INVESTMENT POLICY
STATE OF NEW YORK MORTGAGE AGENCY
NEW YORK STATE HOUSING FINANCE AGENCY
AFFORDABLE HOUSING CORPORATION
MUNICIPAL BOND BANK AGENCY
TOBACCO SETTLEMENT FINANCING CORPORATION

I. SCOPE

The following Investment Policy, established in conjunction with the Board approved Investment Guidelines of the State of New York Mortgage Agency, the New York State Housing Finance Agency, the Affordable Housing Corporation, the Municipal Bond Bank Agency and the Tobacco Settlement Financing Corporation (the "Agencies"), is intended to set forth the framework within which the Agencies' investment activities will be conducted. The attached Appendices establish parameters for investment activity for each agency in order to limit risk, ensure diversification and maximize yield and may be amended by the Investment Committee.

This Investment Policy governs the investment of all Agencies' funds including each individual Agency's funds, bond related funds (including bond proceeds, revenue, debt service and debt service reserve funds) and the Mortgage Insurance Fund.

II. INVESTMENT OBJECTIVES

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. Safety

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

a. Credit Risk
   The Agencies will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:
   - Limiting investments to the types of securities listed in the Agencies' Investment Guidelines;
   - Pre-qualifying the financial institutions, broker/dealers, and investment managers with which the Agency will do business in accordance with the Investment Guidelines and Section III (2) hereof; and
   - Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

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

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

2. Liquidity

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

3. Yield

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

- A security with declining credit may be sold early to minimize loss of principal;
- Liquidity needs of the portfolio require that the security be sold; and
- Mortgage insurance funds actively managed may be sold prior to maturity.

III. ROLES AND RESPONSIBILITIES

The following roles and responsibilities are in addition to the roles and responsibilities of staff as defined in the Agencies' Investment Guidelines.

1. Investment Committee

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

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

i. Reviewing and recommending to the Boards changes to this Policy at least annually;

ii. Establishing short- and long-term investment strategies within the established policies;

iii. Establishing target benchmarks for certain funds within the policies and strategies and giving consideration to the changing market circumstances;

iv. Reviewing the investment reports prepared by the Senior Vice President and Treasurer;

v. Recommending to the Boards when appropriate, qualified investment professionals to provide services as an Investment Manager; and

vi. Regularly evaluating the performance of the Investment Manager(s), and the Investment Manager(s) compliance with this Policy, contractual provisions and Investment Guidelines.

2. Investment Managers

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

IV. STANDARDS OF CARE

The "prudent person" standard shall be applied in the management of the portfolio, and the "prudent person" standard is herewith understood to mean the following:

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

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

V. REPORTING

The quarterly and annual Investment Reports to the respective Directors and Members required by the Investment Guidelines shall include: (a) a listing of the existing portfolios in terms of investment securities, balances, maturities, yield, and other features deemed relevant; (b) the investment performance for the reporting period; (c) performance of investments in relationship to any benchmarks established by the Investment Committee as provided in this Policy; and (d) any areas of policy concern warranting possible revisions of this Policy.

APPENDIX I

NEW YORK STATE HOUSING FINANCE AGENCY AFFORDABLE HOUSING CORPORATION INVESTMENT PARAMETERS

NYS Housing Finance Agency Bond Resolutions

Construction Fund and Capitalized Interest Accounts

Monies in Construction Fund and Capitalized Interest Accounts are to be invested pursuant to statute, Investment Guidelines, and bond resolution. In addition, monies in Construction Fund and Capitalized Interest Accounts are to be invested in accordance with the construction drawdown schedule. Monies in these accounts are expected to be used within a given period of time and are generally of a short-term duration. (Target Avg. Maturity: No more than three years)

Revenue, Operating, Debt Service Accounts and General Reserve Accounts

Monies in Revenue, Operating and Debt Service Accounts will be invested pursuant to statute, Investment Guidelines, and bond resolution. Monies in these accounts are expected to be used to pay debt service and other fees, i.e. letter of credit fees, and are generally of a short-term duration. (Target Avg. Maturity: No more than one year)

Debt Service Reserve Accounts

Reserve requirements will be invested in accordance with statute, Investment Guidelines and bond resolution requirements and will also be dependent upon the current level of interest rates, the shape of the yield curve, and economic forecasts. (Target Avg. Maturity: No more than seven years)

Affordable Housing Corporation

Special Grant Program Accounts will be invested in accordance with statute and Investment Guidelines and drawdown schedules provided. (Target Avg. Maturity: No more than three years)

APPENDIX II

STATE OF NEW YORK MORTGAGE AGENCY
INVESTMENT PARAMETERS

Acquisition Accounts

Monies in Acquisition Accounts are to be invested pursuant to statute, Investment Guidelines, and bond resolution. In addition, monies in Acquisition Accounts are to be invested in accordance with the acquisition schedule. Monies in these accounts are expected to be used within a given period of time and are generally of a short-term duration. (Target Avg. Maturity: No more than 18 months)

Revenue, Debt Service and General Funds

Monies in Revenue, Debt Service and General Funds will be invested pursuant to statute, Investment Guidelines, and bond resolution. Monies in these accounts are expected to be used to pay debt service and other fees, i.e. letter of credit fees, and are generally of a short-term duration depending upon debt service dates. Funds not needed for debt service, expenses and fees will be invested based on cash flow projections, current level of interest rates, the shape of the yield curve, and economic forecasts. Both short-term cash needs and long-term projections will be reviewed on a regular basis to establish an appropriate level of liquidity.
(Target Avg. Maturity: No more than one year)

Debt Service Reserve Funds:

The Mortgage Revenue Bond ("MRB") and the Homeowner Mortgage Revenue Bond ("HMB") Resolutions' reserve requirements are a percentage of any Acquisition Fund monies plus mortgages outstanding and are 3% for the Debt Reserve Requirement (DRF) and 1% for HMB's Loan Loss Fund (LLF) and 1% for MRB's Mortgage Reserve (MRF) (or the sum of the outstanding series reserve requirements if greater). For liquidity reasons, the Resolutions do not permit the LLF and the MRF to be invested in maturities beyond 13 months. Within the DRF, 1% cannot be invested in a maturity beyond 36 months. The remaining portion of the DRF can be invested to the maturity date of the series to which it pertains. Decisions on maturity for these investments will depend on the current level of interest rates, the shape of the yield curve, and economic forecasts.
(Target Avg. Maturity: No more than 26 years)

Mortgage Insurance Fund ("MIF")
Within the fund there are four accounts as follows:

1. *Development Corporation Credit Support Account*
2. *Special Account*
3. *Project Account*
4. *Pool Account*

Liquidity Portfolios

As part of the MIF Aggregate Investment Portfolio, staff shall create liquidity portfolios which, at a minimum, have the following characteristics:

a. The allocation shall be established, i.e., funds added to or removed from the liquidity portfolios, on or before December 31 each year;

Account	Liquidity Portfolio Percentage
Development Corp. Credit Support Account	100%
Special Account	100%
Project Account	7.5%
Pool Account	10%

b. The liquidity portfolios shall be managed with primary emphasis on funding anticipated cash flow requirements and secondary emphasis on fulfilling the investment objectives contained in this Policy;

c. The average maturity of the Liquidity Portfolios shall not exceed 1.25 years;

d. The maximum maturity of any single holding in the liquidity portfolios shall not exceed two years; and

e. The performance benchmark for the liquidity portfolios shall be the Merrill Lynch U.S. Treasury Notes & Bonds 0-1 Year Index.

Active Portfolios
Those funds not required to establish the Liquidity Portfolios shall be used to establish the active portfolios for the Project and Pool Accounts. Staff and third party managers, if used, will direct the investment activities of the active portfolios. The active portfolios shall be managed with primary importance placed on fulfilling the Investment Objectives contained in this Policy and then to enhance the long-term performance and to provide diversification for the MIF Aggregate Investment Portfolio. The active portfolios, at a minimum, shall have the following characteristics:

a. The Maximum Weighted Average Duration of a portfolio managed by an Investment Manager is 15 years. The Maximum Weighted Average

Maturity of a portfolio managed by the Agency is 15 years;

b. The Minimum Weighted Average Duration of a portfolio managed by an Investment Manager shall not be less than one year. The Minimum Weighted Average Maturity of a portfolio managed by the Agency shall not be less than one year;

c. The Maximum maturity of any one security is 34 years, unless prior authorization is obtained from the Board; and

d. The Investment Committee shall have the authority to create one or more "sub-portfolios" of the active portfolio if such action is deemed in the best interest of the Agency. The characteristics and management style associated with each "sub-portfolio" must comply with this Policy. In addition, when combined, each "sub-portfolio" must comply with the Policy.

Policy Exceptions:

The Investment Committee shall have the authority to grant deviations from the limits defined in the liquidity portfolio and active portfolio above when:

a. The policy exception results from substantial changes in the market;

b. The portfolio is re-balanced and compliance is re-established no less frequently than 30 days following each fiscal quarter end; and

c. Investments currently held that do not meet the guidelines of this policy shall be temporarily exempted from the requirements of this Policy. Investments must comply with the Policy within six months of the Policy's adoption or the Board must be presented with a plan through which investments will come into conformance.

MIF Diversification

In accordance with the Agencies' Investment Guidelines, "investments, other than Securities, shall be diversified among Banks by any one Agency, but no more than 35% of any one of the Agencies' total invested funds may be invested with any single such institution, and no investment with any single institution shall exceed 20% of that institution's capital."

Additionally:

Investments in securities issued or guaranteed by the US Government are not limited in total amount;

Investments in securities of the State of New York are limited to 5% of the portfolio; and

No more than 5% of the portfolio shall be invested with any one Bank.