project at a foreclosure sale; (iv) the Corporation notifies the FHA Commissioner of a voluntary termination; (v) the Corporation or its successors commit fraud or make a material misrepresentation to the FHA Commissioner with respect to certain information; (vi) the receipt by the FHA Commissioner of an application for final claims settlement by the Corporation; or (vii) the Corporation acquires the applicable project and fails to make an initial claim.

**REMIC Insurance Program**

**General.** REMIC was created in January 1993 as a public benefit corporation of the State under Section 654-d of the New York Private Housing Finance Law (the “REMIC Act”). The REMIC Act also established REMIC as a subsidiary of the Corporation. REMIC is the successor to the New York City Rehabilitation Mortgage Insurance Corporation (“Old REMIC”) which was in operation from 1973 until January 1993 when REMIC assumed all of Old REMIC’s obligations, including its contracts of insurance and commitments to insure mortgages.

REMIC consists of nine members, seven of whom are the members of the Corporation plus two additional members who are appointed by the Mayor of the City. The Chairperson of the Corporation is also the Chairperson of REMIC. The powers of REMIC are vested in and exercised by no less than five members. REMIC may delegate to one or more of its members, officers, agents or employees such powers and duties as it deems proper. The officers and staff of REMIC are all employees of the Corporation. The REMIC Act prohibits REMIC from issuing a commitment to insure a mortgage loan made by the Corporation unless such commitment is approved by at least two members of a three member committee composed of the Chairperson and the two members of REMIC who are not members of the Corporation.

**Purposes and Powers.** REMIC’s purpose is to insure mortgage loans in order to promote the preservation of neighborhoods in New York City which are blighted, are becoming blighted or may become blighted; to discourage disinvestment and encourage investment of mortgage capital in such neighborhoods; and to provide safe, sanitary and affordable housing accommodations to persons and families for which the ordinary operations of private enterprise cannot supply such accommodations. In furtherance of its corporate purpose, REMIC is authorized to enter into commitments to insure mortgages and contracts of insurance, and fulfill its obligations and enforce its rights under any insurance so furnished, including any contracts of insurance of Old REMIC.

REMIC is empowered to insure permanent first mortgage loans made by financial institutions for multi-family housing accommodations, one to four family homes, and emergency, transitional or shelter housing (“Shelter Housing”) located in the City of New York. This includes multi-family rental and cooperative buildings, owner-occupied one to four family homes, cooperative units, condominium units, Shelter Housing and mixed-use buildings, provided that, with respect to mixed-use buildings containing more than six dwelling units and Shelter Housing, the above-ground commercial space must contain less than 25% of the total above-ground square footage of the insured property. REMIC insurance coverage (the “Coverage Percentage”) is limited by property type and loan type. Lenders can obtain up to 50% coverage on preservation loans (i.e., refinancing and/or acquisition loans), up to 75% on rehabilitation loans (i.e., permanent loans which replace construction or rehabilitation financing) and up to 100% on preservation or rehabilitation loans made by a public employee pension system or another public benefit corporation, including the Corporation, when such loan is funded with the proceeds of a bond issue.

**REMIC Funds.** The REMIC Act establishes a housing insurance fund (the “HIF”), a mortgage insurance fund (the “REMIC MIIF”) and a REMIC premium reserve fund (“PRF”). REMIC is required to maintain the HIF to serve as a revolving fund for carrying out the provisions of the REMIC Act with respect to housing insurance contracts entered into by REMIC. The HIF requirement, as of any particular
date of computation, is equal to an amount of money or cash equivalents equal to the aggregate of (a) the insured amounts of loans due and payable as of such date pursuant to its housing insurance contracts, plus (b) an amount equal to 20% of the insured amounts under REMIC’s housing insurance contracts (other than insured amounts due and payable pursuant to clause (a) above) plus 20% of the amounts to be insured under REMIC’s commitments to insure. Increases to the HIF are funded solely from monies from the PRF. The term “cash equivalent” means a letter of credit, insurance policy, surety, guarantee, indemnity or other security arrangement.

The REMIC Act provides that no monies shall be withdrawn from the HIF at any time in such amount as would reduce the amount in the HIF to less than the HIF requirement, except for the purpose of paying liabilities arising from housing insurance contracts as they come due and for the payment of which other monies are not available.

As of January 31, 2013, the HIF’s total liability against commitments and against housing insurance contracts in force was approximately $237 million. As of January 31, 2013, the HIF had a total loan amount on outstanding commitments and housing insurance contracts in force of approximately $1,021 million on 254 properties. As of January 31, 2013, the HIF was funded in cash or marketable securities in an amount at least equal to the HIF requirement.

REMIC is also required to maintain the REMIC MIF which serves as a revolving fund for carrying out the provisions of Old REMIC’s commitments to insure and insurance contracts which are known as “mortgage insurance contracts” rather than “housing insurance contracts.” The REMIC MIF requirement, as of any particular date of computation, is equal to an amount of money equal to the aggregate of (a) the insured amounts of loans due and payable as of such date pursuant to its mortgage insurance contracts plus (b) an amount equal to the greater of $7,500,000 or 20% of the insured amounts under REMIC’s mortgage insurance contracts (other than insured amounts due and payable pursuant to clause (a) above) plus 20% of the amounts to be insured under Old REMIC’s commitments to insure; provided, however, the REMIC MIF requirement will be decreased to an amount equal to the aggregate of (x) the amounts due and payable or insured under mortgage insurance contracts and (y) the amounts to be insured under Old REMIC commitments, when the total of such amounts is less than $7,500,000. Increases to the REMIC MIF are funded solely from monies from the PRF.

The REMIC Act provides that no monies shall be withdrawn from the REMIC MIF at any time in such amount as would reduce the amount in the REMIC MIF to less than the REMIC MIF requirement, except for the purpose of paying liabilities arising from mortgage insurance contracts as they become due and for the payment of which other monies are not available.

As of January 31, 2103, the REMIC MIF’s total liability against mortgage insurance contracts in force was $136,487. As of January 31, 2013, the REMIC MIF had a total loan amount on outstanding commitments and mortgage insurance contracts in force of $283,650 on three (3) properties. As of January 31, 2013, the REMIC MIF was funded in an amount at least equal to the REMIC MIF requirement.

REMIC also maintains the PRF to provide for payment of REMIC’s liabilities arising from its operations, its housing insurance contracts and its mortgage insurance contracts. All monies deposited in the PRF, whether from earned premiums, investment income or other sources, represent the excess over the REMIC MIF and HIF requirements. If the amounts in the HIF and the REMIC MIF are below their respective requirements, amounts in the PRF are available to restore these funds to their requirements. As of January 31, 2013, the PRF totaled approximately $41 million.
Claims for Loss. As of January 31, 2013, Old REMIC and the REMIC MIF had paid a total of twelve (12) claims for loss on insurance policies under its mortgage insurance coverage in the aggregate amount of $598,291. As of January 31, 2013, the HIF had neither paid claims for loss nor had any policies in force on which claims for loss had been submitted.

The claims-paying ability of the HIF is rated "AA" by S&P. The REMIC MIF and the PRF are not rated by any recognized rating agency. Such ratings reflect only the respective views of such rating agencies, and an explanation of the significance of such ratings may be obtained from the rating agency furnishing the same. There is no assurance that this rating will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agency furnishing the same if, in its judgment, circumstances so warrant.

The payment of principal and interest on the Bonds is not secured by or payable from monies held in the HIF, the REMIC MIF or the PRF, and REMIC is not liable on the Bonds. The REMIC Act provides that all amounts in the HIF, with certain exceptions, shall be used solely for the payment of its liabilities arising from housing insurance contracts. Only monies in the HIF and the PRF will be available to REMIC for payment of REMIC's liabilities under the REMIC Insurance. There are no other dedicated sources of revenue to pay for the insurance obligations of REMIC. There can be no assurance that the amounts on deposit in the HIF and PRF will not be depleted through payment of liabilities arising with respect to insured mortgage loans other than REMIC-insured Mortgage Loans.

The audited financial statements of REMIC for the fiscal year ended October 31, 2012 are included in the audited financial statements of the Corporation for the fiscal year ended October 31, 2012 which are incorporated by reference in this Official Statement. Copies of the Annual Report of the Corporation, which includes information on REMIC, are available from REMIC at 110 William Street, New York, New York 10038, telephone: (212) 227-5500, or through its internet address: www.nychdc.com/subsidiaries/REMIC.html.

Benefits for the Mortgage Loans secured or expected to be secured by REMIC Insurance under HIF. The REMIC Master Policy of Insurance (the "REMIC Policy"), which covers a specified percentage of the original Mortgage Loan amount for each insured Mortgage Loan on a first loss basis, requires each insured lender benefitting from REMIC Insurance (an "Insured") to notify REMIC within forty-five (45) days after a payment default by a Mortgagor on an insured Mortgage Loan and to provide various additional notices during the period of default. When a Mortgagor fails to pay a total aggregate amount equal to four regular monthly payments of principal and interest, and any escrow payments due under the terms of an insured Mortgage Loan, disregarding any waivers or extensions by the Insured (termed "Four Months in Default" under the REMIC Policy), and assuming such notices have been timely submitted and other preconditions have been met, the Insured may make a claim for REMIC Insurance benefits.

Upon receipt of a notice of default under an insured Mortgage Loan, REMIC has the right to purchase the Mortgage Loan from the Insured for a price equal to the unpaid principal balance thereof and all "Allowed Costs" (defined to mean delinquent interest, taxes, attorney fees and the like) not previously reimbursed by REMIC. Thereafter, REMIC is to receive an assignment of the Mortgage Loan and all reserves held for the credit of the related Development. The Insured may also request, if the Mortgage Loan is Four Months in Default, that REMIC enter into (i) a periodic payment plan lasting no more than two years during which time the Insured is to receive from REMIC on a quarterly basis the amounts due on the Mortgage Loan net of the operating income from the Development assigned by the Mortgagor to the Insured, or (ii) where there is no reasonable expectation that there will be a cure of the Mortgage Loan default, a lump sum payment agreement requiring payment by REMIC to the Insured of an amount equal to the average of two quoted market valuations of the property plus the Coverage Percentage of Allowed
Costs. At the end of the two year periodic payment plan period, any additional insurance benefits due to the Insured are to be paid by REMIC. In the case of both a periodic payment plan and a lump sum payment plan, total insurance benefits paid may not exceed the lesser of (x) the Coverage Percentage of the full Claim for Loss (defined below), or (y) the Coverage Percentage of the Mortgage Loan principal amount as initially insured.

Unless the related Mortgage Loan is purchased by REMIC, or a periodic payment plan or lump sum payment plan has been executed, as described above, the Insured is required by the REMIC Policy to commence proceedings to obtain title to the Development when the insured Mortgage Loan becomes Four Months in Default (although the Insured is free to commence such proceedings upon any default). However, upon consent of REMIC or satisfaction of certain other conditions, actions, including foreclosure proceedings, may be undertaken in which title to the property will pass to a third party.

In the event that the Insured obtains title to the Development, the Insured may present a claim under the REMIC Insurance and REMIC, at its option, will pay insurance benefits in either of the following amounts:

(a) the full “Claim for Loss,” consisting of the Mortgage Loan principal balance as of the date of default and Allowed Costs but net of reserves held for the Development and net of any portion of the claim attributable to Insured fault or previously reimbursed to the Insured, in which case title to the Development is to be transferred to REMIC, or

(b) a percentage of the full Claim for Loss equal to the Coverage Percentage thereof, but not in excess of the Coverage Percentage of the Mortgage Loan principal amount as initially insured, in which case the Insured is to retain title to the Development.

If proceedings are undertaken in which title to the property passes to a third party, the Insured may claim under the REMIC Insurance for payment of the full Claim for Loss, net of the amounts realized by the Insured from such proceedings, but never in excess of the Coverage Percentage of the Mortgage Loan principal amount as initially insured.

For specific information on the coverage provided by REMIC Insurance, reference should be made to the applicable REMIC commitment and the Master Policy issued by REMIC, which are available at the offices of the Corporation.

The REMIC Insurance may terminate pursuant to its terms upon the occurrence of certain events including, without limitation, the nonpayment of renewal premium, the material modification of the Mortgage without the prior written approval of REMIC, and the disposal of property or collateral securing the Mortgage Loan prior to the final settlement of a claim for loss.

With respect to the Mortgage Loans insured or expected to be insured by REMIC, amounts in the HIF are available, and amounts in the REMIC MIF and the PRF are not available, to pay any liability incurred by REMIC with respect to such Mortgage Loans.

As of January 31, 2013, one hundred and fifty-six (156) permanent Mortgage Loans under the Program, with an aggregate outstanding Mortgage Loan balance of approximately $841 million are partially insured by REMIC.

REMIC makes no representation as to the contents of this Official Statement (other than this section), the suitability of the Bonds for any investor, the feasibility of the Developments, or compliance with any securities or tax laws and regulations which may relate to the issuance and sale of the Bonds.
REMIC's role is limited to providing the coverage set forth in the REMIC Insurance.

**SONYMA Insurance Program**

As further described below, the State of New York Mortgage Agency ("SONYMA") operates a mortgage insurance program. Mortgage Loans insured by SONYMA are referred to as the "SONYMA-insured Mortgage Loans." *The Bonds are not insured by SONYMA and SONYMA is not liable on the Bonds.*

**General.** SONYMA was established pursuant to the State of New York Mortgage Agency Act, Chapter 612 of the Laws of New York, 1970, as amended (the "SONYMA Act"). The directors of SONYMA consist of the State Comptroller or his appointee, the Director of the Budget of the State of New York, the Commissioner of the New York State Division of Housing and Community Renewal, one director appointed by the Temporary President of the State Senate, one director appointed by the Speaker of the State Assembly, and four directors appointed by the Governor with the advice and consent of the State Senate. SONYMA employs a staff of approximately 98 employees, including 10 persons who staff the legal, underwriting and risk evaluation, administrative and servicing units of the SONYMA Mortgage Insurance Fund. The issuance of commitments to insure loans of greater than $2,000,000 requires the approval of SONYMA's Mortgage Insurance Committee and the issuance of commitments to insure loans of greater than $7,000,000 also requires the approval of the directors of SONYMA.

The SONYMA Act authorizes SONYMA to enter into commitments to insure mortgages and contracts of mortgage insurance and to contract to facilitate the financial activities of the Convention Center Development Corporation (the "CCDC"), a subsidiary of the New York State Urban Development Corporation, and to fulfill SONYMA's obligations and enforce its rights under any insurance or financial support so furnished. Part II of the SONYMA Act, authorizing the mortgage insurance program, was adopted by the State Legislature in 1978 to encourage financial institutions to make mortgage loans in neighborhoods suffering from disinvestment by providing mortgage insurance to minimize the investment risk. In 1989, the SONYMA Act was amended to authorize SONYMA to provide insurance for a loan or pool of loans (a) when the property is located in an "economic development zone" as defined under State law, (b) when the property will provide affordable housing, (c) when the entity providing the mortgage financing was or is created by local, State or Federal legislation, and certifies to SONYMA that the project meets the program criteria applicable to such entity or (d) when the property will provide a retail or community service facility that would not otherwise be provided.

In December 2004, the SONYMA Act was amended to authorize SONYMA to enter into agreements with CCDC to provide a source or potential source of financial support to bonds of the CCDC and, to the extent not otherwise provided in respect of the support of bonds, for its ancillary bond facilities.

The SONYMA Act authorizes SONYMA to create a mortgage insurance fund (the "SONYMA Mortgage Insurance Fund"). The SONYMA Mortgage Insurance Fund is used as a revolving fund for carrying out the provisions of the SONYMA Act with respect to mortgages insured thereunder and with respect to providing credit support for the CCDC bonds or ancillary bond facilities. The Bonds are not secured by monies held in the SONYMA Mortgage Insurance Fund and SONYMA is not liable on the Bonds. The SONYMA Act provides that all monies held in the SONYMA Mortgage Insurance Fund, with certain exceptions, shall be used solely for the payment of its liabilities arising from mortgages insured by SONYMA or for providing credit support for the CCDC bonds or ancillary bond facilities pursuant to the SONYMA Act. Only monies in the appropriate accounts of the SONYMA Mortgage Insurance Fund will be available to
SONYMA for payment of SONYMA’s liabilities under the SONYMA mortgage insurance policies for the SONYMA-insured Mortgage Loans (the “SONYMA Insurance”).

The SONYMA Act establishes within the SONYMA Mortgage Insurance Fund a project pool insurance account with respect to insurance on properties other than one to four dwelling units (the “Project Pool Insurance Account”), a special account (the “Special Account”), a single family pool insurance account with respect to insurance related to one to four dwelling units (the “Single Family Pool Insurance Account”), and a development corporation credit support account with respect to providing credit support for the bonds or ancillary bond facilities of the CCDC (the “Development Corporation Credit Support Account”). The Development Corporation Credit Support Account is a source or potential source of payment of the sum of the respective amounts (or percentages) of required or permissive funding by the CCDC of each reserve and financial support fund established by the CCDC for its bonds and, to the extent not otherwise provided in respect of the support of bonds, for its ancillary bond facilities for which SONYMA has determined that the Development Corporation Credit Support Account is or will be a source or potential source of funding.

The SONYMA Act provides that assets of the Project Pool Insurance Account, the Special Account, the Single Family Pool Insurance Account and the Development Corporation Credit Support Account shall be kept separate and shall not be commingled with each other or with any other accounts which may be established from time to time, except as authorized by the SONYMA Act. The SONYMA-insured Mortgage Loans are insured by SONYMA under the Project Pool Insurance Account.

The SONYMA Act provides that all monies held in the Project Pool Insurance Account, with certain exceptions, shall be used solely for the payment of its liabilities arising from mortgages insured by SONYMA pursuant to the SONYMA Act. The claims-paying ability of each of the Project Pool Insurance Account and the Single Family Pool Insurance Account of the SONYMA Mortgage Insurance Fund are rated “Aa1” by Moody’s Investors Service with a negative outlook on the Single Family Pool Insurance Account. The claims-paying ability of the Project Pool Insurance Account and the Single Family Pool Insurance Account of the SONYMA Mortgage Insurance Fund are rated “AA-” and “AA+,” respectively, by Fitch, Inc with a negative outlook on the Project Pool Insurance Account. Such ratings reflect only the views of such organizations; an explanation of the significance of such ratings may be obtained from the respective rating agencies. There is no assurance that such ratings will continue for any period of time or that they will not be revised downward or withdrawn entirely by such rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. These ratings were established subsequent to SONYMA’s change in its procedures to now require that reserves established with respect to project primary insurance it provides be deposited to the Project Pool Insurance Account. The claims paying ability of the Development Corporation Credit Support Account has not been rated. The SONYMA Act provides that SONYMA may not execute a contract to provide credit support to the bonds or ancillary bond facilities of the CCDC if, at the time such contract is executed, such execution would impair any then existing credit rating of the Single Family Pool Insurance Account or the Project Pool Insurance Account.

The SONYMA Mortgage Insurance Fund is funded primarily by a surtax on the State mortgage recording tax. Section 253(1-a) of the State Tax Law (the “State Tax Law”) imposes a surtax (the “Tax”) on recording mortgages of real property situated within the State. Excluded from the Tax are, among others, recordings of mortgages executed by voluntary nonprofit hospital corporations, mortgages executed by or granted to the Dormitory Authority of the State of New York and mortgages, wherein the mortgagee is a natural person, on mortgaged premises consisting of real property improved by a structure containing six or fewer residential dwelling units, each with separate cooking facilities. The Tax is equal to $0.25 for each $100 (and each remaining major fraction thereof) of principal debt which is secured by
the mortgage. Section 261 of the State Tax Law requires the respective recording officers of each county of the State, on or before the tenth day of each month, after deducting certain administrative expenses incident to the maintenance of their respective recording offices, to pay SONYMA for deposit to the credit of the SONYMA Mortgage Insurance Fund the portion of the Tax collected by such counties during the preceding month, except that: (i) with respect to mortgages recorded on and after May 1, 1987, the balance of the Tax paid during each month to the recording officers of the counties comprising the Metropolitan Commuter Transportation District on mortgages of any real property improved by a structure containing six residential dwelling units or less with separate cooking facilities, shall be paid over to the Metropolitan Transportation Authority; (ii) with respect to mortgages recorded on and after May 1, 1987, the balance of the Tax paid during each month to the recording officers of the County of Erie on mortgages of any real property improved by a structure containing six residential dwelling units or less with separate cooking facilities, shall be paid over to the State Comptroller for deposit into the Niagara Frontier Transportation Authority light rail rapid transit special assistance fund; and (iii) Taxes paid upon mortgages covering real property situated in two or more counties shall be apportioned by the State Tax Commission among SONYMA, the Metropolitan Transportation Authority and the Niagara Frontier Transportation Authority, as appropriate.

Mortgage recording taxes have been collected in the State for more than 75 years. SONYMA has been entitled to receive Tax receipts since December 1978. Under existing law, no further action on the part of the State legislature is necessary for the SONYMA Mortgage Insurance Fund to continue to receive such monies. However, the State is not bound or obligated to impose, or to impose at current levels, the mortgage recording taxes described above or to direct the proceeds to SONYMA as currently provided. The SONYMA Mortgage Insurance Fund’s receipt of Tax receipts is dependent upon the performance by the county recording officers of their collection and remittance obligations; the State Tax Commission is given general supervisory power over such officers. Tax receipts paid to the Mortgage Insurance Fund in calendar years 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011 and 2012 were approximately $83 million, $106 million, $131 million, $168 million, $184 million, $210 million, $140 million, $73 million, $64 million, $79 million and $99 million, respectively. Through and including February 28, 2012, the tax receipts payable to the Mortgage Insurance Fund in calendar year 2013 were approximately $27 million. Tax receipts have fluctuated over the period they have been payable to the Mortgage Insurance Fund, due to changing conditions in the State’s real estate market.

The SONYMA Act provides that SONYMA must credit the amount of money received from the recording officer of each county to the Special Account. The SONYMA Act provides that SONYMA may credit from the Special Account to the Project Pool Insurance Account, the Single Family Pool Insurance Account or the Development Corporation Credit Support Account, such moneys as are needed to satisfy the mortgage insurance fund requirement (as defined in the SONYMA Act) (the “Mortgage Insurance Fund Requirement”) of the Project Pool Insurance Account, the Single Family Pool Insurance Account and the Development Corporation Credit Support Account, respectively, except that during any twelve-month period ending on March thirty-first the aggregate amount credited to the Development Corporation Credit Support Account (excluding investment earnings thereon) shall not exceed the lesser of (i) fifty million dollars or (ii) the aggregate of the amounts required under the contracts executed by SONYMA to provide credit support to the CCDC’s bonds or ancillary bond facilities. The SONYMA Act also provides that if at any time the moneys, investments and cash equivalents (valued as determined by SONYMA) of the Project Pool Insurance Account, the Single Family Pool Insurance Account or the Development Corporation Credit Support Account exceed the amount necessary to attain and maintain the credit rating or, with respect to credit support to the CCDC’s bonds or ancillary bond facilities, credit worthiness (as determined by SONYMA) required to accomplish the purposes of either of such Accounts, SONYMA shall transfer such excess to the Special Account. Any excess balance in the Special Account is required to be remitted to the State annually. The SONYMA Act provides that no monies shall be withdrawn from any account within the SONYMA Mortgage Insurance Fund at any time in such amount as would reduce the amount in each account of such Fund to less than its applicable Mortgage Insurance
Fund Requirement, except for the purpose of paying liabilities as they become due and for the payment of which other monies are not available. There can be no assurance that the amounts on deposit in the Project Pool Insurance Account will not be depleted through payment of liabilities arising with respect to insured mortgage loans other than the SONYMA-insured Mortgage Loans.

The Mortgage Insurance Fund Requirement as of any particular date of computation is equal to an amount of money or cash equivalents equal to (a) the aggregate of (i) the insured amounts of loans and such amount of credit support for the CCDC's bonds or ancillary bond facilities that SONYMA has determined to be due and payable as of such date pursuant to its contracts to insure mortgages or provide credit support for the CCDC's bonds or ancillary bond facilities plus (ii) an amount equal to twenty per centum (20%) of the amounts of loans insured under SONYMA's insurance contracts plus twenty per centum (20%) of the amounts to be insured under SONYMA's commitments to insure less the amounts payable pursuant to subparagraph (i) above (provided, however, that if the board of directors of SONYMA shall have established a higher per centum for a category of loans pursuant to the SONYMA Act, such per centum shall be substituted for twenty per centum (20%) in this paragraph as, for example, the March 2001 board of directors determination that the per centum for special needs facilities was forty per centum (40%), plus (iii) an amount equal to the respective amounts established by contracts under which SONYMA has determined that the Development Corporation Credit Support Account will provide credit support for CCDC, less the amounts payable with respect to credit support for CCDC's bonds or ancillary bond facilities pursuant to subparagraph (i) above less (b) the aggregate of the amount of each reinsurance contract procured in connection with obligations of SONYMA determined by SONYMA to be a reduction pursuant to this paragraph in calculating the Mortgage Insurance Fund Requirement. Pursuant to the SONYMA Act, the board of directors of SONYMA may, from time to time, establish a Mortgage Insurance Fund Requirement in an amount higher than the twenty per centum (20%) set forth above. There can be no assurance that, in the future, there will not be additional changes in the Mortgage Insurance Fund Requirement for any category of loans.

As of October 31, 2012, the amount of reserves (money or cash equivalents) in the Project Pool Insurance Account was $1,337,396,646 and the Mortgage Insurance Fund Requirement related to such Account was $716,210,742. Amounts on deposit in the Project Pool Insurance Account may be transferred to other accounts or withdrawn as described in the second preceding paragraph.

As of October 31, 2012, the SONYMA Mortgage Insurance Fund's total liability against project mortgage insurance commitments and policies in force was $3,226,043,878 and the SONYMA Mortgage Insurance Fund had a total loan amount on outstanding project mortgage insurance commitments and policies in force of $3,500,016,344.

As of October 31, 2012, the Project Pool Insurance Account had paid 59 project mortgage insurance claims for loss in the aggregate amount of $118,089,962. As of October 31, 2012, the SONYMA Mortgage Insurance Fund had 22 project mortgage insurance policies in force on which claims for loss had been submitted. SONYMA estimates that its total liability thereon is $38,536,279.

On September 28, 2005, the board of directors of SONYMA authorized SONYMA to enter into a credit support agreement with CCDC, pursuant to which SONYMA has agreed to provide credit support for the New York Convention Center Development Corporation Revenue Bonds (Hotel Unit Fee Secured) Series 2005 (the "CCDC Series 2005 Bonds") issued by CCDC. SONYMA has made an initial deposit of $33.8 million into the Development Corporation Credit Support Account and, thereafter, will maintain a minimum balance of $25 million in such Account. These moneys will be used to support the payment of an amount equal to up to one-third of the scheduled principal and interest due on the CCDC Series 2005 Bonds.
In addition to the mortgage insurance program and the credit support program, the SONYMA Act authorizes SONYMA to purchase and make commitments to purchase mortgage loans on single-family (one- to four-unit) housing and home improvement loans from certain lenders in the State. The SONYMA Act also empowers SONYMA to make and purchase certain student loans. SONYMA may issue its bonds to finance purchases of loans.


SONYMA makes no representation as to the contents of this Official Statement (other than this section), the suitability of the Bonds for any investor, the feasibility of any Project or compliance with any securities or tax laws and regulations which may relate to the issuance and sale of the Bonds.

SONYMA’s role is limited to providing the coverage set forth in the SONYMA Insurance.

State Fiscal Year 2013-2014 Executive Budget

The Current Enacted Budget of the State requires certain transfers of moneys from the MIF’s Project Pool Insurance Account. (Each State fiscal year is for the twelve-month period from April 1 of a calendar year to and including March 31 in the next succeeding calendar year.) Each transfer requires a determination by the Agency that, at the time of such transfer, the reserves remaining in the Project Pool Insurance Account are sufficient to attain and maintain the credit rating required to accomplish the purposes of the Project Pool Insurance Account. There can be no assurances as to what effect, if any, any such transfer may have on the then-current rating of the MIF’s Project Pool Insurance Account by any rating agency.

Nine transfers will be made from the Project Pool Insurance Account in the aggregate amount of up to $164 million on or before March 31, 2014 as follows: one transfer of up to $104 million to the State general fund on or before March 31, 2014, one transfer of up to $17.582 million to the New York State Housing Finance Agency on or before March 31, 2014, and seven transfers to the Housing Trust Fund Corporation, the first three of which, in an aggregate amount of up to $32.418 million, on or before June 30, 2013 and the remaining four in an aggregate amount of up to $10 million, on or before March 31, 2014.

Similar provisions enacted as part of prior State Enacted Budgets resulted in transfers of $100 million from the Project Pool Insurance Account in both Fiscal Year 2012-2013 and Fiscal Year 2008-2009 (which transfers have been reflected in the Agency’s financial statements).

State budget legislation in future years may provide for transfers from the Project Pool Insurance Account or other accounts in the MIF. The Agency makes no representation regarding whether any such transfers, or the amounts thereof, will be enacted.

The SONYMA Act provides that no monies shall be withdrawn from any account within the SONYMA Mortgage Insurance Fund at any time in an amount which would cause the amount on deposit in such account, including the Project Pool Insurance Account, of such Fund to fall below its statutorily required reserves.
Collection of SONYMA Mortgage Insurance Benefits – 100% Mortgage Loans.

It is expected that the SONYMA-insured Mortgage Loans will be or have been insured by SONYMA upon compliance with certain conditions contained in their respective SONYMA insurance commitments. As of the date of this Official Statement, certain Mortgage Loans insured by SONYMA have been or will be insured for 100% of the outstanding principal balance thereof (the “100% Mortgage Loans”). The following description relates only to 100% Mortgage Loans which are insured for 100% of the outstanding principal balance thereof.

Pursuant to the SONYMA Insurance with respect to each of the SONYMA-insured 100% Mortgage Loans, following certain defaults under the respective Mortgage securing such 100% Mortgage Loans, the Corporation shall file a claim for loss with SONYMA. Thereupon, SONYMA has the option to either (i) make periodic payments of its obligation under the SONYMA Insurance in amounts equal to the scheduled principal and interest payments due with respect to such 100% Mortgage Loan plus certain other amounts expended by the Corporation (for which the Corporation has not been reimbursed) or (ii) make a lump sum payment under the SONYMA Insurance in an amount equal to the sum of the principal outstanding and interest accrued on such 100% Mortgage Loan from the date of such claim for loss to the date of payment in respect of such claim for loss and certain other amounts expended by the Corporation (for which the Corporation has not been reimbursed). Periodic payments are to be made monthly. In addition, if SONYMA has chosen initially to make periodic payments it may nevertheless exercise its option to make a lump sum payment in the full amount of its then outstanding obligation under the SONYMA Insurance at any time while SONYMA is making periodic payments. Upon a lump sum payment by SONYMA, the Corporation shall assign such Mortgage to SONYMA. The SONYMA Insurance with respect to such 100% Mortgage Loan may terminate pursuant to its terms upon the occurrence of certain events including the nonpayment of renewal premium. For specific information on the coverage provided by the SONYMA Insurance with respect to such 100% Mortgage Loan, reference should be made to the policy related to such SONYMA Insurance which is available for inspection at the office of the Corporation.

The Corporation has covenanted not to take any action to conflict with SONYMA regulations so as to jeopardize the SONYMA Insurance. In addition, in the event of a default under any of the SONYMA-insured 100% Mortgage Loans, the Corporation has covenanted to undertake to assign such 100% Mortgage Loan to SONYMA or take such other actions in timely fashion so as to avoid any loss or diminution of benefits receivable as SONYMA Insurance.

Collection of SONYMA Mortgage Insurance Benefits – 50% Mortgage Loans.

It is expected that the SONYMA-insured Mortgage Loans will be or have been insured by SONYMA upon compliance with certain conditions contained in their respective SONYMA insurance commitments. As of the date of this Official Statement, certain Mortgage Loans insured by SONYMA have been or will be insured for 50% of the originally insured principal balance thereof on a first loss basis (the “50% Mortgage Loans”). The following description relates only to 50% Mortgage Loans which are insured for 50% of the originally insured principal balance thereof.

Pursuant to the SONYMA Insurance with respect to each of the SONYMA-insured 50% Mortgage Loans, following certain defaults under the respective Mortgage securing such 50% Mortgage Loans, the Corporation shall file a claim for loss with SONYMA. Thereupon, SONYMA has the option to either (i) make periodic payments of its obligation under the SONYMA Insurance in amounts equal to the scheduled principal and interest payments due with respect to such 50% Mortgage Loan plus certain other amounts expended by the Corporation (for which the Corporation has not been reimbursed) in an aggregate amount not to exceed 50% of the originally insured principal balance or (ii) make a lump sum
payment under the SONYMA Insurance in an amount not to exceed the lesser of (i) 50% of the originally insured amount thereof, or (ii) the sum of the principal outstanding and interest accrued on such 50% Mortgage Loan from the date of such claim for loss to the date of payment in respect of such claim for loss and certain other amounts expended by the Corporation (for which the Corporation has not been reimbursed). SONYMA shall make periodic payments for a period not to exceed three (3) years at the expiration of which, SONYMA may elect to continue the periodic payments or suspend payments until the Corporation obtains a deficiency judgment, at which time SONYMA will pay to the Corporation the remainder of its then outstanding obligation under the SONYMA Insurance. Periodic payments are to be made monthly. In addition, if SONYMA has chosen initially to make periodic payments it may at any time nevertheless exercise its option to make a lump sum payment. The SONYMA Insurance with respect to such 50% Mortgage Loan may terminate pursuant to its terms upon the occurrence of certain events including the nonpayment of renewal premium. For specific information on the coverage provided by the SONYMA Insurance with respect to such 50% Mortgage Loan, reference should be made to the policy related to such SONYMA Insurance which is available for inspection at the office of the Corporation.

The Corporation has covenanted not to take any action to conflict with SONYMA regulations so as to jeopardize the SONYMA Insurance. In addition, in the event of a default under any of the SONYMA-insured 50% Mortgage Loans, the Corporation has covenanted to take such other actions in timely fashion so as to avoid any loss or diminution of benefits receivable as SONYMA Insurance.

**GNMA Mortgage-Backed Securities Program**

GNMA Securities are “fully-modified, pass-through” securities which require the Mortgage Banker that issued such GNMA Securities or its assignee (i) to make monthly payments of principal and interest on the aggregate principal balance thereof to the holder of the GNMA Securities, whether or not the Mortgage Banker receives payments on the mortgage loans backing the GNMA Securities from the mortgagor, and (ii) to pass through any prepayments of principal and premiums on the mortgage loans received by the Mortgage Banker. GNMA Securities are guaranteed as to full and timely payment of principal and interest by GNMA, a wholly-owned corporate instrumentality of the United States within the Department of Housing and Urban Development with its principal office in Washington, D.C.

**GNMA Guaranty.** GNMA is authorized by Section 306(g) of Title III of the National Housing Act to guarantee the timely payment of the principal of and interest on securities which are based on and backed by, among other things, an FHA-insured mortgage loan under the National Housing Act. Section 306(g) of the National Housing Act provides further that “the full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection.” An opinion, dated December 12, 1969, of an Assistant Attorney General of the United States, states that, under Section 306(g) of the National Housing Act, such guarantees of mortgage-backed securities (of the type to be delivered to the Trustee on behalf of the Corporation) are authorized to be made by GNMA and “would constitute general obligations of the United States backed by its full faith and credit.”

GNMA guarantees the timely payment of the principal of and interest on the GNMA Security by the Mortgage Banker. Interest and principal payments on the underlying mortgage loans received by the Mortgage Banker from the mortgagor are the primary source of monies for payments on the GNMA Securities. If such payments are less than what is due under the GNMA Security, the Mortgage Banker is obligated to advance its own funds to insure timely payment of all amounts coming due on the GNMA Security. GNMA guarantees such timely payment to the holder of the GNMA Securities by the Mortgage Banker whether or not made by a mortgagor. If such payments are not received as scheduled, the holder of the GNMA Securities has recourse directly to GNMA. The GNMA Securities do not constitute a
liability of, nor evidence any recourse against, the Mortgage Banker as the issuer of the GNMA Securities, but recourse thereon is solely against GNMA.

In order to meet its obligations under such guaranty, GNMA, in its corporate capacity under Section 306(d) of Title III of the National Housing Act, may issue its general obligations to the United States Treasury in an amount outstanding at any time sufficient to enable GNMA, with no limitations as to amount, to perform its obligations under its guaranty of the timely payment of the principal of and interest on a GNMA Security. The Treasury is authorized to purchase any obligations so issued by GNMA and has indicated in a letter dated February 13, 1970, from the Secretary of the Treasury to the Secretary of HUD that the Treasury will make loans to GNMA, if needed, to implement the aforementioned guaranty. GNMA further warrants to the holder of each GNMA Security, that, in the event it is called upon at any time to make good its guaranty of the payment of principal and interest on a GNMA Security, it will, if necessary, in accordance with Section 306(d) of the National Housing Act, apply to the Treasury Department of the United States for a loan or loans in amounts sufficient to make payments of principal and interest.

Under the GNMA Mortgage-Backed Securities Program, the Mortgage Banker is obligated to execute a Guaranty Agreement which provides that, in the event of a default by the Mortgage Banker, including (i) a request to GNMA to make a payment of principal or interest on a GNMA Security, (ii) the insolvency of the Mortgage Banker, or (iii) a default by the Mortgage Banker under any other Guaranty Agreement with GNMA, GNMA shall have the right to extinguish the Mortgage Banker’s interest in the mortgage loans that back GNMA Securities, which then shall become the absolute property of GNMA, subject only to the unsatisfied rights of the owners of the GNMA Securities. In such event, the GNMA Guaranty Agreement provides that GNMA shall be the successor in all respects to the Mortgage Banker in its capacity under the GNMA Guaranty Agreement and shall be subject to all responsibilities, duties and liabilities (except the Mortgage Banker’s indemnification of GNMA) of the Mortgage Banker pursuant to the GNMA Guaranty Agreement. GNMA may contract for another eligible issuer of GNMA Securities to undertake and agree to assume any part or all of such responsibilities, duties or liabilities of the Mortgage Banker, as long as no such agreement detracts from or diminishes the responsibilities, duties or liabilities of GNMA in its capacity as guarantor of the GNMA Security or otherwise adversely affects the rights of the owners of the GNMA Securities.

Payment of Principal and Interest on the GNMA Securities. GNMA Securities provide that accrued interest for thirty (30) days is payable by the Mortgage Banker to the holder of the GNMA Securities on the fifteenth (15th) of each successive month thereafter until maturity of the GNMA Security. The GNMA Securities are payable in equal monthly installments, subject to prepayment. The aggregate amount of principal due on the GNMA Securities is in an amount equal to the scheduled principal amortization currently due on the underlying mortgage note.

Each of the monthly installments is subject to adjustment by reason of any prepayments or other early or unscheduled recoveries of principal on the mortgage note. In any event, the Mortgage Banker is obligated to pay to the holder of the GNMA Securities, monthly installments of not less than the interest due on the GNMA Securities at the rate specified in the GNMA Securities, together with any scheduled installments of principal whether or not collected from the mortgagor, and any prepayments or early recoveries of principal (including insurance proceeds and condemnation awards that are applied to principal and FHA insurance benefits) and prepayment premiums paid under the Mortgage Note. Final payment shall be made upon surrender of each outstanding GNMA Security. Any such prepayment could result in the redemption of Bonds at any time.
In the event that a mortgagor defaults under an FHA-insured mortgage loan that backs a GNMA Security, the Mortgage Banker may elect to file a claim for FHA Insurance benefits. See "FHA Insurance Program" above.

Under the GNMA Mortgage-Backed Securities Program, the Mortgage Banker is required to service and otherwise administer the mortgage loans in accordance with generally accepted practices of the mortgage banking industry and the GNMA Servicer Guide. The monthly remuneration of the Mortgage Banker, for its servicing and administrative functions, and the guaranty fee charged by GNMA, are based on the unpaid principal amount of GNMA Securities outstanding. Repayment of principal on such GNMA Securities will be based on repayment of the respective mortgage note which, because of the minimum 0.25% higher interest rate on the note will occur more slowly than would repayment by equal installments of principal and interest at the interest rate on the GNMA Securities.

**Fannie Mae**

**Fannie Mae Standby Credit Enhancement Instrument**

Fannie Mae has issued standby credit enhancement instruments with respect to certain Mortgage Loans pursuant to which, subject to certain requirements set forth therein, Fannie Mae has agreed to pay certain payment deficiencies related to the scheduled principal and interest payments on such Mortgage Loans and any deficiencies in the event of a mandatory prepayment or acceleration thereof, as described therein. Fannie Mae has also issued a credit enhancement instrument with respect to a specified pool of Mortgage Loans, which is described below.

The amount drawn under a standby credit enhancement instrument may not exceed the Amount Available thereunder. The "Amount Available" is, at any time, an amount at least equal to (i) the outstanding principal balance of the applicable Mortgage Loan (the "Principal Component") plus (ii) an amount equal to the accrued interest on the outstanding principal balance of such Mortgage Loan for up to 60 days at a specified rate computed on the basis of a 360-day year of twelve 30-day months (the "Interest Component"), in each instance as reduced by that amount, if any, previously provided by Fannie Mae to the Corporation for payment under such standby credit enhancement instrument, such reduction to be in an amount equal to 100% of the amount of such payment. Following certain payments, the Interest Component of the Available Amount will be immediately reinstated.

Upon its receipt of a draw request with respect to the applicable Mortgage Loan or the occurrence of an event of default thereunder or under a reimbursement security document, Fannie Mae can elect to pay the Corporation the sum of the Principal Component and the accrued interest and specified Corporation fee (not to exceed the Interest Component) and receive an assignment of such Mortgage Loan.

Information on Fannie Mae and its financial condition is contained in periodic reports that are filed with the Securities and Exchange Commission (the "SEC"). The SEC filings are available at the SEC's website at www.sec.gov.

**Fannie Mae Credit Enhancement Instrument.** Pursuant to a Program Agreement with the Corporation, Fannie Mae has issued its credit enhancement instrument (the "Credit Enhancement Instrument") with respect to a specified pool of Mortgage Loans (the "Fannie Mae Credit Enhanced Mortgage Loans"). Each of the Fannie Mae Credit Enhanced Mortgage Loans in the pool will be entitled to the benefits of a contract to make periodic interest reduction payments ("IRPs") entered into by the Secretary of HUD pursuant to Section 236(b) of the National Housing Act with the applicable Mortgagor. See "Subsidy Programs – Section 236 Program" in this Appendix G. Each such Mortgage Loan will be

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bifurcated in to a 236 Loan component expected to be paid from IRPs paid by HUD and a Conventional Loan component expected to be paid from income of the related Development. The Fannie Mae Credit Enhanced Mortgage Loans will be pledged to the Trustee and to Fannie Mae, as their interests may appear.

Under the Credit Enhancement Instrument, Fannie Mae will agree to make “Debt Service Advances” and “Buy-Out Advances” (described below) with respect to the Fannie Mae Credit Enhanced Mortgage Loans following a failure by the Mortgagor of any such Mortgage Loan to pay when due and in full payments required with respect to its Mortgage Loan (a “Borrower Payment Default”).

Fannie Mae will agree to make Debt Service Advances to the Trustee on demand of the Trustee (i) with respect to the Conventional Loan component of the Fannie Mae Credit Enhanced Mortgage Loans, if a Borrower Payment Default has occurred and is continuing and the aggregate principal and interest payments received in any Payment Period on the Conventional Loan component are less than 75 percent of all the scheduled principal and interest payments to be made on the Conventional Loan component for the same Payment Period (such difference is referred to as the “Conventional Shortfall”) and (ii) with respect to the 236 Loan component of the Fannie Mae Credit Enhanced Mortgage Loans, if a Borrower Payment Default has occurred and is continuing and the aggregate principal and interest payments received in any Payment Period on the 236 Loan component are less than 100% of all the scheduled principal and interest payments to be made on the 236 Loan components for such Payment Period (such difference is referred to as the “236 Shortfall”). A Debt Service Advance will be in an amount equal to such Conventional Shortfall or 236 Shortfall. Debt Service Advances will relate to a deficiency in the aggregate payments made by all Fannie Mae Credit Enhanced Mortgage Loans during the Payment Period as set forth in the Program Agreement (and will not relate to any particular Fannie Mae Credit Enhanced Mortgage Loan).

If a Borrower Payment Default has occurred and is continuing with respect to the Conventional Loan component of Fannie Mae Credit Enhanced Mortgage Loans and the aggregate principal and interest payments received in any Payment Period for the Conventional Loan component is 75% or more (but less than 100%) of all the scheduled principal and interest payments to be made for the same Payment Period for the Conventional Loan Component, the Fannie Mae Credit Enhancement Instrument may not be drawn on to make up such deficiency. At the direction of the Corporation, the Trustee may apply amounts in the Mortgage Loan Reserve Account to pay debt service on Bonds the proceeds of which financed Fannie Mae Credit Enhanced Mortgage Loans.

Fannie Mae will also agree to make Buy-Out Advances to the Trustee in respect of any Fannie Mae Credit Enhanced Mortgage Loan with respect to which a Borrower Payment Default has occurred (a “Defaulted Mortgage Loan”) under the terms and conditions set forth in the Credit Enhancement Instrument and the Supplemental Resolution. A Buy-Out Advance relates to a particular Fannie Mae Credit Enhanced Mortgage Loan. The Corporation may demand that Fannie Mae make a Buy-Out Advance with respect to a Defaulted Mortgage Loan upon the first to occur of (i) the completion of a foreclosure action on the Defaulted Mortgage Loan and the resulting transfer of the property securing that Defaulted Mortgage Loan; and (ii) the commencement of a foreclosure action on a Defaulted Mortgage Loan after conclusion of all administrative remedies by HPD with respect to such Defaulted Mortgage Loan and HPD’s written certification to the effect that HPD will not contest or resist the proposed foreclosure, but in no event may the Corporation demand a Buy-Out Advance unless not less that two years has elapsed from the date of the first uncured Borrower Payment Default with respect to that Defaulted Mortgage Loan. Both Fannie Mae and the Corporation will each have the right, acting alone, to commence a foreclosure action, but only if HPD has provided a HPD Certification for such Defaulted Mortgage Loan. Upon payment of a Buy-Out Advance with respect to a Defaulted Mortgage Loan, all rights to such Defaulted Mortgage Loan and all payments made with respect to such Defaulted Mortgage

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Loan will be for the benefit of Fannie Mae and Fannie Mae shall be entitled to and/or control all rights with respect to such Defaulted Mortgage Loan.

Each Buy-Out Advance is to be in an amount equal to the unpaid principal balance of the Defaulted Mortgage Loan for which such advance is being made ("Defaulted Mortgage Loan Balance"), less an allocation of Buy-Out Credits (described below) then outstanding, if any, but not in an amount in excess of the Defaulted Mortgage Loan Balance. Fannie Mae may choose to make an allocation of Net Buy-Out Credits (described below) to the Buy-Out Advance and, if more than one Defaulted Mortgage Loan is the subject of one Buy-Out Advance, to which Defaulted Mortgage Loan or Loans within the Buy-Out Advance. Should Fannie Mae fail to make a selection, Fannie Mae will be deemed to have elected to apply any Net Buy-Out Credits then available to the Buy-Out Advance and if more than one Defaulted Mortgage Loan is included in the Buy-Out Advance, to the Defaulted Mortgage Loans in the chronological order in which such loans defaulted. The Defaulted Mortgage Loan Balance is to exclude all accrued and unpaid interest on the Defaulted Mortgage Loan, capitalized interest, interest on interest, late fees, collection costs and Mortgage Loan Costs or any other sums added to the principal balance at any time for purposes of determining the amount of the Buy-Out Advance for such Defaulted Mortgage Loan.

If a Debt Service Advance was made with respect to the 236 Loan component of the Fannie Mae Credit Enhanced Mortgage Loans, Buy-Out Credits earned by Fannie Mae will be the aggregate scheduled principal components of the unpaid installments of such Fannie Mae Credit Enhanced Mortgage Loans for the Payment Period for which that Debt Service Advance was made. If a Debt Service Advance was made with respect to the Conventional Loan component of the Fannie Mae Credit Enhanced Mortgage Loan, the Buy-Out Credits earned by Fannie Mae will be the amount of the Debt Service Advance, multiplied by a fraction, the denominator of which is equal to the scheduled principal and interest payments payable on the portion of the Fannie Mae Credit Enhanced Mortgage Loans to be paid from the income of the Developments during the relevant Payment Period and the numerator of which is equal to the scheduled principal payments during such Payment Period with respect to such portion of the Fannie Mae Credit Enhanced Mortgage Loans. “Net Buy-Out Credits” will equal (i) the sum of all Buy-Out Credits earned by Fannie Mae from time to time less (ii) the sum of all reimbursements allocable to principal received by Fannie Mae and all Buy-Out Credits applied to Buy-Out Advances.

Pursuant to the applicable Supplemental Resolution, the Corporation is required for each applicable Payment Period, to calculate the aggregate Mortgage Loan Shortfall on all Defaulted Mortgage Loans for such Payment Period, if any, including a breakdown of the Conventional Loan Component Reserve Withdrawal Amount, the Conventional Loan Component Shortfall, if any, and the 236 Loan Component Shortfall, if any, for such Defaulted Mortgage Loans, and to submit such calculations in writing to the Trustee, with a copy to Fannie Mae, no later than the twentieth (20th) day of the calendar month (or if such twentieth (20th) day is not a Business Day, on the next succeeding Business Day) immediately preceding an Interest Payment Date. The Trustee is to request a Debt Service Advance under the Credit Enhancement Instrument not less than four (4) Business Days before the next succeeding Interest Payment Date. If a Certificate in respect of a Debt Service Advance is presented under the Credit Enhancement Instrument at or prior to 12:00 noon, Washington, D.C. time, on a Business Day, and the Certificate conforms to the requirements of the Credit Enhancement Instrument, Fannie Mae is required to either pay to the Trustee the amount specified or provide the Trustee with the Fedwire number relating to the wiring of that amount no later than 12:00 noon, Washington, D.C. time, on the third Business Day following such presentation.

All payments received with respect to Defaulted 236 Mortgage Loans are to be applied to pay Mortgage Loan Costs (defined below) and then to reimburse Fannie Mae for any advances it has made.
All payments received with respect to Defaulted Conventional Mortgage Loans are to be applied first to pay Mortgage Loan Costs and then to make the following payments in the following order of priority: to reimburse Fannie Mae for the portion of Debt Service Advances not allocable to the principal of Mortgage Loans, to the Trustee for unpaid and unreimbursed interest payments, to reimburse Fannie Mae for the portion of Debt Service Advances allocable to principal and to the Trustee for unpaid and unreimbursed principal payments. "Mortgage Loan Costs" means any of the amounts paid by the Corporation, any Servicer or Fannie Mae with respect to a Mortgage Loan for any of the following: (a) taxes and assessments, (b) insurance premiums, (c) any payments, reasonably determined by the Corporation or Fannie Mae to be necessary to preserve and protect the property related to the Mortgage Loan, and (d) any payments, as reasonably determined by the Corporation or Fannie Mae be necessary to exercise any legal or equitable remedies (including reasonable attorney, appraisal, environmental or other professional fees and expenses).

Fannie Mae may remove a Fannie Mae Credit Enhanced Mortgage Loan from the pool covered by the Credit Enhancement Instrument if certain representations made by the Corporation with respect to such Mortgage Loan are not correct. In the Program Agreement, the Corporation makes certain representations concerning its corporate authority to enter into the Program Agreement as well as representations regarding the Fannie Mae Credit Enhanced Mortgage Loans, including the documentation relating to the Mortgage Loans, the properties that are subject to the Mortgage Loans, the priority of the liens created by the Mortgage Loans, the Mortgagors and the operation of the Developments. In addition, a Fannie Mae Credit Enhanced Mortgage Loan will be removed from the pool covered by the Credit Enhancement Instrument following a Buy-Out Advance with respect to such Fannie Mae Credit Enhanced Mortgage Loan. Last, the Corporation may remove a Fannie Mae Credit Enhanced Mortgage Loan from the pool covered by the Credit Enhancement Instrument (i) prior to a date approximately 15 years from the date the Mortgage Loan became a Fannie Mae Credit Enhanced Mortgage, with the consent of Fannie Mae upon the filing of a Cash Flow Statement and (ii) on and after a date approximately 15 years from the date the Mortgage Loan became a Fannie Mae Credit Enhanced Mortgage, upon the filing of a Cash Flow Statement. Any Fannie Mae Credit Enhanced Mortgage Loan removed from the pool other than by reason of a Buy-Out Advance shall continue to be a Mortgage Loan pledged under the Resolution subject to the terms of the Resolution permitting subsequent removal. Any Fannie Mae Credit Enhanced Mortgage Loan removed from the pool by reason of a Buy-Out Advance shall no longer be pledged for the benefit of the Bond owners under the Resolution.

**Freddie Mac**

**Freddie Mac Standby Credit Enhancement Agreement**

Freddie Mac has issued standby credit enhancement agreements with respect to certain Mortgage Loans pursuant to which, subject to certain requirements set forth therein, Freddie Mac has agreed to pay certain payment deficiencies related to the scheduled principal and interest payments on such Mortgage Loans and any deficiencies in the event of a mandatory prepayment or acceleration thereof, as described therein.

The amount drawn under a standby credit enhancement agreement may not exceed the Amount Available thereunder. The "Amount Available" is, at any time, an amount at least equal to (i) the outstanding principal balance of the applicable Mortgage Loan (the "Principal Component") plus (ii) an amount equal to the accrued interest on the outstanding principal balance of such Mortgage Loan for up to 60 days at a specified rate computed on the basis of a 360-day year of twelve 30 day months (the "Interest Component"), in each instance as reduced by that amount, if any, previously provided by Freddie Mac to the Corporation for payment under such standby credit enhancement agreement, such reduction to be in
an amount equal to 100% of the amount of such payment. Following certain payments, the Interest Component of the Available Amount will be immediately reinstated.

Upon its receipt of a draw request with respect to the applicable Mortgage Loan or the occurrence of an event of default thereunder or under a reimbursement security document, Freddie Mac can elect to pay the Corporation the sum of the Principal Component and the accrued interest and specified Corporation fee (not to exceed the Interest Component) and receive an assignment of such Mortgage Loan.

Information on Freddie Mac and its financial condition is contained in periodic reports that are filed with the Securities and Exchange Commission (the "SEC"). The SEC filings are available at the SEC's website at www.sec.gov.

**Long-term LOCs**

Supplemental Security in the form of a letter of credit issued by a bank or other financial institution may be provided with respect to a permanent Mortgage Loan (a "Long-term LOC"). The Long-term LOCs need not meet the requirements under the General Resolution for a Credit Facility and will not be pledged to the owners of the Bonds; however, any payments received by the Corporation from the letter of credit provider pursuant to a Long-term LOC constitute Revenues and therefore will be pledged for the benefit of the owners of the Bonds. It is anticipated that Long-term LOCs will provide that they may be drawn upon by the Corporation if the applicable Mortgagor fails to make the required debt service payments on the related Mortgage Loan. The Long-term LOCs are expected to provide that the amount drawn on a Long-term LOC be equal to such required debt service payment or, at the direction of the provider of the Long-term LOC, to the outstanding principal balance of the applicable Mortgage Loan plus the lesser of (i) accrued interest or (ii) the maximum amount available under the Long-term LOC with respect to accrued interest. It is expected that, in the case of the latter draw, such Mortgage Loan will be immediately assigned to the Long-term LOC provider, will no longer be pledged for the benefit of the owners of the Bonds and will be free and clear of the pledge and lien of the General Resolution.

The following table provides information regarding Long-term LOCs for Mortgage Loans as of February 28, 2013:

<table>
<thead>
<tr>
<th>Long-term LOC Bank</th>
<th>Number of LOCs</th>
<th>Total Dollar Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citibank N.A.</td>
<td>11</td>
<td>$67,064,032</td>
</tr>
</tbody>
</table>

The bank providing the Long-term LOCs is a wholly-owned subsidiary of a parent corporation. The parent corporation files annual, quarterly, and certain other reports with the SEC. Such reports are available at the SEC's website at www.sec.gov.

**Construction LOCs**

Prior to the Corporation making a Mortgage Loan to a Mortgagor, such Mortgagor executes an HDC Commitment in which the Corporation agrees to provide the applicable Mortgage Loan. The HDC Commitment may require the Mortgagor to obtain a letter of credit (a "Construction LOC") to be available during construction from a bank or other financial institution acceptable to the Corporation as a condition to the Corporation providing the applicable Mortgage Loan during construction. The Construction LOCs need not meet the requirements under the Resolution for a Credit Facility. Such letters of credit will not be pledged to the owners of the Bonds; however, any payments related to the applicable Mortgage Loan received by the Corporation from the letter of credit providers pursuant to such LOCs are available at the SEC's website at www.sec.gov.
Construction LOCs related to the failure of the Mortgagor to make the required debt service payments constitute Revenues and therefore will be pledged for the benefit of the owners of the Bonds. It is anticipated that such Construction LOCs may be drawn upon by the Corporation or the Custodian (as defined below) if the applicable Mortgagor fails to make the required debt service payments on the applicable Mortgage Loan. The amount drawn on a Construction LOC will be the outstanding principal balance of the applicable construction Mortgage Loan plus the lesser of (i) accrued interest or (ii) the maximum amount available with respect to accrued interest, and such Mortgage Loan will be immediately assigned to the letter of credit provider and no longer be pledged for the benefit of the owners of the Bonds and will be free and clear of the pledge and lien of the General Resolution.

Following the satisfaction of the conditions of the applicable HDC Commitment which may require, among other things, the provision by the Mortgagor of equity, the satisfactory completion of construction within a certain time schedule from the making of the applicable construction Mortgage Loan and within a certain construction budget, the issuance of a certificate of occupancy, the attainment of a specified minimum rental achievement level, and delivery of other required certificates and legal opinions, the Corporation will release the Construction LOC relating to the applicable construction Mortgage Loan. If said Construction LOC is not released because of a failure by the Mortgagor of applicable Development to comply with the conditions enumerated in the HDC Commitment or if said Construction LOC is not extended beyond its maturity until such conditions are satisfied, it is expected that said Construction LOC will be drawn upon by the Corporation or the Custodian and the proceeds from said draw could be used to redeem a portion of the Series of Bonds issued to finance such Mortgage Loan. Generally, until such Construction LOC is released, the bank issuing the Construction LOC will service or provide for the servicing of the applicable Mortgage Loan. Thereafter, it is expected that the Corporation will service the applicable Mortgage Loan (see “The PROGRAM—Servicing” in Part II of this Official Statement).

Construction LOCs securing a Mortgage Loan financed with the proceeds of General Resolution Bonds and securing a mortgage loan financed with NIBP Series 1 Bonds are subject to a letter of credit custody agreement among the Corporation, The Bank of New York Mellon, as Custodian (the “Custodian”), the Trustee, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. In the event of a draw on any such Construction LOC, the amount funded with NIBP Series 1 Bonds would not be available to redeem Bonds issued under the General Resolution.

The following table provides information regarding Construction LOCs for Mortgage Loans as of February 28, 2013:

<table>
<thead>
<tr>
<th>Construction LOC Bank</th>
<th>Number of LOCs</th>
<th>Total Dollar Amount$^{(1)}</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of America, N.A. $^{(2)}</td>
<td>4</td>
<td>$83,992,111</td>
</tr>
<tr>
<td>The Bank of New York Mellon</td>
<td>3</td>
<td>48,678,999</td>
</tr>
<tr>
<td>Capital One Bank $^{(3)}</td>
<td>8</td>
<td>122,152,430</td>
</tr>
<tr>
<td>Citibank N.A. $^{(4)}</td>
<td>12</td>
<td>358,861,057</td>
</tr>
<tr>
<td>Goldman Sachs Bank USA</td>
<td>3</td>
<td>78,747,995</td>
</tr>
<tr>
<td>JP Morgan Chase Bank, N.A.</td>
<td>22</td>
<td>343,692,947</td>
</tr>
<tr>
<td>M &amp; T Bank</td>
<td>1</td>
<td>13,265,495</td>
</tr>
<tr>
<td>Wells Fargo Bank, N.A.</td>
<td>4</td>
<td>114,073,075</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>57</strong></td>
<td><strong>$1,163,464,109</strong></td>
</tr>
</tbody>
</table>

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(1) With respect to nine (9) Construction LOCs securing nine (9) Mortgage Loans of which a portion of each is financed with the proceeds of NIBP Series 1 Bonds, in the event of a draw on any of such Construction LOCs, the amount equal to the portion funded with NIBP Series 1 Bonds would not be available to redeem Bonds issued under the General Resolution. See “Appendix E-1 – Developments and Mortgage Loans Outstanding under the Program – Developments and Construction Mortgage Loans Outstanding Under the Program as of January 28, 2013” for the amount of the portion for each such Mortgage Loan that is financed with the proceeds of the Multi-Family Housing Revenue Bonds.

(2) The Construction LOCs for one (1) Mortgage Loan in the aggregated amount of $13,441,162 is confirmed by an irrevocable standby letter of credit confirmation issued by Federal Home Loan Bank of Atlanta.

(3) These Construction LOCs are each confirmed by an irrevocable standby letter of credit confirmation issued by Federal Home Loan Bank of Atlanta.

(4) The Construction LOCs for nine (9) Mortgage Loans in the aggregated amount of $215,021,510 are each confirmed by an irrevocable standby letter of credit confirmation issued by Federal Home Loan Bank of New York.

Each bank providing a Construction LOC is a wholly-owned subsidiary of a parent corporation. These parent corporations file annual, quarterly, and certain other reports with the Securities and Exchange Commission (the “SEC”). Such reports are available at the SEC’s website at www.sec.gov.

**SUBSIDY PROGRAMS**

*Mitchell-Lama Program*

**General.** The Mitchell-Lama program was created to facilitate the construction and continued operation of affordable moderate and middle income rental and cooperative housing in the State of New York. The Developments which are regulated under the Mitchell-Lama program are currently all non-refinanced rental housing projects located in the City of New York and, therefore, this summary of the Mitchell-Lama program is limited to non-refinanced rental projects. Each rental project in the Mitchell-Lama program was constructed and is operated as a limited-profit housing project or a cooperative in accordance with Article 2 of the New York Private Housing Finance Law and the rules and regulations promulgated thereunder (the “Mitchell-Lama Law”).

**HPD Supervision.** The City of New York Department of Housing Preservation and Development (“HPD”) has supervisory authority over those projects in the Mitchell-Lama program which received financing from the City or the Corporation. HPD carries out all its supervisory functions with limited resources, which may affect the priority or completion time frames for its various supervisory activities.

HPD regulates the project’s rental procedures and tenant income limits. HPD oversees the renting of vacant units including the establishment of waiting lists and the advertising process relating thereto. HPD approves the admission of new tenants as well as the transfer of existing tenants to other units in a project. HPD also verifies initial and annual tenant income certifications submitted by tenants to ensure that the tenant income requirements of the Mitchell-Lama program are maintained. Tenants with incomes in excess of the certain income requirements are required to pay rent surcharges to the project owners.

HPD conducts a periodic physical inspection of the common areas of the projects in the Mitchell-Lama program in order to assess property maintenance levels. HPD has power to audit the books of a project owner and conducts a periodic site administrative review to review service contracts, insurance coverage and the project’s record keeping systems. HPD also reviews all commercial leases, contracts in excess of $5,000 or $10,000 depending on project size, monthly project operations reports, the use of blocked reserve accounts and the annual profit retained by the project owner.

HPD approves all rent increase applications after holding a public hearing and reviewing a financial analysis prepared by HPD and project owners, provided, however, such rental increases in
projects benefiting from the Section 236 program are also subject to the approval of HUD. HPD has the right to remove any or all of the existing directors of an ownership entity and to appoint individuals that HPD deems advisable in the event of a violation of a provision of the owner’s certificate of incorporation, any applicable law, the loan or mortgage contract or HPD’s rules and regulations.

Corporation Rent Increase Authority. Other than with respect to certain mortgage loans underlying the 2006 Participant Interest regulated pursuant to the Mitchell-Lama Law, the Act empowers the Corporation and the Resolutions require the Corporation (whenever it shall find that the maximum rentals, which are charged tenants of the dwellings in any Project in the Mitchell-Lama program, in whole or in part, shall not be sufficient together with all other income of the Mortgagor to meet within reasonable limits all necessary payments to be made by the Mortgagor of all expenses, including fixed charges, sinking funds, reserves and dividends) to request the Mortgagor to make application to vary such rentals so as to secure sufficient income, and upon the Mortgagor’s failure to do so within thirty (30) days after the receipt of written request from the Corporation, to request HPD to take action upon HPD’s own motion so to vary such rental rate, and upon failure of HPD either upon application by the Mortgagor or upon its own motion so to vary such rental rate within sixty (60) days after receipt of written request from the Corporation to do so, to vary such rental rate by action of the Corporation. Any such rental increases in Developments benefiting from the Section 236 program shall also be subject to the approval of HUD. The Corporation has only taken such actions relating to rental increases with respect to one (1) Development which was done in 1978.

Tax Exemption. The Mitchell-Lama Law provides that with the consent of the local legislative body, the real property, both land and improvements, of a project shall be exempt from local and municipal taxes, other than assessments for local improvements, to the extent of all or part of the value of the property included in such project which represents an increase over the assessed valuation of such real property at the time of its acquisition for the project by the company, provided however, that the real property in a project acquired for purposes of rehabilitation shall be exempt to the extent of all or part of the value of the property included in such rehabilitation and provided further that the minimum tax to be paid shall not be less than ten per cent (10%) of the annual shelter rent of such project. This tax exemption continues so long as the mortgage loan made to the owner remains outstanding. In the case of any Project in the Mitchell-Lama program which is the subject of a ground lease, such tax exemption is reflected in the underlying lease payments. Pursuant to the Act, the property of the Corporation is exempt from State and local taxes. In the event the Corporation shall become the owner of a Development, it would be exempt from the payment of real estate taxes.

Section 236 Program

General. Pursuant to Section 236(b) of the National Housing Act ("Section 236"), the Secretary of HUD (the "Secretary") entered into certain contracts (each a "Section 236 Contract") to make periodic interest reduction payments to Section 236 mortgagees on behalf of the mortgagors of housing projects designed for occupancy by persons or families as described in Article 2 of the Private Housing Finance Law and families of low income. HUD’s interest reduction subsidy payment share is in an amount equal to the difference between the monthly payment for principal, interest and mortgage insurance premiums or mortgage servicing fees, as appropriate, which a mortgagor is obligated to pay under its mortgage loan and the monthly payment for principal and interest a mortgagor would be obligated to pay if its mortgage loan were to bear interest at the rate of one per cent (1%) per annum. Under Section 236, interest reduction payments with respect to a project (the "HUD Payments") shall be made only during the period that such project is operated as a rental or cooperative housing project.

Termination of HUD Payments. HUD is obligated to make HUD Payments under a Section 236 Contract and may not terminate HUD Payments under a Section 236 Contract, except under the
circumstances described below, including, but not limited to, certain foreclosure actions instituted by the Corporation (see "THE PROGRAM—Certain Factors Affecting the Mortgage Loans—New York Foreclosure Procedures and Bankruptcy" and "Appendix B—Summary of Certain Provisions of the General Resolution—Covenants with Respect to Mortgage Loans"). If HUD Payments are terminated, the Secretary may reinstate them at his or her discretion pursuant to such additional requirements as the Secretary may prescribe. A Section 236 Contract may be terminated at the option of, and upon written notice from, the Secretary after the expiration of one year from the date of the termination of HUD Payments, unless such payments have been reinstated. In the event HUD were to terminate HUD Payments in respect of a Development subsidized through a Section 236 Contract, such terminated HUD Payments would not be available to pay debt service on the related Mortgage Loan (a "Section 236 Mortgage Loan"), which could result in a default on such Mortgage Loan.

Acquisition by Ineligible Owner; Transfer Limitation of Mortgage Loan. HUD may terminate HUD Payments with respect to a Project if the Project is acquired by any owner who is not an eligible mortgagor under Section 236. Each Mortgagor has covenanted in the Section 236 Contract only to transfer such Project to an eligible Mortgagor approved by the Secretary and each Mortgagor has covenanted in the Mortgage not to transfer such Project without the consent of the Section 236 mortgagee. The Department of Housing and Urban Development Reform Act of 1989 (the "HUD Reform Act") made public entities eligible to be owners of projects receiving assistance under Section 236. Pursuant to the HUD Reform Act, the Corporation is an eligible Section 236 owner. Transfer of a Project is also subject to the prior approval of HPD.

Each Section 236 Contract provides that the corresponding Section 236 Mortgage Loan may only be assigned, including any assignment or reassignment between the Corporation and the Trustee, with HUD's prior written approval.

Excess Income. Pursuant to each Section 236 Contract, there is established (i) a basic or subsidized rental charge for each subsidized dwelling unit in the Project (the "basic rent"), determined on the basis of the anticipated operating costs of the Project assuming the payment of principal and interest on a mortgage note bearing interest at the rate of 1% per annum and an amortization period of up to fifty (50) years, and (ii) a fair market rental charge for each such unit, determined on the basis of the anticipated operating costs of the Project assuming payment of principal and interest at the unsubsidized mortgage rate (the "market rent"). The rent charged for each subsidized unit (the "tenant rent") is the greater of the basic rent or thirty per centum (30%) of the tenant's adjusted monthly income, but in no event may the Mortgagor charge an amount in excess of the market rent (not including permitted surcharges). Under each Section 236 Contract, the Section 236 mortgagor and HUD must approve all rent increases.

Each Section 236 Contract provides that the Mortgagor shall pay monthly to HUD all rental charges collected in excess of the basic rental charges for all occupied units ("Excess Income Payments"). In a notice issued by HUD on January 4, 1991 with respect to all mortgagors subject to Section 236 Contracts, HUD stated that it would implement strict enforcement actions against an owner of a project who does not remit excess rental amounts. This notice states that HUD should attempt to recover Excess Income Payments if the affected mortgagor does not make a lump sum payment or enter into a repayment schedule with HUD through the following actions listed in order of priority: use of the project's residual receipts, repayment of distributions, surplus cash and finally, project income. Among HUD's numerous potential remedies against the affected mortgagors are suspension of interest reduction payments. No assurance can be given regarding which remedies, if any, HUD will utilize against affected mortgagors in the event HUD seeks to affirmatively enforce the collection of Excess Income Payments.
Prior to April 1996, mortgagors were permitted to calculate the amount of Excess Income Payments payable to HUD on a project-wide basis, which enabled mortgagors to use Excess Income Payments to offset collection losses from nonpaying tenants. Section 236 was amended to require that, beginning in 1996, Excess Income Payments must be remitted to HUD on a unit-by-unit basis, thus precluding the ability of mortgagors to use such Excess Income Payments to offset collection losses and potentially reducing the income available to the projects.

In 1999, Congress passed the “Preserving Affordable Housing for Senior Citizens and Families into the 21st Century Act” (the “1999 Act”). This and subsequent legislation allow Mortgagors of Section 236 Developments to retain excess rents for project purposes if consented to by HUD. Based solely on a review of the most recent information submitted to it by the Mortgagors of the Section 236 Developments where the Corporation is the Section 236 mortgagor (which relate to the Section 236 Mortgage Loans other than the underlying 2002 Series D Trust Mortgage Loans), the Corporation believes that such Mortgagors are current on the Excess Income Payments due to HUD. No assurance can be given as to the impact of the revised Section 236 in the current or any future fiscal year on the ability of the Mortgagors of the Section 236 Developments to cover operating expenses and debt service on their respective Section 236 Mortgage Loans without requiring an increase in rents after Excess Income Payments are remitted to HUD.

The 1999 Act also permits Mortgagors of Section 236 Developments to refinance their mortgages (if the mortgages are otherwise eligible for prepayment) while retaining the Section 236 subsidy, which HUD generally refers to as its Section 236 “decoupling” program. HUD has considerable discretion in implementing the decoupling program and Section 236 Contracts executed pursuant to the program may have terms different from those described herein for the program generally. Among other things, in order to benefit from the decoupling program, the Mortgagor must agree to enforce the income and rent restrictions applicable to the development for a period ending five years beyond the term of assistance under the new Section 236 Contract.

Certain Mortgagor Covenants. Each Mortgagor has covenanted in the Section 236 Contract to limit admission to the subsidized dwelling units in the Project to those families whose incomes do not exceed the applicable limits approved by the Section 236 mortgagor or the Secretary, with the exception of those tenants who agree to pay fair market rent. The Section 236 Contracts contain other covenants relating to the preference for occupancy for certain displaced or low income families, the compliance with applicable civil rights laws prohibiting discrimination in housing, the maintenance of information and records concerning tenants and tenant income in a form required under HUD regulations, the availability for inspection of such information and records, prohibitions against denying occupancy due to number of children in the family and the number of subsidized units which may be rented to any one tenant at any one time. The Secretary has the authority to suspend or terminate HUD Payments at any time upon default by a Mortgagor under any of such covenants as well as upon any other default by a Mortgagor or the Section 236 mortgagee under the terms and conditions of the Section 236 Contract.

Each Mortgagor has covenanted to maintain habitability of the Project units. Under the terms of certain Section 236 Contracts, HUD may adjust subsidy payments in the event a subsidized unit is destroyed or otherwise rendered not habitable for any reason unless such unit is restored or rehabilitated within a reasonable time or unless an unsubsidized unit is designated in its place.

Set-Off Rights of the United States. Payments under a Section 236 Contract duly and properly paid and actually received by or on behalf of the Corporation have been pledged to the Trustee as part of the security for the Bonds, and the Corporation is obligated to deliver to the Trustee all such payments upon receipt. Under Federal law, the United States Government has the right to set-off liabilities to the United States against the amounts payable under a Section 236 Contract. The Corporation does not
believe it has any liabilities to the United States which would result in any set-off against such payments for those projects where it is the Section 236 mortgagee. The set-off right of the United States described above applies only to payments under a Section 236 Contract which have not actually been paid by HUD. Once payments under a Section 236 Contract are received by the Corporation and delivered to a trustee, they cannot be subjected to repayment to the United States by such trustee. However, in the case of excessive payments under a Section 236 Contract, the Section 236 mortgagee would remain obligated to refund to the Secretary the amount which was overpaid, and such liabilities could be offset against future payments under the Section 236 Contract.

Section 236, the rules, regulations and directives promulgated pursuant thereto and the Section 236 Contracts, do not contain any express requirement that any savings which result from a reduction in the Corporation’s cost of borrowing due to a refunding of its obligations issued to finance a mortgage loan must be used to lower the interest rate on the mortgage loan and thereby to reduce HUD Payments. Consequently, the Corporation did not reduce the interest rate on the applicable Section 236 Mortgage Loans as a result of the issuance of the 1996 Series A Bonds. Based on the foregoing, the Corporation does not believe that HUD or any other party is entitled to all or a portion of the Corporation’s debt service savings that result from the issuance of the 1996 Series A Bonds. Similarly, the Corporation does not believe that HUD or any other party is entitled to any amounts received by the Corporation as a result of the redemption of: (i) the Corporation’s bonds that originally financed the Knickerbocker Plaza Development related to the Additional Mortgage Loan contributed in connection with the issuance of the 1999 Series A Bonds and (ii) the Corporation’s bonds that originally financed the developments related to the Mortgage Loans contributed in connection with the issuance of the 2001 Series B Bonds. However, no assurance can be provided that HUD will not assert a right to reduce the amount of payments payable under the applicable Section 236 Contracts based upon the issuance of the 1996 Series A Bonds and/or the 2001 Series B Bonds and/or the aforesaid redemptions. If such a right is asserted, HUD could take certain actions including attempting to reduce payments under the applicable Section 236 Contracts.

HPD Supervision. All but one of the Projects with Section 236 Contracts were constructed and are operated as limited-profit housing projects or cooperatives in accordance with the Mitchell-Lama Law. For more information on the Mitchell-Lama Law, see “Mitchell-Lama Program” above.

Section 8 Program

General. The following is a brief description of the housing assistance payments program (the “Section 8 program”) authorized by Section 8 of the United States Housing Act of 1937, as amended (the “1937 Housing Act”), which is qualified in its entirety by references to the applicable provisions of said Act and the regulations thereunder (the “Regulations”). The description applies to the variant of the Section 8 program which provides assistance under subsidy contracts for projects which set aside units for lower income families. Accordingly, this variant of the Section 8 program may be referred to as the “project-based Section 8 program.”

The Section 8 program is administered by HUD and authorizes subsidy payments pursuant to Housing Assistance Payments Contracts (“HAP Contracts”) to the owners of qualified housing for the benefit of lower income families (defined generally as families whose income does not exceed 80% of the median income for the area as determined by HUD) and very-low income families (defined generally as families whose income does not exceed 50% of the median income for the area as defined by HUD). Provision is made under the 1937 Housing Act and Regulations for administration of the Section 8 program through state or local housing finance agencies acting as contract administrator (the “Contract Administrator”) of the HAP Contracts. Under this arrangement, the Contract Administrator agrees to pay the subsidy to or for the account of the mortgagor and concurrently contracts with HUD for payments of the subsidy by HUD to it. HUD may also serve as Contract Administrator.
Under 1937 Housing Act and the Regulations, not more than 25% of the dwelling units which were available for occupancy under HAP Contracts before October 1, 1981 and which are leased thereafter shall be available for leasing by lower income families other than very-low income families; and not more than 15% of the dwelling units which become available for occupancy under HAP Contracts after October 1, 1981 shall be available for leasing by lower income families other than very-low income families. The law also requires that not less than 40% of the dwelling units that become available for occupancy in any fiscal year shall be available for leasing only by families whose annual income does not exceed 30% of area median income (as determined by HUD and adjusted for family size) at the time of admission.

**Amount and Payment of Subsidy.** Section 8 subsidies available for debt service on the Bonds are based upon the “contract rent” applicable to specified dwelling units. The contract rent is initially based on the fair market rent for the dwelling unit, which is determined by HUD periodically with respect to each locality and published in the Federal Register. The housing assistance payments generally represent the difference between the contract rents for all eligible units in a development, as approved by HUD from time to time, and the eligible tenant’s contribution, which is generally 30% of such tenant’s income, as adjusted for family size, income and expenses, with certain adjustments, although each assisted family is generally required to pay a minimum rent of between $25 and $50 per month. The contract rents for a development are generally limited to the “fair market rents” established by HUD as reasonable in relation to rents for comparable units in the area.

**Subsidy Contracts.** The payment of subsidies under the Section 8 program is made pursuant to two contracts entered into with respect to each development assisted under such program: an annual contributions contract (the “ACC”) between HUD and the Contract Administrator, and the HAP Contract between the Contract Administrator and the owner. The ACC obligates the United States to provide funds to the Contract Administrator with which to make monthly housing assistance payments to the owner pursuant to a HAP Contract.

It is useful, in discussing the project-based Section 8 Program to distinguish between contracts executed under the 1937 Housing Act and the Regulations prior to 1997 which have not yet expired for the first time (“Original Contracts”), and contracts under the 1937 Housing Act and the Regulations which have been renewed generally subsequent to 1997 (“Renewal Contracts”). This distinction is of significance as a consequence of the amendments to the 1937 Housing Act which went into effect beginning in 1997.

The ACC establishes the maximum annual amount of the housing assistance payments to be made by HUD for the account of the mortgagor of a development. This amount may not exceed the total of the initial contract rents and utility allowances for the eligible units in a development and any administrative fee. For projects under the Original Contracts, if the amount of housing assistance payments actually disbursed under an ACC in any given year is less than the total available amount, some or all of the excess (including an amount equal to the portion of the contract rents payable by the tenants) is required to be set aside by HUD in a “project account” for the particular development and will be available in future years to fund increases in contract rents for the development, decreases in family incomes or other costs authorized or approved by HUD. In the event that previously appropriated amounts are not sufficient to meet HUD’s contractual obligations to the Section 8 Developments, HUD is required by applicable Section 8 provisions to take such additional steps authorized by subsection (c)(5) of Section 8 of the 1937 Housing Act as may be necessary to obtain funds to assure that payment will be adequate to cover increases in contract rents and decreases in tenant payments. Under subsection (c)(5) of Section 8: “[t]he Secretary [of HUD] shall take such steps as may be necessary, including the making of contracts for assistance payments in amounts in excess of the amounts required at the time of the initial renting of dwelling units, the reservation of annual contributions authority for the purpose of amending
housing assistance contracts, or the allocation of a portion of new authorizations for the purpose of amending housing assistance contracts, to assure that assistance payments are increased on a timely basis to cover increases in maximum monthly rents or decreases in family incomes.”

In practice until recently, HUD has sought and received amendment authority from Congress sufficient to enable it to discharge its obligations under the HAP Contracts and the ACCs. During 2007, a revision in HUD’s interpretation of its outstanding contracts coupled with the amount of appropriations available led to many late payments to owners while HUD made adjustments. See “Late Payments in 2007” below.

The HAP Contract provides for housing assistance payments with respect to a dwelling unit covered by the HAP Contract on the condition that such unit is maintained according to the requirements of the HAP Contract and is occupied by an eligible tenant. An ACC remains in effect for as long as a HAP Contract is in effect.

**Adjustment of Subsidy Amounts.** Each HAP Contract provides for certain adjustments in contract rents. With respect to Original Contracts, HUD publishes at least annually an Annual Adjustment Factor (“AAF”), which is intended to reflect changes in the fair market rent established in the housing area for similar types and sizes of dwelling units; interim revisions may be made where market conditions warrant. Upon request from the owner to the Contract Administrator, the AAF is applied on the anniversary date of each HAP Contract to contract rents, provided that no adjustment shall result in a material difference between the rents charged for subsidized and comparable non-subsidized dwelling units except to the extent that the differences existed with respect to the contract rents set at HAP Contract execution or cost certification where applicable. (The difference that existed between the contract rent for a unit at HAP Contract execution and the rent on comparable unassisted units is generally referred to by HUD as the “initial difference” in contract rents.) In addition, provision is made in the regulations for special additional adjustments to reflect increases in actual and necessary expenses of owning and maintaining the subsidized units which have resulted from substantial general increases in real property taxes, assessments, utility rates and utilities not covered by regulated rates, if the owner demonstrates that the automatic annual adjustments have not provided adequate compensation. Under current law (Section 8(c)(2)(C) of the 1937 Housing Act), “[t]he Secretary may not reduce the contract rents in effect on or after April 15, 1987, for newly constructed, substantially rehabilitated, or moderately rehabilitated projects assisted under the section ... unless the project has been refinanced in a manner that reduces the periodic payments of the owner.”

Notwithstanding the foregoing, if the contract rents for a development exceed the applicable HUD fair market rents, then contract rents cannot be increased beyond comparable market rents (plus the initial difference) as determined by independent appraisals of at least three comparable local developments submitted by the owner. In addition, the AAFs for Section 8 units which experienced no turnover in tenants since their preceding HAP Contract anniversary date shall be one percentage point less than the AAFs that would otherwise apply.

With respect to Renewal Contracts, the HAP Contract will, in most cases, provide for annual adjustments in contract rents based upon an Operating Cost Adjustment Factor (OCAF). The OCAF is intended to reflect increases in the cost of operating comparable rental properties, which may or may not correspond to circumstances affecting a particular Section 8 Development. HAP Contracts renewed for terms longer than one year will be subject to Congressional appropriations, which may not be available. HUD's provision of such amendments and renewals was partially disrupted for a temporary period during 2007, when HUD determined appropriations available at the time to be inadequate to fulfill all such needs. For further discussion of that situation, see “Late Payments in 2007” below. The failure of the Congress to appropriate funds to pay subsidies pursuant to Renewal Contracts could have an adverse impact on the
ability of the related Section 8 Developments to pay debt service. In addition, the prohibition on adjustments that would lower contract rents, explained above, does not apply to HAP Contracts that are Renewal Contracts.

Vacancies and Debt Service. Generally, the Section 8 subsidy is payable with respect to the dwelling unit only when it is occupied by a qualified person or family. However, applicable law and regulations provide for payment of the subsidy under certain circumstances and, for a limited period of time, when the dwelling unit is not occupied. Upon the occurrence of a vacancy in a dwelling unit, a subsidy amounting to 80% of the contract rent is payable for a vacancy period of 60 days subject to compliance by the mortgagor with certain conditions relating primarily to a diligent effort to rent the subsidized unit. The payment of a subsidy with respect to a dwelling unit vacant after initial rent-up may continue for an additional 12 months from the expiration of the 60-day period in an amount equal to the principal and interest payments required to amortize the debt service attributable to the vacant unit, if a good faith effort is being made to fill the unit and the unit provides decent, safe, and sanitary housing. Such continued payments also require the mortgagor to show that project costs exceed revenues, a good faith effort is being made to fill the unit and the additional subsidy payments do not exceed the deficiency attributable to the vacant units. With respect to the Section 8 Developments receiving subsidies pursuant to the Section 8 Moderate Rehabilitation Program, vacancy payments are only available for a maximum period of 60 consecutive days.

Compliance With Subsidy Contracts. The ACC and the HAP Contract each contain numerous agreements on the part of the Contract Administrator and the owner concerning, among other things, maintenance of the development as decent, safe and sanitary housing and compliance with a number of requirements typical of Federal contracts (such as non-discrimination, equal employment opportunity, relocation, pollution control and labor standards) as to which non-compliance by the owner may result in abatement by HUD or the Contract Administrator, as the case may be, of the payment of the Federal subsidy, in whole or in part.

Housing assistance payments will continue as long as the owner complies with the requirements of the HAP Contract and has leased the assisted units to an eligible tenant or satisfies the criteria for receiving assistance for vacant units. The Contract Administrator, which has primary responsibility for administering each HAP Contract subject to review and audit by HUD, subject to an opportunity by the mortgagor to cure any default under the HAP Contract, may abate housing assistance payments and recover overpayments pending remedy of the default. If the default is not cured, the Contract Administrator may terminate the HAP Contract or take other corrective action, in its discretion or as directed by HUD. HUD has an independent right to determine whether the owner is in default and to take corrective action and apply appropriate remedies.

If HUD determines that the Contract Administrator has failed to fulfill its obligations, HUD may, after notice to the Contract Administrator giving it a reasonable opportunity to take corrective action, require that the Contract Administrator assign to it all rights under the HAP Contract. In recent years, HUD has placed increasing emphasis on assuring that Contract Administrators fulfill their obligations in this respect.

Expiration of Subsidy Contracts. Until 1997, there was substantial uncertainty as to what would happen to Section 8 developments upon the expiration of their HAP Contracts at the end of their terms. HUD's Fiscal Year 1998 Appropriations Act, Pub. L. 105-65, signed into law on October 27, 1997, included within it the “Multifamily Assisted Housing Reform and Affordability Act of 1997” (as amended several times thereafter, the “MAHRA”). Under the so-called Mark-to-Market program established by MAHRA, many FHA-insured Section 8 projects with expiring HAP Contracts are eligible to receive continuing Section 8 assistance through contract renewals. Such Renewal Contracts may have

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terms from one to twenty years, subject to Congressional appropriations. As noted above, absent such appropriatious, there is no assurance that funds will be available under these contracts. Additionally, FHA-insured Section 8 developments with expiring HAP Contracts and above-market rents may be eligible for restructuring plans and, upon restructuring, to receive continuing Section 8 assistance pursuant to contracts subject to Congressional appropriations. These restructuring plans may include partial or full prepayment of mortgage debt intended to reduce Section 8 rent levels to those of comparable market rate properties or to the minimum level necessary to support proper operations and maintenance, and in certain cases is designed to result in a change from “project-based” to “tenant-based” Section 8 payments. MAHRA provides, however, that no restructuring or renewal of HAP Contracts will occur if the owner of a project has engaged in material adverse financial or managerial actions or omissions with respect to that project or other Federally assisted projects, or if the poor condition of the project cannot be remedied in a cost effective manner.

Although the primary focus of the Mark-to-Market Program is developments that have FHA-insured mortgages with terms ranging from 30 to 40 years and which have HAP Contracts with substantially shorter terms, MAHRA contained distinct mortgage restructuring and HAP Contract renewal and contract rent determination standards for Section 8 developments for which the primary financing or mortgage insurance was provided by a state or local government, or a unit or instrumentality of such government. Such projects, including the Section 8 Developments, were, under MAHRA, excluded from restructuring and instead are eligible for renewals at the lesser of (i) existing rents, adjusted by an operating cost adjustment factor established by HUD, (ii) a budget-based rent, or (iii) in the case of certain “moderate rehabilitation” Section 8 assistance contracts, the lesser of (x) existing rents, adjusted by an operating cost factor determined by HUD, (y) existing fair market rents (less any amounts allowed for tenant purchased utilities), or (z) comparable market rents for the market area. Under current HUD policy, existing fair market rents for moderate rehabilitation projects means 120% of HUD’s published existing fair market rents.

Although initially exempt from restructuring, the 1999 amendments to MAHRA made Section 8 developments with FHA-insured mortgages for which the primary financing was provided by a unit of state or local government subject to the Mark-to-Market program unless the implementation of a mortgage restructuring plan would be in conflict with applicable law or agreements governing such financing. The 1999 amendments also provide for a new program for preservation of Section 8 developments that allows increases in Section 8 rent levels for certain Section 8 developments (including Section 236 Developments which also have project-based HAP Contracts) that have below market rents, to market-rate or near market-rate levels.

Contract rents available upon any renewal may be significantly lower than the current Section 8 contract rents in the Section 8 Developments, and the corresponding reduction in housing assistance payments for such Developments would materially adversely affect the ability of the Mortgagors of such Developments to pay the currently scheduled principal and interest on the related Mortgage Loans. Any termination or expiration of HAP Contracts without renewal or replacement with other project-based assistance (whether due to enactment of additional legislation, material adverse financial or managerial actions by a Mortgagor, poor condition of the project or other causes) would also have a material adverse impact on the ability of the related Section 8 Developments to generate revenues sufficient to pay the currently scheduled principal of and interest on the related Mortgage Loans. See “Appendix E-1—Developments and Mortgage Loans Outstanding under the Program” for a description of the Mortgage Loans and the expiration dates of the HAP Contracts. While MAHRA generally allows mortgagors to renew HAP Contracts (absent certain material adverse conduct or conditions), mortgagors are not required to renew HAP Contracts beyond their initial expiration or the expiration of a renewal term.
A reduction in Section 8 contract rents or the termination or expiration of the HAP Contract (without renewal or replacement with other project-based assistance, or without prepayment, forgiveness, write-down or refinancing as described below), as described in the previous paragraphs, could thus result in a default under the Mortgage Loan for the related Section 8 Development. Nonetheless, if any or all of such Mortgage Loans were to default, FHA Insurance benefits received by the Corporation or proceeds from enforcement actions (including foreclosure) regarding those Mortgage Loans not subject to Supplemental Security, together with monies held in the Accounts under or pursuant to the General Resolution, including the Debt Service Reserve Account, are expected to be sufficient to redeem, pursuant to a special redemption from Recoveries of Principal, an allocable portion of certain Bonds in the event the Corporation is required or elects to redeem Bonds with such funds. For a description of the specific cross-call provisions for the Bonds Outstanding under the General Resolution, see “Appendix E-4—Cross-Call Provisions and Related Information.” Moreover, in the event of such partial redemption, sufficient monies are expected to be available from the remaining Mortgage Loans, the Debt Service Reserve Account and earnings on all monies held in the Accounts maintained under the Resolutions to continue to make timely payments of scheduled principal of and interest on the remaining Outstanding Bonds.

The restructuring plans established by MAHRA referred to above, as a general matter, contemplate restructuring FHA-insured mortgage loans on certain Section 8 projects through a nondefault partial or full prepayment of such loans. Nondefault partial or full prepayment or similar forgiveness or write-down of mortgage debt pursuant to a restructuring of these Mortgage Loans could result in the special redemption from Recoveries of Principal of an allocable portion of certain Bonds at any time with the proceeds the Corporation receives from any such prepayment, forgiveness or write-down. In addition, the Mortgagors of these Mortgage Loans could opt to refinance their Mortgage Loans in full, pursuant to Section 223(a) (7) of the National Housing Act, which could also result in the special redemption from Recoveries of Principal of an allocable portion of certain Bonds at any time with the proceeds the Corporation receives from any such refinancing. For a description of the specific cross-call provisions for the Bonds Outstanding under the General Resolution, see “Appendix E-4—Cross-Call Provisions and Related Information.” See Appendix E-1 hereto for a description of the Mortgage Loans and the expiration dates of the HAP Contracts.

Exception Projects Under MAHRA. MAHRA contains distinct mortgage restructuring and HAP Contract renewal and contract rent determination standards for certain Section 8 projects which require differentiation from the majority of developments. For example, one is the case noted above, in which primary financing or mortgage insurance was provided by a state, local government, or a unit or instrumentality of such government. A second important group of differentiated projects are those financed under Section 202 of the Housing Act of 1959 that also received Section 8 HAP Contracts when first constructed (“Section 202 Properties”). Such projects are, under MAHRA, excluded from restructuring and mark-down of their rents, and are known as “Exception Projects.” Exception Projects are not involuntarily subject to mark-down to market, i.e. the rents may not be reduced below a level upon renewal or prepayment which would not provide the property with funds sufficient to operate the property with a balanced budget. A budget-based analysis is typically performed in connection with the renewal of a HAP Contract for a Section 202 Property. The owner of a Section 202 Property may opt to be renewed under the other renewal options discussed above, but in so doing risks losing the Exception Project designation. For some Section 202 Properties with below market rents this could be a viable option; any contemplation of this would need to be analyzed on a case by case basis. Section 202 Properties are Exception Projects and are statutorily eligible for renewals at the lesser of (i) existing rents, adjusted by an OCAF or (ii) a budget-based rent. Recent legislation and regulations facilitate the refinancing of Section 202 Properties. HUD has recently published final Regulations for the refinancing and rehabilitation of financed and constructed developments under Section 202 with Section 8 subsidies.
No Assurance as to Congressional Action. The HAP Contracts for most of the Section 8 Developments expire or have expired prior to the respective maturity dates of the related Mortgage Loans. Since payments received under the HAP Contracts constitute a primary source of revenues for the related Developments, the expiration of the HAP Contracts (without renewal or replacement) – whether Original Contracts or Renewal Contracts – would have a material adverse impact on the ability of the related Developments to generate revenues sufficient to pay the principal of and interest on the related Mortgage Loans. There can be no assurance that the HAP Contracts will be renewed or replaced or fully funded. Since 1997, MAHRA has been changed in a variety of ways and is always subject to Congressional reconsideration. In the event the expiration of one or more of the HAP Contracts (without renewal or replacement), there is a likelihood of a default on one or more of the related Mortgage Loans. In the case of Section 8 Developments with FHA Mortgage Loans, the Mortgage Loan(s) would be assigned to FHA for FHA Insurance benefits. Upon receipt of such FHA Insurance benefits or proceeds received from enforcement actions (including foreclosure) of a defaulted Mortgage Loan not subject to supplemental security, the Corporation may elect to redeem an allocable portion of certain Bonds. For a description of the specific cross-call provisions for the Bonds Outstanding under the General Resolution, see “Appendix E-4—Cross-Call Provisions and Related Information.” See Appendix E-1 hereto for the date of expiration of the HAP Contracts.

Late Payments in 2007. During 2007, a revision by HUD in its legal interpretation of its Section 8 renewal contracts led HUD to conclude that it only could stay within appropriated funding levels by amending renewal contracts to more explicitly allow for partial-year funding of those contracts. As a result of the time it took to implement this change, many fiscal 2007 payments were not paid on time. While HUD allowed owners to take steps such as borrowing against project reserves, some owners indicated that the delayed payments caused late fees on mortgages or other bills or interruptions in service at their properties.

HUD now has made the necessary contract changes to allow for partial-year renewal funding, but has told Congress that further improvements are needed in its budgeting, contract management and payment process. If future problems in these systems resulting from partial-year funding or otherwise cause delayed subsidy payments, such delays could jeopardize owners’ ability to fulfill their mortgage obligations in a timely fashion, and thus jeopardize amounts available for payment of the Bonds.

Project-Based Voucher Programs. In addition to the project-based Section 8 program described in the preceding paragraphs, the 1937 Housing Act and the Regulations grant certain state and local housing agencies authority to establish programs ("Project-Based Voucher Programs") pursuant to which they may enter into HAP Contracts to provide assistance to projects that set aside units for lower income families, using up to twenty percent of the funds they receive from HUD under annual contributions contracts for the administration of the housing choice voucher program authorized by Section 8(o) of the 1937 Housing Act (the “Housing Choice Voucher Program”). Under Project-Based Voucher Programs, as under the project-based Section 8 program described in the preceding paragraphs, HAP Contracts provide for housing assistance payments to owners generally equal to the difference between specified contract rents for covered units in a project and the respective tenants’ required contributions. However, under a Project Based Voucher Program, rules concerning the establishment of initial contract rents, the terms of periodic adjustment of contract rents (including whether reduction to levels below the initial rents may occur), the availability of payments for vacant units, and the availability of renewal of a HAP Contract upon expiration of its stated term, differ from the rules applicable to the project-based Section 8 program described in the preceding paragraphs and depend in part on the policies of the state or local agency operating the Project-Based Voucher Program. The project-based HAP Contracts may only be for terms up to 15 years each, and the state or local agency must determine whether renewal of the contracts for terms of up to 15 years each is appropriate to continue providing affordable housing for lower income families. A state or local agency’s obligations pursuant to a HAP Contract under its Project-Based Voucher Program are subject to the annual appropriation by Congress and obligation by HUD of funds in
amounts sufficient to operate the Housing Choice Voucher Program, including the agency’s Project-Based Voucher Program.

**Use of Residual Receipts Reserves.** Certain of the Developments participating in the Section 8 program described above may be the subject of HAP Contracts originally entered into pursuant to certain revised HUD regulations that took effect in late 1979 or early 1980 (as applicable), which in each case generally provide for excess operating income exceeding certain owner distribution limits to be held in a reserve account (a “Residual Receipts Account”), to be used only for project purposes during the term of the HAP Contract and to be returned to HUD upon termination of the HAP Contract.

Pursuant to a new HUD policy with respect to such Developments, effective for housing assistance payments in November 2012 and thereafter, amounts in the Residual Receipts Account for such a Development in excess of a specified level, equal to $250 multiplied by the number of Section 8 units in the Development, are to be drawn on to fund Section 8 subsidy payments in lieu of HUD-funded payments until the Residual Receipts Account is reduced to such level.

**Tenant-Based Housing Choice Vouchers.** Pursuant to the Housing Choice Voucher Program referred to in the preceding paragraph, funds appropriated by Congress are distributed by HUD to certain state and local housing agencies under annual contributions contracts for the purpose of making housing assistance payments to owners of housing units that eligible families who have been granted a voucher by the agency have chosen to lease. A HAP Contract under the Housing Choice Voucher Program entered into between the agency and the owner of the housing unit chosen by such a family generally provides for housing assistance payments to such owner for the term of the family’s tenancy equal to the difference between (a) an amount that is generally 30% of such family’s income (with certain adjustments and subject to certain floor amounts) and (b) the lower of the rent payable under the family’s lease (with certain adjustments) or a specified payment standard established by the agency in accordance with HUD requirements. Such payments are subject to termination if, among other reasons, the respective family moves out of the unit or the agency determines that sufficient funding is not available under its annual contributions contract for continued assistance to families in the Housing Choice Voucher Program, and are subject to reduction for reasons that include reduction in the size of the respective family or reduction in the agency’s established payment standards.

**Public Housing**

The 1937 Housing Act and the regulations thereunder provide that amounts appropriated by Congress in any year for the public housing operating fund under Section 9 of such Act (“Section 9”) are to be allocated by HUD among eligible state and local public housing agencies according to a formula that takes into account projections of the income from, and standards for the costs of, operating and managing the housing units assisted under the 1937 Housing Act (other than under the Section 8 program) (“Public Housing Units”) that are owned, operated or assisted by such agencies. Such appropriated funds allocated to a public housing agency (“Public Housing Operating Subsidy”) are provided to the agency pursuant to an annual contributions contract between HUD and the agency. Under certain circumstances, a public housing agency may request that such annual contributions contract be amended to permit use of Public Housing Operating Subsidy to pay eligible costs of operating and managing Public Housing Units located within a property that is owned and operated by an entity other than the agency (an “Owner Entity”) and to provide for capital assistance for such units from amounts appropriated by Congress for the public housing capital fund under Section 9 and made available to the agency by HUD (“Capital Fund Assistance”). An annual contributions contract so amended (an “Amended ACC”) generally provides that, for the purpose of ensuring that Public Housing Units are operated in accordance with applicable law, regulations and HUD policies in effect from time to time (“Applicable Public Housing Requirements”), the Owner Entity shall enter into a regulatory and operating
agreement with the agency and shall enter into a declaration of covenants for the benefit of HUD restricting use of the property by the Owner Entity and successive owners that is prior to any other encumbrance of the property (collectively, together with the Amended ACC, “Mixed-Finance Agreements”).

Among other provisions, Mixed-Finance Agreements with respect to Public Housing Units owned by an Owner Entity generally (1) provide for allocation of a portion of the agency’s Public Housing Operating Subsidy to such Public Housing Units, (2) require that Public Housing Units be developed, operated and maintained in accordance with Applicable Public Housing Requirements, including requirements concerning occupancy by eligible lower income families (which may include minimum requirements as to occupancy by families whose income does not exceed 30% of the median income for the area as determined by HUD) and requirements concerning determination of rents, for a period extending to the latest of 10 years beyond the end of the year in which Public Housing Operating Subsidy is last provided by the agency, 20 years after any modernization using Capital Fund Assistance is last completed and, in the case of Public Housing Units developed using Capital Fund Assistance, 40 years after the units become available for occupancy, (3) prohibit disposition of the Public Housing Units before the expiration of such period, (4) require HUD consent prior to transferring or encumbering interests in the Public Housing Units or in the Owner Entity, and (5) provide that, in the event of casualty or condemnation with respect to the property in which the Public Housing Units are located, proceeds shall be applied to restoration of the property to the extent feasible, and any reduction of the number of units in the property shall neither reduce the percentage of units that are subject to Applicable Public Housing Requirements nor (except in certain circumstances) reduce the number of units that are subject to such requirements.

**Corporation Programs**

**Affordable Housing Permanent Loan Program**

The Corporation’s Affordable Housing Permanent Loan Program (“AHPLP”) was intended to make small permanent first mortgage loans on projects primarily developed under programs sponsored by HPD. Generally, the maximum amount of each mortgage loan is $2,000,000 and does not exceed 60% of the combined mortgage loans from HPD or other-subordinated lenders. The Corporation services the permanent first mortgage loan and the HPD subordinate mortgage loan.

For each AHPLP construction mortgage loan, the Corporation entered into a buy-sell agreement with the mortgagor’s construction lender. A minimum replacement reserve of $250 per unit is required. It is expected that AHPLP permanent mortgage loans will not be secured by Supplemental Security.

**Low-Income Affordable Marketplace Program**

The Corporation established the Low-income Affordable Marketplace Program (“LAMP”) to finance the construction or substantial rehabilitation of developments affordable to low-income tenants. LAMP projects are financed with a combination of a first construction and permanent mortgage loan funded from tax-exempt bond proceeds, as of right 4% Federal tax credits and a second mortgage loan funded from the Corporation’s reserves. Formerly known as 100% LITE, LAMP may also be used to finance mixed-income projects, where a minimum of 80% of the units are affordable to those earning less than or equal to 60% of the area median income. Each development financed under LAMP will be subject to a regulatory agreement restricting the rents to levels affordable to low income households.

For each construction mortgage loan made with bond proceeds, the Corporation will require the developer to post a bank letter of credit, guarantee or other security equal to the face amount of such loan plus a specified interest reserve amount. The letter of credit may be drawn upon by the Corporation if the developer fails to make scheduled payments of interest and principal on the construction mortgage loan.
Any amounts received by the Corporation under the letter of credit are pledged to the holders of bonds issued under the General Resolution. Following the completion of construction and the fulfillment of certain other conditions, the Corporation will release the letter of credit. The Corporation may seek mortgage insurance from SONYMA or REMIC for all or a portion of the principal balance of the permanent mortgage loans.

The second mortgage loan is a subordinate loan of up to $65,000 per unit provided at 1% interest with fixed minimum payments of at least interest only.

**Low-Income Affordable Marketplace Preservation Program**

The Corporation has established a Low-income Affordable Marketplace Preservation Program ("LAMP Preservation") to finance the acquisition and moderate rehabilitation of developments affordable to low-income tenants. LAMP Preservation projects are financed with a mortgage loan funded from tax-exempt bonds proceeds and as of right 4% Federal tax credits. In most cases, this program does not offer a second mortgage loan funded by the Corporation. Tenant income must be the lesser of 60% of area median income or levels required by additional subsidy providers.

For some, but not all, LAMP Preservation construction mortgage loans made with bond proceeds, the Corporation will require the developer to post a bank letter of credit, guarantee or other security equal to the face amount of such mortgage loan plus a specified interest reserve amount. For such construction mortgage loans, the letter of credit may be drawn upon by the Corporation if the developer fails to make scheduled payments of interest and principal. Any amounts received by the Corporation under a letter of credit are pledged to the holders of bonds issued under the General Resolution. Following the completion of construction and the fulfillment of certain other conditions, the Corporation will release any such letter of credit. The Corporation may seek mortgage insurance from SONYMA or REMIC for all or a portion of the principal balance of the permanent mortgage loans.

**Mitchell-Lama Programs**

The Mitchell-Lama program was enacted by the State in the mid-1950's as a way to promote and facilitate the construction of affordable rental and cooperative housing throughout New York State. The law stated that after twenty years from the occupancy date, the mortgagor is allowed to prepay the mortgage and release the affordability obligations of the program. To preserve such projects as affordable housing and to prevent owners of these projects from leaving the Mitchell-Lama program, the Corporation has developed the Mitchell-Lama Restructuring Program and the Mitchell-Lama Repair Loan Program as described below.

**Mitchell-Lama Restructuring Program**

The Mitchell-Lama Restructuring Program preserves Mitchell-Lama projects as affordable housing by refinancing existing mortgages. To refinance the mortgage loans the Corporation will refund the existing bonds that financed or refinanced the original Mitchell-Lama development loans by issuing longer term bonds and/or restructure the mortgagor's existing mortgage loans. The Corporation restructures the existing mortgage loans into new mortgage loans which contain an extended maturity date and a lower rate of interest. For certain developments, a new subordinate mortgage loan, which is subject to a residual right of ownership by the City, is made with a reduced rate of interest, usually 0%, due as a balloon payment upon the retirement of the new senior mortgage loans.

**Mitchell-Lama Repair Loan Program**

A significant number of the Mitchell-Lama developments are aging (each is between 35 and 50 years old) and are in need of significant repairs. The Corporation, under the Mitchell-Lama Repair Loan Program, will provide additional loans to these Mitchell-Lama projects with the issuances of taxable
bond proceeds. These loans may be used to fund system modernizations, capital improvements or repairs at the Mitchell-Lama developments. The Corporation oversees the satisfactory completion of such modernizations, improvements and repairs.

**Mixed Income Program**

The Corporation established the Mixed Income Program to finance the construction or substantial rehabilitation of mixed-income multi-family rental housing. The Mixed-Income Program combines a first mortgage loan funded from variable or fixed rate tax-exempt bond proceeds and a subordinate mortgage loan funded from the Corporation's reserves. Some projects also qualify for as of right 4% Federal tax credits. Typically, the developments reserve 50% of the units for market rate tenants, 30% of the units for moderate to middle income tenants and 20% of the units for low income tenants. Each development will be subject to a regulatory agreement restricting the rents to levels affordable to low, moderate and middle income households.

For each Mixed Income construction mortgage loan made with bond proceeds, the Corporation will require the developer to post a bank letter of credit, guarantee or other security equal to the face amount of such loan plus a specified interest reserve amount. The letter of credit may be drawn upon by the Corporation if the developer fails to make scheduled payments of interest and principal on the construction mortgage loan. Any amounts received by the Corporation under the letter of credit are pledged to the holders of bonds issued under the General Resolution. Following the completion of construction and the fulfillment of certain other conditions, the Corporation will release the letter of credit. The Corporation may seek mortgage insurance from SONYMA or REMIC for all or a portion of the principal balance of the permanent mortgage loans.

The subordinate loan amortizes at a minimum 2% constant but may provide for full amortization.

**New Housing Opportunities Program**

The Corporation established the New Housing Opportunities Program ("New HOP") in 1997 to finance the construction or substantial rehabilitation of affordable low, moderate and middle income housing in New York City which would not otherwise be produced by the ordinary operations of private enterprise. New HOP projects are financed with a first mortgage loan funded from variable or fixed-rate bonds proceeds and a second subordinate mortgage loan funded from the Corporation's reserves. Each development financed under New HOP will be subject to a regulatory agreement restricting the rents to levels affordable to low, moderate and middle income households.

For each New HOP construction mortgage loan made with bond proceeds, the Corporation will require the developer to post a bank letter of credit, guarantee or other security equal to the face amount of such loan plus a specified interest reserve amount. The letter of credit may be drawn upon by the Corporation if the developer fails to make scheduled payments of interest and principal on the construction mortgage loan. Any amounts received by the Corporation under the letter of credit are pledged to the holders of bonds issued under the General Resolution. Following the completion of construction and the fulfillment of certain other conditions, the Corporation will release the letter of credit. In certain cases, the Corporation will finance a permanent first mortgage loan only. The Corporation may seek mortgage insurance from SONYMA or REMIC for all or a portion of the principal balance of the permanent mortgage loans.
The subordinate loan is provided at 1% interest with fixed minimum payments of at least interest only but may provide for amortization, depending on underwriting criteria established by the Corporation.

**Participation Loan Program**

The Participation Loan Program ("PLP") was established in 1977 pursuant to Article XV of the Private Housing Finance Law of the State of New York. PLP is designed to increase accessibility to mortgage capital for the rehabilitation of privately owned multi-family housing in the City of New York. HPD administers PLP which provides mortgage financing for the rehabilitation of such housing at nominal interest rates.

HPD may only make a loan pursuant to PLP if another bona fide lender, such as the Corporation, also lends a portion of the funds necessary to complete the rehabilitation of the project. HPD's PLP loans are typically secured by subordinate mortgages. Currently, the Corporation holds certain first position Mortgage Loans (some of which benefit from Supplemental Security) assisted under PLP and also holds subordinate Mortgage Loans originally funded under PLP, which loans were acquired from HPD upon the issuance of the 2002 Series D Bonds and the 2003 Series D Bonds.

In addition, Federal HOME funds available under the Housing and Community Development Act of 1992 are administered by HPD which provides mortgage financing for the rehabilitation and certain new construction of privately owned multi-family housing in the City of New York at nominal interest rates. HPD may make such a loan if non-Federal matching funds are available.

**Article 8-A Loan Program**

The Article 8-A Loan Program ("Article 8-A") was established in 1970 pursuant to the Private Housing Finance Law of the State of New York. Article 8-A is available to owners of privately owned multi-family housing developments if: (i) each dwelling unit in such development is available at rents affordable to low income persons or families and (ii) such owner is unable to obtain financing from the private sector. Article 8-A loan proceeds may be used to eliminate any substandard or unsanitary condition at a development, or for replacement or rehabilitation of systems at a development or other improvements necessary to prolong the useful life of a development.

HPD administers Article 8-A which provides mortgage financing for the rehabilitation of such housing at below-market interest rates. Article 8-A loans are typically secured by subordinate mortgages.

**§421-a Negotiable Certificate Program**

HPD's §421-a Negotiable Certificate Program (the "Certificate Program") was designed to link the creation of market rate multi-family housing in certain areas of Manhattan (the "Geographic Exclusion Zone") with the development of low income housing in other areas of New York City. In general, newly constructed multi-family housing in the Geographic Exclusion Zone was not eligible to receive any real estate tax exemption unless the developer of such housing either (i) set aside at least 20% of the units in such projects for low income households or (ii) purchased §421-a Negotiable Certificates from other developers who have constructed or rehabilitated low income housing in other areas of the City of New York ("off-site projects" or "off-site units") pursuant to the rules and regulations of the Certificate Program. The Certificate Program generally permitted HPD to grant five §421-a Negotiable Certificates for each off-site low income unit created under the Certificate Program. In turn, each §421-a Negotiable Certificate allowed the developer of a market rate unit in the Geographic Exclusion Zone to receive a 10-year phased exemption from any increase in such market rate unit's assessed value relating to the construction of such market rate unit. The 10-year phased real estate tax exemption increased the
value of the market rate Geographical Exclusion Zone unit. Therefore, the developer of the market rate unit paid the developer of the off-site unit to be able to receive and utilize the §421-a Negotiable Certificates that was generated by the off-site low income project. The program was authorized by §421-a of the New York Real Property Tax Law which has since been amended.

**Low Income Rental Program**

Under the Low Income Rental Program ("LIRP"), formerly known as Mixed Income Rental Program ("MIRP"), sponsors purchase land or vacant buildings, and construct or rehabilitate multi-family units in order to create affordable rentals, with a targeted set aside of up to 30% of the units for formerly homeless families and the remaining units to be reserved for households earning less than or equal to 60% of the New York City area median income. Under LIRP, HPD will provide a direct subsidy of up to $75,000 per unit. The funds from HPD are advanced through a 1% loan for a maximum term of 30 years.

LIRP is used to leverage construction and permanent financing from private institutional lenders and from other public sources including the Corporation and the State. LIRP may be combined with other Subsidy Programs, including the Certificate Program.

**New York State Housing Trust Fund Corporation Programs**

The New York State Housing Trust Fund Corporation ("HTF"), a public benefit corporation which operates under the aegis of the Division of Housing and Community Renewal ("DHCR"), has two initiatives involving tax exempt bond financing: the Homes For Working Families Initiative ("HWFI") and the Senior Housing Initiative ("SHI"). Under both programs, HTF assistance of up to $35,000 per unit will be provided in the form of low or deferred interest mortgages for affordable housing projects.

Through HWFI, DHCR provides subordinate permanent financing at an interest rate of 1% to private developers for the new construction or substantial rehabilitation of affordable rental housing projects. Under HWFI, 100% of the units must be affordable to households earning less than 60% of area median income. At least 50% of project cost must be financed by tax-exempt bonds issued under Section 142 of the Internal Revenue Code in order to enable the projects to qualify for Federal low-income housing tax credits.

Pursuant to SHI, DHCR provides subordinate permanent financing at an interest rate of 0% to 1% to not-for-profit developers for the new construction or substantial rehabilitation of affordable rental housing for the elderly. Under SHI, occupancy is limited to seniors, defined as households headed by a person 60 years of age or older. Approximately 20% of the units in a project assisted through the SHI must be affordable to households earning less than 50% of area median income.

**General Municipal Law Article 16**

Article 16 of the General Municipal Law, Section 690 et seq. authorizes certain municipalities in the State, including the City, to make grants or loans (i) to the owner of any property that is part of an urban development action area project (as defined in such law) for the purpose of rehabilitation of an existing private or multiple dwelling, (ii) for the purpose of providing site improvements, or (iii) for the purpose of providing for other costs of construction for the development of private and multiple dwelling housing accommodations. Any loan made in accordance with this section shall be secured by a note and mortgage. In the case of a loan for the purpose of providing rental housing for persons of low income, the rental development must be subject to a regulatory agreement limiting profits and rentals charged.
With regard to the Mortgage Loans financed or expected to be financed by the Corporation which are subsidized through General Municipal Law, Article 16, the initial feasibility of these Developments was determined by the Corporation, HPD and a conventional construction lender. HPD’s General Municipal Law, Article 16 permanent loan is subordinate to the Corporation’s Mortgage Loan and both loans are not secured by Supplemental Security. In the event of a default on the Corporation’s Mortgage Loan, any proceeds resulting from a foreclosure which might result from such default would be applied to satisfy the Corporation’s Mortgage Loan prior to HPD’s General Municipal Law, Article 16 loan.

**Housing Development Grant Program**

Pursuant to the Housing Development Grant (“HoDAG”) Program, which was authorized by Section 17 of the 1937 Housing Act, HUD made grants to localities for rental housing projects within such localities’ respective jurisdictions. HPD received such a grant for certain of the Developments and utilized the funds provided by HUD to make a second unsecured mortgage loan. During the term of the HoDAG second uninsured mortgage loan made to the Mortgagor by HPD, the Mortgagor is required to comply with certain HoDAG Program requirements, including restrictions relative to the occupancy of certain units by low income tenants. If HoDAG Program requirements are not adhered to by the Mortgagor of the Development which received the HoDAG funds, the Mortgagor is required to repay HPD the amount of HoDAG grant funds, subject to certain adjustments. HUD may require the City to refund the grant monies. While no payments are due on this second position permanent loan during the term of the applicable Mortgage Loan, upon a violation of the HoDAG Program requirements by the Mortgagor, the City may then proceed to enforce its right to collect such grant monies from the Mortgagor.

**Housing Assistance Corporation Programs**

The Housing Assistance Corporation (“HAC”) is a public benefit corporation of the State established pursuant to Section 654-b of the Act as a subsidiary of the Corporation. HAC is to continue in existence until terminated by law; provided, however, that no such termination shall take effect as long as its obligations remain outstanding. The payments and funds of HAC are not considered to be assets of the Corporation and are not pledged under the Resolutions.

HAC is empowered to receive monies from any source, including, but not limited to, the Corporation, the City or the State, for the purpose of assisting rental developments to maintain rentals affordable to low and moderate income persons for whom the ordinary operation of private enterprise cannot supply safe, sanitary and affordable housing accommodations. In order to accomplish this objective, HAC may transfer, lend, pledge or assign these monies to any rental development (and may enter into agreements for such purposes with mortgagors of rental developments) or assist the Corporation in financing such developments.

HAC provides monthly rental assistance payments pursuant to a Tenant Assistance Contract (“TAC”). See “Appendix E-1—Developments and Mortgage Loans Outstanding under the Program” for the date of expiration of the TACs.