BOARD OF DIRECTORS MEETING
Wednesday, June 27, 1979
9:30 A.M.
PAUL, WEISS, RIFKIND, WHARTON & GARRISON
345 Park Avenue/Room 2811
New York, New York

AGENDA

1. Adoption of Minutes for Meeting of the Board of Directors held June 11, 1979

2. Modification of Guaranty Fund Resolution

3. Review of 1980 Issuances

4. Administration Procedures

# # #
MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Minutes of Special Meeting of the Board of Directors

June 27, 1979

A Special Meeting of the Board of Directors of the Municipal Assistance Corporation For The City of New York was held at 9:00 A.M., on Wednesday, June 27, 1979, at the offices of Paul, Weiss, Rifkind, Wharton & Garrison, 345 Park Avenue, New York City.

The following Directors were present, constituting a quorum of the Board:

Edward M. Kresky, Vice Chairman
Francis J. Barry
George M. Brooker

Eugene J. Keilin
Dick Netzer
Robert C. Weaver

The following Representatives were present:

Jerome Belson

Leonard Nadel

The following members of the Staff were present:

Robert F. Vaqt
Harris A. Decker
William J. Lithgow

Linda W. Seale
Adam Sherman
Linda S. Dinkin

Also present by invitation of the Board were Allen L. Thomas of Paul, Weiss, Rifkind, Wharton & Garrison, General Counsel to the Corporation; Donald J. Robinson and John J. Keohane of Hawkins, Delafield & Wood, Bond Counsel to the Corporation; John S. Tamagni of Lazard Freres & Co., Financial Advisor to the Corporation; Stephen Berger and Paul G. Giddings, Consultants to the Corporation; John J. McLaughlin of the United States Treasury Department; William Cobbs of the Office of the Deputy Mayor for Financial Management;
Paul M. O'Brien, Third Deputy Comptroller; and John Bender and Michael Smith of the Financial Control Board For The City of New York.

Adoption of Minutes

Mr. Kresky stated that the proposed Minutes for the Board of Directors meeting of June 11, 1979 had been circulated to the Board to be considered for adoption. Upon motion duly made, seconded and unanimously carried, it was:

RESOLVED, that the Minutes of the Special Meeting of the Board of Directors, held on June 11, 1979, be and hereby are adopted.

Amendment of Guarantee Fund Resolution

Mr. Robinson explained that the Guarantee Fund Resolution, adopted by the Corporation in November 1978 and amended in February 1979, required one additional amendment prior to a City sale of Federally-guaranteed bonds on June 28, 1979. Because of questions about whether the application of certain tax laws to the Guarantee Fund would affect the tax-exempt status of guaranteed City bonds, the Resolution, as initially adopted by the Corporation and as amended in February, applied by its terms only to the sales of guaranteed City bonds sold in November and then in February. Mr. Robinson further explained that the questions about the application of the tax law had been resolved and that the proposed
amendment would amend the Guarantee Fund Resolution to permit both the bond sale scheduled for the next day and all future guaranteed bond sales as well.  

Upon motion duly made, seconded and unanimously carried, it was:

RESOLVED, that the amendment to the Guarantee Fund Resolution, adopted by the Corporation on November 14, 1978, as amended and supplemented on November 16, 1978 and February 13, 1979, be and hereby is adopted.

The Board directed that a copy of the amendment be appended to the Minutes of the meeting.

1980 Issuance Schedule

Mr. Keilin, Chairman of the Finance Committee, reviewed the proposed 1980 issuance schedule. He stated that under the Four Year Financial Plan the Corporation was scheduled to issue $1.037 billion in bonds in fiscal 1980, $500 million to the public and $537 million in private placements. He noted that the Board had previously expressed its intention to issue its bonds to the public on a quarterly basis in approximately equal amounts of about $125 million. He reported that the planned dates for the private placements would be sent to the purchasers in a schedule to be made available to them on or before July 1 and noted that he anticipated that the private placements would be completed during the first six months of the fiscal year. He stated
that the Corporation would schedule its issues carefully in order to avoid congestion in the marketplace and that the Corporation would continue its marketing campaign. He noted that Mr. Vagt and Mr. Decker had visited potential institutional investors in North Carolina and that a trip to Chicago was scheduled for the next day.

Mr. Kresky noted that the market's response to the Corporation's policy of regular quarterly financing has been favorable.

**Administrative Procedures**

Mr. Kresky noted that when the Corporation was first created it had no staff and therefore had no means of administering its own accounts. It had therefore requested the State Comptroller to undertake such housekeeping functions. Mr. Kresky noted that the Corporation had now matured as an agency, and that it was appropriate that it now begin to do its own housekeeping. He reported that Dr. Weaver and Dr. Netzer of the Administration Committee had reviewed the administrative procedures developed by the Staff.

Mr. Vagt noted that he had briefed the Board members concerning the proposal, and that it had been presented to the Administration Committee, the Finance Committee and the Audit Committee of the Board. He noted that when the Corporation was first created it had no funds of its own and a First Instance Appropriation had been provided by the
State to provide the Corporation with funds to pay its expenses. Those funds were then paid back to the State. This procedure, necessary at the Corporation's inception, was no longer appropriate to it as an established public-benefit corporation. He explained that the proposal called for Chemical Bank to provide payroll services and for other payments to be administered by designated Staff members and officers of the Corporation. U.S. Trust would serve as depository for the Operating Fund.

Mr. Vagt reported that he had reviewed the proposal with Comptroller Regan and Wayne Diesel of the Comptroller's office and that he had thanked them for the services they had provided to the Corporation over the past four years. He also reported that he had talked to Robert Morgado, Secretary to the Governor, and to Howard Miller, Director of the Budget, and that they, like Comptroller Regan and Mr. Diesel, had no objection. He noted further that the Staff was developing a procedures manual and that copies would be distributed to the Board as soon as it was completed.

Mr. Vagt then described the resolutions that the Corporation was being asked to adopt, copies of which were distributed to the Board members. Two of them were standard checking-account resolutions, or banking resolutions, to establish checking accounts with United States Trust Company of New York and with Chemical Bank. The third was a resolution which would provide for the adoption of an operating budget
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for each fiscal year and for Board authorization of large
commitments to a single vendor and of fee arrangements with
the Corporation's outside counsel, independent accountants,
financial advisors and trustees.

Mr. Kresky then noted that although the Corporation's
expenditures would no longer be subject to preaudit by the
State Comptroller, they would still be subject to postaudit
review by the Comptroller as are other public-benefit corporations
of the State.

Upon motion duly made, seconded and unanimously carried,
it was:

RESOLVED, (1) that the Banking Resolution to
establish a checking account with United States
Trust Company, (2) that the Banking Resolution to
establish a checking account with Chemical Bank
and (3) that the Resolution providing for adoption
of an operating budget and Board authorizations
for certain payments be and hereby are adopted.

The Board directed that copies of each of the three
Resolutions be appended to the Minutes.

Adjournment

There being no further business before the meeting, it
was, upon motion duly made, seconded, and unanimously
carried, adjourned at 9:15 A.M.

[Signature]
William S. Lithgow
Assistant Secretary
RESOLUTION AMENDING A RESOLUTION
OF THE MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK
ESTABLISHING THE CITY OF NEW YORK
BOND GUARANTY FUND

Be it Resolved by the Board of Directors of the Municipal Assistance Corporation For The City of New York (the "Corporation") as follows:

Section 1. A resolution of the Corporation entitled "Resolution of the Municipal Assistance Corporation for The City of New York Establishing The City of New York Bond Guaranty Fund", adopted November 14, 1978, as amended and supplemented by further resolutions adopted November 16, 1978 and February 13, 1979 (as so amended and supplemented, the "Resolution") is hereby amended to read as follows (new matter is underlined, deleted matter is set off by brackets):

Section 2. Subdivision 4 of Section 102 of the Resolution is amended to read as follows:

(4) "Bonds" means the bonds of the City held by the Pension Funds and secured by the Guarantee issued on [the first and second] any Closing [Dates] Date pursuant to the Guaranteed Bond Purchase Agreement, dated as of November 15, 1978;

Section 3. This resolution shall take effect when approved by the Secretary in accordance with the Resolution.

Dated: June 27, 1979
MUNICIPAL ASSISTANCE CORPORATION

RESOLUTION PERTAINING TO ADOPTION OF A

BUDGET AND AUTHORIZATION OF EXPENDITURES

BE IT RESOLVED by the Board of Directors of the
Municipal Assistance Corporation For The City of New York as
follows:

The Board of Directors shall adopt an Operating
Fund budget for each fiscal year, which shall project
anticipated expenditures for that fiscal year. The Executive
Director shall make such reasonable modifications to the
budget as may be required from time to time, and shall
report any such modifications to the Board as soon as possible
after the end of the quarter in which made; and

The Board shall authorize: (1) all fee arrange-
ments with outside counsel, independent accountants, financial
advisors or trustees; and (2) commitments to any other
vendor for operating purposes expected to exceed $100,000
within the fiscal year of the Corporation. Authorization to
incur other expenses for operating purposes in an amount not
expected to exceed $100,000 in the fiscal year of the
Corporation may be made by the Executive Director or the
Deputy Executive Director.
RESOLUTIONS

I, the undersigned, hereby certify to The Chemical Bank World Trade Center, N.Y., that at a meeting of the Board of Directors of THE MUNICIPAL ASSISTANCE CORPORATION, FOR THE CITY OF NEW YORK a Corporation organized and existing under the laws of THE STATE OF NEW YORK, duly called and duly held on the 27th day of June, 1979, the following resolutions were duly adopted, and that the said resolutions have been entered upon the regular minute book of the said Corporation, are in accordance with the By-Laws and are now in full force and effect.

RESOLVED: 1. That the Officers of this Corporation, or any one or more of them, are hereby authorized and empowered to open a bank account or accounts from time to time with The Chemical Bank World Trade Center, hereinafter referred to as the "Bank") for and in the name of this Corporation with such title or titles as he or they may designate.

2. That the Executive Director, Deputy Executive Director and Treasurer of this Corporation, (Indicate by Title persons authorized to sign, viz.: President, Vice-President, Treasurer, etc.) any two (Indicate how checks etc. are to be signed, viz.: singly, jointly, any two, etc.)

and their successors in office, and any other person hereafter authorized to sign on behalf of this Corporation, are hereby authorized to sign checks, drafts, notes, acceptances, and other instruments, and orders for the payment or withdrawal of money, credits, items and property at any time held by the Bank for account of this Corporation, and the Bank is hereby authorized to honor any or all thereof and other instruments and orders authorized to be paid by the Bank, including such as may bring about an overdraft and such as may be payable to or for the benefit of any signer thereof or other officer or employee individually without inquiry as to the circumstances of the issue or the disposition of the proceeds thereof and without limit as to amount.

3. That the bank is hereby authorized to accept for deposit for the account of this Corporation for credit, or for collection, or otherwise, any or all checks, drafts, notes and other instruments of every kind indorsed by any person or by hand stamp impression in the name of this Corporation or without indorsement.

4. That the officers of this Corporation (Indicate by Title persons authorized to affect Loans, Advances, etc., viz.: President, Vice-President, Treasurer, etc.) signing

and their successors in office are hereby authorized to effect loans and advances at any time for this Corporation from the Bank, and for such sums and advances to make, execute and deliver promissory notes and other written obligations or evidences of indebtedness of this Corporation, applications for letters of credit and any agreements or undertakings, general or specific, giving leas on, and rights and powers with respect to, any property of this Corporation, and other agreements and undertakings, and as security for the payment of loans, advances, indebtedness and liabilities of this Corporation to pledge, hypothecate, mortgage, assign, transfer, indorse and deliver property of any description, real or personal, and any interest in and evidence of any thereof at any time held by this Corporation, and to execute instruments of transfer, powers of attorney and other instruments which may be necessary or desirable in connection therewith; and also to sell, or dispose of, and to count with, the Bank commercial paper, bills receivable, accounts receivable and other instruments and evidences of debt at any time held by this Corporation, and to that end to indorse, assign, transfer and deliver the same, and to give any orders or consents for the delivery, sale, exchange or other disposition of any property or interest therein or evidences thereof belonging to this Corporation and at any time in the hands of the Bank, whether as collateral or otherwise.

5. That all loans, discounts and advances heretofore obtained on behalf of this Corporation and all notes and other obligations or evidences thereof of this Corporation held by the Bank are hereby approved, ratified and confirmed.

6. That the officers of this Corporation or any one or more of them are hereby authorized to act for this Corporation in all other matters and transactions relating to any of its business with the Bank.

7. That each of the foregoing resolutions and the authority hereby conferred shall remain in full force and effect until written notice of revocation or modification shall be received by the Bank; that the Secretary or any Assistant Secretary or any other officer of this Corporation is hereby authorized and directed to certify, under the seal of this Corporation or not, but with like effect in the latter case, to the Bank the foregoing resolutions, the names of the officers and other representatives of this Corporation, any changes from time to time in the said officers and representatives and specimens of their respective signatures; and that the Bank may conclusively assume that persons at any time certified to it to be officers or other representatives of this Corporation continue as such until receipt by the Bank of written notice to the contrary.

In Witness Whereof, I have hereunto set my hand as Secretary and affixed the seal of the said Corporation this ______ day of ________, 19____.

*ATTEST:__________________________
Secretary

*Official Designation

*Note: In case the Secretary is authorized to sign by the above resolutions, this certificate should be attested by a second officer or director of the Corporation.
AUTHORIZATION FOR CORPORATE CHECKING ACCOUNT

I, STEPHEN J. WEINSTEIN, Secretary of THE MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK, a corporation duly organized and existing under the laws of THE STATE OF NEW YORK, hereby certify that the Board of Directors of the Corporation, at a meeting duly held on June 27, 1979, at which a quorum was at all times present and acting, resolved that:

1. UNITED STATES TRUST COMPANY OF NEW YORK (the Trust Company) is hereby designated a depository of the Corporation, authorized to credit to the account or accounts of the Corporation all checks, drafts, notes, orders and other instruments for the payment of money, indorsed in any manner (whether manually, by rubber stamp or otherwise) or nonindorsed, and any funds or other property which shall be delivered by anyone to the Trust Company for credit to any such account.

2. Any person then holding any of the following offices, or any of the individuals named below whether or not officers, is authorized to sign, in the name and on behalf of the Corporation, all checks, drafts and other instruments or orders for the payment of money drawn on any such account and all stop payment orders, acceptances of statements of account and any other agreements relating to any such account, without counter-signature or co-signature except to the extent indicated as follows:

(Whenever possible, insert offices—e.g., President, Treasurer—rather than names of incumbent officers to minimize the need for further resolutions.)

Any two of the Executive Director, Deputy Executive Director or Treasurer.

3. The Trust Company is authorized to pay, cash or otherwise honor and charge to the Corporation any check, draft, instrument or order drawn on any account of the Corporation or payable to the order of the Corporation when signed or indorsed as required by the foregoing resolutions, without inquiry or regard as to the circumstances of the issue, negotiation or indorsement thereof or the disposition of the proceeds, even if any such check, draft, instrument or order shall be made payable to the signer or to any officer, employee or agent of the Corporation or to any other interested person, and even if any such check, draft, instrument or order, or any proceeds thereof, is tendered for deposit in the account of any such person with the Trust Company, or is tendered in payment of any personal obligation to the Trust Company or other creditor, or is used for the individual benefit of any such person in any other manner.

4. The Trust Company is authorized to pay, cash or otherwise honor and charge to the Corporation any check, draft, instrument or order drawn on any account of the Corporation when signed in accordance with these resolutions, without regard to and without making any inquiry with respect
to (i) any notation or any part thereof indicating the effect, purpose or condition of its issuance, delivery, receipt or acceptance or (ii) any alteration, defacement or erasure of any such notation.

5. The rights and duties of the Trust Company and the Corporation with respect to any account established pursuant to these resolutions shall be governed by the banking practices of the Trust Company in effect from time to time. These resolutions shall be deemed the binding agreement of the Corporation, and the Trust Company is authorized to rely upon these resolutions as constituting such binding agreement until it has received and has had a reasonable time to act upon notice in writing signed by the Secretary or an Assistant Secretary of the Corporation of a change in such resolutions.

6. The Secretary or any Assistant Secretary of the Corporation is authorized to certify to the Trust Company from time to time the names and signatures of officers of the Corporation and the signatures of any employees authorized by these resolutions to act on behalf of the Corporation and the Trust Company may rely upon any such certification in the same manner and with the same effect as it may rely upon the continued effectiveness of these resolutions.

I further certify that no provision in the Certificate of Incorporation or By-Laws of the Corporation limits in any manner the authority of the Board of Directors to adopt the foregoing resolutions and that such resolutions conform in all respects with the provisions of said Certificate of Incorporation and By-Laws and have not been rescinded and are now in force and effect.

I further certify that each of the following persons has been duly elected to and now holds the office indicated after his name:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROBERT F. VAGT</td>
<td>Executive Director</td>
</tr>
<tr>
<td>STEPHEN J. WEINSTEIN</td>
<td>Deputy Executive Director</td>
</tr>
<tr>
<td>HARRIS A. DECKER</td>
<td>Treasurer</td>
</tr>
</tbody>
</table>

In Witness Whereof, I have hereunto set my hand and affixed the seal of the Corporation this ________________ day of ________________, 19____.

(Corporate Seal)

Secretary

*Confirmed: ____________________________

Official Title: ____________________________

*Confirmation by the President, a Vice President or the Treasurer is required if the foregoing resolutions authorize the Secretary to sign checks without counter-signature.

UST 2638 9-42
AGENDA

1. Adoption of Minutes for Meeting of the Board of Directors held June 27, 1979 (attached)

2. Reissuance of Bonds to New York City Employees Retirement System

3. Sale of Series 16 Bonds

4. Other Business

# # #
MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK

Minutes of a Special Meeting of the Board of Directors

July 18, 1979

A Special Meeting of the Board of Directors of the Municipal Assistance Corporation For The City of New York was held at 9:30 A.M., on Wednesday, July 18, 1979, at the offices of Paul, Weiss, Rifkind, Wharton & Garrison, 345 Park Avenue, New York City.

The following Directors were present, constituting a quorum of the Board:

Felix G. Rohatyn, Chairman
Edward M. Kresky, Vice Chairman
Francis J. Barry

Eugene J. Keilin
Dick Netzer
Robert C. Weaver

The following Representatives were present:

Richard D. Parsons

Robert W. Seavey

The following members of the Staff were present:

Robert F. Vagt
Stephen J. Weinstein
Marilyn F. Friedman
Harris A. Decker
William J. Lithgow

Christopher Richmond
Margaret F. Scott
Linda W. Scale
Adam Sherman

Also present by invitation of the Board were Allen L. Thomas, Stephen E. Fox, Paul Pearlman and Mark Meirowitz of Paul, Weiss, Rifkind, Wharton & Garrison, General Counsel to the Corporation; Donald J. Robinson of Hawkins, Delafield & Wood, Bond Counsel to the Corporation; Stephen Berger, Consultant to the Corporation; Alexandra Altman of the Office of the Deputy Mayor for Financial Management; Paul M. O'Brien, Third Deputy City Comptroller; Michael C. Smith of the Financial Control Board For The City of New York; Bernard
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Kabak of the Office of the State Special Deputy Comptroller;
and Jack Bigel of Program Planners, Inc.

Public Session

Adoption of Minutes

Mr. Vagt stated that the proposed Minutes for the Board
of Directors meeting of June 27, 1979 had been circulated to
the Board to be considered for adoption. Upon motion duly
made, seconded and unanimously carried, it was:

RESOLVED, that the Minutes of the Special
Meeting of the Board of Directors held on June 27,
1979 be and hereby are adopted.

Missing Securities

Mr. Vagt reported that on July 11, 1979, the United
States Trust Company of New York had reported to the Corpora-
tion that certain Series FF, HH, and 9 Bonds, aggregating
approximately $397 million, were missing from the Trust
Company's vault. He emphasized that the Trust Company held
the missing bonds as custodian for the New York City Employees'
Retirement System, and that they were all in registered form
and large denominations.

Mr. Vagt stated further that the Trust Company had had
its staff and its independent accountants, Coopers & Lybrand,
commence a search of the vault and of all other U.S. Trust
premises in an attempt to locate the missing securities, but
that the securities had not been located. Mr. Vagt indicated that the Corporation's staff had met with the staff of the Trust Company, Coopers & Lybrand and our independent accountants, Price Waterhouse & Co., to discuss the matter.

He stated that the Corporation had requested Price Waterhouse to aid Coopers & Lybrand and to review the operations of the United States Trust Company and to conduct an audit of all securities held for the Corporation as its Trustee and its Custodian. He asked that a copy of that letter of request, which was distributed to the Board, be attached to the minutes of the meeting.

Mr. Vagt stated that the Corporation's General Bond Resolutions permitted reissuance of lost, misplaced or stolen bonds, and that discussions were being held among the Corporation, the Trust Company and the City Comptroller's office with regard to reissuance. He said that the Trust Company had initially offered an indemnification letter to the Corporation but that the Corporation had requested an acceptable surety bond prior to authorizing reissuance of the reportedly missing securities.

Mr. Rohatyn identified two important issues. First, prior to reissuance, he said, the Board needed assurance of no possible liability of the Corporation on the misplaced securities, in order to protect its bondholders. Second, he indicated that the relationship between the Corporation and
the Trust Company as Trustee and Custodian for the Corporation required close scrutiny. He said that he had asked Price Waterhouse to conduct a search and count of all securities held for the Corporation and to report to the Corporation on the procedures of the Trust Company. He said further that senior officers of the Trust Company were scheduled to meet with officials of the Corporation later that day. He stated that the loss raised serious questions regarding internal Trust Company procedures, and therefore raised serious problems with regard to the relationship between the Trust Company and the Corporation, particularly in light of the lag of approximately eight months between the initial discovery by Trust Company employees that the securities were missing and the report of such loss to the issuer and the owner.

Mr. Kresky noted that this sequence of events was particularly troubling in light of an intervening annual audit by the Trust Company’s independent accountants.

Mr. Bigel asked the possible timing on reissuance of the missing securities. Mr. Rohatyn stated that after being informed that the securities were missing the Corporation had requested the Trust Company to provide a surety bond acceptable to the Corporation, and that as soon as such bond were in place the Corporation would take appropriate steps to reissue. Mr. Vagt reviewed the relationships between the Corporation and the Trust Company and the functions that the
Trust Company performed for the Corporation as Trustee under the First and Second General Bond Resolutions, and as Custodian for certain assets of the Corporation.

In response to a question, Mr. Rohatyn stated that the Corporation had no authority to terminate the Trust Company as Trustee under the Resolution, only to request its resignation. Mr. Robinson said that the Corporation was without power to remove the Trustee under the Bond Resolution because the Trustee was intended to be independent of the issuer.

Proposed Financing - Series 16

Mr. Keilin summarized the present plans for the Corporation's upcoming public sale of its Series 16 bonds pursuant to the Second General Bond Resolution. He said that the sale was anticipated during the week of July 30th and that the same group of underwriting managers would participate as in the Corporation's recent sales of Series 14 and 15 bonds. He said that the Corporation would continue its marketing efforts and its series of meetings with institutional investors, with trips to Atlanta and Florida to meet with sales representatives and possible buyers.

Resignation of Counsel

Mr. Vagt indicated that Marilyn Friedman would resign her position as Counsel to the Corporation, effective July 31, 1979, and stated that during the years in which she served
in that position, her participation in the complex negotiations and agreements of the past few years had been invaluable. Mr. Rohatyn said that the Corporation would miss Ms. Friedman, that she had put forth extraordinary hours and efforts, and that the Corporation wished her the best of luck. Mr. O'Brien expressed the appreciation of the City. Mr. Bigel complimented Ms. Friedman for her superior work, and suggested that the Corporation consider payment of a cash bonus to her upon her resignation. Mr. Kresky proposed a Resolution stating the Board's appreciation and gratitude to Ms. Friedman and the high regard in which she was held. Upon motion duly made, seconded and unanimously carried, the Board so resolved.

Adjournment

There being no further business before the meeting, it was, upon motion duly made, seconded and unanimously carried, adjourned at 10:00 A.M.

Stephen J. Weinstein
Secretary
12 July 1979

Kenneth G. Cadenatori
PRICE WATERHOUSE & CO.
153 East 53rd Street
New York, New York 10022

Dear Sir:

On the afternoon of July 11, 1979, Mr. Sinclair Armstrong, Executive Vice President of the United States Trust Company of New York (the "Trust Company"), informed the Corporation that 41 registered, non-negotiable bonds of the Corporation in the aggregate principal amount of $397 million, held by the Trust Company as custodian for the New York City Employees' Retirement System ("NYCERS") were missing. Mr. Armstrong indicated that this fact had come to the attention of the Trust Company's senior management only very recently and that an intensive investigation and search had been commenced. Mr. Armstrong indicated that the Comptroller of the City of New York, the custodian under law for NYCERS, was also informed of the missing securities.

The preliminary information available to us indicates the following sequence of events.

On September 14, 1977, NYCERS, together with other New York City pension funds and various commercial banks, participated in an exchange of certain securities of the Corporation held by them for newly issued securities of the Corporation. On that day, NYCERS received $397 million aggregate principal of registered non-negotiable securities from the Corporation. These securities were issued to NYCERS as part of Series FF, HH and 9 and were delivered as follows:

<table>
<thead>
<tr>
<th>Denomination</th>
<th>FF</th>
<th>HH</th>
<th>9</th>
<th>Total Par Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>100,000,000</td>
<td>2</td>
<td>1</td>
<td></td>
<td>$300,000,000</td>
</tr>
<tr>
<td>10,000,000</td>
<td>3</td>
<td></td>
<td>3</td>
<td>80,000,000</td>
</tr>
<tr>
<td>1,000,000</td>
<td>2</td>
<td>2</td>
<td>12</td>
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<td>750,000</td>
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<td>750,000</td>
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<td>100,000</td>
<td>1</td>
<td>10</td>
<td></td>
<td>1,100,000</td>
</tr>
<tr>
<td>15,000</td>
<td>6</td>
<td>8</td>
<td>27</td>
<td>$397,880,000</td>
</tr>
</tbody>
</table>

On or about September 14, 1977, NYCERS turned these securities over to the Trust Company as custodian.
In December 1977, the Trust Company undertook a reorganization of its vault filing system. As part of this reorganization, securities held in various custody accounts, including NYCERS' account, were moved from one filing location in the Trust Company's vault to another. The Trust Company has indicated that a count of these securities should have been performed at that time but that there exists no record indicating whether or not such a count was made.

In November 1978, an audit by the Trust Company's internal audit staff revealed that these securities were missing. The disappearance of these securities was reported to a research group at the Trust Company for further action.

In January 1979, this research group "unofficially" notified the Trust Company's Corporate Trust Division of the missing securities.

In mid-June 1979, the Trust Company's internal audit division and vault management undertook an accelerated search for the missing securities.

In early July 1979, the Trust Company's independent accountants, Coopers & Lybrand, were requested to assist in the search for the missing securities.

On July 11, 1979, the Trust Company informed the Corporation of the missing securities and indicated that on the day prior they had notified the Securities Information Center and various regulatory authorities of the loss.

These securities are owned by NYCERS and held by the Trust Company as custodian for NYCERS. We believe the Corporation has no liability for any loss which may result from the disappearance, recovery or replacement of these securities. However, the Trust Company is the Trustee for the bondholders under the Corporation's First and Second General Bond Resolutions.

We therefore request that you, in conjunction with the Trust Company and its independent accountants: (1) audit the Corporation's various asset and custody accounts held by the Trust Company by doing the following, (a) review audit procedures prescribed by the Trust Company and their independent accountants relating to the search for the missing securities and to the audit of custody accounts and asset accounts of the Corporation and agree upon their reasonableness, (b) observe the implementation of the procedures described above and determine if they are being adequately implemented, (c) review the results of the audit procedures described above and report your conclusions to the Corporation; (2) review such reports and recommendations by the Trust Company's
independent accounts as are made available to you regarding internal accounting controls and report to the Corporation on any aspects which you believe require further investigations; (3) review any plans or programs developed by the Trust Company or its independent accountants in response to the charge of the Executive Committee of the Trust Company's Board of Directors to review internal accounting controls and vault management practices which may affect the Trust Company's performance as Trustee; (4) report to the Corporation on any areas of the Trust Company's internal accounting controls or management control structure which require further inquiries by the Corporation.

We appreciate your assistance in this matter and look forward to a timely response.

Sincerely,

[Signature]

Robert F. Vaghi
Executive Director

cc: Felix G. Rohatyn, Chairman, Municipal Assistance Corporation Board of Directors
    Andrew P. Steffan, Chairman, Audit Committee, Municipal assistance Corporation Board of Directors
    Allen L. Thomas, Esq.
    Donald J. Robinson, Esq.
    Thomas Killefer, Chairman of the Board, United States Trust Company of New York