

December 12, 2002

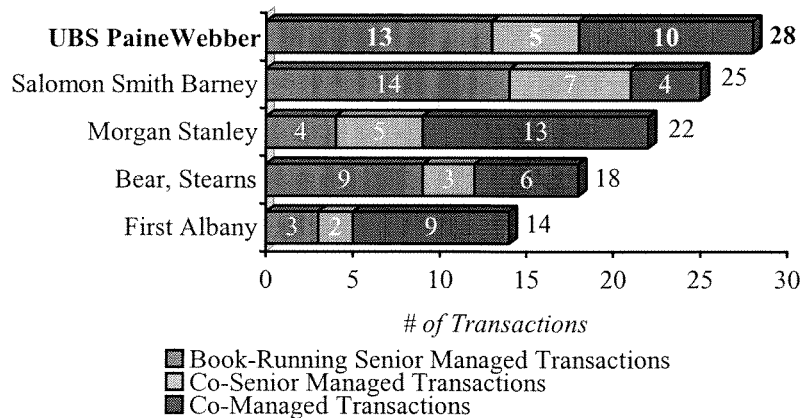
Mr. Steven J. Hunt
 President and CEO
 NYS HFA/SONYMA
 641 Lexington Avenue, 4th floor
 New York, NY 10020

Dear Steven,

UBS PaineWebber is pleased to submit this Statement of Qualifications in support of the possible issuance by the New York State Housing Finance Agency of bonds supported by the State's tobacco settlement payments. We believe that UBS PaineWebber's prior experience in developing innovative structures for securitizing tobacco settlement payments is unmatched by any of our competitors. Specifically, we have without argument been the driving force behind revisions recently implemented by the rating agencies to their tobacco rating criteria and we have developed an innovative strategy for implementing the reinvestment of various required funds and reserves. Both of these innovations which most certainly will net future securitizing entities hundreds of millions of additional dollars are highly indicative of the time we have invested and the commitment we have made to broadening client access to this developing market. The remainder of this statement briefly summarizes our accomplishments in the tobacco securitization field and highlights current observations that may assist the Agency in developing a successful financing program for the State.

Firm Experience in Tobacco Settlement Securitization. UBS PaineWebber has managed more tobacco securitizations than any other firm having served as senior, co-senior or co-manager on 28 of the 50 transactions completed to date. While two other firms have served as book-running senior manager for more dollar volume of bond issues, no firm can match the breadth and depth of our book-running senior managed transaction experience. We have served as senior manager for 11 of the last 22 municipal tobacco bond issues, putting us on the leading edge of market development and transaction execution. Moreover, UBS PaineWebber has become renown as an industry leader in providing innovation and client service and negotiating the terms of these complicated transactions with rating agencies.

National Tobacco Securitization Transactions — Completed



The table on the following page highlights UBS PaineWebber's experience in structuring tobacco securitizations.

Issuer	Par Amount	UBS PW Role	Pricing Date
<i>South Carolina*</i>	\$ 1,000	<i>Senior Manager</i>	<i>2003</i>
<i>Legal Settlement Trust (Securitization of Legal Fees)</i>	<i>45</i>	<i>Senior Manager</i>	<i>2003</i>
Fresno County, CA	93	Senior Manager	07/11/02
Rhode Island*	685	Senior Manager	06/21/02
Legal Settlement Trust (CA) (Securitization of Legal Fees)	54	Senior Manager	06/20/02
Hawaii*	150	Senior Manager	06/13/02
Kern County, CA	64	Senior Manager	05/09/02
Kern County, CA	41	Senior Manager	05/09/02
Sonoma County, CA	30	Senior Manager	03/21/02
Sonoma County, CA	37	Senior Manager	03/21/02
Stanislaus County, CA	67	Senior Manager	03/21/02
Merced County, CA	31	Senior Manager	03/21/02
Rockland County, NY*	48	Senior Manager	12/14/01
Legal Settlement Trust (MS) (Securitization of Legal Fees)	51	Senior Manager	05/15/01
New York Counties Tobacco Trust I	227	Senior Manager	11/10/00
<i>California*</i>	<i>2,500</i>	<i>Co-Senior Manager</i>	<i>2003</i>
<i>California*</i>	<i>2,500</i>	<i>Co-Senior Manager</i>	<i>2003</i>
<i>Virginia*</i>	<i>600</i>	<i>Co-Senior Manager</i>	<i>2003</i>
Puerto Rico	1,157	Co-Senior Manager	10/02/02
Rensselaer County, NY	35	Co-Senior Manager	12/14/01
New York Counties Tobacco Trust II	215	Co-Senior Manager	07/20/01
District of Columbia	521	Co-Senior Manager	03/05/01
Puerto Rico	397	Co-Senior Manager	10/26/00
Washington	518	Co-Manager	10/24/02
New Jersey	1,802	Co-Manager	08/15/02
New York City TSASC	500	Co-Manager	08/01/02
Wisconsin	1,591	Co-Manager	05/02/02
Louisiana	1,203	Co-Manager	11/01/01
South Carolina	935	Co-Manager	03/09/01
Erie County, NY	246	Co-Manager	09/22/00
Nassau CTSC	295	Co-Manager	11/11/99
New York City TSASC	709	Co-Manager	11/05/99

Note: Pending transactions are *italicized*. (\$ in millions).

* Assisted in development of enabling legislation.

UBS PaineWebber Innovations and Accomplishments in Tobacco Securitizations

Structural Innovations: Soft Sinking Funds - Beginning with the Rockland County, NY, tobacco securitization, UBS PaineWebber forwarded the most aggressive stated term bond repayment provisions offered in the sector, which then became the prototype for all Turbo repayment securitizations. In essence, the only mandatory payments on any Turbo Term Bond maturity are the final maturity dates for each, at which point the entire principal amount of the Term Bond is due. No sinking fund payments prior to that point are required. The rating agencies will not penalize the evaluation of the maturity based on this fact, unless the issuer desires to actually rate sinking fund payments, which we have found to have no marketing benefit. A given debt service schedule will perform in a superior fashion against the rating agency stress tests without being required to make sinking fund payments in a paydown scenario. The 'soft' sinking fund schedule gives the structure resilience or cushion, and the ability to weather temporary interruptions to the Tobacco Revenue stream, having to meet only interest and not principal payments until the final stated maturity of a Term Bond. The distinction between several of UBSPW's tobacco securitizations and those underwritten by our competitors is that our competitors have not fully appreciated the value of this concept and have confused the deal mechanics by continuing to refer to any referenced 'phantom' sinking fund payments as 'sinking fund payments'. We have chosen to explicitly identify these payments in our offering documents as 'Term Bond Structuring Amounts' to clarify the paydown mechanics. This concept can produce approximately 3% more proceeds due to its performance of a given debt structure against rating agency stresses, versus the same structure with mandatory sinking fund payments.

The following are some additional financing solutions and accomplishments that UBS PaineWebber has achieved serving as senior manager for the tobacco securitizations described above:

- (1) Pooling of multiple participants into a single bond issuance;
- (2) Elimination of mandatory sinking fund payments prior to final due date for each bond maturity;

- (3) Selective use of fixed amortization maturities to enhance overall pricing and distribution;
- (4) Limiting of maturities subject to acceleration to a maximum of three (when Moody's ratings are used);
- (5) Analysis of turbo versus residual and selection of most appropriate structure;
- (6) First ever sale of two or more separate senior managed tobacco issues on a single day (Stanislaus, Merced and Sonoma Series A all on March 13, 2002);
- (7) Combination of taxable and tax-exempt series with taxable structured to pay off first to produce lowest interest cost;
- (8) Development of multi-tranche sale to maximize benefits available from a series used to fund an endowment subject to deallocation rules as provided by the §103 of the tax code;
- (9) Implementation of our proprietary RASOP ("rating agency selection optimization process") technology to significantly enhance issuer net proceeds by targeting specific ratings agencies for ratings;
- (10) Use of optimization tools to insure best results under differing forward population forecasts for each decennial adjustment applicable to TSRs pledged to California Counties; and
- (11) Leading the legal analysis for refinancing taxable debt with tax exempt debt.

Challenging and Changing Existing Rating Criteria – As senior manager for the State of Rhode Island's tobacco securitization, UBS PaineWebber optimized the transaction structure using rating criteria from both S&P and Fitch and determined that use of a Moody's rating would cost the State as much as \$40 million in up-front proceeds. As maximizing net proceeds was the principal driver for the State, this presented a dilemma in that no other major issuer had issued tobacco debt without ratings from all three agencies. UBS thus challenged Moody's to reexamine their tobacco rating criteria. Using cash flows developed for the Rhode Island transaction, UBS PaineWebber spent an intensive 10 days redefining the statistical ranges employed in Moody's tobacco stress tests. Both Fitch and S&P also undertook a new look at their rating criteria and at the end of the day, both Moody's and S&P made beneficial adjustments to their rating criteria. The adjustments provided Rhode Island with approximately \$40 million or 6% more proceeds and came less than one month after a competitor had priced the State of Wisconsin's tobacco transaction using the older rating criteria. We estimate that Wisconsin lost approximately \$100 million in up-front proceeds by utilizing then-standard rating criteria.

Reinvestment of Proceeds – A standard tobacco securitization without any additional non-tobacco source of security will require a debt service reserve fund. Earnings on such fund represent an additional source of revenues that can be used in modeling the tobacco cash flows to meet the rating agencies' stress test requirements. In addition, earnings on the debt service fund transferred to the trustee prior to being used to pay debt service also can be invested and the earnings on such funds also used to meet stress tests. To date, the rating agencies have adopted an extremely conservative approach in the rate that they allow such funds to be invested when running their stress test models. UBS PaineWebber, unlike our competitors, has taken the approach that the default rates used by the rating agencies are too low. We have thus implemented a strategy whereby we work to invest such funds prior to the close of the transaction in investments acceptable to the rating agencies that result in higher allowed investment rates when running cash flow stress tests. UBS PaineWebber has calculated for the State of New York that if a full securitization of the State's TSRs through 2043 (turbo structure) were implemented (approx. \$5.572 billion in net proceeds), the State could generate as much as \$150 million in additional proceeds given today's available investment rates relative to the default rates of approximately 1% used by the rating agencies for these funds. In the Rhode Island transaction, our efforts resulted in approximately \$12 million additional net proceeds for the State on a \$685 million financing. This too represents benefits to our clients that we believe our competitors have "left on the table" in other transactions.

Completing Transactions in Record Time – UBS PaineWebber completed Rhode Island's financing in record time - 5 weeks from appointment to closing - and similarly completed a tobacco securitization for Rockland County in NY in four weeks. With a first quarter calendar approaching in excess of \$5.0 billion in new tobacco offerings, the State will likely benefit by working with a firm that can organize and market the transaction timely as to avoid competition from other issuers expecting to price sometime during the same window.

Debt Defeasance – UBS PaineWebber pioneered the use of tobacco proceeds to effect debt defeasances in the New York Counties Tobacco Trust I issue. As senior manager, we utilized debt defeasance for 11 of the 17 counties as a way of avoiding working capital issues while also meeting budget relief goals. One of the counties, Oneida, ultimately received a rating upgrade as a result of lowering the county's outstanding GO debt.

Marketing and Distribution. UBS PaineWebber has been one of the most active market makers in tobacco bonds since their inception, and we have traded over \$500 million of tobacco bonds in the secondary market in 2002 alone. Not only have we striven to educate investors regarding their unique structural characteristics, we have also supported our clients' offerings by ensuring that an active "bid" would exist if our tobacco bond investors were interested in selling their bonds. Over the past year, the Firm's daily inventory of tobacco bonds has been as high as \$115 million. As an active secondary market maker, UBS PaineWebber routinely inventories over \$5 million of tobacco bonds on any given day to meet retail and institutional demand.

As an underwriter, UBS PaineWebber has committed over \$100 million of its own capital on a single transaction (State of Rhode Island) to maintain aggressive tobacco pricing levels. We are proud to be the first firm to commit a substantial capital position to an unsold balance of tobacco bonds in a primary market pricing. This is not only a reflection of our commitment to the sector and to our clients, but it also represents the strongest statement possible to the market that we will stand by our clients. As of June 30, 2002, UBS PaineWebber's net excess capital, net capital, equity capital and total capital was \$1.14 billion, \$1.34 billion, \$2.53 billion and \$3.76 billion respectively. UBS's total capitalization exceeds \$60 billion. According to the SEC's uniform net capital rule on long-term tax-exempt issues, for every security that a firm puts into inventory, 7% of the value of that security must be backed by available capital. This currently allows UBS PaineWebber Inc. to legally underwrite, as sole book-running senior manager, a long-term issue of approximately \$16.2 billion.

Examples of Recent Significant Underwriting Positions

Sale Date	Transaction Size (\$ mil.)	State	Issuer	Source of Security	Par Amount Inventoried by UBS PW (\$ mil.)
06/21/02	\$ 685.39	RI	Tobacco Settlement Financing Corp.	Tobacco Asset-Backed Bonds	\$ 100.80
03/20/02	800.00	SC	Greenville, SC	BEST (GO School bonds)	232.73
08/24/01	361.23	NY	NYC Municipal Wtr. Auth.	Crossover Refunding Bonds	64.07
02/23/01	485.35	CA	BART/ABAG	Federal Full Funding Grant Agreement (\$5309)	139.42
11/15/00	562.22	NJ	New Jersey Transit Corporation	Federal Full Funding Grant Agreement (\$5309)	195.43
09/01/00	283.54	NJ	New Jersey Transit Corporation	Federal Full Funding Grant Agreement (\$5309)	99.50

While UBS PaineWebber's actual inventory holdings are confidential, the following are summaries of secondary market trades we executed during a recent one-month timeframe:

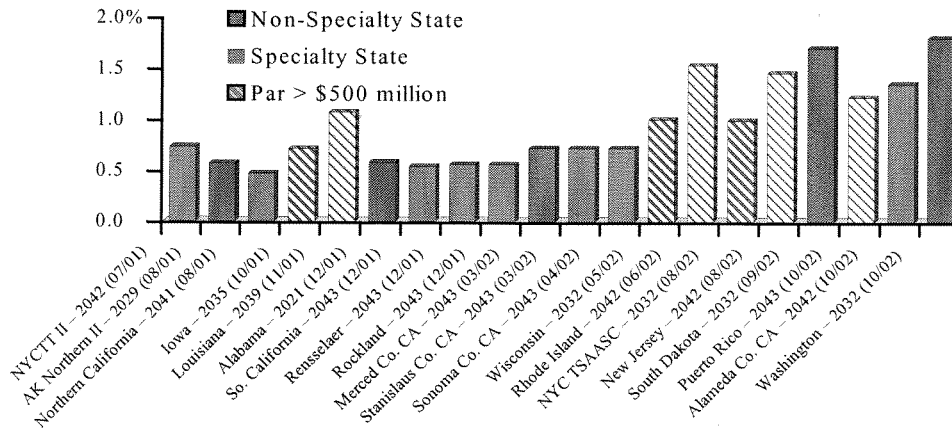
Select Secondary Market Trading Activity

Issuer	Coupon	Nominal Maturity	Amount
Iowa	5.600%	2035	\$ 11,800,000
Rhode Island	6.250	2042	21,550,000
Puerto Rico	5.750	2020	5,100,000
Louisiana	5.875	2039	15,325,000
New Jersey	6.000	2037	14,775,000
Wisconsin	6.125	2027	6,050,000

Our observation of the tobacco market over the past year reveals that "spreads" to the AAA MMD Index are generally widening due to market saturation and concerns over future volume. Although we caution against over-reliance upon a snapshot view of selected maturities, the general trend towards higher spreads is clear.

The market has been concerned with the issue of market capacity since the advent of tobacco securitizations three years ago. Generally speaking, the market is wide, but not deep. Those transactions completed to date have all been sold at relatively "cheap" prices, but they have sold. At some point there may be absolute capacity constraints for non-specialty state issuers, but we are not there yet and until then the real question will be one of price. With 2002 witnessing the highest volumes of primary market issuance on record, supply has consistently influenced all bond pricing. Moreover, there are already over \$7 billion of tobacco bonds scheduled for pricing by the first quarter of 2003.

Yield Spreads of Recently Priced Tobacco Bonds to the AAA MMD Index



Alternative Structuring Approach - In light of the forward calendar, UBS PaineWebber recommends that the State consider utilizing a structure that incorporates a State Moral Obligation, a concept pioneered by New York State over 30 years ago. Under this approach, the State would make up for any deficiency in the debt service reserve through an annual appropriation, if the tobacco revenues were not sufficient to cover rated debt service in a given year. The coverage required to achieve an 'A' rating means the likelihood of the moral obligation being triggered is quite remote. Even in some severe revenue stress situations, the bonds are shown to pay on their rated schedule, given the credit criteria. We would expect to market the bonds at levels much tighter to prevailing benchmarks than the extremely inflated current market tobacco spreads (120-150+ basis points for specialty states such as New York). While the cost of capital may not move all the way to that the State's appropriation debt, even accounting for some tobacco stigma, this becomes a far more economic transaction. It is likely to net the State hundreds of millions of dollars more from the program than a standard TSR securitization, with tobacco industry credit only behind repayment.

We acknowledge that the State sacrifices elements of the risk transfer motive in this approach, and faces a process to achieve political buy-in to essentially use its GO credit for the tobacco financing. However, given all of the other facts and circumstances, this approach produces far superior economics to the use of any other available, back-up revenue stream. We also believe that the structure could incorporate a mechanism whereby if an appropriation were made, and the repayment revenues then returned to sufficient levels, then the State could be reimbursed for its appropriations from excess revenues, after rated debt service in a given year, but before any accelerated bond repayment were to occur.

At your earliest convenience, we would like to update you regarding our tobacco securitization recommendations and discuss with you NYS HFA/SONYMA's potential role as the conduit issuer. If you have any questions, please do not hesitate to contact Roy at (518) 434-5770 or Frank at (212) 713-4079.

Very truly yours,

Roy McDonald
First Vice President

Frank Mahoney
Managing Director

cc: Robert Drillings