical rate advantage and continues to compete against lower conventional mortgage rates.

The persistent weakness in the European markets contributed to a challenging environment for managing the Agency's existing outstanding bond portfolio in fiscal year 2011. In prior years, the Agency had used a combination of fixed and floating rate bonds to fund its mortgage program. As of October 31, 2011, the majority of the Agency's floating rate bonds were secured by liquidity facilities issued by Dexia Credit Local facilities. As the European debt situation worsened, the Agency took preemptive action to seek replacement liquidity facilities for all of the Dexia Credit Local facilities. By December 31, 2011, the Agency had replaced Dexia and had lowered the Agency's overall floating rate bond exposure by \$95 million.

During fiscal year 2011, the Agency continued its efforts to focus its mission, during a period marked by low conventional rates and recessionary economic conditions, 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 2011, 49% of the Agency's mortgages were originated under the Achieving the Dream Program.

The Agency's earnings were also impacted by the prolonged period of low interest rates and fell accordingly. The Agency continued its practice of increasing earnings through the temporary warehousing of Agency mortgages until it raised permanent funds through the issuance of bonds. In addition, by increasing the amount of mortgages warehoused, the Agency incurred minimum amounts of negative arbitrage.

Single Family Operations Highlights

General

During fiscal year 2011, SONYMA assisted 1,779 low and moderate-income households by purchasing \$309.8 million in mortgages. Most of the bond financed loans were purchased under SONYMA's two primary programs:

The Low Interest Rate Program, which provided financing to 715 households, and the Achieving the Dream Program, which assists lower-income homebuyers (70% of area median income or less), provided financing for 866 households. In fiscal year 2011, the Agency purchased 11% less in mortgages than last fiscal year (\$309.8 million in 2011 compared to \$347.3 million in 2010). Of the loans purchased, 489 borrowers received either down payment or closing cost assistance totaling \$2.6 million in fiscal 2011, compared to 578 loans, totaling \$3 million in fiscal 2010.

SONYMA has stepped up its efforts to provide financing in underserved neighborhoods. As a result, target area lending in fiscal year 2011 increased by 16.9% when compared to fiscal year 2010 and minority lending has increased 17%. In fiscal 2011, almost 35% of all SONYMA loans were made to minorities.

SONYMA continues to better serve its borrowers and industry partners by:

- Developing an 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 2012 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.

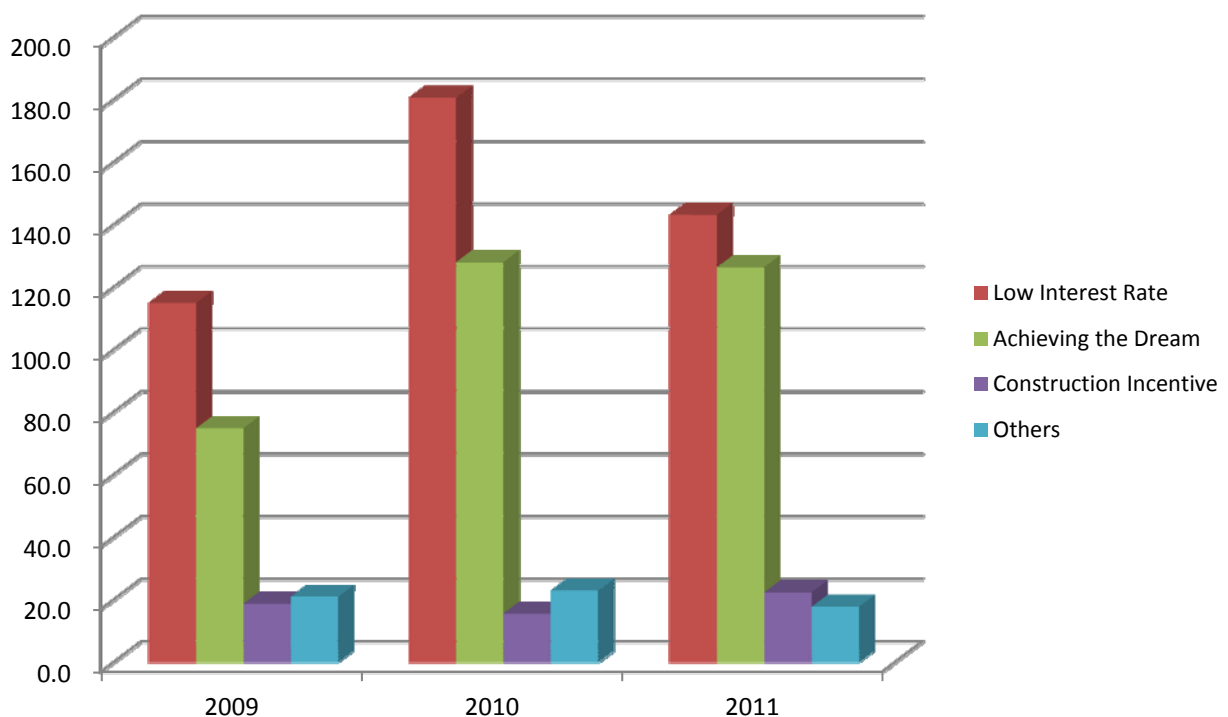
- Launched in March 2011, the Own it, Fix it New York! repair escrow option which is designed to assist in the purchase of homes that have been foreclosed and/or sold as a “short sale”, suffer from deferred maintenance and require repair. The product was created based on collaboration between SONYMA and its Advisory Council. The Advisory Council suggested that SONYMA introduce a manageable, low-cost product that provides mortgage financing to qualified homebuyers for the purchase and repair of such homes. The Advisory Council felt that such a product would not only improve the condition of individual homes, but would also have a stabilizing impact on neighborhoods, property values, and respond to the needs of today’s homebuyers.
- Also in collaboration with recommendations made by SONYMA’s Advisory Council, SONYMA:
 - Modified its down payment assistance product by (i) reducing the interest rate spread between Down Payment Assistance Loan (“DPAL”) & non-DPAL loans from 0.50% to 0.375% and (ii) increasing the maximum DPAL to \$15,000;
 - Successfully coordinated Welcome Home, New York! SONYMA Homeownership Event with industry professionals and KISS-FM, in September 2011; and
 - Implemented a streamlined loan extension policy.

The SONYMA Advisory Council was created in 2010 as a way 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 2011.

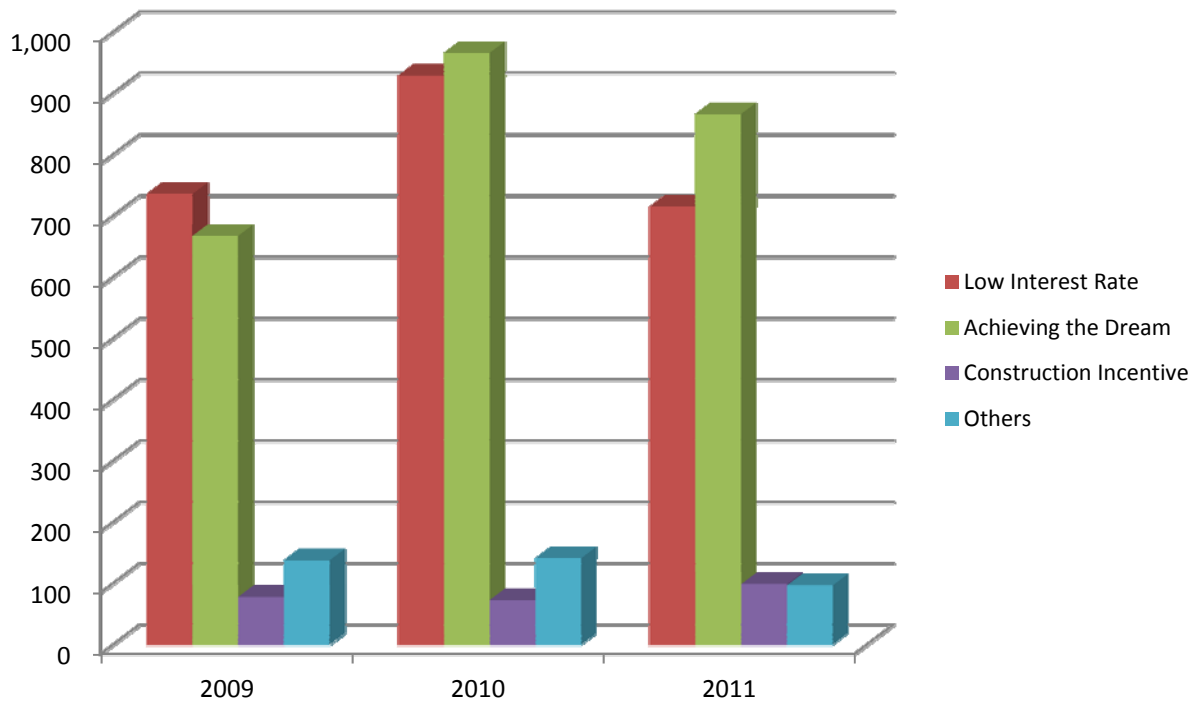
- Continuing outreach to lenders for training and to recruit new lenders – particularly credit unions.
- Continuing collaborative working relationship with the New York State Association of Realtors (“NYSAR”) and the New York State Builders Association.

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:



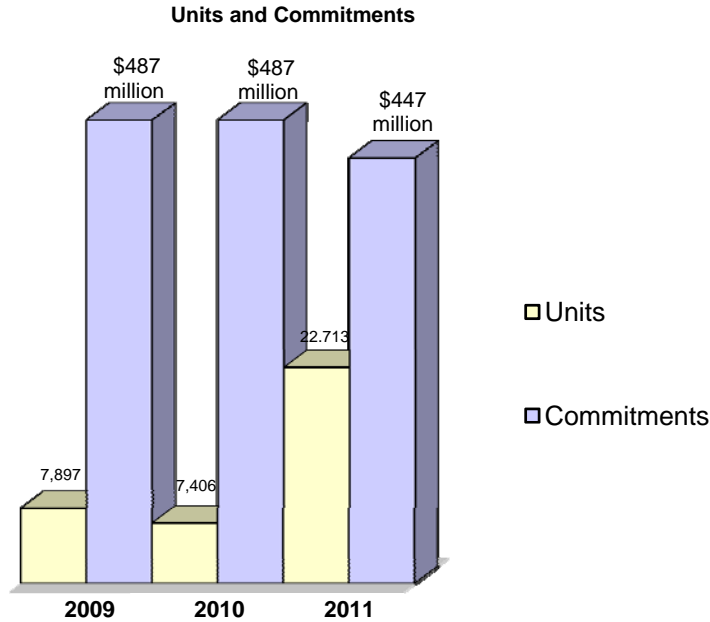
Performance of Mortgage Portfolio

Despite the continued turbulent economy and real estate market, SONYMA’s mortgage portfolio has performed consistently well. At the end of fiscal 2011, SONYMA’s 60 days or more delinquencies were 2.94% (based on the number of loans). This compares very favorably to the New York State and national averages of 10.53% and 9.26%, respectively.

Mortgage Insurance Fund Operations

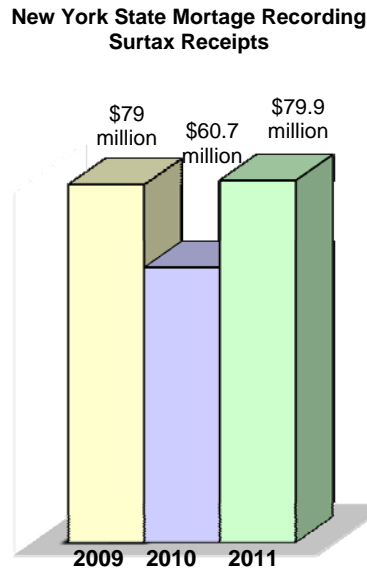
The Mortgage Insurance Fund (the “MIF”) has two lines of business. It provides insurance on mortgages for multi-family housing and special needs facilities and on other mortgage loans made by government entities and commercial lenders. It also provides both pool and primary insurance on single family 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 whose mortgages will be insured by the MIF was due to a single \$23.6 million transaction with the New York City Housing Development Corporation for the rehabilitation of 14,476 units owned by the New York City Housing Authority.

Substantially all of the MIF’s revenues are derived from a New York State mortgage recording surtax which had been declining but increased in fiscal 2011 as indicated in the chart below:



The increase in New York State Mortgage Recording Surtax Receipts from 2010 to 2011 is due to an increase in real estate transactions in the State, particularly in New York City, resulting in an increase in mortgage recordings. The MIF also received \$16.4 million in application and insurance premiums during fiscal 2011 compared with \$14.3 million during fiscal 2010 and \$13.4 million during fiscal 2009. Interest earned by the MIF during fiscal years 2011, 2010 and 2009 was \$30.4 million, \$30.2 million and \$34.6 million respectively.

The claims-paying ability of the Single Family Pool Insurance Account and the Project 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 and the Project Pool Insurance Account, with a negative outlook on April 27, 2011.

The claims-paying ability of the Single Family Pool Insurance Account and the Project Pool Insurance Account of the MIF are rated "Aa1" and "Aa1", respectively by Moody's Investor Service ("Moody's"). On July 28, 2010, Moody's downgraded its rating on the Single Family Pool Insurance Account from "Aaa" to "Aa1". This was due to a potential increase in the Account's risk to capital ratio due to reduced interest earnings and mortgage recording surtax revenues, and the weakness of private mortgage insurance companies whose primary mortgage insurance policies come before the MIF's pool insurance. On July 18, 2011, Moody's affirmed the "Aa1" rating of the Project Pool Insurance Account with a stable outlook. On October 8, 2011, Moody's affirmed its rating and changed its outlook from stable to negative.

Higher Education Finance Authority Operations

The New York Higher Education Loan Program ("NYHELPS Program" or "Program") 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 set forth in the Bond indenture, 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, must be originated by May 1, 2012. As of October 31, 2011, the amount of \$15 million remains on deposit in the Loan Account. Of the funds on deposit, \$5.4 million is committed to loans originated but not yet purchased, which leaves \$9.6 million available for purchasing loans as of October 31, 2011. Any funds left in the Loan Account after May 1, 2012 will be used to redeem additional Bonds on August 1, 2012.

Condensed Financial Information

STATE OF NEW YORK MORTGAGE AGENCY

Net Position Summary Schedules (In thousands)

	October 31,			% Change	
	2011	2010	2009	2011- 2010	2010- 2009
Assets					
Cash	\$ 11,073	\$ 10,835	\$ 10,376	2%	4%
Investments	2,191,326	2,377,150	1,930,171	(8%)	23%
Loans receivable	3,213,499	3,212,178	3,146,765	0%	2%
Other assets	121,619	129,258	137,785	(6%)	(6%)
Total Assets	5,537,517	5,729,421	5,225,097		
Deferred Outflows of Resources					
Accumulated decrease in fair value of hedging derivatives	60,533	57,433	35,665	5%	61%
Liabilities					
Bonds payable	3,213,228	3,515,586	3,136,826	(9%)	12%
Derivative instrument - interest rate swap	60,533	57,433	35,665	5%	61%
Interest payable	11,169	12,548	10,202	(11%)	23%
Allowance for anticipated claims	37,584	33,534	68,712	12%	(51%)
Unearned income, accounts payable and other liabilities	21,496	19,904	23,237	8%	(14%)
Postemployment retirement benefits	30,375	28,052	25,925	8%	8%
Total liabilities	3,374,385	3,667,057	3,300,567		
Net Position	\$ 2,223,665	\$ 2,119,797	\$ 1,960,195		

Assets

Investments

Investments held by the Agency decreased from \$2.38 billion at October 31, 2010 to \$2.19 billion at October 31, 2011, a decrease of approximately \$190 million or 8%. This compares with the increase of approximately \$450 million, from \$1.93 billion at October 31, 2009 to \$2.38 billion at October 31, 2010. The decrease was primarily due to the Agency's utilizing the \$239.1 million in NIBP funds that remained on deposit at October 31, 2010 to purchase mortgage loans.

Loans Receivable

Mortgage loans receivable are the primary assets of the Agency's Single Family operations constituting 58% of the total assets at October 31, 2011 and 56% at October 31, 2010.

Mortgages loans receivable remained relatively unchanged at \$3.2 billion at October 31, 2011 and October 31, 2010. The Agency purchased \$543 million in new mortgage loans utilizing the remaining NIBP funds in the amount of \$239.1 million.

Student loans receivable as of October 31, 2011 was \$6.2 million. This includes \$6.1 million in new student loans purchased during fiscal year ended October 31, 2011 compared with \$323 thousand of loans purchased in the fiscal year ended October 31, 2010.

Other Assets

The balance in other assets consists primarily of the unamortized cost of issuance charges related to bond issuances and unamortized closing cost assistance payments relating to mortgage closings. Therefore, at the end of each fiscal year the balance is directly related to the number of bonds issuances which closed during the fiscal year and the number of mortgage closings during the fiscal year less amortization.

Other assets declined \$7.6 million from \$129.2 million at October 31, 2010 to \$121.6 million at October 31, 2011, as compared to a decline of \$8.5 million from \$137.7 million at October 31, 2009 to \$129.2 at October 31, 2010. The 6% decline in each fiscal year is a result of reduced bond issuances and mortgage closings resulting from market conditions discussed earlier in this MD&A.

Derivative Instrument - Interest Rate Swap

In June 2008, the Governmental Accounting Standards Board ("GASB") issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB No. 53"). The Statement establishes guidance on the recognition, measurement and disclosures related to derivative instruments ("interest rate swaps") entered into by governmental entities. GASB No. 53 requires that most derivative instruments be reported at fair value, and requires governmental entities to determine if derivatives are effective hedges of risks associated with related hedgeable items. Generally, for derivatives that are effective hedges, changes in fair values are deferred whereas for ineffective hedges, the changes in fair value are recognized in the current period. The Agency implemented GASB No. 53 retroactively as of October 31, 2009. For fiscal 2011, 2010 and 2009, all of the Agency's interest rate swaps were determined to be effective. Therefore, the Agency recorded the amount of the fair values of these interest rate swaps along with a corresponding deferred outflow of resources.

Due to a drop in interest rate swaps interest rates, the market values of the interest rate swaps declined from approximately (\$57.4) million in fiscal 2010 to (\$60.5) million in fiscal 2011, a decrease of \$3.1 million, or 5%. During fiscal 2010, there was a decrease in market value from approximately (\$35.7) million in fiscal 2009 to (\$57.4) million in fiscal 2010, a decrease of \$21.7 million, or 61%.

Liabilities

Bonds Payable

At approximately 95% of total liabilities, bonds payable comprises the largest component of liabilities as of October 31, 2011 and 2010. Funds generated by the sale of bonds are used to purchase loans as part of the Agency's Single Family and Student Loan operations. The payments due on such loans, together with interest earnings, are used to fund the debt service payments due on bonds.

Bonds payable decreased by \$302 million from \$3.5 billion at October 31, 2010 to \$3.2 billion at October 31, 2011. This decrease is compared to an increase of \$378 million from \$3.1 billion at October 31, 2009 to \$3.5 billion at October 31, 2010. The decrease in bonds outstanding during fiscal year 2011 was a result of the Agency's participation in NIBP which left funds available to purchase mortgage loans during fiscal 2011 without the issuance of additional bonds. In addition, there was an unused proceeds call in the Student Loan Program in the amount of \$75 million.

Allowance for Anticipated Claims

Allowance for anticipated claims increased by \$4.1 million from \$33.5 million at October 31, 2010 to \$37.6 million at October 31, 2011, as compared to a decrease of \$35.2 million from \$68.7 million at October 31, 2009 to \$33.5 million at October 31, 2010 or 51%. 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 2011, 2010 and 2009 the MIF had made claim payments in the amounts of \$12.5 million, \$12 million and \$12.9 million respectively.

STATE OF NEW YORK MORTGAGE AGENCY

Summary of Revenues, Expenses and Changes in Net Position (In thousands)

	Fiscal Year Ended October 31,			% Change	
	2011	2010	2009	2011- 2010	2010- 2009
Operating Revenues					
Interest on mortgages	\$ 172,947	\$ 174,028	\$ 179,327	(1%)	(3%)
Interest earned on deposits and investments	38,081	38,237	44,228	(0%)	(14%)
Recoveries	6,184	40,214	32,271	(85%)	25%
Net change in unrealized (depreciation) appreciation of investments	(6,536)	8,797	21,392	(174%)	(59%)
Other operating revenues	13,460	12,465	9,567	8%	30%
Total operating revenues	224,136	273,741	286,785		
Operating Expenses					
Interest expense	142,360	139,905	145,891	2%	(4%)
Provision for estimated claims	11,530	13,761	38,613	(16%)	(64%)
Pool insurance	949	981	1,055	(3%)	(7%)
Expenditures related to federal grants	951	1,150	1,193	(17%)	(4%)
Other operating expenses	39,988	49,057	36,939	(18%)	33%
Total operating expenses	195,778	204,854	223,691		
Net operating revenue	28,358	68,887	63,094	(59%)	9%
Non-operating revenues (expenses)					
Mortgage insurance reserves retained	79,722	67,163	98,402	19%	(32%)
Federal grants	951	1,150	1,193	(17%)	(4%)
Payments from New York State	—	23,800	—	(100%)	100%
Loss on early extinguishment of debt	(5,163)	(1,398)	(344)	269%	306%
Total non-operating revenues	75,510	90,715	99,251		
Increase in net position	103,868	159,602	162,345		
Total net position - beginning of fiscal year	2,119,797	1,960,195	1,797,850		
Total net position- end of fiscal year	\$ 2,223,665	\$ 2,119,797	\$ 1,960,195		

Operating Revenues

Interest on Mortgages

Interest on mortgage loans from Single Family operations represents the primary source of funds available for the Agency to pay interest expense due on bonds payable. The continued slight decline in fiscal years 2011, 2010 and 2009 was a result of historic low interest rates on new loans purchased by the Agency.

Interest Earned on Deposits and Investments

Investment earnings remained relatively constant at approximately \$38 million in fiscal years 2011 and fiscal year 2010, as compared with a decrease from \$44.2 million in fiscal year 2009 to \$38.2 million in fiscal year 2010, a decrease of approximately \$6 million, or 14%. The continued reduction in investment earnings is attributable to the continued drop in investment rates applicable to all eligible investments of the Agency, particularly short term rates on U.S. government securities. The Federal Reserve's continued policy to reduce short-term benchmark interest rates has further reduced yields on short term securities. The Agency is limited by statute and bond resolutions in the types of investments it can purchase.

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 decreased from \$40.2 million in fiscal year 2010 to \$6.2 million in fiscal year 2011, a decrease of approximately \$34 million, or 85%, as compared with an increase from \$32.3 million in fiscal year 2009 to \$40.2 million in fiscal year 2010, an increase of approximately \$7.9 million, or 25%.

During fiscal 2011, the Agency received \$4.7 million in cash recoveries and had \$1.5 million in non cash adjustments.

During fiscal 2010 the MIF re-classified 4 projects totaling \$27.6 million from non-performing to performing status. The MIF also recognized non cash recoveries of \$9.3 million. This was offset by payments mentioned below:

During fiscal 2011, 2010 and 2009 the MIF received 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.

Net Change in Unrealized (Depreciation) Appreciation of Investments

Net change in unrealized (depreciation) appreciation of investments reflects changes in unrealized market valuations on investments held. During the fiscal year ended October 31, 2011, net change in unrealized (depreciation) appreciated on investments declined from \$8.8 million in fiscal year 2010 to \$(6.5) million in fiscal year 2011, a decrease of approximately \$15.3 million or 174%. This compares with decrease from \$21.4 million in fiscal year 2009 to \$8.8 million in fiscal year 2010, a decrease of approximately \$12.6 million or 59% as a result of market price fluctuations.

Expenses

Interest Expense

Interest expense increased from \$139.9 million in fiscal 2010 to \$142.4 million in fiscal 2011, an increase of approximately \$2.5 million or 2%. The increase was primarily due to the downgrade of one of the financial institutions providing liquidity on \$555 million of SONYMA's HMB and MRB variable rate bonds, Dexia Credit Locale, to A3. As a result of the downgrade, the Agency's remarketing agents had difficulty remarketing the bonds, and as a result, the bonds were either priced at much higher rates or they became bank bonds, raising the Agency's debt service expenses significantly.

By December 9, 2011, the Agency had replaced Dexia on \$460 million of variable rate bonds with liquidity facilities from higher rated financial institutions, Bank of America, JP Morgan Chase and Barclays Bank, and had redeemed three series of Dexia backed variable rate bonds in the amount of \$95 million.

Interest expense declined from \$145.9 million in fiscal 2009 to \$139.9 million in fiscal 2010, a decrease of approximately \$6 million or 4% due to lower interest rates.

Provision for Estimated Claims

The MIF sets aside provisions for potential insurance claims on its insured multi-family projects and 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 \$13.8 million in fiscal year 2010 to \$11.5 million in fiscal year 2011, a decrease of \$2.3 million, or 16%, as compared with the decrease from approximately \$38.6 million in fiscal year 2009 to \$13.8 million in fiscal year 2010, a decrease of \$24.8 million, or 64%. In fiscal 2011 and 2010, 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 2011 and 2010, see Note 7 to the financial statements.

Non-Operating Revenues

Mortgage Insurance Reserves Retained

As discussed in the MIF operations section of this report, mortgage insurance reserves retained totaled \$79.7 million during fiscal 2011 compared to \$67.2 million during fiscal 2010 and \$98.4 million during fiscal 2009. The increase in reserves retained during fiscal 2011 was due to an increase in mortgage surtax receipts. Mortgage surtax receipts received for fiscal years 2011, 2010 and 2009 were \$79.9 million, \$60.7 million and \$79 million, respectively.

Payments from New York State

During fiscal 2010, the State provided a net amount of \$23.8 million. Such funds were used to fund certain accounts required for Student Loan Program.

State of New York Mortgage Agency

(a component unit of the State of New York)

Statements of Net Position

(Amounts in Thousands)

	October 31,	
	2011	2010
Assets		
Current Assets:		
Cash-demand deposits unrestricted	\$ 3,085	\$ 3,356
Cash-demand deposits restricted	2,919	2,591
Cash-custodian deposits	5,069	4,888
Investments unrestricted	11,990	18,958
Investments restricted	1,139,879	1,234,828
Total cash and investments	<u>1,162,942</u>	<u>1,264,621</u>
Mortgage loans receivable	157,357	117,718
Accrued interest receivable:		
Mortgage and student loans	15,481	13,778
Investments	12,906	13,103
Other	4,631	4,294
Total current assets	<u>1,353,317</u>	<u>1,413,514</u>
Non-current Assets:		
Investments restricted	1,039,457	1,123,364
Mortgage loans receivable-net of unearned discount and unamortized commitment fees	3,049,919	3,094,137
Student loans receivable	6,223	323
Unamortized bond cost of issuance on mortgage and student loan acquisition	88,601	98,083
Total non-current assets	<u>4,184,200</u>	<u>4,315,907</u>
Total Assets	<u>5,537,517</u>	<u>5,729,421</u>
Deferred Outflows of Resources		
Accumulated decrease in fair value of hedging derivatives	<u>60,533</u>	<u>57,433</u>
Liabilities		
Current Liabilities:		
Bonds payable, net	232,315	150,429
Interest payable	11,169	12,548
Allowance for anticipated claims	37,584	33,534
Unearned income, accounts payable and other liabilities	21,496	19,904
Total current liabilities	<u>302,564</u>	<u>216,415</u>
Non-current Liabilities:		
Bonds payable, net	2,980,913	3,365,157
Derivative instrument - interest rate swap	60,533	57,433
Postemployment retirement benefits payable	30,375	28,052
Total non-current liabilities	<u>3,071,821</u>	<u>3,450,642</u>
Total Liabilities	<u>3,374,385</u>	<u>3,667,057</u>
Net Position		
Restricted for bond obligations	648,690	638,673
Restricted for insurance requirements	1,593,967	1,490,324
Unrestricted (deficit)	(18,992)	(9,200)
Total Net Position	<u>\$ 2,223,665</u>	<u>\$ 2,119,797</u>

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

(Amounts in Thousands)

	Fiscal Year Ended October 31,	
	2011	2010
Operating revenues		
Interest earned on loans	\$ 172,947	\$ 174,028
Recoveries	6,184	40,214
Interest earned on deposits and investments	38,081	38,237
Net change in unrealized (depreciation) appreciation of investments	(6,536)	8,797
Insurance premiums and application fees earned	12,239	10,311
Other income	1,221	2,154
Total operating revenues	224,136	273,741
Operating expenses		
Interest and amortization of discount on debt	142,360	139,905
Amortization of bond issuance costs	2,592	2,875
Postemployment retirement benefits expense	2,323	2,126
General expenses	18,665	18,607
Overhead assessment by State of New York	3,927	3,855
Pool insurance	949	981
Provision for estimated claims	11,530	13,761
Expenses related to federal and state grants	951	1,150
Other	12,481	21,594
Total operating expenses	195,778	204,854
Operating income	28,358	68,887
Non-operating (expenses) revenues		
Loss on early extinguishment of debt	(5,163)	(1,398)
Mortgage insurance reserves retained	79,722	67,163
Federal grants	951	1,150
Payments from New York State	—	23,800
Total non-operating revenues	75,510	90,715
Increase in net position	103,868	159,602
Total Net Position, Beginning of Fiscal Year	2,119,797	1,960,195
Total Net Position, End of Fiscal Year	\$ 2,223,665	\$ 2,119,797

See notes to financial statements.

State of New York Mortgage Agency

(a component unit of the State of New York)

Statements of Cash Flows

(Amounts in Thousands)

	Fiscal Year Ended October 31,	
	2011	2010
Cash flows from operating activities		
Interest received on loans	\$ 172,632	\$ 173,392
Interest paid on bonds	(143,789)	(137,550)
Earnings on investments	57,592	54,099
Commitment fees, premium and other	17,838	15,483
General expenses	(22,194)	(26,677)
Expenditures related to federal and state grants	(951)	(1,150)
Mortgage recording surtax receipts	79,872	60,696
Funds received from New York State	—	23,852
Other	(13,590)	(23,545)
Net cash provided by operating activities	147,410	138,600
Cash flows from non-capital financing activities		
Federal grants	951	1,150
Bond proceeds	310,600	642,955
Retirement and redemption of bonds	(617,461)	(264,979)
Net cash (used in) provided by non-capital financing activities	(305,910)	379,126
Cash flows from investing activities		
Principal payment on loans	314,632	283,644
Purchase of loans	(315,868)	(349,058)
Proceeds from the sale or maturities of investments	7,544,862	9,330,165
Purchase of investments	(7,384,888)	(9,782,018)
Net cash provided by (used in) investing activities	158,738	(517,267)
Net increase in cash	238	459
Cash at beginning of fiscal year	10,835	10,376
Cash at end of fiscal year	\$ 11,073	\$ 10,835
Reconciliation of operating revenues to net cash provided by operating activities:		
Operating income	\$ 28,358	\$ 68,887
Adjustment to reconcile operating income to net cash provided by operating activities:		
Increase (decrease) in fair value of investments	6,537	(8,797)
Amortization and accretions	14,348	14,464
Mortgage insurance reserves retained and other	79,722	90,965
Changes in assets and liabilities:		
Interest, fees and other receivables	6,790	7,648
Accounts and other payables	11,655	(34,567)
Net cash provided by operating activities	\$ 147,410	\$ 138,600

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, 2011 and 2010

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. The financial statements of the Agency include the accounts of the respective bondholder funds as well as the Mortgage Insurance Fund 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.

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").

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 2g).

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 "Aa1" and "Aa1", respectively; 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, 2011 and 2010, the MIF has outstanding mortgage insurance policies of approximately \$2.6 billion and \$2.4 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 \$50,000,000 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, 2011 and 2010.

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 maintains its accounting records and prepares its financial statements on the accrual basis of accounting.

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, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, 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, less unamortized commitment fees, 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.

Unearned commitment fees remitted to the Agency by participating financial institutions or mortgage applicants are amortized over the life of the respective mortgage portfolio as an adjustment to yield, using the sum-of-the-years digits method which approximates the interest method.

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. The acquisition costs are amortized over the average life of the respective mortgage portfolio, using the sum-of-the-years digits method which approximates the interest method.

2. Significant Accounting Policies (continued)

e. Bonds Payable

Serial and term bonds are stated at their principal amounts outstanding, net of unamortized bond discount, premium and unamortized loss deferrals, where applicable. 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 Issuance Cost and Unamortized Bond Discount and Premium

Bond issuance costs, 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. 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.

h. 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.

i. Use of Estimates

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

j. Derivative Instruments

The Agency enters into various interest rate swaps in order to manage risks associated with interest on its variable rate bond portfolio. In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB No. 53"), the Agency recognizes the fair value of all derivative instruments as either an asset or liability on its statements of net position with the offsetting gains or losses recognized in earnings or as either deferred inflows or outflows if deemed an effective hedge.

2. Significant Accounting Policies (continued)

k. Recent Accounting Pronouncements

In 2011, the Agency adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and American Institute of Certified Public Accountants ("AICPA") Pronouncements ("GASB No. 62")*. This Standard improves financial reporting by incorporating into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board ("FASB") and the AICPA pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB No. 62 superseded Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The adoption of this new standard did not have a significant impact in on the Agency.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The objective of this Statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. Amounts that are required to be reported as deferred outflows should be reported in a statement of net position in a separate section following assets. Similarly, amounts required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The statement of net position should report the residual amount as net position, rather than net assets or equity. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011; however the Agency elected to early-adopt this Statement in the 2011 fiscal year.

GASB Statement No. 63 was implemented retroactively. The adoption of this statement resulted in a change in the presentation of the Balance Sheets to what is now referred to as the Statements of Net Position and the term "net assets" is changed to "net position" throughout the financial statements.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments; Application of Hedge Accounting Termination Provisions*. The objective of this Statement is to clarify the termination provisions in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, when a counterparty of an interest rate or commodity swap is replaced. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. The Agency does not anticipate the implementation of this standard will have an impact on its financial statements.

l. Federal Grants

Grants received from Federal, State and local governments are recognized as non-operating revenue as the related expenditures are incurred in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

m. Reclassifications

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

2. Significant Accounting Policies (continued)

n. Revenue and Expense Classification

Operating revenue consists primarily of interest on loans, earnings on investments, recoveries and insurance premiums 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.

o. Use of Net Position

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

3. Investments

The Agency's investments at October 31, 2011 and October 31, 2010, consisted of the following:

October 31, 2011:	Time Deposits, Money Market and Savings Accounts		U.S. Treasury Obligations	U.S. Government Agencies	Total Fair Value
Category				(000s)	
Invested revenues	\$ 1,756	\$ 314,081	\$ 346	\$ 316,183	
Mortgage insurance reserves	—	1,438,879	192,740	1,631,619	
Mortgage acquisition and other bond proceeds	—	35,489	—	35,489	
Bondholder reserves	48,973	152,575	6,487	208,035	
Total	<u>\$ 50,729</u>	<u>\$ 1,941,024</u>	<u>\$ 199,573</u>	<u>\$ 2,191,326</u>	

October 31, 2010:	Time Deposits, Money Market and Savings Accounts		U.S. Treasury Obligations	U.S. Government Agencies	Total Fair Value
Category				(000s)	
Invested revenues	\$ 2,470	\$ 462,059	\$ 363	\$ 464,892	
Mortgage insurance reserves	—	1,046,550	475,937	1,522,487	
Mortgage acquisition and other bond proceeds	—	194,288	—	194,288	
Bondholder reserves	48,940	127,123	19,420	195,483	
Total	<u>\$ 51,410</u>	<u>\$ 1,830,020</u>	<u>\$ 495,720</u>	<u>\$ 2,377,150</u>	

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

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

3. Investments (continued)

Permitted Investments

All bond proceeds and revenues can only be invested in Securities [defined as (i) obligations the principal of and interest on which are guaranteed by the United States of America; (ii) obligations of the United States of America; (iii) obligations the principal of and interest on which are guaranteed by the State; (iv) obligations of the State; (v) obligations of any agency of the United States of America; (vi) obligations of any agency of the State; (vii) obligations the principal of and interest on which are guaranteed by an agency or instrumentally of the United States of America; (viii) obligations of FNMA], Time Deposits and Certificates of Deposit. Securities are only purchased from Primary 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, 2011 is as follows:

	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
	(000s)				
Time Deposits	\$ 49,028	\$ —	\$ —	\$ 3,570	\$ 45,458
Trust Savings Accounts/ CDs	1,756	1,756	—	—	—
Municipal Bonds	26,796	—	—	—	26,796
U.S. Treasury Bills	277,646	277,646	—	—	—
U.S. Treasury Notes & Bonds	1,663,378	748,484	735,551	160,925	18,418
U.S. Government Agencies	172,722	82,616	90,106		
Total	<u>\$ 2,191,326</u>	<u>\$ 1,110,502</u>	<u>\$ 825,657</u>	<u>\$ 164,495</u>	<u>\$ 90,672</u>

Interest Rate Risk

The Agency's exposure to fair value losses arising from rising interest rates is limited by the short term duration of 51% of the Agency's investments for fiscal year ended 2011 and 52% for fiscal year ended 2010.

4. Mortgage Loans Receivable

Changes in the principal balances of mortgage loans receivables for the years ended October 31, 2011 and October 31, 2010 were as follows:

October 31, 2011:

	Balance at October 31, 2010	Amortization	Prepayments, Transfers and Other Credits	Purchase of New Loans	Balance at October 31, 2011
(000s)					
Homeowner Mortgage					
Revenue	\$ 2,659,682	\$ (83,416)	\$ (409,449)	\$ 158,107	\$ 2,324,924
Mortgage Revenue	549,049	(23,096)	201,848	151,700	879,501
Homeownership					
Program	4,769	(223)	(265)	—	4,281
		<u>\$ (106,735)</u>	<u>\$ (207,866)</u>	<u>\$ 309,807</u>	
Less unearned discount and unearned commitment fees	<u>(1,645)</u>				<u>(1,430)</u>
Total Mortgage Receivable	<u>\$ 3,211,855</u>				<u>\$ 3,207,276</u>

October 31, 2010:

	Balance at October 31, 2009	Amortization	Prepayments, Transfers and Other Credits	Purchase of New Loans	Balance at October 31, 2010
(000s)					
Homeowner Mortgage					
Revenue	\$ 2,753,330	\$ (87,710)	\$ (151,794)	\$ 145,856	\$ 2,659,682
Mortgage Revenue	389,805	(16,154)	(27,470)	202,868	549,049
Homeownership					
Program	5,520	(226)	(525)	—	4,769
		<u>\$ (104,090)</u>	<u>\$ (179,789)</u>	<u>\$ 348,724</u>	
Less unearned discount and unearned commitment fees	<u>(1,890)</u>				<u>(1,645)</u>
Total Mortgage Receivable	<u>\$ 3,146,765</u>				<u>\$ 3,211,855</u>

4. Mortgage Loans Receivable (continued)

Mortgage loans outstanding were as follows at October 31, 2011 and October 31, 2010:

October 31, 2011:

	Number of Mortgage Loans	Outstanding Principal Balance (000s)
Homeowner Mortgage Revenue:		
Uninsured	8,919	\$ 704,017
F.H.A. (insured)	1	28
Private mortgage insurance (at time of purchase)	20,147	1,625,385
Less deferred income	—	(1,162)
	<u>29,067</u>	<u>2,328,268</u>
Mortgage Revenue:		
Uninsured	2,864	325,572
F.H.A. (insured)	14	202
Private mortgage insurance (at time of purchase)	5,478	549,221
Less deferred income	—	(268)
	<u>8,356</u>	<u>874,727</u>
Homeownership Program:		
Uninsured	5	296
Private mortgage insurance (at time of purchase)	75	3,985
	<u>80</u>	<u>4,281</u>
Total	<u>37,503</u>	<u>\$ 3,207,276</u>

October 31, 2010:

	Number of Mortgage Loans	Outstanding Principal Balance (000s)
Homeowner Mortgage Revenue:		
Uninsured	9,980	\$ 811,635
F.H.A. (insured)	3	38
Private mortgage insurance (at time of purchase)	22,098	1,853,275
Less deferred income	—	(1,414)
	<u>32,081</u>	<u>2,663,534</u>
Mortgage Revenue:		
Uninsured	1,930	169,644
F.H.A. (insured)	16	285
Private mortgage insurance (at time of purchase)	4,655	373,854
Less deferred income	—	(231)
	<u>6,601</u>	<u>543,552</u>
Homeownership Program:		
Uninsured	6	420
Private mortgage insurance (at time of purchase)	78	4,349
	<u>84</u>	<u>4,769</u>
Total	<u>38,766</u>	<u>\$ 3,211,855</u>

4. Mortgage Loans Receivable (continued)

The number of mortgage loans outstanding in arrears and related principal amounts were as follows at October 31, 2011 and October 31, 2010:

October 31, 2011:			Percent of Principal
Days in Arrears	Number of Loans in Arrears	Principal (000's)	Outstanding of Loans in Arrears to Total Loans
Homeowner Mortgage Revenue:			
60	293	\$ 24,372	1.05%
90 plus	620	63,121	2.71%
	<u>913</u>	<u>87,493</u>	<u>3.76%</u>
Mortgage Revenue:			
60	65	4,595	0.53%
90 plus	117	10,424	1.19%
	<u>182</u>	<u>15,019</u>	<u>1.72%</u>
Homeownership Program:			
60	2	140	3.27%
90 plus	6	522	12.19%
	<u>8</u>	<u>662</u>	<u>15.46%</u>
Combined:			
60	360	29,107	0.91%
90 plus	743	74,067	2.31%
	<u>1,103</u>	<u>\$ 103,174</u>	<u>3.22%</u>
October 31, 2010:			Percent of Principal
Days in Arrears	Number of Loans in Arrears	Principal (000's)	Outstanding of Loans in Arrears to Total Loans
Homeowner Mortgage Revenue:			
60	281	\$ 24,911	0.93%
90 plus	511	50,256	1.89%
	<u>792</u>	<u>75,167</u>	<u>2.82%</u>
Mortgage Revenue:			
60	47	3,385	0.62%
90 plus	88	7,049	1.30%
	<u>135</u>	<u>10,434</u>	<u>1.92%</u>
Homeownership Program:			
60	5	307	6.44%
90 plus	6	530	11.11%
	<u>11</u>	<u>837</u>	<u>17.55%</u>
Combined:			
60	333	28,603	0.89%
90 plus	605	57,835	1.80%
	<u>938</u>	<u>\$ 86,438</u>	<u>2.69%</u>

5. Bonds Payable

Changes in bonds payable for the year ended October 31, 2011 and October 31, 2010 were as follows:

October 31, 2011:

	Net Bonds Outstanding at October 31, 2010	Matured/ Called/ Redeemed	Issued	Amortization of/or Bond Premium and Deferred Loss Amounts	Net Bonds Outstanding at October 31, 2011
	(000s)				
Homeowner Mortgage Revenue	\$ 2,580,077	\$ (413,800)	\$ 151,190	\$ 814	\$ 2,318,281
Mortgage Revenue	833,433	(125,045)	159,410	3,732	871,530
Homeownership Program	2,074	(2,074)	—	—	—
NYHELPS (Student Loan program)	100,002	(75,010)		(1,575)	23,417
Total Bonds	\$ 3,515,586	\$ (615,929)	\$ 310,600	\$ 2,971	\$ 3,213,228

October 31, 2010:

	Net Bonds Outstanding at October 31, 2009	Matured/ Called/ Redeemed	Issued	Amortization of/or Bond Premium and Deferred Loss Amounts	Net Bonds Outstanding at October 31, 2010
	(000s)				
Homeowner Mortgage Revenue	\$ 2,801,314	\$ (222,010)	\$ —	\$ 773	\$ 2,580,077
Mortgage Revenue	329,745	(39,265)	541,995	958	833,433
Homeownership Program	5,767	(3,693)	—	—	2,074
NYHELPS (Student Loan program)	—	—	97,795	2,207	100,002
Total Bonds	\$ 3,136,826	\$ (264,968)	\$ 639,790	\$ 3,938	\$ 3,515,586

5. Bonds Payable (continued)

Homeowner Mortgage Revenue Bonds

One hundred sixty-four Homeowner Mortgage Revenue Bond series have been issued between 1988 and 2011 in a total original amount of \$9,019,908,000. At October 31, 2011, the interest rates for the fixed rate bonds outstanding ranged from .6% to 6%.

The schedule of Total Annual Maturities as of October 31, 2011 was as follows:

Due Dates	Serial Bonds	Term Bonds	Total Bonds Payable	Interest Payable	Total Debt Service
			(000s)		
2012	\$ 63,530	\$ 15,340	\$ 78,870	\$ 84,531	\$ 163,401
2013	61,585	11,725	73,310	80,819	154,129
2014	69,585	7,905	77,490	78,713	156,203
2015	74,825	25,450	100,275	75,959	176,234
2016	71,770	31,730	103,500	72,291	175,791
2017-2021	110,250	296,735	406,985	315,569	722,554
2022-2026	9,085	478,055	487,140	224,957	712,097
2027-2031	—	503,645	503,645	113,649	617,294
2032-3036	—	404,505	404,505	34,901	439,406
2037-2041	—	82,645	82,645	2,924	85,569
2042-2046	—	1,305	1,305	73	1,378
2047(Final year)	—	135	135	1	136
Total Debt Service Requirement	460,630	1,859,175	2,319,805	1,084,387	3,404,192
Unamortized bond premium	—	—	332	—	—
Unamortized deferred loss	—	—	(1,856)	—	—
Total	\$ 460,630	\$ 1,859,175	\$ 2,318,281	\$ 1,084,387	\$ 3,404,192

5. Bonds Payable (continued)

Outstanding Homeowner Mortgage Revenue Bonds

At October 31, 2011, the interest rate for fixed rate Homeowner Mortgage Revenue Bonds outstanding ranged from .6% to 6%.

The schedule of Homeowner Mortgage Revenue Bonds outstanding by series as of October 31, 2011 was as follows:

Series	Originally Issued	Currently Outstanding	Range of Interest Rates	Last Remaining Maturity
	(000s)			
65	\$ 89,325	\$ 185	5.55%	2012
67	126,405	1,760	5.5%-5.8%	2028
69	89,180	21,110	5.4%-5.5%	2028
70	38,240	12,425	5.375%	2017
71	133,330	51,835	5.35%-5.4%	2029
72	41,670	11,375	5%-5.3%	2027
73A	95,000	62,835	5.25%-5.3%	2029
77A	69,495	44,305	5.15%	2029
78A	10,505	10,505	5%	2017
79	114,040	50,985	5.25%-5.30%	2029
80	29,255	3,780	4.75%	2012
82	105,565	19,945	5.65%	2030
83	74,435	18,460	5.25%-5.55%	2027
87	77,085	8,650	5.15%	2017
95	27,645	1,155	5.20%	2013
96	27,745	2,775	5.1%-5.2%	2014
97	48,175	24,505	5.4%-5.5%	2031
98	75,605	14,925	4.55%-5.15%	2022
99	16,995	2,310	4.50%	2023
100	9,390	290	4.95%	2015
101	140,050	89,610	4.5%-5.40%	2032
102	9,950	9,950	4.30%-4.80%	2017
104	31,785	11,950	4.80%	2022
105	23,215	17,125	3.55%-4.25%	2017
106	75,000	60,055	4.3%-5.25%	2034
107	1,640	1,640	4.15%-4.55%	2017
109	125,000	89,430	4.4%-4.95%	2034
110	99,650	39,055	3.75%-4.4%	2017
111	114,760	72,155	3.75%-4.55%	2023
112	10,240	10,240	3.45%-4%	2017
113	90,000	41,905	4.5%-5.25%	2034
114	2,200	1,280	4.05%-4.625%	2017
115	35,000	35,000	Reset Weekly	2034
116	125,000	100,845	3.9%-4.80%	2034
117	44,280	29,065	3.9%-4.65%	2025
120	35,000	27,360	3.85%-4.75%	2025
121	400	300	4.00%	2017

5. Bonds Payable (continued)

Outstanding Homeowner Mortgage Revenue Bonds (continued)

Series	Originally Issued	Currently Outstanding	Range of Interest Rates	Last Remaining Maturity
	(000s)			
122	40,000	40,000	Reset Weekly	2035
123	28,760	24,625	4.6%-4.75%	2029
124	36,240	27,355	3.55%-4.15%	2017
125	35,000	35,000	Reset Weekly	2036
127	20,605	17,975	4.7%-4.95%	2036
128	45,395	28,745	3.85%-4.75%	2027
129	34,000	34,000	Reset Weekly	2035
130	48,055	40,250	4.4%-4.8%	2037
131	28,725	22,555	3.65%-4.5%	2027
132	34,000	34,000	Reset Daily	2037
133	73,970	43,240	4.3%-6%	2032
134	1,815	1,815	4.15%-4.25%	2017
135	34,000	34,000	Reset Daily	2037
137	75,205	64,615	4.55%-4.7%	2031
138	15,795	15,520	3.625%-3.9%	2017
139	34,000	34,000	Reset Daily	2037
140	40,435	31,510	4.6%-4.75%	2037
141	15,565	13,540	3.75%-4.5%	2027
142	34,000	34,000	Reset Daily	2037
143	60,000	50,270	4.2%-4.9%	2037
144	30,000	30,000	Reset Daily	2037
145	22,980	20,690	4.95%-5.125%	2037
146	37,020	24,475	3.65%-4.6%	2022
147	50,000	50,000	Reset Weekly	2037
148	53,905	34,610	4.5%-5.2%	2032
149	21,095	17,545	3.45%-4.7%	2027
150	50,000	50,000	Reset Daily	2037
152	29,765	21,565	3.375%-4.75%	2023
153	50,000	50,000	Reset Weekly	2047
154	10,695	10,695	Reset Weekly	2039
155	32,145	23,580	3.4%-4.375%	2018
156	75,695	72,175	4.5%-5.35%	2033
158	50,000	10,565	4.25%-5.5%	2018
159	60,000	60,000	Reset Weekly	2038
160	11,560	8,905	2.7%-4%	2018
161	45,925	30,715	4%-5.875%	2039
162	25,000	25,000	Reset Weekly	2039
163	66,825	66,825	1.85%-4.6%	2036
164	84,365	84,365	.6%-3.4%	2022
Unamortized bond premium	—	332		
Deferred loss	—	(1,856)		
Total	\$ 3,804,795	2,318,281		

5. Bonds Payable (continued)

Outstanding Homeowner Mortgage Revenue Bonds (continued)

Interest rates on the Agency's outstanding variable rate debt at October 31, 2011, ranged from .16% to 3.50%. Interest rates are based on current market conditions, the Moody's credit rating of the financial institution providing liquidity on the bonds and its mode, either weekly or daily. By December 15, 2011, the Agency had entered into liquidity agreements with higher rated financial institutions resulting in a reduction in interest rates. On December 31, 2011, interest rates on the Agency's outstanding variable rate debt ranged from .06% to .11%.

As of October 31, 2011, the debt service requirements of the Agency's hedged variable rate debt and net receipts or payments on associated derivative instruments for the period hedged are as follows. These amounts assume that current interest rates on October 31, 2011, on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for the term of the respective swaps. As these rates vary, interest payments on variable-rate bonds and net receipts or payments on the hedging derivative instruments will vary. By using these reduced interest rates from December 31, 2011, from above, total interest would be \$3.55 million versus \$74.56 million – a \$71.01 million reduction. Refer to Note 9 for information on derivative instruments.

The table below represents debt service payments relating to the Homeowner Mortgage Revenue Bond hedged derivative instrument payments and debt.

Due Dates	Principal Maturities	Interest	Fixed Interest Rate Swaps, Net	Total
(000s)				
2012	\$ 20,955	\$ 10,700	\$ 14,423	\$ 46,078
2013	30,900	9,897	13,496	54,293
2014	860	9,529	13,135	23,524
2015	815	9,528	13,119	23,462
2016	98,790	8,937	12,513	120,240
2017-2021	264,695	13,035	22,646	300,376
2022-2026	12,770	6,310	10,264	29,344
2027-2031	26,715	4,950	7,984	39,649
2032-2036	34,870	1,664	2,906	39,440
2037-2039 (Final year)	2,325	6	66	2,397
Total	\$ 493,695	\$ 74,556	\$ 110,552	\$ 678,803

5. Bonds Payable (continued)

Mortgage Revenue Bonds

Forty-eight Mortgage Revenue Bond series have been issued between 1984 and 2011 in a total original amount of \$4,180,724,000. At October 31, 2011, the interest rates for the fixed rate bonds outstanding ranged from .55% to 5.45%.

The Schedule of Total Annual Maturities at October 31, 2011 was as follows:

Due Dates	Serial Bonds	Term Bonds	Bonds Payable	Interest Payable	Debt Service
			(000s)		
2012	\$ 21,545	\$ —	\$ 21,545	\$ 35,477	\$ 57,022
2013	17,165	—	17,165	33,495	50,660
2014	18,965	—	18,965	33,038	52,003
2015	16,185	—	16,185	32,133	48,318
2016	14,510	1,080	15,590	31,001	46,591
2017-2021	80,445	43,970	124,415	146,705	271,120
2022-2026	23,195	132,710	155,905	117,518	273,423
2027-2031	—	177,135	177,135	78,670	255,805
2032-2036	—	134,885	134,885	46,585	181,470
2037-2041	—	185,050	185,050	20,599	205,649
Total Debt Service Requirement	192,010	674,830	866,840	575,221	1,442,061
Unamortized bond premium	—	—	4,690	—	—
Total	\$ 192,010	\$ 674,830	\$ 871,530	\$ 575,221	\$ 1,442,061

5. Bonds Payable (continued)

Outstanding Mortgage Revenue Bonds

At October 31, 2011, the interest rate for fixed rate Mortgage Revenue Bonds outstanding ranged from .55% to 5.45%.

The schedule of Mortgage Revenue Bonds outstanding by series as of October 31, 2011 was as follows:

Series	Originally Issued	Currently Outstanding	Range of Interest Rates	Last Remaining Maturity
	(000s)			
29	\$ 101,280	\$ 40,125	5.45%	2031
31A	55,780	45,990	5.2%-5.3%	2032
32	26,045	6,655	4.25%-4.55%	2014
33A	44,505	24,300	3.85%-4.85%	2032
35	62,760	54,925	4.5%-4.8%	2030
36	27,240	4,910	3.6%-4.1%	2016
38A	120,000	119,800	4.090%	2041
39	57,385	55,040	3.25%-5%	2028
40	22,615	21,585	1.1%-3.125%	2017
38B	30,000	30,000	3.070%	2041
41	14,820	14,490	.75%-4%	2028
42	5,180	4,790	.75%-2.5%	2018
43	14,330	11,350	.75%-2.3%	2017
44	38,555	37,140	1.5%-4.35%	2024
38C	66,000	66,000	3.010%	2041
45	44,000	42,810	.75%-4.5%	2029
38D	138,110	138,110	3.550%	2041
38E	35,000	35,000	3.550%	2035
46	97,855	97,855	2.1%-5%	2029
47	17,555	15,965	.55%-2.1%	2015
Unamortized bond premium	—	4,690		
Total	\$ 1,019,015	\$ 871,530		

Homeownership Mortgage Program

Seven series of Homeownership Mortgage Revenue Bonds were issued and privately placed between 1992 and 1999 totaling \$118,306,000. The mortgages acquired under the resolution collateralized the bonds and scheduled amortization and other repayments of such mortgages were passed through to the bondholders. The Agency retired the outstanding Homeownership Mortgage Revenue Bonds on June 1, 2011. As a result, the remaining eighty mortgages that were pledged to the Homeownership Mortgage Revenue Bonds resolution are unpledged assets of the Agency under the Homeownership Program.

5. Bonds Payable (continued)

Student Loan Program

The Agency, doing business as The State of New York Higher Education Finance Authority issued the NYHELPS Educational Loan Revenue Bond, 2009 Series A in a total original amount of \$97,795,000. At October 31, 2011, the amount of \$22,785,000 remained outstanding with the interest rates ranging from 3.25% to 5.25%.

The schedule of Total Annual Maturities as of October 31, 2011 was as follows:

Due Dates	Interest Payable	Bonds Payable	Total Debt Service
(000s)			
2012	\$ 1,026	\$ 335	\$ 1,361
2013	983	670	1,653
2014	963	1,170	2,133
2015	926	1,575	2,501
2016	868	2,325	3,193
2017-2021	2,924	8,045	10,969
2022-2026	1,246	8,665	9,911
Total Debt Service			
Requirement	8,936	22,785	31,721
Unamortized bond			
premium	—	632	—
Total	\$ 8,936	\$ 23,417	\$ 31,721

6. Other Assets

At October 31, 2011 and October 31, 2010 other assets consisted primarily of Owned Real Estate for which the balances were as follows:

October 31, 2011:

Bondholder Funds	Number of Loans	Book Value	Appraised Value
			(000s)
Homeowner Mortgage Revenue	34	\$ 2,581	\$ 3,695
Mortgage Revenue	8	726	919
	42	\$ 3,307	\$ 4,614

October 31, 2010:

Bondholder Funds	Number of Loans	Book Value	Appraised Value
			(000s)
Homeowner Mortgage Revenue	61	\$ 3,186	\$ 5,131
Mortgage Revenue	10	391	954
	71	\$ 3,577	\$ 6,085

7. Allowance for Anticipated Claims

The Mortgage Insurance Fund claim activity for the fiscal years ended October 31, 2011 and October 31, 2010 was as follows:

October 31, 2011:

	Project Insurance	Pool Insurance	Primary Insurance	Total Insurance
	(000s)			
Reconciliation of Allowance for Claims				
Allowance, beginning of year	\$ 33,534	\$ —	\$ —	\$ 33,534
Current year provision for estimated claims	9,982	1,490	58	11,530
Current year adjustment to claims status	(6,183)	—	—	(6,183)
Claims paid, net	251	(1,490)	(58)	(1,297)
Allowance, end of year	<u>\$ 37,584</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 37,584</u>

October 31, 2010:

	Project Insurance	Pool Insurance	Primary Insurance	Total Insurance
	(000s)			
Reconciliation of Allowance for Claims				
Allowance, beginning of year	\$ 68,712	\$ —	\$ —	\$ 68,712
Current year provision for estimated claims	12,337	1,333	91	13,761
Current year adjustment to claims status	(40,215)	—	—	(40,215)
Claims paid, net	(7,300)	(1,333)	(91)	(8,724)
Allowance, end of year	<u>\$ 33,534</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 33,534</u>

8. 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, 2011, 2010 and 2009 were \$7.9 million, \$8.6 million and \$8.4 million, respectively.

Based upon the actuarially determined contribution requirements, the Agency contributed 100% of their required portion in the amounts of \$991,928 in fiscal 2011, \$609,952 in fiscal 2010 and \$677,822 in fiscal 2009. Agency employees were required to contribute .80% of the current year's covered payroll (\$63,565 in 2011, \$82,802 in 2010 and \$89,505 in 2009).

Changes in benefit provisions and actuarial assumptions did not have a material effect on contributions during fiscal 2011, 2010 and 2009.

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 \$515,771 during fiscal 2011 (\$488,552 in fiscal 2010).

Other Postemployment Benefits

The Agency is a participating employer in the New York State Health Insurance Program ("NYSHIP"), which is administered by the State of New York as a multiple employer agent defined benefit plan. Under the plan as participated in by the Agency, eligible retired employees receive health care benefits with

8. Retirement Benefits (continued)

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.

In June, 2004 GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB Statement No. 45)*, which established new accounting standards for recording Other Postemployment Benefits ("OPEB"). The requirement applies to any state or local government employer that provides OPEB. The primary type of OPEB provided by the Agency is health benefits.

The Agency provides certain group health care, death benefits 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, 2009 and was used as a basis for the determination of costs for the year ended October 31, 2010. This valuation did not take into consideration the new Affordable Care Act that was signed into law March 23, 2010, the impact of which was not determinable. The total number of plan participants receiving OPEB from the Agency as of October 31, 2010 was 66.

The Agency elected to record the entire amount of the Unfunded Actuarial Accrued Liability ("UAAL") in the fiscal year ended October 31, 2006. The Agency also elected not to fund the UAAL more rapidly than on a pay-as-you-go basis. The UAAL relating to postemployment benefits is in the approximate amounts of \$30.4 million and \$28.9 million as of October 31, 2011 and 2010, respectively.

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, 2011 and 2010, the Agency paid \$458,000 and \$323,000, 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).

Since the Agency is a participating employer in NYSHIP, the Agency 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

8. 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, 2011 and 2010:

	2011	2010
	(in thousands)	
Annual Required Contribution (ARC)	\$ 5,118	\$ 4,584
Interest on the net OPEB obligation	1,122	1,102
Adjustment to ARC	(3,459)	(3,236)
Annual OPEB cost	2,781	2,450
Payments made	(458)	(323)
Increase in net OPEB obligation	2,324	2,127
Net OPEB obligation — Beginning of fiscal year	28,052	25,925
Net OPEB obligation — End of fiscal year	\$ 30,375	\$ 28,052

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, 2011, 2010 and 2009 are as follow:

Year ended	Annual OPEB Cost	Percentage of Annual OPEB Cost	Net OPEB Obligation
		Paid	
(\$ in thousands)			
10/31/2011	\$ 2,781	10.9%	\$ 30,375
10/31/2010	\$ 2,450	13.2%	\$ 28,052
10/31/2009	\$ 1,765	16.2%	\$ 25,925

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, 2009 OPEB actuarial valuations were the projected unit credit method as its actuarial cost method, a 4.00% 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, 2007 used a per annum discount rate of 4.25%.

8. 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:

<u>Monthly Rate for Fiscal Year 2011</u>	
<u>Basic</u>	
Eligible-Medicare	
Single	\$ 561.83
Family	\$ 1,308.84
Medicare (Part B)	\$ 96.40
Medicare Part B Premiums:	
	<u>Calendar Year</u> <u>Monthly Premium</u>
	2010 and 2011 \$ 96.40

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:

<u>Year Ending</u>	<u>Part B</u>	<u>Medical Pre 65</u>	<u>Medical Post 65</u>
2010	6.86%	8.24%	8.80%
2011	6.72	7.99	8.5
2012	6.58	7.75	8.22
2013	6.45	7.51	7.94
2014	6.32	7.29	7.67
2015	6.19	7.06	7.4
2016	6.07	6.85	7.15
2017	5.95	6.63	6.9
2018	5.83	6.43	6.66
2019	5.71	6.23	6.43
2020	5.59	6.04	6.21
2021	5.48	5.85	5.99
2022	5.37	5.67	5.79
2023	5.26	5.5	5.59
2024	5.16	5.33	5.39
2025	5.05	5.16	5.2
2026	4.95	5	5.02
2027	4.85	4.85	4.85
2028	4.53	4.53	4.52
2029+	4.5	4.5	4.5

Mortality. Mortality rates are those recommended by the actuary:

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	0.05%	0.05%
30	0.0534	0.0534
40	0.0962	0.0962
50	0.2441	0.2177
60	0.7365	0.5332
70	1.8246	1.2686
80	4.6846	3.4091
90	14.5417	11.0872

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.

9. Synthetic Fixed Rate Swaps

The Agency has entered into sixteen negotiated swaps as part of its risk management program, serving to increase financial flexibility and reduce interest costs. These swaps were entered into with seven financial institutions (the Counterparties) for a current total notional principal of \$493,695,000. 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, 2011, classified by type, and the changes in fair value of such derivative instruments from the year then ended as reported in the 2010 financial statements are as follows:

	Changes in fair value		Fair value at October 31, 2011		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedge	Deferred outflow	(\$3,100,350)	Debt	(\$60,533,002)	\$493,695,000

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, 2011, 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:

Associated Bond Series	Terms				Fair Value	Counterparty
	Notional Amount (000s)	Effective Date	Maturity Date	Fixed rate paid		
HMB Series 129*	\$34,000	11/17/05	10/01/35	3.5870%	(\$7,701,083)	Citibank NA
HMB Series 132*	\$34,000	03/09/06	04/01/37	3.4783%	(\$7,986,237)	JPMorgan Chase Bank NA
HMB Series 135*	\$34,000	07/13/06	04/01/16	3.8570%	(\$4,441,255)	UBS AG
HMB Series 139*	\$34,000	09/23/08	10/01/16	2.9720%	(\$3,281,566)	Goldman Sachs Cap. Markets LP
HMB Series 142*	\$34,000	02/01/07	04/01/17	3.5650%	(\$4,490,523)	Citibank NA
HMB Series 144*	\$30,000	06/07/07	04/01/17	3.6540%	(\$4,104,898)	UBS AG
HMB Series 147*	\$20,000	09/20/07	10/01/12	3.2480%	(\$ 553,931)	JPMorgan Chase Bank NA
HMB Series 147*	\$30,000	09/20/07	10/01/17	3.4250%	(\$3,895,132)	JPMorgan Chase Bank NA
HMB Series 150*	\$10,000	12/14/07	04/01/13	2.9810%	(\$ 371,921)	Goldman Sachs Cap. Markets LP
HMB Series 150*	\$40,000	12/14/07	04/01/18	3.2170%	(\$4,864,858)	Goldman Sachs Cap. Markets LP
HMB Series 153*	\$20,000	03/27/08	04/01/13	2.5580%	(\$ 617,595)	Merrill Lynch Der. Products AG
HMB Series 153*	\$30,000	03/27/08	04/01/18	2.9900%	(\$3,224,133)	Merrill Lynch Der. Products AG
HMB Sr.122/125/154(1)*	\$30,000	08/14/08	10/01/16	3.0860%	(\$3,062,448)	Royal Bank of Canada
HMB Sr.122/125/154(1)*	\$30,000	08/14/08	10/01/18	3.1760%	(\$3,672,144)	Royal Bank of Canada
HMB Series 159**	\$60,000	10/30/08	10/01/18	3.5400%	(\$7,846,610)	Royal Bank of Canada
HMB Series 162 (2)***	\$23,695	01/22/09	04/01/39	2.3825%	(\$ 418,668)	Barclays Bank PLC

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

** Variable rate payment received from counterparties is SIFMA.

*** Variable rate payment received from counterparties is 63% of 3 month LIBOR plus 0.25%

9. Synthetic Fixed Rate Swaps (Continued)

- (1) These swaps were originally associated with the Series 154 and 157 bonds. The portion of the swap allocated to the Series 157 bonds (which were redeemed on 10/24/11) was re-allocated to the Series 122 bonds (in the amount of \$40,000,000) and Series 125 bonds (in the amount of \$9,305,500).
- (2) The Series 162 swap has multiple par cancellation options whereby SONYMA has the right to cancel increasing percentages of the outstanding notional amount beginning 4/1/11.

COUNTERPARTY RATINGS

<u>Counterparty Name</u>	<u>Moody's/S&P/Fitch</u>
Barclays Bank PLC	Aa3/AA-/AA-
Citibank N.A.	A1/A+/A+
Goldman Sachs Capital Markets L.P. (Guarantor Goldman Sachs Group)	A1/A/A+
JPMorgan Chase Bank N.A.	Aa1/AA-/AA-
Merrill Lynch Derivative Products AG	Aa3/AAA/NR
Royal Bank of Canada	Aa1/AA-/AA
UBS AG	Aa3/A+/A

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, 2011, the weighted-average interest rate on the Agency's hedged variable-rate debt is 2.183%, while the applicable 63% of one month LIBOR plus 0.25%, 63% of three month LIBOR plus 0.25%, and SIFMA were 0.368%, 0.409% and 0.08%, respectively. This basis risk is attributed to a Moody's rating downgrade on one of the Agency's liquidity providers, Dexia Credit Locale.

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.

9. 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.

Three 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, 2011, the Agency would be required to post \$29,499,798 in collateral to these counterparties.

Two 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, 2011, the Agency would be required to post \$4,999,870 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, 2011, the Agency would be required to post \$9,999,870 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, 2011, the Agency would be required to post \$13,999,870 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, 2011, the Agency would be required to post \$14,999,870 in collateral to these counterparties.

10. Commitments and Contingencies

Operating Leases

The Agency is obligated under leases for office locations in the City of New York, Albany 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 \$2,434,266 to \$4,731,836) 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, 2011 and 2010 was \$2,440,780 and \$2,115,936 respectively. As of October 31, 2011, 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
	(000s)
Fiscal year ending October 31:	
2012	\$ 2,472
2013	2,501
2014	2,658
2015	2,732
2016	2,774
Thereafter	8,775
Total minimum payments required	<u>\$ 21,912</u>

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.

11. Net Position

The Agency’s Net Position represents the excess of assets and deferred outflows over liabilities 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.

11. Net Position (continued)

b. Restricted for insurance requirements

As of October 31, 2011 and 2010, the Mortgage Insurance Fund's net position represent the required reserve for policies in force of \$2.6 billion and \$2.4 billion, respectively. Included within policies in force are single family mortgage primary and pool policies (total aggregate loss limit) totaling \$486 million and \$473 million in 2011 and 2010, respectively. Commitments outstanding as of fiscal years ended 2011 and 2010 were \$829 million and \$846 million, respectively. The Agency provided \$12 million and \$14 million during fiscal 2011 and 2010 respectively, for potential claims on mortgages insured by the Mortgage Insurance Fund.

The Agency received approximately \$3.3 million during fiscal 2011 and 2010 related to an Ulster County IDA 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 has not remitted to the State any excess tax collections during fiscal 2011 and 2010, respectively.

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, 2011 and 2010

(in thousands)

Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded Actuarial Accrued Liability (UAAL) (C=B-A)	Funded Ratio (A/C)	Covered Payroll (D)	Ratio of UAAL to Covered Payroll (C/D)
November 1, 2009	—	\$25,461	\$25,461	—	\$ 8,630	295%
November 1, 2007	—	\$18,005	\$18,005	—	\$ 8,500	212%

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Supplementary Section

State of New York Mortgage Agency

(a component unit of the State of New York)

Schedules of Net Position

October 31, 2011

with comparative totals for 2010

(Amounts in Thousands)

	General Operating Fund	Homeowner Mortgage Revenue	Mortgage Revenue
Assets			
Current Assets:			
Cash-demand deposits unrestricted	\$ 811	\$ —	\$ —
Cash-demand deposits restricted	—	1,775	460
Cash-custodian deposits	—	3,554	1,515
Investments unrestricted	11,990	—	—
Investments restricted	—	265,612	93,835
Total cash and investments	<u>12,801</u>	<u>270,941</u>	<u>95,810</u>
Mortgage loans receivable	—	80,736	76,368
Accrued interest receivable:			
Mortgage and student loans	—	11,943	3,233
Investments	5	2,249	908
Other	—	3,774	851
Total current assets	<u>12,806</u>	<u>369,643</u>	<u>177,170</u>
Non-current Assets:			
Investments restricted	—	114,630	42,923
Mortgage loans receivable-net of unearned discount and unamortized commitment fees	—	2,243,026	802,865
Student loan receivable	—	—	—
Unamortized bond cost of issuance on mortgage and student loan acquisition	—	62,912	25,022
Total non-current assets	<u>—</u>	<u>2,420,568</u>	<u>870,810</u>
Total Assets	<u>12,806</u>	<u>2,790,211</u>	<u>1,047,980</u>
Deferred Outflows of Resources			
Accumulated decrease in fair value of hedging derivatives	—	60,533	—
Liabilities			
Current Liabilities:			
Bonds payable, net	—	210,435	21,545
Interest payable	—	7,839	2,799
Allowance for anticipated claims	—	—	—
Unearned income, accounts payable and other liabilities	4,536	5,664	838
Interfund payables	(3,113)	1,738	(18)
Total current liabilities	<u>1,423</u>	<u>225,676</u>	<u>25,164</u>
Non-current Liabilities:			
Bonds payable, net	—	2,107,846	849,985
Derivative instrument - interest rate swap	—	60,533	—
Postemployment retirement benefits payable	30,375	—	—
Total non-current liabilities	<u>30,375</u>	<u>2,168,379</u>	<u>849,985</u>
Total Liabilities	<u>31,798</u>	<u>2,394,055</u>	<u>875,149</u>
Net Position			
Restricted for bond obligations	—	456,689	172,831
Restricted for insurance requirements	—	—	—
Unrestricted (deficit)	(18,992)	—	—
Total Net Position	<u>\$ (18,992)</u>	<u>\$ 456,689</u>	<u>\$ 172,831</u>

Supplemental Schedule I

Homeownership Program	Total	Student Loan Program	Mortgage Insurance Fund	Total All Funds	
				October 31, 2011	2010
\$ —	\$ 811	\$ 2,274	\$ —	\$ 3,085	\$ 3,356
10	2,245	—	674	2,919	2,591
—	5,069	—	—	5,069	4,888
—	11,990	—	—	11,990	18,958
439	359,886	30,278	749,715	1,139,879	1,234,828
449	380,001	32,552	750,389	1,162,942	1,264,621
253	157,357	—	—	157,357	117,718
73	15,249	232	—	15,481	13,778
3	3,165	—	9,741	12,906	13,103
6	4,631	—	—	4,631	4,294
784	560,403	32,784	760,130	1,353,317	1,413,514
—	157,553	—	881,904	1,039,457	1,123,364
4,028	3,049,919	—	—	3,049,919	3,094,137
—	—	6,223	—	6,223	323
—	87,934	667	—	88,601	98,083
4,028	3,295,406	6,890	881,904	4,184,200	4,315,907
4,812	3,855,809	39,674	1,642,034	5,537,517	5,729,421
—	60,533	—	—	60,533	57,433
—	231,980	335	—	232,315	150,429
—	10,638	531	—	11,169	12,548
—	—	—	37,584	37,584	33,534
47	11,085	8	10,403	21,496	19,904
1,273	(120)	40	80	—	—
1,320	253,583	914	48,067	302,564	216,415
—	2,957,831	23,082	—	2,980,913	3,365,157
—	60,533	—	—	60,533	57,433
—	30,375	—	—	30,375	28,052
—	3,048,739	23,082	—	3,071,821	3,450,642
1,320	3,302,322	23,996	48,067	3,374,385	3,667,057
3,492	633,012	15,678	—	648,690	638,673
—	—	—	1,593,967	1,593,967	1,490,324
—	(18,992)	—	—	(18,992)	(9,200)
\$ 3,492	\$ 614,020	\$ 15,678	\$ 1,593,967	\$ 2,223,665	\$ 2,119,797

State of New York Mortgage Agency

(a component unit of the State of New York)

Schedules of Revenues, Expenses and Changes in Net Assets Fiscal Year Ended October 31, 2011 with comparative totals for 2010

(Amounts in Thousands)

	General Operating Fund	Homeowner Mortgage Revenue	Mortgage Revenue
Operating revenues			
Interest earned on loans	\$ —	\$ 132,985	\$ 39,316
Recoveries	—	—	—
Interest earned on deposits and investments	21	5,589	1,957
Net change in unrealized depreciation (appreciation) of investments	—	928	(288)
Insurance premiums and application fees earned	—	—	—
Other income	601	620	—
Total operating revenues	622	140,122	40,985
Operating expenses			
Interest and amortization of discount on debt	—	111,035	28,640
Amortization of bond issuance costs	—	2,272	262
Postemployment retirement benefits expense	2,323	—	—
General expenses	10,898	2,846	276
Overhead assessment by State of New York	2,758	—	—
Pool insurance	—	626	96
Provision for estimated claims	—	—	—
Expenditures related to federal and state grants	951	—	—
Other	894	9,605	1,979
Total operating expenses	17,824	126,384	31,253
Operating (loss) income	\$ (17,202)	\$ 13,738	\$ 9,732
Non-operating (expenses) revenues			
Loss on early extinguishment of debt	—	(2,226)	(589)
Mortgage insurance reserves retained	—	—	—
Federal grants	951	—	—
Payments from New York State	—	—	—
Interfund transfers	6,459	(6,505)	46
Total non-operating revenues (expenses)	7,410	(8,731)	(543)
(Decrease) increase in net position	(9,792)	5,007	9,189
Net Position, Beginning of Fiscal Year	(9,200)	451,682	163,642
Total Net Position, End of Fiscal Year	\$ (18,992)	\$ 456,689	\$ 172,831

Homeownership Program	Total	Student Loan Program	Mortgage Insurance Fund	Total All Funds	
				Fiscal year ended October 31,	
				2011	2010
\$ 315	\$ 172,616	\$ 331	\$ —	\$ 172,947	\$ 174,028
—	—	—	6,184	6,184	40,214
(1)	7,566	79	30,436	38,081	38,237
1	641	(7)	(7,170)	(6,536)	8,797
—	—	408	11,831	12,239	10,311
—	1,221	—	—	1,221	2,154
315	182,044	811	41,281	224,136	273,741
72	139,747	2,613	—	142,360	139,905
12	2,546	46	—	2,592	2,875
—	2,323	—	—	2,323	2,126
8	14,028	201	4,436	18,665	18,607
—	2,758	—	1,169	3,927	3,855
5	727	—	222	949	981
—	—	—	11,530	11,530	13,761
—	951	—	—	951	1,150
—	12,478	—	3	12,481	21,594
97	175,558	2,860	17,360	195,778	204,854
\$ 218	\$ 6,486	\$ (2,049)	\$ 23,921	\$ 28,358	\$ 68,887
—	(2,815)	(2,348)	—	(5,163)	(1,398)
—	—	—	79,722	79,722	67,163
—	951	—	—	951	1,150
—	—	—	—	—	23,800
—	—	—	—	—	—
—	(1,864)	(2,348)	79,722	75,510	90,715
218	4,622	(4,397)	103,643	103,868	159,602
3,274	609,398	20,075	1,490,324	2,119,797	1,960,195
\$ 3,492	\$ 614,020	\$ 15,678	\$ 1,593,967	\$ 2,223,665	\$ 2,119,797

State of New York Mortgage Agency

(a component unit of the State of New York)

Schedules of Cash Flows

Fiscal Year Ended October 31, 2011 with comparative totals for 2010

(Amounts in Thousands)

	General Operating Fund	Homeowner Mortgage Revenue	Mortgage Revenue
Cash flows from operating activities			
Interest received on loans	\$ —	\$ 133,879	\$ 38,414
Interest paid on bonds	—	(111,348)	(27,958)
Earnings on investments	31	7,803	2,891
Commitment fees, premium and other	1,050	—	—
Operating expenses	(22,032)	—	—
Expenditures related to federal grants	(951)	—	—
Mortgage recording surtax receipts	—	—	—
Funds received from New York State	—	—	—
Transfers	6,459	(6,505)	46
Other	7,540	150	(11,170)
Net cash (used in) provided by operating activities	(7,903)	23,979	2,223
Cash flows from non-capital financing activities			
Transfer to Agencies of New York State	—	—	—
Federal grants	951	—	—
Bond proceeds	—	151,190	159,410
Retirement and redemption of bonds	—	(413,800)	(125,045)
Net cash provided by (used in) non-capital financing activities	951	(262,610)	34,365
Cash flows from investing activities			
Transfer of mortgage loans	—	233,205	(233,205)
Principal payment on mortgages	—	259,409	54,491
Purchase of mortgage loans	—	(158,107)	(151,700)
Proceeds from the sale or maturities of investments	123,739	1,963,486	2,333,542
Purchase of investments	(116,772)	(2,059,770)	(2,038,952)
Net cash provided by (used in) investing activities	6,967	238,223	(35,824)
Net increase (decrease) in cash	15	(408)	764
Cash, beginning of fiscal year	796	5,737	1,211
Cash, end of fiscal year	\$ 811	\$ 5,329	\$ 1,975
Reconciliation of operating revenues (expenses) to net cash (used in) provided by operating activities:			
Net operating revenues (expenses)	\$ (17,202)	\$ 13,738	\$ 9,732
Adjustment to reconcile operating income to net cash provided (used in) by operating activities:			
Increase (decrease) in fair value of investments	—	(927)	288
Amortization and accretions	11	(13)	345
Transfers and mortgage insurance reserves retained	6,459	(6,505)	46
Changes in assets and liabilities			
Interest, fees and other receivables	(524)	16,085	(10,800)
Accounts payable and other liabilities	3,353	1,601	2,612
Net cash (used in) provided by operating activities	\$ (7,903)	\$ 23,979	\$ 2,223

Supplemental Schedule III

Homeownership Program	Total	Student Loan Program	Mortgage Insurance Fund	Total All Funds	
				Fiscal year ended October 31, 2011	2010
\$ 318	\$ 172,611	\$ 21	\$ —	\$ 172,632	\$ 173,392
(78)	(139,384)	(4,405)	—	(143,789)	(137,550)
—	10,725	82	46,785	57,592	54,099
(8)	1,042	408	16,388	17,838	15,483
(8)	(22,040)	(154)	—	(22,194)	(26,677)
—	(951)	—	—	(951)	(1,150)
—	—	—	79,872	79,872	60,696
—	—	—	—	—	23,852
—	—	—	—	—	—
1,218	(2,262)	—	(11,328)	(13,590)	(23,545)
1,442	19,741	(4,048)	131,717	147,410	138,600
—	—	—	—	—	—
—	951	—	—	951	1,150
—	310,600	—	—	310,600	642,955
(2,074)	(540,919)	(76,542)	—	(617,461)	(264,979)
(2,074)	(229,368)	(76,542)	—	(305,910)	379,126
—	—	—	—	—	—
488	314,388	244	—	314,632	283,644
—	(309,807)	(6,061)	—	(315,868)	(349,058)
3,649	4,424,416	408,912	2,711,534	7,544,862	9,330,165
(3,560)	(4,219,054)	(322,791)	(2,843,043)	(7,384,888)	(9,782,018)
577	209,943	80,304	(131,509)	158,738	(517,267)
(55)	316	(286)	208	238	459
65	7,809	2,560	466	10,835	10,376
\$ 10	\$ 8,125	\$ 2,274	\$ 674	\$ 11,073	\$ 10,835
\$ 218	\$ 6,486	\$ (2,049)	\$ 23,921	\$ 28,358	\$ 68,887
(1)	(640)	7	7,170	6,537	(8,797)
1	344	(2,345)	16,349	14,348	14,464
—	—	—	79,722	79,722	90,965
(11)	4,750	2,040	—	6,790	7,648
1,235	8,801	(1,701)	4,555	11,655	(34,567)
\$ 1,442	\$ 19,741	\$ (4,048)	\$ 131,717	\$ 147,410	\$ 138,600