

**NEW ISSUE**

*This Official Statement has been prepared by the North Carolina Housing Finance Agency to provide information on the Series 28 Bonds. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Series 28 Bonds, a prospective investor should read this Official Statement in its entirety. Unless indicated, capitalized terms used on this cover page have the meanings given in the Official Statement.*



**\$65,000,000**

**North Carolina Housing Finance Agency**

**\$59,270,000 Home Ownership Revenue Bonds, Series 28-A (AMT)**  
**\$5,730,000 Home Ownership Revenue Bonds, Series 28-B (Non-AMT)**

**(1998 Trust Agreement)**

**Dated: Date of Delivery**

**Due: as shown on inside front cover**

<i>Tax Exemption</i>	In the opinion of Bond Counsel and subject to the qualifications described herein, interest on the Series 28 Bonds is not includable in gross income for federal income tax purposes and is exempt from all income taxes of the State of North Carolina. See "TAX EXEMPTION" herein for additional information including information regarding the application of federal alternative minimum tax provisions to the Series 28 Bonds.
<i>Redemption</i>	The Series 28 Bonds are subject to optional redemption, special redemption and mandatory tender for purchase or redemption as described herein.
<i>Security</i>	The Series 28 Bonds are payable from and secured by a pledge of all Program Obligations, Revenues and Prepayments and certain other assets, on a parity with outstanding Bonds heretofore or hereafter issued under the Trust Agreement. See "SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 28 BONDS." <i>The Series 28 Bonds do not constitute a debt, liability or obligation of the State of North Carolina or of any political subdivision thereof nor is the faith and credit or taxing power of the State of North Carolina or of any political subdivision thereof pledged to payment of the Series 28 Bonds.</i>
<i>Interest Payment Dates</i>	July 1 and January 1, commencing July 1, 2007
<i>Denominations</i>	\$5,000 or any whole multiple thereof.
<i>Closing/Settlement</i>	April 25, 2007
<i>Bond Counsel</i>	Womble Carlyle Sandridge & Rice, PLLC, Raleigh, North Carolina
<i>Underwriters' Counsel</i>	Bode, Call & Stroupe, L.L.P., Raleigh, North Carolina
<i>Trustee and Paying Agent</i>	The Bank of New York Trust Company, N.A., Jacksonville, Florida

The Series 28 Bonds are offered, when, as and if issued and received by the Underwriters, subject to prior sale and the opinion of Bond Counsel as to the validity, the tax treatment of interest on the Series 28 Bonds and certain other matters.

**UBS Investment Bank**

**Banc of America Securities LLC**

**BB&T Capital Markets**  
**A Division of Scott & Stringfellow, Inc.**

**Citigroup**

**Davenport & Company LLC**

**A.G. Edwards & Sons, Inc.**

**Morgan Keegan & Company, Inc.**

**Wachovia Securities**

*The date of this Official Statement is March 28, 2007*

**NORTH CAROLINA HOUSING FINANCE AGENCY**

**\$59,270,000 Home Ownership Revenue Bonds, Series 28-A (AMT)  
\$5,730,000 Home Ownership Revenue Bonds, Series 28-B (Non-AMT)  
(1998 Trust Agreement)**

**MATURITY SCHEDULE**

**Series 28-A Bonds  
\$4,465,000 Serial Bonds**

<b><u>Maturity</u></b>	<b><u>Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Price</u></b>
July 1, 2009	\$495,000	3.80%	100%
January 1, 2010	505,000	3.90	100
July 1, 2010	515,000	3.90	100
July 1, 2011	285,000	3.95	100
July 1, 2012	560,000	4.00	100
January 1, 2013	570,000	4.05	100
July 1, 2013	330,000	4.05	100
January 1, 2014	595,000	4.10	100
July 1, 2014	610,000	4.10	100

**\$6,640,000 4.65% Term Bonds maturing July 1, 2023 at 100%**

**\$8,305,000 4.70% Term Bonds maturing July 1, 2029 at 100%**

**\$7,195,000 4.75% Term Bonds maturing July 1, 2033 at 100%**

**\$19,500,000 5.50% Term Bonds maturing July 1, 2038 at 106.467%**

**\$13,165,000 4.80% Term Bonds maturing January 1, 2039 at 100%**

**Series 28-B Bonds  
\$5,730,000 Serial Bonds**

<b><u>Maturity</u></b>	<b><u>Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Price</u></b>
July 1, 2008	\$210,000	3.50%	100%
January 1, 2011	525,000	3.55	100
July 1, 2011	250,000	3.55	100
January 1, 2012	545,000	3.60	100
July 1, 2013	255,000	3.65	100
January 1, 2015	620,000	3.75	100
July 1, 2015	635,000	3.75	100
January 1, 2016	650,000	3.80	100
July 1, 2016	665,000	3.80	100
January 1, 2017	680,000	3.85	100
July 1, 2017	695,000	3.85	100

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

No dealer, broker, salesman or other person has been authorized by the North Carolina Housing Finance Agency or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of the Series 28 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been provided by the North Carolina Housing Finance Agency and other sources believed to be reliable. Quotations from and summaries and explanations of provisions of laws and documents herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly stated, are intended merely as estimates or opinions and not as representations of fact.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the North Carolina Housing Finance Agency since the dates as of which information is given herein.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE SECURITIES OFFERED HEREBY HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 28 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The order and placement of materials in this Official Statement, including the Appendices, are not deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the attached Appendices, must be considered in its entirety.

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**OFFICIAL STATEMENT**  
**OF**  
**NORTH CAROLINA HOUSING FINANCE AGENCY**  
**\$59,270,000 Home Ownership Revenue Bonds, Series 28-A (AMT)**  
**\$5,730,000 Home Ownership Revenue Bonds, Series 28-B (Non-AMT)**  
**(1998 Trust Agreement)**

**INTRODUCTION AND PURPOSE**

This Official Statement (including the cover page and appendices hereto) has been prepared and is being distributed by the North Carolina Housing Finance Agency (the "Agency") in order to furnish information in connection with the sale of the Agency's Home Ownership Revenue Bonds, Series 28-A (AMT) (the "Series 28-A Bonds") and Home Ownership Revenue Bonds, Series 28-B (Non-AMT) (the "Series 28-B Bonds") (collectively, the "Series 28 Bonds"), being offered hereby in the aggregate principal amounts of \$59,270,000 and \$5,730,000 respectively, pursuant to the North Carolina Housing Finance Agency Act, being Chapter 122A of the General Statutes of North Carolina, as amended (the "Act"), a Trust Agreement, dated as of May 1, 1998 (the "Trust Agreement"), between the Agency and The Bank of New York Trust Company, N.A. (hereinafter the "Trustee") and a Twenty-Eighth Supplemental Trust Agreement, dated as of April 1, 2007, between the Agency and the Trustee (the "Twenty-Eighth Supplemental Trust Agreement"), authorizing the issuance of the Series 28 Bonds. Except for bonds issued under the Trust Agreement that by the terms thereof are subordinate to the other bonds issued under the Trust Agreement, all bonds issued under the Trust Agreement will be equally and ratably secured by the pledges and covenants contained therein. All such bonds that are equally and ratably secured, including the prior series of bonds issued in the respective aggregate principal amounts and on the respective dates as described in "THE PROGRAM - Experience to Date Under Program" herein, and the Series 28 Bonds are herein referred to as the "Bonds." Information descriptive of the Series 28 Bonds which is included on the cover page and inside cover page hereof is part of this Official Statement.

All capitalized terms used in this Official Statement which are defined in the Trust Agreement shall have the same meanings as are set forth therein (see Appendix C - "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT AND THE TWENTY-EIGHTH SUPPLEMENTAL TRUST AGREEMENT— Definitions"). The summaries of and references to the Act, the Trust Agreement and the other statutes and documents referred to herein and the description of the Series 28 Bonds which are included in or attached to this Official Statement do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entirety by reference to each such document or statute, copies of which are available from the Agency upon request.

The Agency is a body politic and corporate constituting a public agency and instrumentality of the State of North Carolina (the "State") which was created for the purpose of providing financing for residential housing for low and moderate income households. Pursuant to the Act, the Agency has established a housing program under the Trust Agreement (hereinafter referred to as the "Program") under which the Agency is authorized to enter into agreements for the purchase of mortgage loans and other obligations made for the purpose of assisting in providing housing to low and moderate income households in the State. Under the Act the issuance of bonds or notes by the Agency and the interest rate or rates, sale price or prices and manner of sale thereof must be determined by the State Treasurer and approved by the Local Government Commission (the "Commission") of the State.

The Trust Agreement authorizes the issuance of Bonds thereunder for the purpose of paying the costs of the Program and for refunding certain bonds of the Agency. Generally, Bonds issued to pay the costs of the Program are issued to finance the making or purchase by the Agency of "Program Loans" or "Program Securities." Under the Trust Agreement, and as used herein, a "Program Loan" is an obligation made or purchased by the Agency in order to finance or otherwise provide housing principally on behalf of households of low and moderate income, and a "Program Security" is an obligation representing an interest in a pool of Program Loans, which obligations are guaranteed or insured by a mortgage agency authorized by the Trust Agreement. As defined in the Trust Agreement and used herein, a "Program Obligation" is a Program Loan or a Program Security. See "Definitions" and "The Program Fund" in Appendix C hereto. The Trust Agreement further provides that the Supplemental Trust Agreement authorizing the issuance of a Series of Bonds shall direct whether the proceeds of such Series will be used to purchase Program Loans or Program Securities and, if Program Loans are to be purchased, the requirements therefor, including any insurance or guarantee requirements for the Program Loans that may be purchased.

The Agency will use \$40,000,000 of the proceeds of the sale of the Series 28 Bonds to refund the Agency's Home Ownership Revenue Bonds, Series 22-D (AMT), issued on November 9, 2005 (the Series 22-D Bonds") in the principal amount of \$40,000,000. Upon redemption of the Series 22-D Bonds, the proceeds of the Series 22-D Bonds and the remainder of the proceeds of the sale of the Series 28 Bonds will be used by the Agency to (a) purchase Program Loans from private Lenders for the purpose of providing financing for single family residential housing for households of low and moderate income in the State, (b) make deposits to the credit of the Debt Service Reserve Fund and (c) pay a portion of the costs of issuance of the Series 28 Bonds. The term "single family residential housing" means housing provided by a permanent loan (not a construction or land development loan) secured by a mortgage on permanent structures containing no more than one dwelling unit, including an individual condominium or townhouse. For a more detailed discussion of the manner in which the Agency intends to apply the proceeds of the Series 28 Bonds, see "SOURCES AND USES OF FUNDS" and "THE PROGRAM – General."

The Twenty-Eighth Supplemental Trust Agreement provides that the Program Loans purchased with the proceeds of the Series 28 Bonds must be insured or guaranteed by the Federal Housing Administration, the Veterans Administration, the United States Department of Agriculture or a private mortgage insurer or the mortgage loan must meet certain loan-to-value ratios. For a more detailed description of the types of Program Loans the Agency may purchase with the proceeds of the Series 28 Bonds, how such Program Loans must be secured, and certain information regarding the loan insurance or guarantee programs that may be used, see "THE PROGRAM" below. In addition to the other requirements of the Program, the Program Loans must also comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations thereunder (the "Federal Tax Requirements") discussed below under "FEDERAL TAX REQUIREMENTS."

The Agency will purchase Program Loans from mortgage lenders, on a first-come, first-served basis. The Program Loans financed with the proceeds of the Series 28 Bonds will have terms of 30 years. The Agency will purchase Program Loans at rates determined by the Agency from time to time but not greater than permitted by the Federal Tax Requirements. The Program Loans will be purchased by the Agency at 100% of the principal amounts thereof together with accrued interest to the date of purchase. Lenders will not be permitted to charge fees to the seller, but may charge the Borrower an origination fee.

In connection with its fixed rate first mortgage financings, the Agency may finance closing costs and down payment assistance by acquiring deferred second mortgages using funds available under the federal HOME Investment Partnership Act or other funds available to the Agency.

The Series 28 Bonds and the interest thereon are payable solely from the Revenues and other moneys and assets pledged therefor under the Trust Agreement. The Series 28 Bonds are additionally secured by a Debt Service Reserve Fund, as more fully described below in "SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 28 BONDS — Debt Service Reserve Fund" and losses on Program Loans are additionally secured by an Insurance Reserve Fund, as more fully described below in "SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 28 BONDS — Insurance Reserve Fund."

The Series 28 Bonds do not constitute a debt, liability or obligation of the State or any political subdivision thereof, nor is the faith and credit or the taxing power of the State or any political subdivision thereof pledged to payment of the Series 28 Bonds. The Agency has no taxing power.

**SOURCES AND USES OF FUNDS**

\$40,000,000 of the proceeds of the Series 28 Bonds will be used to redeem a like amount of the Series 22-D Bonds. Upon such redemption, the proceeds of the Series 22-D Bonds, in the amount of \$40,000,000, and the remaining proceeds of the Series 28 Bonds will be available to purchase Program Loans and fund reserves in connection with the Series 28 Bonds. The following table shows the sources and uses of the proceeds of the Series 28 Bonds, other than the amounts applied to redeem the Series 22-D Bonds, and the proceeds of the Series 22-D Bonds made available following the redemption of the Series 22-D Bonds:

The proceeds to be received from the sale of the Series 28 Bonds, together with other available moneys, shall be applied approximately as follows:

**Sources of Funds:**

Proceeds of Series 22-D Bonds.....	\$40,000,000
Principal Amount of Series 28-A Bonds not applied to Redemption of Series 22-D Bonds .....	19,270,000
Original Issue Premium of Series 28-A Bonds .....	1,261,065
Principal Amount of Series 28-B Bonds.....	5,730,000
Transfer from Available Agency Funds.....	<u>1,312,510</u>
<b>Total Sources</b> .....	<u><b>\$67,573,575</b></u>

**Uses of Funds:**

Series 28 Program Account.....	\$64,816,444
Debt Service Reserve Fund.....	1,300,000
Insurance Reserve Fund .....	725,000
Costs of Issuance * .....	<u>732,131</u>
<b>Total Uses</b> .....	<u><b>\$67,573,575</b></u>

\* Costs of Issuance include underwriters' fee, legal fees and expenses, printing costs, fees and expenses of the Trustee and other miscellaneous expenses.

Certain of the proceeds of the Series 28 Bonds will be noted on the books and records of the Agency as exchanged for certain repayments, prepayments and reserve funds that have been set aside to pay at maturity or redeem Agency bonds. Such notation and application of the funds so noted as transferred will constitute a refunding of the bonds to be redeemed for purposes of federal income taxation.

**SECURITY FOR AND SOURCES OF PAYMENT OF  
THE SERIES 28 BONDS**

**Pledge Created Under the Trust Agreement**

The Series 28 Bonds are special obligations of the Agency payable from the following moneys and assets of the Agency, which are pledged in the manner and to the extent provided under the Trust Agreement for the payment of the Bonds:

1. All Program Obligations, Revenues, Program Obligation Accrued Interest, Financing Fees and Prepayments (as such terms are defined in the Trust Agreement), and all moneys, securities and Funds and Accounts held or set aside pursuant to the Trust Agreement; and
2. All money and securities held by or on behalf of the Trustee in all of the funds, accounts or subaccounts established pursuant to the Trust Agreement, except those funds, accounts and subaccounts that are

expressly pledged in a Supplemental Trust Agreement as security only for a specified Series of Bonds and a Special Debt Service Reserve Account (as defined in the Trust Agreement).

For further information, see the subcaptions "Pledge" and "Application of Revenues and Other Moneys" in Appendix C.

### **Debt Service Reserve Fund**

The Trust Agreement creates a Debt Service Reserve Fund for the additional security of the Bonds issued thereunder. The Trust Agreement provides that each Supplemental Trust Agreement providing for the issuance of Bonds shall specify whether the Bonds authorized thereby will be entitled to the benefit of the Debt Service Reserve Fund and shall specify the portion of the Debt Service Reserve Requirement with respect to such Bonds. The Debt Service Reserve Requirement under the Trust Agreement is the sum of amounts established by each Supplemental Trust Agreement as the portion of the requirement with respect to the Bonds issued under that Supplemental Trust Agreement. The Trust Agreement does not provide a minimum requirement for the portion of the Debt Service Reserve Requirement in connection with a particular issue of Bonds. All Bonds secured by the Debt Service Reserve Fund will be secured equally and ratably by the Debt Service Reserve Fund, regardless of the amount of the Debt Service Reserve Requirement with respect to a particular Series of Bonds set forth in the Supplemental Trust Agreement authorizing the issuance thereof. As of December 31, 2006, there was on deposit in the Debt Service Reserve Fund \$20,067,000. Additional coverage for the Debt Service Reserve Fund is provided by debt service reserve fund surety bonds issued in connection with the issuance of the Series 10 Bonds (the "Series 10 Debt Service Reserve Fund Surety Bond") and the Series 14 Bonds (the "Series 14 Debt Service Reserve Fund Surety Bond") by Ambac Assurance Corporation ("Ambac Assurance"), and debt service reserve fund surety policies issued in connection with the issuance of the Series 12 Bonds (the "Series 12 Debt Service Reserve Fund Surety Bond") and the Series 15 Bonds (the "Series 15 Debt Service Reserve Fund Surety Bond") by Financial Security Assurance Inc. ("FSA"). As of December 31, 2006, the coverage provided by such surety bonds is equal to 2% of the outstanding principal amount of each respective Series of Bonds and equals \$3,270,000.

To date, each Supplemental Trust Agreement has provided that the portion of the Debt Service Reserve Requirement related to the series of bonds authorized thereby be equal to two percent (2%) of the outstanding principal amount of such authorized bonds. The Twenty-Eighth Supplemental Trust Agreement provides that the portion of the Debt Service Reserve Requirement in connection with the Series 28 Bonds is the amount as calculated from time to time equal to two percent (2%) of the outstanding principal amount of the Series 28 Bonds. The portion of the Debt Service Reserve Requirement related to the Series 28 Bonds will be met by a deposit of proceeds of the Series 28 Bonds of \$1,300,000.

The Debt Service Reserve Fund consists of three accounts: the Proceeds Reserve Account, which is funded with the proceeds of Bonds, the Contribution Reserve Account, which is funded with the moneys attributable to appropriations by the State of North Carolina to the Agency, and the Equity Reserve Account, which is funded from funds of the Agency other than funds appropriated to the Agency by the State.

Under the Trust Agreement, moneys held in the Debt Service Reserve Fund may be used to pay when due principal of and interest on the Bonds if, at any time, the moneys otherwise available for such payment or retirement are insufficient for such purpose. Any deficiency in the Debt Service Reserve Fund may be made up from Revenues in excess of Revenues necessary to pay debt service on the Bonds and any other moneys available to the Agency for such purpose. Moneys in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement due to a decrease in the Debt Service Reserve Requirement shall either be retained in such Fund or, except for amounts in the Contribution Reserve Account, transferred to the Optional Redemption Account or a Special Redemption Account, as shall be determined in an Officer's Certificate.

The Trust Agreement also provides that all or any portion of the Debt Service Reserve Requirement may be met by cash, Investment Obligations or a Reserve Alternative Instrument (See Appendix C - "Definitions").

The Trust Agreement also provides that any Supplemental Trust Agreement may provide for the creation thereunder of a Special Debt Service Reserve Account, which shall secure only the Bonds authorized by such Supplemental Trust Agreement.

Neither the Act nor any other statute provides for any appropriations or payments by the North Carolina General Assembly to restore moneys withdrawn from the Debt Service Reserve Fund to pay principal of or interest on the Bonds.

### **Debt Service Reserve Fund Surety Bonds**

The portions of the Debt Service Reserve Requirement in connection with the Series 10 Bonds, Series 12 Bonds, Series 14 Bonds and Series 15 Bonds are met respectively by the Series 10 and Series 14 Debt Service Reserve Fund Surety Bonds issued by Ambac Assurance and the Series 12 and Series 15 Debt Service Reserve Fund Surety Bonds issued by FSA. Pursuant to the terms of the Series 10, Series 12, Series 14 and Series 15 Debt Service Reserve Fund Surety Bonds, drawings thereunder may be made only after all cash available in the Debt Service Reserve Fund has been depleted. If all cash in the Debt Service Reserve Fund has been depleted and there are other Reserve Alternative Instruments, drawings on the Reserve Alternative Instruments are to be made *pro rata* among the Reserve Alternative Instruments. Drawings on the Series 10 Debt Service Reserve Fund Surety Bond, the Series 12 Debt Service Reserve Fund Surety Bond, the Series 14 Debt Service Reserve Fund Surety Bond and the Series 15 Debt Service Reserve Fund Surety Bond are to be reimbursed, with interest, from Revenues.

For additional information concerning Ambac Assurance and FSA, see Appendix E — "INFORMATION REGARDING AMBAC ASSURANCE CORPORATION AND FINANCIAL SECURITY ASSURANCE INC."

### **Revenue Reserve Fund**

To the extent that Revenues are not needed for debt service, to fund or make up a deficiency in the Debt Service Reserve Fund or for the other purposes provided for by the Trust Agreement, they are required to be deposited to the credit of the Revenue Reserve Fund. As of December 31, 2006, there was on deposit in the Revenue Reserve Fund \$34,154,000 and mortgage loans held for the credit of the Revenue Reserve Fund in the amount of \$3,322,000.

Moneys held in the Revenue Reserve Fund are pledged to secure the payment of the Bonds and may be used to pay when due the principal of and interest on the Bonds if at any time the moneys otherwise available for such payment or retirement, other than moneys held in the Debt Service Reserve Fund, are insufficient for such purpose. Any moneys so used can only be restored from Revenues in excess of Revenues necessary to pay debt service on the Bonds and not necessary to make up any deficiency in the Debt Service Reserve Fund.

Under certain circumstances, moneys in the Revenue Reserve Fund may be (i) used to fund any required payments under an interest rate swap agreement, including termination payments, in the event that the Revenues are not sufficient for such purpose, (ii) used to make any payments required to be made to comply with applicable covenants made by the Agency regarding the exclusion of interest on the Bonds from federal income taxation, (iii) transferred, at the option of the Agency, to a Special Redemption Account, (iv) used to pay Operating Expenses of the Program, (v) transferred to the Optional Redemption Account or any Special Redemption Account created by a Supplemental Trust Agreement, (vi) used to pay costs of issuance of a new series of bonds or to purchase additional Program Obligations, (vii) used for any other purpose authorized by the Trust Agreement or (viii) transferred to the Agency's General Fund. See the subcaptions "Application of Revenues and Other Moneys" and "Revenue Reserve Fund" in Appendix C.

### **Insurance Reserve Fund**

The Trust Agreement creates an Insurance Reserve Fund for the additional security of the Bonds issued thereunder. The Trust Agreement provides that each Supplemental Trust Agreement providing for the issuance

of Bonds shall specify the Insurance Reserve Requirement with respect to such Bonds and the manner in which such requirement is to be funded. The Insurance Reserve Requirement for the Series 28 Bonds will be \$725,000 as required by the Twenty-Eighth Supplemental Trust Agreement. Generally, the Insurance Reserve Requirement is calculated based upon the composition of the portfolio of the Program Loans, in light of the rates of interest on the Program Loans, the age of the Program Loans and the insurance or guaranty program insuring or guaranteeing the payment of those Program Loans.

As of December 31, 2006, there was on deposit in the Insurance Reserve Fund \$12,337,000 and surety bonds in the amount of \$4,247,000.

Moneys deposited in the Insurance Reserve Fund shall be used for the purpose of paying the portion of any loss with respect to a Program Loan in default that is not paid from any public or private insuring or guaranteeing agency. To the extent the loss is attributable to a deficiency in payment of scheduled principal and interest on a Program Loan, the amount of such loss shall be transferred to the Revenue Fund. To the extent the loss is attributable to a deficiency in the loss payment over the principal amount of a Program Loan, the amount of such loss shall be transferred to the Special Redemption Account for the Series of Bonds that financed the purchase of the Program Loan (or that refunded the Bonds that financed such purchase). The Agency is not required to replenish the amounts used for the purpose of paying such loss.

If the amount on deposit in the Insurance Reserve Fund shall be in excess of the Insurance Reserve Requirement, the Trustee shall leave such excess in the Insurance Reserve Fund or, if the Agency directs, in writing, transfer such excess as follows: (i) if the source of such excess is proceeds of the Bonds, the excess shall be transferred to the Special Redemption Account for the Series of Bonds that provided the deposit to the Insurance Reserve Fund and applied as set forth in the Trust Agreement; (ii) if the source of such excess is Revenues transferred from the Revenue Fund or Revenue Reserve Fund, the excess shall be transferred to the Revenue Fund; (iii) if the source of such excess is Agency funds, the excess shall be transferred to the General Fund.

The Trust Agreement also provides that all or any portion of the Insurance Reserve Requirement may be met by cash, Investment Obligations or a Reserve Alternative Instrument, such as a surety bond policy. The portion of the Insurance Reserve Requirement with respect to the Series 28 Bonds shall be deposited to the credit of the Insurance Reserve Fund on or prior to the purchase of the Program Loans creating such portion of the requirement. The Insurance Reserve Requirement with respect to the Series 28 Bonds will decrease as the principal amount of the corresponding Program Loans financed with the proceeds thereof decreases. Initially, the Insurance Reserve Requirement with respect to the Series 28 Bonds shall be met by a deposit of cash. See Appendix C—"Definitions."

### **Insurance Reserve Surety Bonds**

The Insurance Reserve Requirement for the Series 9 Bonds, the Series 10 Bonds, the Series 11 Bonds and the Series 14 Bonds was provided by separate surety bond insurance policies (the "Ambac Assurance Insurance Reserve Surety Bonds") issued by Ambac Assurance. The Ambac Assurance Insurance Reserve Surety Bonds have substantially the same provisions. Under the Ambac Assurance Insurance Reserve Surety Bonds, the Trustee is authorized to draw funds thereunder if funds are to be transferred to the Revenue Fund or a Special Redemption Account as described above and cash amounts are not available for the transfer. Drawings on an Ambac Assurance Insurance Reserve Surety Bond will reduce the amount available to be drawn thereunder, subject to reinstatement pursuant to the terms of the Ambac Assurance Insurance Reserve Surety Bonds. The Ambac Assurance Insurance Reserve Surety Bonds do not insure against nonpayment caused by the insolvency or negligence of the Trustee.

For additional information concerning Ambac Assurance, see Appendix E — "INFORMATION REGARDING AMBAC ASSURANCE CORPORATION AND FINANCIAL SECURITY ASSURANCE INC."

## **1974 Appropriation Reserve Fund**

In the Twelfth Supplemental Trust Agreement, the Agency created an additional fund under the Trust Agreement designated the "1974 Appropriation Reserve Fund" and deposited \$4,000,000 to the 1974 Appropriation Reserve Fund. The 1974 Appropriation Reserve Fund represents certain funds appropriated to the Agency by the North Carolina General Assembly in 1974. Pursuant to the terms of the Twelfth Supplemental Trust Agreement, the Agency may withdraw amounts in the 1974 Appropriation Reserve Fund for application for a number of purposes of the Agency, including the provision for reserves for Bonds of the Agency other than Bonds issued under the Trust Agreement. However, while funds are on deposit in the 1974 Appropriation Reserve Fund, such amounts are available to make up deficiencies in the Bond Service Fund. See "1974 Appropriation Reserve Fund" in Appendix C.

## **Additional Bonds**

The Trust Agreement authorizes the issuance of additional Bonds by the Agency, under the circumstances set forth in the Trust Agreement. Such additional Bonds may be issued to finance additional costs of the Program, to refund outstanding bonds issued under the Trust Agreement or issued under other resolutions or indentures other than the Trust Agreement, or for other purposes set forth in the Trust Agreement. In order to issue additional Bonds under the Trust Agreement, the Agency must comply with the provisions of a Supplemental Trust Agreement executed in connection with the additional Bonds, which Supplemental Trust Agreement must be authorized by the Commission and must contain the terms and provisions of the additional Bonds. The additional Bonds must not materially and adversely affect the ability of the Agency to pay the principal of, Sinking Fund Requirements on account of, and interest on the Bonds then outstanding. Such additional Bonds, together with the Bonds issued and outstanding under the Trust Agreement, including the Series 28 Bonds, would be equally and ratably secured by the moneys and assets which are pledged for the payment of all of the Bonds issued under the Trust Agreement and would be entitled to the equal benefit and protection of the provisions, covenants and agreements of the Trust Agreement.

## **DESCRIPTION OF THE SERIES 28 BONDS**

### **General**

The Series 28 Bonds will be dated the date of delivery and will bear interest payable on July 1, 2007 and semiannually thereafter on January 1 and July 1 at the rates per annum corresponding to those principal amounts maturing as set forth on the inside front cover page of this Official Statement.

The Series 28 Bonds will be issuable only in book-entry form as fully registered bonds and will be subject to the provisions of the book-entry-only system as described in Appendix D — "BOOK-ENTRY-ONLY SYSTEM." Purchases of the Series 28 Bonds will be made in the denominations of \$5,000 or any whole multiple thereof.

The Trustee, The Bank of New York Trust Company, N.A., Jacksonville, Florida, will perform, with respect to the Series 28 Bonds, the fiduciary duties for the Owners, such as maintaining the Funds and Accounts established under the Trust Agreement. In addition, the Trustee shall perform the duties of bond registrar, including the keeping of the registration books, the authentication of the Series 28 Bonds upon original issuance and upon subsequent exchange or transfer, the exchange and transfer of the Series 28 Bonds, and the payment of the principal or redemption price of and interest on the Series 28 Bonds subject to the provisions relating to the book-entry-only system, as described below.

### **Special Redemption**

*General.* The Series 28 Bonds may be redeemed pursuant to an Officer's Certificate in whole or in part on any date at the principal amount thereof (except for redemptions of the Series 28-A Term Bonds due July 1, 2038 (the "Series 28-A July 1, 2038 Term Bonds") from unexpended proceeds which will be purchased at a price of 106.467% of the principal amount thereof) plus accrued interest to the date of redemption, (a) from

amounts on deposit in the Series 28 Special Redemption Account representing (i) unexpended proceeds of the Series 28 Bonds, (ii) Prepayments of Program Loans financed with the proceeds of the Series 28 Bonds, (iii) excess Revenues transferred from the Revenue Reserve Fund, and (iv) moneys withdrawn from the Proceeds Reserve Account of the Debt Service Reserve Fund in connection with an excess over the Debt Service Reserve Requirement, and (b) from Prepayments of Program Loans financed with proceeds from a series of Bonds other than the Series 28 Bonds issued under the Trust Agreement ("Cross Call Redemption"), as described below.

*Unexpended Proceeds.* Moneys from unexpended proceeds of the Series 28 Bonds shall be transferred from the Series 28 Program Account to the Series 28 Special Redemption Account and be applied to the redemption of Series 28 Bonds on any date in any manner directed by the Agency taking into account the remaining Program Loans following redemption.

*Prepayments.* Prepayments received on Program Loans financed with the proceeds of the Series 28 Bonds up to the amounts for each period set forth below shall be deposited by the Trustee to the Series 28 Special Redemption Account and shall first be applied to the redemption or purchase of the Series 28-A July 1, 2038 Term Bonds during the period indicated (the amount of Series 28 Prepayments set forth below for a specific period is defined as the "Series 28-A Scheduled Principal Amount" for such period):

Period (Both Dates Inclusive)	Series 28-A Scheduled Principal Amount
April 25, 2007 to July 1, 2008	\$ 335,000
July 2, 2008 to January 1, 2009	645,000
January 2, 2009 to July 1, 2009	1,015,000
July 2, 2009 to January 1, 2010	1,365,000
January 2, 2010 to July 1, 2010	1,645,000
July 2, 2010 to January 1, 2011	1,720,000
January 2, 2011 to July 1, 2011	1,675,000
July 2, 2011 to January 1, 2012	1,610,000
January 2, 2012 to July 1, 2012	1,550,000
July 2, 2012 to January 1, 2013	1,485,000
January 2, 2013 to July 1, 2013	1,425,000
July 2, 2013 to January 1, 2014	1,370,000
January 2, 2014 to July 1, 2014	1,315,000
July 2, 2014 to January 1, 2015	1,260,000
January 2, 2015 and thereafter	1,085,000

Prepayments, up to the Series 28-A Scheduled Principal Amounts, shall be applied to the redemption of the Series 28-A July 1, 2038 Term Bonds. The Series 28-A Scheduled Principal Amounts shall be reduced pro rata to the extent that amounts are applied to a special redemption of the Series 28-A July 1, 2038 Term Bonds from unexpended proceeds. If less than the Series 28-A Scheduled Principal Amount is available to be applied to the redemption or purchase of Series 28-A July 1, 2038 Term Bonds in any period, the deficiency shall be added to the Series 28-A Scheduled Principal Amount for the succeeding period, subject to reduction as described below under "Special Provisions for the Series 28-A July 1, 2038 Term Bonds". There can be no assurance that Prepayments will be received in the amounts indicated for any period in the preceding table.

After the amount of Prepayments on the Series 28-A July 1, 2038 Term Bonds required to be received and applied to the redemption or purchase of Series 28-A July 1, 2038 Term Bonds during any period as described above is so applied, additional Prepayments on Series 28 Program Loans received during such period may be applied by the Agency to redeem Series 28 Bonds, other than the Series 28-A July 1, 2038 Term Bonds. If the Prepayments are to be applied to redeem Series 28 Bonds, the Series 28 Bonds to be so redeemed shall be the Series 28 Bonds, selected pro rata by maturity (excluding the Series 28-A July 1, 2038 Term Bonds) among such Series 28 Bonds in proportion to the principal amount of each maturity outstanding, unless the Agency files with the Trustee prior to the date of redemption, a notice of intent to redeem such Series 28 Bonds on other than

a pro rata basis, together with a Cash Flow Certificate indicating the proposed form of redemption and prepared assuming that the Series 28 Bonds to be redeemed are selected in the manner proposed by the Agency.

Projected Weighted Average Life of the Series 28-A July 1, 2038 Term Bonds. The following information is provided in order to enable potential investors to evaluate the Series 28-A July 1, 2038 Term Bonds which are subject to special redemption from Prepayments described above.

The weighted average life of identical bonds of the same maturity refers to the average of the length of time that will elapse from the date of issuance of such bonds to the date each installment of principal is paid to the bondholders weighted by the amount of each such installment. The weighted average life of the Series 28-A July 1, 2038 Term Bonds will be influenced by, among other things, the rate at which principal payments (including scheduled payments and principal prepayments) are made on the Program Loans financed by the Series 28 Bonds. An investor owning a specific Series 28-A July 1, 2038 Term Bond may experience redemption at a rate which varies from the average life of the Series 28-A July 1, 2038 Term Bonds.

Prepayments of Program Loans are commonly projected in accordance with a prepayment standard model. The following table, entitled "Projected Weighted Average Lives for the Series 28-A July 1, 2038 Term Bonds" assumes, among other things, that (i) the Program Loans prepay at the indicated percentage of The Bond Market Association ("BMA")<sup>1</sup> prepayment experience, (ii) all amounts in the Series 28 Program Account of the Program Fund will be used to purchase Program Loans, (iii) all Program Loans will be financed by April 1, 2008, (iv) all scheduled principal and interest payments on Program Loans and Prepayments thereof are received thirty days after the date on which due and there are no foreclosure losses experienced on such Program Loans, (v) the Series 28-A July 1, 2038 Term Bonds are not redeemed pursuant to optional redemption or from unexpended proceeds or Excess Revenues, (vi) the Series 28-A July 1, 2038 Term Bonds are not redeemed pursuant to a Cross Call Redemption and (vii) Prepayments received are applied during the applicable period in the amounts necessary to redeem the Series 28-A July 1, 2038 Term Bonds up to the 28-A Scheduled Principal Amounts. Based on such assumptions, some or all of which are unlikely to reflect actual experience, the following table provides certain projected weighted average life information for the Series 28-A July 1, 2038 Term Bonds.

**Projected Weighted Average Lives for the Series 28-A July 1, 2038 Term Bonds  
(in years)**

<u>Prepayment Experience</u>	<u>Series 28-A July 1, 2038 Term Bonds Average Life in Years</u>
0%	23.15
25	13.68
50	8.13
75	5.96
100	4.92
200	4.92
300	4.92
400	4.92
500	4.92

**No assurance can be given that Prepayments of the Program Loans will conform to any level of a particular prepayment projection, schedule or model or that Prepayments will be available to be applied to redemptions of any of the Bonds, including the Series 28-A July 1, 2038 Term Bonds. The rates of Prepayments on Program Loans are generally influenced by a variety of economic, geographical, social**

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<sup>1</sup> The BMA Prepayment Model is based on an assumed rate of prepayment each month of the then unpaid principal balance of a pool of mortgage loans. The BMA Prepayment Model starts with 0.2% prepayment rate in the first month, increases the prepayment rate by 0.2% in each succeeding month until the thirtieth month (when a 6.0% annualized prepayment rate is reached) and then assumes a constant prepayment rate of 6.0% per annum of the unpaid principal balance for the remaining life of the mortgage loans.

**and other factors, including servicing decisions, changing property values, prevailing interest rates and the time within which Program Loans are originated. In general, if prevailing interest rates fall significantly below the interest rates on the Program Loans financed by the Series 28 Bonds, such Program Loans may be likely to prepay at higher rates than if prevailing interest rates remain at or above the interest rates on such Program Loans. Conversely, if prevailing interest rates rise above the interest rates on the Program Loans financed by the Series 28 Bonds, the rate of Prepayments might be expected to decrease. The rates of delinquencies and foreclosures on Program Loans will also affect the expected special redemption schedules. The Agency cannot predict the number of Program Loans financed by the Series 28 Bonds that may become delinquent or subject to foreclosure proceedings.**

*Excess Revenues.* Revenues transferred from the Revenue Reserve Fund to the Series 28 Special Redemption Account pursuant to the Trust Agreement shall be applied to the special redemption of the Series 28 Bonds, in any manner directed by the Agency, except as described below under "*Special Provisions for Series 28-A July 1, 2038 Term Bonds.*"

*Excess Debt Service Reserve Funds.* Moneys in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement may be withdrawn from the Debt Service Reserve Fund, as provided in an Officer's Certificate. If the Trustee is directed to make such withdrawal, the Trustee shall (a) if the withdrawal is from the Proceeds Reserve Account, deposit the amount withdrawn to the Optional Redemption Account or a Special Redemption Account as shall be directed in such Officer's Certificate, or (b) if the amount withdrawn is from the Contribution Reserve Account or the Equity Reserve Account, pay the amount as directed by the Agency, including depositing such amounts to the credit of the Optional Redemption Account or a Special Redemption Account. The Series 28 Bonds to be redeemed shall be selected in any manner directed by the Agency, provided that the Series 28-A July 1, 2038 Term Bonds may not be redeemed from such transfers, except as described below under "*Special Provisions for Series 28-A July 1, 2038 Term Bonds.*"

*Cross Call Redemption.* Certain excess moneys on deposit in the Debt Service Reserve Fund and Prepayments of Program Obligations financed with the proceeds from series of Bonds other than the Series 28 Bonds may be used to redeem or purchase Series 28 Bonds, provided that the Agency authorizes such use of excess moneys or Prepayments and delivers to the Trustee a Cash Flow Certificate. The Series 28 Bonds to be redeemed shall be selected in any manner directed by the Agency, provided that the Series 28-A July 1, 2038 Term Bonds may not be redeemed from such transfers, except as described below under "*Special Provisions for Series 28-A July 1, 2038 Term Bonds.*"

Certain excess moneys on deposit in the Debt Service Reserve Fund and Series 28 Prepayments in excess of the Series 28-A Scheduled Principal Amounts may be used to redeem or purchase series of Bonds other than the Series 28 Bonds, provided that: (i) the Supplemental Trust Agreement of the series of Bonds other than the Series 28 Bonds authorizes such use, and (ii) the Agency delivers to the Trustee a Cash Flow Certificate.

*Special Provisions for Series 28-A July 1, 2038 Term Bonds.* Except as hereinafter described, the Series 28-A July 1, 2038 Term Bonds may not be redeemed from excess Revenues, excess moneys in the Debt Service Reserve Fund or Prepayments on Program Loans financed with the proceeds of Bonds other than the Series 28 Bonds. The Series 28-A July 1, 2038 Term Bonds may be redeemed from such sources at any time to the extent necessary to preserve the exclusion of interest on the Series 28 Bonds from the gross income of the owners thereof for purposes of federal income taxation. In addition, if Prepayments on the Program Loans financed with the proceeds of the Series 28 Bonds during any period specified in the table set forth in the first paragraph under "*Prepayments*" are less than the Scheduled Series 28-A Scheduled Principal Amount for such period such that a deficiency is carried over to the succeeding period set forth in the table, then the Agency may redeem Series 28-A July 1, 2038 Term Bonds up to the amount of the deficiency from the sources described in the first sentence of this paragraph. If the Agency so redeems the Series 28-A July 1, 2038 Term Bonds, the amount of the deficiency added to the Scheduled Principal Amount for the subsequent period shall be correspondingly reduced.

## Sinking Fund Redemption

The Series 28-A Term Bonds maturing on July 1, 2023 are subject to mandatory sinking fund redemption by lot on January 1, 2018 and each July 1 and January 1 thereafter in the principal amounts set forth below at a redemption price equal to 100% of the principal amount of such Series 28-A Term Bonds to be redeemed plus accrued interest to the redemption date.

<u>Date</u>	<u>Amount</u>
January 1, 2018	\$710,000
July 1, 2018	725,000
January 1, 2019	465,000
July 1, 2019	475,000
January 1, 2020	485,000
July 1, 2020	500,000
January 1, 2021	515,000
July 1, 2021	525,000
January 1, 2022	540,000
July 1, 2022	555,000
January 1, 2023	565,000
July 1, 2023*	580,000

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\*Final Maturity

The Series 28-A Term Bonds maturing on July 1, 2029 are subject to mandatory sinking fund redemption by lot on January 1, 2024 and each July 1 and January 1 thereafter, in the principal amounts set forth below at a redemption price equal to 100% of the principal amount of such Series 28-A Term Bonds to be redeemed plus accrued interest to the redemption date.

<u>Date</u>	<u>Amount</u>
January 1, 2024	\$595,000
July 1, 2024	615,000
January 1, 2025	630,000
July 1, 2025	645,000
January 1, 2026	660,000
July 1, 2026	680,000
January 1, 2027	700,000
July 1, 2027	720,000
January 1, 2028	735,000
July 1, 2028	755,000
January 1, 2029	775,000
July 1, 2029*	795,000

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\*Final Maturity

The Series 28-A Term Bonds maturing on July 1, 2033 are subject to mandatory sinking fund redemption by lot on January 1, 2030 and each July 1 and January 1 thereafter, in the principal amounts set forth below at a redemption price equal to 100% of the principal amount of such Series 28-A Term Bonds to be redeemed plus accrued interest to the redemption date.

<u>Date</u>	<u>Amount</u>
January 1, 2030	\$820,000
July 1, 2030	840,000
January 1, 2031	860,000
July 1, 2031	885,000
January 1, 2032	910,000
July 1, 2032	935,000
January 1, 2033	960,000
July 1, 2033*	985,000

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\*Final Maturity

The Series 28-A Term Bonds maturing on July 1, 2038 are subject to mandatory sinking fund redemption by lot on January 1, 2019 and each July 1 and January 1 thereafter, in the principal amounts set forth below at a redemption price equal to 100% of the principal amount of such Series 28-A Term Bonds to be redeemed plus accrued interest to the redemption date.

<u>Date</u>	<u>Amount</u>
January 1, 2019	\$280,000
July 1, 2019	290,000
January 1, 2020	295,000
July 1, 2020	300,000
January 1, 2021	310,000
July 1, 2021	320,000
January 1, 2022	325,000
July 1, 2022	335,000
January 1, 2023	345,000
July 1, 2023	355,000
January 1, 2024	365,000
July 1, 2024	370,000
January 1, 2025	380,000
July 1, 2025	395,000
January 1, 2026	405,000
July 1, 2026	415,000
January 1, 2027	425,000
July 1, 2027	435,000
January 1, 2028	450,000
July 1, 2028	460,000
January 1, 2029	470,000
July 1, 2029	485,000
January 1, 2030	495,000
July 1, 2030	510,000
January 1, 2031	525,000
July 1, 2031	535,000
January 1, 2032	550,000
July 1, 2032	565,000
January 1, 2033	580,000
July 1, 2033	595,000
January 1, 2034	615,000
July 1, 2034	630,000
January 1, 2035	645,000
July 1, 2035	665,000
January 1, 2036	680,000
July 1, 2036	700,000
January 1, 2037	720,000
July 1, 2037	740,000
January 1, 2038	760,000
July 1, 2038*	780,000

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\*Final Maturity

The Series 28-A Term Bonds maturing on January 1, 2039 are subject to mandatory sinking fund redemption by lot on January 1, 2034 and each July 1 and January 1 thereafter, in the principal amounts set forth below at a redemption price equal to 100% of the principal amount of such Series 28-A Term Bonds to be redeemed plus accrued interest to the redemption date.

<u>Date</u>	<u>Amount</u>
January 1, 2034	\$1,010,000
July 1, 2034	1,035,000
January 1, 2035	1,065,000
July 1, 2035	1,095,000
January 1, 2036	1,125,000
July 1, 2036	1,155,000
January 1, 2037	1,185,000
July 1, 2037	1,215,000
January 1, 2038	1,250,000
July 1, 2038	1,280,000
January 1, 2039*	1,750,000

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\*Final Maturity

### **Optional Redemption**

The Series 28 Bonds are redeemable at the option of the Agency, on or after January 1, 2017, in whole or in part, on any date, at the principal amount thereof plus accrued interest to the date of redemption, without premium, only from moneys held for the credit of the Optional Redemption Account, including the proceeds of any refunding Bonds issued pursuant to the Trust Agreement.

### **General Provisions as to Purchase or Redemption of Series 28 Bonds**

Any Series 28 Bonds or portions of Series 28 Bonds to be purchased or redeemed other than by operation of the Sinking Fund Account shall be purchased or redeemed by the Trustee only upon receipt by the Trustee of an Officer's Certificate determining the following: (a) the Series from which the Series 28 Bonds are to be purchased or redeemed; (b) the maturities within such Series from which the Series 28 Bonds are to be purchased or redeemed; (c) the principal amount of Series 28 Bonds or portion of Series 28 Bonds within such maturities to be purchased or redeemed; and (d) if any of the Series 28 Bonds to be purchased or redeemed are Term Bonds, the years in which Sinking Fund Requirements are to be reduced and the amount by which such Sinking Fund Requirements are to be reduced. Pursuant to the Trust Agreement, the Agency shall not cause Series 28 Bonds to be purchased or redeemed unless, after such purchase or redemption, there shall be no material adverse effect on the ability of the Agency to pay when due the principal of and interest on the Series 28 Bonds then Outstanding. If less than all the Series 28 Bonds of a single maturity shall be redeemed, the Series 28 Bonds shall be redeemed by lot.

So long as DTC or its nominee is the owner of the Series 28 Bonds, if less than all of the Series 28 Bonds of any one maturity shall be called for redemption, the particular Series 28 Bonds or portions of Series 28 Bonds of such maturity to be redeemed shall be selected by DTC and its Participants in such manner as DTC and its Participants may determine. If a Series 28 Bond is of a denomination in excess of \$5,000, portions of the principal amount in the amount of \$5,000 or any whole multiple thereof may be redeemed.

### **Notice to Bondholders**

At least 30 days before the redemption date of any Series 28 Bond, the Trustee shall cause notice of such redemption to be mailed, postage prepaid, to the registered owners of all Series 28 Bonds or portions of Series 28 Bonds to be redeemed at their addresses as they appear on the registration books; provided, however, that failure to mail such notice to any such registered owner shall not affect the validity of the proceedings for

redemption of Series 28 Bonds held by other registered owners of Series 28 Bonds to whom notice was duly mailed.

Any notice of redemption at the option of the Agency may state that the redemption to be effected is conditioned upon the receipt by the Trustee on or prior to the redemption date of moneys sufficient to pay the principal of and premium, if any, and interest on the Series 28 Bonds to be redeemed and that if such moneys are not so received such notice shall be of no force or effect and such Series 28 Bonds shall not be required to be redeemed. In the event that such notice contains such a condition and moneys sufficient to pay the principal of and premium, if any, and interest on such Series 28 Bonds are not received by the Trustee on or prior to the redemption date, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

So long as DTC or its nominee is the owner of the Series 28 Bonds, the Agency and the Trustee will recognize DTC or its nominee as the registered owner of the Series 28 Bonds for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to Participants and by Participants to beneficial owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. Any failure on the part of DTC or failure on the part of a nominee of a beneficial owner (having received notice from a Participant or otherwise) to notify the beneficial owner so affected shall not affect the validity of the redemption.

### **Mandatory Tender of Series 28 Bonds**

*General.* A principal amount of Series 28 Bonds as determined by the Agency (but not in excess of the principal amount of unexpended proceeds of the Series 28 Bonds on deposit in the Series 28 Program Account, and except as described below), shall be subject to mandatory tender for purchase at par plus accrued interest, if any, on any date (the "Purchase Date") to and including October 1, 2010, subject to the right of owners of Series 28 Bonds to elect to retain their Series 28 Bonds. On the Purchase Date, the Series 28 Bonds subject to mandatory tender shall either be purchased by the Agency and remarketed at an adjusted interest rate or rates or, if the owner has elected to retain its Series 28 Bonds, exchanged for an equal amount of Series 28 Bonds bearing interest at the adjusted rate or rates. Taking into account the remaining Program Loans, the Series 28 Bonds to be purchased shall be determined by the Agency in any manner chosen by the Agency.

*Determination of Preliminary Adjusted Interest Rates.* If at any time during the period subsequent to the issuance of the Series 28 Bonds and within 55 days prior to the Purchase Date, proceeds of the Series 28 Bonds remain on deposit in the Series 28 Program Account and the Agency has determined (evidenced by the filing with the Trustee of an Officer's Certificate) that the rate of interest originally established for the Program Loans to be purchased with the proceeds of the Series 28 Bonds exceeds the maximum rate at which Lenders are able, in the judgment of the Agency, to originate Program Loans to be sold to the Agency, the Agency may provide the Remarketing Agent (which shall be UBS Securities LLC, unless otherwise designated by resolution of the Agency) with a schedule of Series 28 Bonds subject to purchase or mandatory tender (the "Tender Bonds") and request the Remarketing Agent to determine, as of a stated date selected by the Agency not less than 5 days nor more than 10 days from the date of request, the interest rates (the "Preliminary Adjusted Rates") at which such Tender Bonds could be remarketed at a price of par plus accrued interest. The aggregate principal amount of Tender Bonds set forth on the schedule cannot exceed the unexpended proceeds of the Series 28 Bonds held in the Series 28 Program Account and the ratio of Tender Bonds maturing on any principal payment date to all Series 28 Bonds maturing on such date shall equal, as nearly as practicable, the ratio of the aggregate principal amount of Tender Bonds to the aggregate principal amount of Series 28 Bonds outstanding. If the yield on the Tender Bonds at the Preliminary Adjusted Rates is at least .50% per annum lower than the yield on the Series 28 Bonds when issued, and the Agency determines (evidenced by the filing with the Trustee of an Officer's Certificate) that (i) Program Loans to be purchased by the Agency with proceeds allocable to Tender Bonds bearing interest at the Preliminary Adjusted Rates can bear a rate of interest which will be less than the prevailing rate of interest on comparable loans available in the State without the assistance of the Agency, and without causing the Series 28 Bonds to become "arbitrage bonds" within the meaning of Section 143 or Section 148 of the Code and (ii) the remarketing or exchange of the Tender Bonds at the Preliminary Adjusted Rates, and the making of Program Loans at the contemplated revised rate will have no material adverse effect on the

ability of the Agency to pay when due the principal of and interest on all Series 28 Bonds issued and outstanding under the Trust Agreement, the Agency may elect by Officer's Certificate filed with the Trustee to call Tender Bonds for mandatory purchase on a date not less than 40 days after the date of such notice. The notice shall identify the Tender Bonds by Series, principal amount and maturity date, determined in accordance with the foregoing pro rata standard. Within each maturity, the Trustee shall select at random the Series 28 Bonds to be designated as Tender Bonds.

*Notice of Mandatory Tender.* Not less than 30 days prior to the Purchase Date, notice of tender shall be given by the Trustee, in the name of the Agency, by first-class certified mail to all owners of Tender Bonds at their addresses appearing on the registration books of the Agency maintained by the Trustee; provided that if all or a portion of the Tender Bonds are registered in the name of the Securities Depository Nominee notice shall be given to the Securities Depository Nominee as the Agency, the Trustee and the Securities Depository shall agree. Each such notice shall state in effect:

(A) the principal amount of Tender Bonds at par (except that any Series 28-A July 1, 2038 Term Bonds selected will be purchased at a price of 106.467% of the principal amount thereof) owned by such owner and the bond numbers, interest rates and maturity dates thereof;

(B) the Purchase Date;

(C) that the owner of Tender Bonds will no longer be entitled to receive interest on such Series 28 Bonds after the Purchase Date, except in the case of Tender Bonds properly retained by the owner and not purchased (in which case such Series 28 Bonds shall, from and after the Purchase Date, bear interest at the Adjusted Interest Rates);

(D) that each Tender Bond shall be purchased on the Purchase Date unless the owner directs the Trustee not to purchase all or any specified portion of such owner's Tender Bonds (which portion shall not be less than \$5,000 and shall be in whole multiples of \$5,000) upon compliance by such owner with the provisions relating to retention;

(E) the date by which an owner making the election to retain must notify the Trustee of such election and the address and telecopier number to which an owner making the election may deliver notice of such election, and any other procedural requirements for making such election;

(F) the Preliminary Adjusted Rates, the dates on which the Final Adjusted Rates may be determined, and the method by which the Final Adjusted Rates will be determined;

(G) that, whether or not an owner elects to direct the Trustee not to purchase any or all of his Tender Bonds, unless such Series 28 Bonds are registered in the name of the Securities Depository or its nominee, he shall deliver such Series 28 Bond or Bonds to the Trustee no later than 1:00 p.m. (Charlotte, North Carolina time) on the Purchase Date duly endorsed in blank for transfer (the Trustee and the Securities Depository may agree as to any procedures to be followed by them with respect to the delivery of Tender Bonds); and

(H) that if no adjustment of interest rate takes place as a result of a failure by or inability of the Remarketing Agent to set the Final Adjusted Rates (the "Final Adjusted Rates"), or upon certain other circumstances provided in the Twenty-Eighth Supplemental Trust Agreement, whether or not any owner of Series 28 Bonds has elected to direct the Trustee not to purchase all or a portion of his Tender Bonds, all Tender Bonds will be subject to mandatory tender for purchase and redemption on the Purchase Date.

*Final Adjusted Interest Rates; Agency Documentation.* Not more than 30 nor less than 15 days prior to the Purchase Date, the Remarketing Agent shall determine and announce to the Trustee, the Commission and the Agency, the Final Adjusted Rates the Tender Bonds of each applicable maturity shall bear as of the Purchase Date. The Final Adjusted Rates shall be the lowest rates which, in the judgment of the Remarketing Agent, as

of the date of such determination and under prevailing market conditions, would permit the resale of the Tender Bonds on such date at a price of par plus accrued interest, if any. If the Remarketing Agent shall fail or be unable to set the Final Adjusted Rates during the period provided, all Tender Bonds shall be subject to mandatory tender for purchase and redemption on the Purchase Date. The Remarketing Agent shall announce the Final Adjusted Rates by telephone to the Trustee, the Commission and the Agency prior to 4:00 p.m., Charlotte, North Carolina time, on the date such rates are established, and shall confirm such notice by telex, telecopier or in writing or by wire sent on the same day or by next-day delivery service. Following the date the Final Adjusted Rates are established, but in no event later than the Business Day prior to the Purchase Date, the Agency shall also deliver to the Trustee (i) a supplement to the Certificate with respect to Federal Tax Matters for the Series 28 Bonds supporting the conclusion that, subsequent to the Purchase Date and assuming that the Tender Bonds are remarketed or exchanged at the Final Adjusted Rates, the Series 28 Bonds will not be "arbitrage bonds" within the meaning of Sections 143 and 148 of the Code and applicable Regulations, (ii) a Cash Flow Certificate, (iii) evidence satisfactory to the Trustee that the remarketing or exchange of the Tender Bonds at the Final Adjusted Rates will not impair the ratings of the Series 28 Bonds of any national bond rating agencies then maintaining a rating of the Series 28 Bonds; (iv) an opinion of bond counsel to the Agency to the effect that the remarketing or exchange of the Tender Bonds at the Final Adjusted Rates will not adversely affect the exclusion from gross income of the interest payable on the Series 28 Bonds for purposes of federal income taxation; and (v) such additional documentation as the Trustee, the Remarketing Agent or bond counsel may reasonably request in support of the foregoing determinations.

*Mandatory Tender and Redemption.* If the Remarketing Agent has not established the Final Adjusted Rates within the period set forth above or the Agency has not delivered the documentation required above on or prior to the business day immediately preceding the Purchase Date, the Tender Bonds shall not be exchanged or remarketed on the Purchase Date at the Final Adjusted Rates and the Trustee shall (i) use its best efforts to give immediate notice to all owners of Tender Bonds by telex, facsimile transmission, or next-day delivery service of such failure and the fact that the Tender Bonds will be purchased and redeemed on the Purchase Date; (ii) transfer from the Series 28 Program Account to the Series 28 Special Redemption Account sufficient funds to redeem on the Purchase Date all Tender Bonds at a price equal to the principal amount thereof plus accrued interest; and (iii) proceed to redeem such Tender Bonds in accordance with the provisions of the Trust Agreement and the Twenty-Eighth Supplemental Trust Agreement.

Subject to the foregoing provisions, all Tender Bonds shall be subject to mandatory tender for purchase or exchange on the Purchase Date in accordance with the procedures set forth in this subsection.

*Funds for Purchase; Priority.* Subject to the following sentence, any Tender Bond subject to purchase on the Purchase Date shall be purchased on the Purchase Date from moneys transferred from the Series 28 Program Account to the Series 28 Special Redemption Account at a purchase price equal to the principal amount thereof plus accrued interest, if any, thereon to the Purchase Date, and without premium. Any Tender Bonds actually purchased from funds so transferred to the Series 28 Special Redemption Account shall be canceled and shall no longer be Outstanding under the Trust Agreement or Twenty-Eighth Supplemental Trust Agreement. Notwithstanding the foregoing, there shall not be purchased from such moneys:

- (1) Tender Bonds purchased with remarketing proceeds; or
- (2) Tender Bonds with respect to which the Trustee shall have received directions from the owner thereof not to purchase the same.

*Purchase from Remarketing Proceeds.* In lieu of purchase from moneys held in the Series 28 Special Redemption Account, the purchase price of Tender Bonds subject to purchase on the Purchase Date shall, to the extent available, be paid from the proceeds of purchase of Tender Bonds bearing interest at the Final Adjusted Rates remarketed by the Remarketing Agent to a person or persons designated by the Remarketing Agent at the principal amount thereof plus accrued interest, if any. Tender Bonds bearing interest at the Final Adjusted Rates shall be sold to the person or persons designated by the Remarketing Agent if the purchase price in immediately available funds is delivered to the Trustee by 1:00 p.m., Charlotte, North Carolina time, on the Purchase Date. The Remarketing Agent shall notify the Trustee in writing no later than the close of business on the fifth (5th)

Business Day immediately preceding the Purchase Date of the identity of the purchasers to whom the Tender Bonds bearing interest at the Final Adjusted Rates shall be remarketed as of the Purchase Date, the names in which such Bonds are to be registered and addresses and tax identification numbers of such purchasers and the principal amount, denominations, maturity date or dates and interest rate or rates of the Tender Bonds which shall be so purchased.

Any Tender Bond subject to purchase and not delivered to the corporate trust office of the Trustee (or to a depository previously approved by the Trustee) by 1:00 p.m., Charlotte, North Carolina time, on the Purchase Date will be deemed tendered, and a Tender Bond, bearing interest at the Final Adjusted Rate, may be issued in place thereof and delivered to the purchaser thereof. Any Tender Bond deemed tendered and purchased shall not bear interest from and after the Purchase Date and shall not be entitled to any rights under, or be secured by the pledge of, the Trust Agreement, but shall have only the right to receive the purchase price thereof upon delivery thereof to the Trustee.

For all Tender Bonds purchased and remarketed as herein provided, the Trustee shall authenticate Tender Bonds in the appropriate denominations and maturity and bearing interest at the Final Adjusted Rates and, after receipt of the purchase price therefore, deliver the same to, and register the same in the name of, such person or persons as shall be designated by the Remarketing Agent. Any Tender Bonds presented to the Trustee after the Purchase Date for payment shall be paid from the aforementioned amounts set aside and shall be canceled.

*Retention of Tender Bonds.* Any owner of Tender Bonds who has received notice that his Tender Bonds will be purchased on the Purchase Date may direct in writing by mail or by telex or telecopier received by an officer in the Corporate Trust Division of the Trustee no later than 12:00 p.m. (Charlotte, North Carolina time) on the twenty-fifth (25th) day prior to the Purchase Date (or if such day is not a Business Day, on the next succeeding Business Day), as specified in such notice, that all or any specified portion of his Tender Bonds (which portion shall not be less than \$5,000 and shall be in integral multiples of \$5,000 in principal amount) not be purchased, provided that, except with respect to Tender Bonds registered in the name of the Securities Depository Nominee, in lieu of purchase, such person agrees to exchange such specified portion of such Tender Bonds for an amount of Tender Bonds bearing interest at the Final Adjusted Rates equal in principal amount (except that any Series 28-A July 1, 2038 Term Bonds will be exchanged at a value of 106.467% of the principal amount thereof) to the Tender Bonds tendered for exchange and of the same maturity as the Tender Bonds so exchanged. The Trustee and Securities Depository may agree to other arrangements for evidencing the exchange of Tender Bonds in the case of Tender Bonds registered in the name of the Securities Depository Nominee. The Trustee shall notify the Remarketing Agent and the Agency by 5:00 p.m. (Charlotte, North Carolina time) on the twenty-fifth (25th) day prior to the Purchase Date (or if such day is not a Business Day, on the next succeeding Business Day) of the aggregate amount of Tender Bonds with respect to which notices were so received and the maturity dates thereof. Unless otherwise agreed to by the Trustee with respect to Tender Bonds registered in the name of the Securities Depository Nominee, the direction of an owner of Tender Bonds to retain his Tender Bonds shall state:

- (1) the maturity date or dates of the Tender Bonds bearing interest at the Adjusted Final Rates for which the owner's Tender Bonds are to be exchanged and the principal amount or amounts applicable to such maturity date(s) but shall acknowledge that if the conditions described in the Twenty-Eighth Supplemental Trust Agreement shall occur, his Tender Bonds shall be subject to mandatory tender for purchase and redemption despite direction to the contrary; and
- (2) that such person is the owner of the Tender Bonds to be so exchanged.

## **THE AGENCY**

### **Organization and Purposes**

The Agency was created in 1973 by the Act as a body politic and corporate and as an instrumentality of the State. It is positioned within the Office of State Budget and Management for financial reporting and

budgetary purposes, and it is managed solely by its Board of Directors (the "Board"). The Executive Director is appointed by the Board subject to the approval of the Governor. The Executive Director appoints all other employees subject to an organization chart which is approved by the Board. All employees of the Agency are exempt from the State Personnel Act, but they are considered State employees for certain purposes. They receive the State employee benefits package and participate in the Teachers' and State Employees' Retirement System of North Carolina.

The Agency, like all other State agencies, is required to submit its operating budget to the Office of State Budget and Management. Appropriations, if any, from the North Carolina General Assembly to the Agency are credited to the Agency by the Office of State Budget and Management.

The Agency makes available annual audited financial statements to the Governor, the State Treasurer, the State Auditor, the Finance Committee of the Senate, the Finance Committee of the House of Representatives, the Commission, the Advisory Budget Commission, and the Office of State Budget and Management.

### **Board of Directors**

The Board is constituted with thirteen members. The General Assembly appoints eight directors, four upon the recommendation of the Speaker of the House of Representatives (at least one of whom has had experience with a mortgage-servicing institution and one of whom is experienced as a licensed real estate broker), and four upon the recommendation of the President of the Senate (at least one of whom is experienced with a savings and loan institution and one of whom is experienced in home building). The Governor appoints four of the directors of the Agency (one of such appointees is required to be experienced in community planning, one in subsidized housing management, one in public housing policy, and one in the manufactured housing industry). The twelve members so selected elect a thirteenth member. The Governor designates a chairman from among the members of the Board. Members of the Board and officers of the Agency continue in office until their successors are appointed.

The current members of the Agency's Board are the following:

<u>Name and Position</u>	<u>Term Expires</u>	<u>Occupation</u>
Lucius S. Jones Chairman	6/30/09	President, United Realty, Wendell
William G. Benton	6/30/10	President and CEO, Salem Senior Housing, Winston-Salem
J. Dean Carpenter	6/30/09	President, Carpenter's Real Estate, Dallas
Samuel E. Ewell	6/30/09	Retired Businessman, Wendell
William C. Fitzgerald	6/30/07	Private Businessman, Laurinburg
Patricia G. Garrett	6/30/07	President, Charlotte-Mecklenburg Housing Partnership, Charlotte
Matthew B. Harrell	6/30/07	Private Businessman, Elkin
William C. Lackey, Jr.	6/30/07	John Wieland Homes of Charlotte, Cornelius

<u>Name and Position</u>	<u>Term Expires</u>	<u>Occupation</u>
Mark McGoldrick	6/30/07	President, HomeServices Lending – East Division, Huntersville
Joseph R. Parker	6/30/10	Mortgage Consultant, Premier Mortgage, Durham
Jimmy W. Smith	4/16/07	Owner, Insurance Center, Nashville
John White	6/30/09	White Realty & Construction, Nags Head
Charles J. Worth	6/30/09	Charles J. Worth & Assoc., Inc., Manson

### **Agency Staff**

The Agency currently employs approximately 110 persons. The following persons have been appointed as the principal staff officers of the Agency:

<u>Name and Position</u>	<u>Experience</u>
A. Robert Kucab Executive Director	Executive Director, North Carolina Housing Finance Agency, 1988 to present; Executive Director, Idaho Housing Agency, Boise, ID, 1982-1987; Executive Director, Flint Neighborhood Improvement and Preservation Project, Flint, MI, 1977-1982. Mr. Kucab is a Past President and a former Member of the Board of Directors of the National Council of State Housing Agencies
Elizabeth I. Rozakis Chief Financial Officer	Chief Financial Officer, North Carolina Housing Finance Agency, 2004 to present; Manager of Financial Services, 2000-2004; Supervisor, Management Reporting; Supervisor, Tax; Project Business Analyst, Carolina Power & Light, 1994-2000; Tax Manager, Senior Tax Accountant, Deloitte & Touche, 1989-1994
Sharon K. Drewyor Director of Home Ownership Lending	Director of Home Ownership Lending, North Carolina Housing Finance Agency, 1992 to present; Manager of Loan Production, 1991-1992, Senior Underwriter, 1990-1991, Quality Control Officer, 1989-1990; Corporate Underwriter, Branch Manager, Loan Originator, Pope Mortgage Company, Raleigh, NC, 1986-1989
Patricia L. Amend Director of Policy, Planning and Technology	Director of Policy, Planning and Technology, 2004 to present; Chief Financial Officer, North Carolina Housing Finance Agency, 1997-2004; Controller, 1995-1997, Senior Accountant, 1994-1995; Senior Accountant, Deloitte & Touche, LLP, Raleigh, NC, 1992-1994

The Agency is located at 3508 Bush Street, Raleigh, North Carolina 27609, its mailing address is P.O. Box 28066, Raleigh, North Carolina 27611-8066, and its telephone number is (919) 877-5700. The Agency's web site is [www.nchfa.com](http://www.nchfa.com). Elizabeth I. Rozakis is the contact person at the Agency for questions regarding the Agency's bond programs. Her telephone number is (919) 877-5687 and her e-mail address is [eirozakis@nchfa.com](mailto:eirozakis@nchfa.com).

## THE PROGRAM

### General

Under the Trust Agreement, the type of low and moderate income housing financing that will be provided, and the security for the Program Obligations to be financed by a given Series of Bonds is determined and set forth in the Supplemental Trust Agreement authorizing that Series of Bonds entered into by the Agency at the time such Bonds are issued. Program Loans may involve financing for purposes of, among others, home ownership, home improvement and residential rental housing.

Generally, proceeds of Bonds have been and are used by the Agency to purchase Program Loans originated by Lenders specifically for sale to the Agency for the purpose of providing financing for residential housing for low and moderate income households in North Carolina. Under the Twenty-Eighth Supplemental Trust Agreement, the Agency will purchase new Program Loans.

Pursuant to the Program, the Agency has entered into master mortgage loan origination and sale agreements (the "Program Purchase Agreements") with Lenders providing for delivery to the Agency, on a first-come, first-served basis, of Program Loans originated by Lenders. The Program Purchase Agreements provide that all Program Loans to be purchased thereunder shall constitute interest bearing obligations secured by mortgages that are a first lien on the mortgaged property. Certain provisions of the proposed Program Purchase Agreements are summarized below under "Program Purchase Agreements." The Agency has entered into master servicing agreements with various servicers (who may be Lenders) for the servicing of Program Loans to be purchased by the Agency under the Program (the "Servicing Agreements"). Certain provisions of the proposed Servicing Agreements are summarized below under "Servicing Agreements."

All Program Loans to be originated by Lenders for purchase by the Agency with the proceeds of the Series 28 Bonds must be made to households of low and moderate income. The Agency must make a determination that financing of housing for low and moderate income households is not otherwise available, wholly or in part, from private lenders upon reasonably equivalent terms and conditions. The Agency will make the required determination with respect to the Program Loans which will be originated for purchase pursuant to the Program Purchase Agreements. The Program permits Lenders to fund and close fixed rate and step rate Program Loans, although the step rate program is currently inactive.

## Experience to Date Under Program

The Agency has issued \$1,823,530,000 of bonds under the Trust Agreement for the purposes of the Program. \$1,775,251,000 of the proceeds of those bonds have been or will be used to purchase Program Loans for home ownership.

The following table summarizes as of December 31, 2006, the origination history of Program Loans purchased by the Agency under the Trust Agreement:

Series	Date of Issue	<u>Bonds Payable (000's)</u>		Outstanding Principal Balance	<u>Program Loans Receivable (000's)</u>		Delinquency Rate <sup>2</sup> (%)
		Original Principal Amount	Amount Outstanding		Initial Interest Rate(s) on Mortgage <sup>1</sup> (%)	Type of Mortgage Insurance	
1	6/17/98	\$62,115	\$26,885	\$23,789	6.25	FHA, VA, USDA	5.68
2	12/2/98	35,000	17,315	14,857	5.75 and 6.65	FHA, VA, USDA	3.49
3	3/11/99	65,000	29,125	28,728	5.75 and 6.65	FHA, VA, USDA	4.02
4	5/27/99	50,000	25,050	22,286	5.99	FHA, VA, USDA	3.42
5	8/19/99	55,000	24,475	21,011	6.65	FHA, VA, USDA	3.64
6	12/2/99	45,000	16,165	13,447	6.95	FHA, VA, USDA	2.44
7	4/5/00	65,000	26,280	23,258	6.95 and 7.25	FHA, VA, USDA, PMI	2.37
8	6/21/00	100,000	14,080	25,228	7.25	FHA, VA, USDA, PMI	4.97
9	12/13/00	65,000	40,575	35,472	6.70	FHA, VA, USDA, PMI	3.00
10 <sup>3</sup>	4/26/01	60,000	24,990	28,545	5.99	FHA, VA, USDA, PMI	3.33
11	9/27/01	65,000	44,550	38,966	5.99	FHA, VA, USDA, PMI	2.62
12 <sup>4</sup>	12/20/01	78,075	42,525	28,899	4.99-6.38	FHA, VA, USDA, PMI	1.97
13	4/4/02	75,000	52,010	46,512	4.99-6.50	FHA, VA, USDA, PMI	2.26
14	6/26/02	75,000	55,415	53,198	5.49-6.25	FHA, VA, USDA, PMI	1.10
15	5/08/03	50,060	40,570	39,945	4.95-5.25	FHA, VA, USDA, PMI	1.34
16	9/16/03	50,000	42,975	41,211	5.25-5.50	FHA, VA, USDA, PMI	2.41
17	12/11/03	53,280	47,990	44,206	5.13-5.50	FHA, VA, USDA, PMI	3.69
18	4/20/04	50,000	43,380	42,487	5.13-5.75	FHA, VA, USDA, PMI	2.83
19	8/18/04	65,000	59,485	57,745	5.13-5.75	FHA, VA, USDA, PMI	2.18
20	12/07/04	65,000	62,230	60,361	5.13-5.25	FHA, VA, USDA, PMI	2.06
21	04/21/05	65,000	63,015	62,795	5.13-5.38	FHA, VA, USDA, PMI	1.45
22	11/30/05	65,000	65,000	48,312	5.125-5.875	FHA, VA, USDA, PMI	0.89
23	3/30/06	65,000	65,000	63,064	5.125-6.125	FHA, VA, USDA, PMI	0.85
24	6/29/06	85,000	85,000	75,304	5.875-6.375	FHA, VA, USDA, PMI	0.57
25	9/26/06	<u>65,000</u>	<u>65,000</u>	<u>38,251</u>	5.125-6.375	FHA, VA, USDA, PMI	0.00
	Total	<u>\$1,573,530</u>	<u>\$1,079,085</u>	<u>\$977,877</u>			

1 The Agency may determine from time to time to purchase program loans at rates higher or lower than the initial rates.

2 Program Loans that are 60/90 days delinquent, as a percentage of the total number of Program Loans in such series outstanding as of December 31, 2006.

3 Proceeds of the Series 10 Bonds were applied to refund certain of the Agency's Series J and K Bonds, Series L and M Bonds and Series N and O Bonds (1985 Resolution) previously issued by the Agency. In connection with such refunding, \$33,839,000 of FHA-Insured mortgage loans financed with the proceeds of the refunded Bonds were transferred to the Trust Agreement.

4 Proceeds of the Series 12 Bonds were applied to refund certain of the Agency's Single Family Revenue Bonds, Series R, S and T (1985 Resolution) and certain of the Agency's Single Family Mortgage Purchase Bonds Series A and Series B (1976 Resolution). In connection with such refunding, \$27,517,000 of mortgage loans and cash of \$6,519,000 were transferred to the Trust Agreement.

The overall 60/90 day delinquency rate for these twenty-five issues was 2.32% as of December 31, 2006. At September 30, 2006, the most recent date for which data was available, as reported in the National Delinquency Survey prepared by the Research Division of the Mortgage Bankers Association of America, the delinquency rate for the State of North Carolina was 5.27%; the South Region, 4.34%; and the United States, 4.35%. For this same time period, the overall 60/90 day delinquency rate for the twenty-five issues then outstanding was 2.35%.

The Agency offers a Home Saver Program to help borrowers stay in their homes. The Home Saver Program incorporates a job loss feature that provides up to four months of principal and interest payments as a zero percent, deferred mortgage to borrowers who have lost their jobs through no fault of their own. As of December 31, 2006, 116 borrowers have used this program.

On November 9, 2005, the Agency issued \$185,000,000 of Series 22-B Bonds, Series 22-C Bonds, Series 22-D Bonds and Series 22-E Bonds. The Series 22-B Bonds were refunded with the proceeds of the Series 25-A Bonds. The Series 22-C Bonds were remarketed on February 1, 2007. The Series 22-D Bonds will be refunded with a portion of the proceeds of the Series 28 Bonds. The proceeds of the Series 22-C Bonds and Series 22-E Bonds will not be used to purchase or make Program Loans until all or a portion of the applicable bonds are refunded or remarketed on a long-term basis.

On December 20, 2006, the Agency issued \$65,000,000 of Series 26 Bonds under the Trust Agreement to finance the purchase of new Program Loans. As of March 6, 2007, the Agency had purchased Program Loans with an aggregate balance of \$4,820,617 and had Program Loans reserved with an aggregate balance of \$44,095,724. Program Loans purchased or reserved to date will bear interest at a fixed rate of 5.50% to 5.75%. Program Loans purchased or reserved hereafter may bear a higher or lower interest rate.

Also on December 20, 2006, the Agency issued \$65,000,000 of Series 27-A Bonds under the Trust Agreement. The proceeds of the Series 27-A Bonds will not be used to purchase or make Program Loans until all or a portion of the Series 27-A Bonds are refunded or remarketed on a long-term basis.

The Agency has entered into interest rate swap agreements (i) with UBS AG ("UBS") (the "UBS Swap Agreement") with respect to \$20,000,000 principal amount of the Agency's Home Ownership Variable Rate Revenue Bonds, Series 15-C (AMT) (the "Series 15-C Bonds"), (ii) with Bank of America, N.A. ("BofA") (the "BofA Swap Agreements") with respect to \$20,000,000 principal amount of the Agency's Home Ownership Variable Rate Revenue Bonds, Series 16-C (AMT) (the "Series 16-C Bonds") and \$20,000,000 principal amount of the Agency's Home Ownership Variable Rate Revenue Bonds, Series 17-C (AMT) (the "Series 17-C Bonds"), and (iii) with Goldman Sachs Mitsui Marine Derivative Products, L.P. ("Goldman") (the "Goldman Swap Agreement" and together with the UBS Swap Agreement and the BofA Swap Agreements, the "Swap Agreements") with respect to \$20,000,000 principal amount of the Agency's Home Ownership Variable Rate Revenue Bonds, Series 18-C (the "Series 18-C Bonds"). Pursuant to the Swap Agreements, the Agency will receive payments, computed at a variable rate intended to approximate the variable interest rate on the Series 15-C Bonds, the Series 16-C Bonds, the Series 17-C Bonds and the Series 18-C Bonds, respectively, on a notional amount corresponding to the principal amount of the Series 15-C Bonds, the Series 16-C Bonds, the Series 17-C Bonds and the Series 18-C Bonds. The Agency will make payments to UBS, BofA and Goldman, respectively, computed at fixed rates, on the same notional amount. Payments under the Swap Agreements are subordinate to payments of principal and interest on the Series 15-C Bonds, the Series 16-C Bonds, the Series 17-C Bonds and the Series 18-C Bonds. The Swap Agreements are subject to termination in certain circumstances. Termination prior to expected amortization of the Swap Agreements could require the Agency to make termination payments which could be substantial in amount depending on market conditions.

### **Income Limitations**

The Act defines households of low and moderate income as households deemed by the Agency to require assistance under the Act on account of insufficient personal or family income, taking into consideration such factors as the income of such persons and families available for housing needs, the size of the family, the

cost and condition of available housing facilities, the eligibility of such persons and families for federal housing assistance, and the ability of such persons and families to compete successfully in the normal housing market and to pay the amounts at which private enterprise is providing decent, safe and sanitary housing. In accordance with the foregoing standards, the Agency has determined that, currently, in order to qualify as a household of low or moderate income, a borrower must have an annual income not in excess of the income limit for the indicated household size set forth below opposite the area in which the mortgaged property is to be located:

<u>Area</u>	<u>Household Income Limits</u>		
	<u>1-Person Family</u>	<u>2-Person Family</u>	<u>3+Person Family</u>
<u>Charlotte Area</u> Cabarrus, Gaston, Mecklenburg, and Union Counties	\$63,500	\$64,000	\$73,500
Currituck County	\$59,500	\$60,000	\$69,000
Dare, Iredell and Moore Counties	\$55,500	\$56,000	\$64,000
<u>Greensboro-High Point Area</u> Guilford and Randolph Counties	\$55,500	\$56,000	\$64,000
Lincoln County	\$53,500	\$54,000	\$62,000
<u>Durham Area</u> Chatham, Durham and Orange Counties	\$61,000	\$61,500	\$70,500
<u>Winston-Salem Area</u> Davie, Forsyth, Stokes and Yadkin Counties	\$57,500	\$58,000	\$66,500
<u>Raleigh-Cary Area</u> Franklin, Johnston and Wake Counties	\$70,500	\$71,000	\$81,500
<u>Wilmington Area</u> Brunswick and New Hanover Counties	\$53,000	\$53,500	\$61,500
All Other Counties	\$52,500	\$53,000	\$60,500

### **Insurance and Guarantee Programs**

The Trust Agreement provides that the Supplemental Trust Agreement authorizing the issuance of a Series of Bonds for the Program shall specify any requirements for the Program Obligations to be purchased with the proceeds of the Bonds of such Series, including how such Program Obligations must be insured, guaranteed or otherwise secured.

The Twenty-Eighth Supplemental Trust Agreement provides that the Program Loans to be purchased by the Agency with the proceeds of the Series 28 Bonds must be secured by a mortgage on the property financed thereby and that the unpaid principal amount of a Program Loan may not exceed, at the time it is purchased by the Agency, 80% of the Market Value of the property subject to the Mortgage unless it is insured or guaranteed in one of the following ways: (a) if the Program Loan is an FHA Insured Program Loan, a VA Guaranteed

Program Loan, or a USDA Guaranteed Program Loan (as each of such terms is defined below), the applicable insurance or guarantee of the agency or instrumentality administering the insurance or guarantee program in an amount equal to the maximum coverage permitted for such Program Loan under the regulations of such agency or instrumentality; or (b) if the Program Loan is a PMI Insured Program Loan (as defined below), a private mortgage insurance policy issued by a qualified insurer in an amount so that the principal amount of the Program Loan is not greater than 80% of the Market Value of the property secured thereby plus the maximum amount payable under such private mortgage insurance policy in the event of a default by the Borrower thereunder.

All of the Existing Mortgage Loans are insured or guaranteed or otherwise meet the criteria for new Program Loans financed with the proceeds of the Series 28 Bonds described in this section.

FHA Mortgage Insurance. Program Loans insured by FHA in the manner described below, are herein defined as "FHA-Insured Program Loans." Sections 203 and 221 of the National Housing Act, as amended (the "Housing Act"), authorize the Federal Housing Administration ("FHA") of the Department of Housing and Urban Development ("HUD") to insure certain mortgage loans. Such mortgage loans must be in conformance with the maximum mortgage loan amount limitations and minimum down payment requirements specified in the Housing Act and regulations promulgated thereunder. In addition, the mortgagor under either of these programs must establish to the satisfaction of FHA that his or her income is adequate to meet the periodic payments required in the mortgage loan.

FHA administers the Section 203(k) loan program for the acquisition and rehabilitation of single family properties. Eligible borrowers obtain one mortgage loan to finance both the acquisition and the rehabilitation of the property. The mortgage amount may include funds for the purchase of the property, the costs incidental to closing the transaction, and the completion of the proposed rehabilitation. The mortgage proceeds allocated for the rehabilitation are escrowed at closing. Following loan closing, the lender submits copies of the mortgage documents to the HUD office for mortgage insurance endorsement. HUD reviews the submission and, if found acceptable, issues a Mortgage Insurance Certificate to the lender. At this point, the lender is submitting a fully-insured Program Loan to the Agency for purchase.

All mortgages are subject to a mortgage insurance premium. The premium must be included in the proposed monthly housing expense for underwriting purposes.

Under the terms of either of the foregoing FHA insurance programs, a failure to make a mortgage payment (or to perform any other obligation under the mortgage), if continued for thirty (30) days, constitutes a default which would entitle the mortgagee to claim insurance benefits. The Housing Act gives authority to the Secretary of HUD (the "Secretary") to settle claims for insurance benefits under mortgages insured under Sections 203 and 221 either in cash or debentures. Currently the Secretary is paying claims under Section 203 in cash and has not paid claims in debentures since 1965.

Insurance benefits are paid on foreclosure and conveyance of title. Benefit payments made by FHA on conveyed properties are equal to the unpaid principal amount of the mortgage loans plus certain tax, insurance and other payments made, and a portion of any foreclosure expenses incurred by the mortgagee, as well as interest from date of default at a rate equivalent to the debenture interest rate (which may be less than the interest rate of the insured mortgage), less certain amounts received or retained in respect of the mortgaged property.

When any property which is to be conveyed to FHA has been damaged by fire, earthquake, flood or tornado, it is generally required, as a condition of payment of an insurance claim, that such property be repaired by the mortgagee prior to such conveyance.

In June 1991 HUD released Mortgagee Letter 91-27 declaring HUD's policy regarding adjustments to a Borrower's debt attributable to the bankruptcy of a Borrower. If a Borrower enters bankruptcy, the Program Loan is divided into two claims, a secured claim, equal to the appraised value of the property at the time of the bankruptcy, and an unsecured claim, equal to the difference between the balance of the Program Loan and such

appraised value. If the Borrower successfully concludes the bankruptcy proceedings, the unsecured claim may be discharged in bankruptcy. Mortgagee Letter 91-27 states HUD policy to be that if, following such a discharge in bankruptcy of the unsecured portion of a mortgage debt, a Borrower defaults on a mortgage and the mortgagee forecloses on the mortgage and then files a claim for HUD benefits, the claim will be paid based on the unpaid principal balance of the secured portion of the bankruptcy claim. Consequently, the portion of a Program Loan exceeding the appraised value of the property at the time of the bankruptcy filing would not be covered by FHA insurance following a bankruptcy proceeding by the Borrower.

VA Guarantee. Program Loans that are guaranteed as to payment by the United States Veterans Administration in the manner described in this Section are herein referred to as "VA Guaranteed Program Loans." The Serviceman's Readjustment Act of 1944, as amended, permits a veteran (or, in certain instances, his or her spouse) to obtain a VA Guaranteed Program Loan covering mortgage financing of the purchase of a one-to-four family dwelling unit at interest rates agreed upon by the purchaser and the mortgagee, as the VA may elect. The program has no mortgage loan limits (other than that the amount may not exceed the property's reasonable value as determined by the VA), requires no down payment from the purchaser and permits the guarantee of VA Guaranteed Program Loans with terms of up to 30 years.

The guarantee provisions for VA Guaranteed Program Loans are as follows: (a) for home and condominium loans of \$45,000 or less, 50 percent of the loan is guaranteed (for loans with an original principal balance of \$45,000 and not more than \$56,250, the guarantee will not exceed \$22,500); (b) for home and condominium loans of more than \$56,250 but less than or equal to \$144,000, 40 percent of the loan is guaranteed subject to a maximum guarantee of \$36,000; (c) for home and condominium loans of more than \$144,000, 25 percent of the principal amount of the loan is guaranteed subject to a maximum guarantee of \$60,000; and (d) for loans for manufactured homes, 40 percent of the loan is guaranteed (with a maximum guarantee of \$20,000).

The liability on the guarantee is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness, but in no event will the amount payable on the guarantee exceed the amount of the original guarantee. Notwithstanding the dollar and percentage limitations of the guarantee, a mortgage holder will ordinarily suffer a monetary loss only where the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of mortgaged premises is greater than the original guarantee as adjusted. The VA may, at its option and without regard to the guarantee, make full payment to a mortgage holder of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

USDA Guarantee. Program Loans guaranteed by the United States Department of Agriculture, Rural Development are herein referred to as "USDA-Guaranteed Program Loans." Title V of the Housing Act of 1949 permits USDA to provide mortgage guarantees for single family rural housing loans. A USDA guarantee constitutes an obligation supported by the full faith and credit of the United States.

The maximum loss payment under a USDA guarantee will be the lesser of:

- (1) Any loss of an amount equal to 90 percent of the principal amount actually advanced to the mortgagor, or
- (2) An amount up to 35 percent of the principal amount actually advanced to the mortgagor, plus any additional loss sustained by the lender of an amount up to 85 percent of the remaining 65 percent of the principal amount actually advanced to the mortgagor.

Loss includes only (1) principal and interest evidenced by the note; (2) any loan subsidy due and owing; and (3) any principal and interest indebtedness on USDA approved protective advances for protection and preservation of collateral. Interest is covered by the guarantee to the date of the final loss settlement when the lender conducts liquidation of collateral in an expeditious manner. Net proceeds received from liquidation of the collateral will be used in calculating the amount of loss sustained. If the lender acquires the collateral, the net proceeds from collateral for calculating loss shall be determined by the USDA as follows: (i) the USDA will have the collateral appraised at its current market value as of the date of acquisition by the lender, then (ii)

deduct from such appraised value an estimate of liquidation costs which will include an allowance for the estimated time the property will be held by the lender. The USDA will pay its claim based on an appraisal after foreclosure has occurred rather than upon the sale of the property. The Agency expects that it would liquidate through foreclosure proceedings, rather than acquire, the property securing a defaulted Program Loan.

Primary Mortgage Insurance. Program Loans that are insured by a policy of primary private mortgage insurance in the manner described in this Section are herein referred to as "PMI Insured Program Loans."

The Twenty-Eighth Supplemental Trust Agreement provides that a "PMI Insured Program Loan" is any Program Loan purchased with the proceeds of the Series 28 Bonds that is insured by a private mortgage insurance company that has been approved by Fannie Mae or Freddie Mac to insure mortgage loans purchased by them. The federal Homeowners Protection Act of 1998 requires the automatic termination of private mortgage insurance for any mortgage loan incurred after July 1999 if payments are current on the loan and the loan to value ratio is 78% or less. In addition, borrowers who are current on their mortgage loan payments are entitled to termination of primary mortgage insurance requirements upon request if the loan to value ratio is 80% or less. For purpose of determining the loan to value ratio, the value of the subject property is the lesser of the contract sales price and the appraised value at the time the mortgage loan is made. The Agency will not require (and cannot require) borrowers to maintain private mortgage insurance after the borrower is entitled to termination of the private mortgage insurance in accordance with federal law.

The Twenty-Eighth Supplemental Trust Agreement provides that at the option of the Agency, the insurance policy on a PMI-Insured Program Loan may be cancelled or permitted to terminate as required by applicable law.

Uninsured and Non-Guaranteed Loans. In addition to FHA Insured Program Loans, VA Guaranteed Program Loans, USDA Guaranteed Program Loans and PMI Insured Program Loans, the Twenty-Eighth Supplemental Trust Agreement provides that the Agency may purchase any other Program Loan so long as, at the time of purchase of the Program Loan by the Agency, the unpaid principal amount of the Program Loan does not exceed 80% of the Market Value of the property that is subject to the Mortgage securing such Program Loan.

Other Loan and Guarantee Programs. Future supplemental trust agreements may permit the Agency to purchase Program Obligations having insurance and guarantee features different from those described above.

### **Standard Hazard Insurance**

Each mortgagor will be required to obtain and maintain for the mortgaged property a standard hazard and casualty insurance policy in an amount which is not less than (i) the maximum insurable value of the mortgaged property or (ii) the unpaid principal amount of the Program Loan. The standard hazard and casualty insurance policy is required to be written by an insurance company qualified to do business in the State and having a current general policyholder's rating in Alfred M. Best's Insurance Reports of B and a financial size category of Class III or better.

In general, a standard homeowner's form of fire with extended coverage policy insures against physical damage to or destruction of the improvements on the property by fire, lightning, explosion, smoke, windstorm, hail, riot, strike, and civil commotion, subject to the conditions and exclusions particularized in each policy. Policies typically exclude physical damage resulting from the following: war, revolution, governmental action, floods and other water-related causes, earth movement (including earthquakes, landslides and mudslides), nuclear reactions, wet or dry rot, vermin, rodents, insects or domestic animals, theft, and, in certain cases, vandalism.

Flood insurance will be required to be obtained and maintained by mortgagors whose mortgaged property is in an area designated by HUD as having special flood hazards and for which flood insurance is available under the National Flood Insurance Program. The limit of flood insurance must be the lowest of (i) the

unpaid principal balance of the Program Loan, (ii) the full insurable value of the mortgaged property, and (iii) the maximum amount of flood insurance available.

### **Program Purchase Agreements**

The Agency has entered into Program Purchase Agreements with Lenders for the sale to the Agency, on a first-come, first served basis, of Program Loans made to households of low and moderate income and originated by such Lenders. The Lenders are prohibited from imposing any fee or charge, or receiving any remuneration, in excess of the usual and reasonable amounts charged when owner-financing is not provided through the issuance of tax-exempt bonds. The purchase price to be paid by the Agency for each Program Loan purchased with the proceeds of the Series 28 Bonds will be 100% of the outstanding principal amount thereof and the accrued interest thereon.

Each mortgagor to whom a Program Loan is made must be an Eligible Borrower as defined in the Program Purchase Agreement. Program Loans are required to be made in accordance with the applicable underwriting standards. Program Loans may be made with respect to either new or existing residential housing of no more than one dwelling unit, and may include new or existing condominium units or townhouses. The Lender shall make no payment to the Agency upon the execution of the Program Purchase Agreement.

In order to be eligible for purchase, each loan application must be submitted to the Agency by the Lender for a conditional commitment. If the loan meets the conditions required by the Act, Agency policy and regulations, and the Federal Tax Requirements, the loan will be qualified for purchase by the Agency as a Program Loan.

The Agency's conditional commitment process, which is initiated by the delivery of a submission package to the Agency, does not begin until after the Lender has processed and approved the application according to applicable loan underwriting criteria and specified Agency guidelines discussed below. The Lender, who must be a qualified originator, must first verify the applicant's income and assets, obtain credit reports to evaluate the applicant's payment record, secure an appraisal adhering to industry requirements and must obtain the approval of its underwriter prior to delivering a submission package to the Agency for its conditional commitment decision. The Lender must then forward to the Agency complete loan submission packages including the loan application and the required affidavits from the mortgagor and the seller of the residence. When the Agency receives this submission package it will review the application and verify compliance with the various requirements of the Act, Agency policy and regulations, and the Federal Tax Requirements as outlined below. If the Agency determines after such review that the loan is eligible for purchase it will issue a conditional commitment to purchase Program Loans from the Lender who can then schedule the loan for closing. The Agency will begin to process a Program Loan for which it has issued a conditional commitment upon its receipt of an endorsed Program Loan note from the Lender, but will purchase the Program Loan only after it has reviewed, and approved as satisfactory, all mortgage documents that are required to be recorded or that establish that mortgage insurance or guarantee, hazard insurance and title insurance are in place. Further review of the Program Loan application and related certificates to assure continuity of the transaction and compliance with requirements of the Agency and State and federal law will occur prior to purchase as deemed appropriate by the Agency. See "FEDERAL TAX REQUIREMENTS."

The Agency has supplemented the Program Loan processing steps to incorporate a delegated underwriting feature. In the event that a Lender processes a Program Loan using the delegated underwriting feature, a Lender will agree to comply with the procedures relating to the delegated underwriting feature set forth in the master loan origination and sale agreement and the Mortgage Program Originator's Guide.

In the event Lenders fail to originate and deliver Program Loans in the amount projected by the Agency, the Agency will have unexpended proceeds of the Series 28 Bonds which it may use to redeem Series 28 Bonds at par. See "DESCRIPTION OF THE SERIES 28 BONDS — Special Redemption."

The Agency has the right to decline to purchase any Program Loan originated and offered for sale under a Program Purchase Agreement if, in the opinion of the Agency, such Program Loan does not meet the

requirements set forth in such Program Purchase Agreement. Each Program Purchase Agreement further provides that the Lender shall repurchase any Program Loan sold to the Agency upon written notice by the Agency if any of the following shall occur: (i) the Agency determines that, with respect to such existing Program Loan, any representation contained in the related Program Purchase Agreement was untrue when made or that the Lender has breached or failed to perform any term of the Purchase Agreement, (ii) the Agency determines at any time that the Lender or the mortgagor has made a misrepresentation of a material fact that adversely affects the Program Loan's eligibility for purchase by the Agency under the Federal Tax Requirements or (iii) the first payment of principal and interest on the Program Loan becomes one calendar month or more in arrears and the Lender cannot demonstrate that the payment in arrears was unrelated to its underwriting of the Program Loan. The repurchase price of any such Program Loan shall be the unpaid principal balance thereof plus the accrued interest thereon, any advances made by the Agency for the account of the mortgagor and accrued interest thereon at the interest rate on the note, and any reasonable attorney's fees, legal expenses, court costs or other expenses that may have been incurred or expended by the Agency in connection with said Program Loan.

Pursuant to the Program Purchase Agreement, the Agency has agreed to purchase deferred second mortgages to provide closing cost and down payment assistance using acquisition funds available under the federal HOME Investment Partnership Act or other funds available to the Agency for Program Loans. The second mortgages will be approximately \$7,000 in all areas. The deferred second mortgage will generally become due thirty years from its date; when the mortgaged property is sold or transferred; when a default occurs under the related Program Loan; when the mortgaged property ceases to be the principal residence of the borrower; or when the debt evidenced by the related Program Loan is refinanced.

### **Servicing Agreements**

The Agency and each Agency-approved Servicer have entered into a servicing agreement for the servicing of Program Loans purchased by the Agency. Each Servicing Agreement provides for an annual servicing fee in an amount no more than  $\frac{3}{8}$  of 1% of the principal balance, computed monthly, of each non-delinquent Program Loan serviced thereunder for which payments of principal and interest have been received by the Servicer.

The Servicing Agreements will require the Servicers to perform all services and duties customary to the servicing of mortgages, including, among other things, inspecting the mortgaged premises when payments by a mortgagor have become delinquent or upon request of the Agency, collecting all payments due with respect to each Program Loan, and applying properly and rendering an accounting to the Agency of all sums collected from a mortgagor for payment of principal and interest, taxes, assessments and hazard and mortgage insurance premiums. In the event a mortgagor fails to make a payment when due or in the event of any default on a Program Loan, each Servicer must give notice to the Agency and, in the event of default, is also obligated, unless otherwise notified by the Agency, to take all actions necessary and proper to collect the applicable mortgage insurance and to enforce the applicable contractual provisions, including, if necessary, instituting foreclosure proceedings and managing the mortgaged property. Agency-approved foreclosure and related expenses shall be borne by the Agency.

Under each Servicing Agreement the Servicer must deposit all funds received on account of Program Loans being serviced in segregated accounts in a state or national bank or savings and loan association acceptable to the Agency and in which deposits are insured by the Federal Deposit Insurance Corporation, which may be the Servicer, and in segregated accounts in the Federal Home Loan Bank, and must hold the accounts as trustee for the Agency and the various mortgagors. From the funds so deposited the Servicer must pay, when due, mortgage and hazard insurance premiums, taxes and assessments. Once a month or at any time when the amount on deposit exceeds the insured amount, the Servicer is to remit to the Trustee the total amount of all payments of principal and interest. Prepayments of the Program Loans, proceeds of mortgage insurance, condemnation proceeds, proceeds resulting from action taken with respect to a defaulted Program Loan, and proceeds of hazard insurance that will not be used to restore or rehabilitate the mortgaged property shall be remitted as they are received.

The Servicing Agreements will require Servicers to maintain hazard and casualty insurance on each of the mortgaged premises in an amount sufficient to ensure that the Agency will not become a co-insurer under the terms and conditions of the applicable policy or policies. The Servicer must also comply, as to each Program Loan, with all rules and requirements of the Agency and the applicable rules and requirements of the insurance or guarantee program with respect to Program Loans, and must at all times keep such insurance in full force and effect. See "Standard Hazard Insurance" above. In addition, each Servicer must maintain blanket bond coverage as customarily used in the mortgage banking industry, including among other provisions, fidelity coverage and insurance against losses resulting from the errors and omissions of the Servicer.

## **FEDERAL TAX REQUIREMENTS**

### **General**

The Series 28 Bonds are subject to the requirements of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations thereunder (the "Federal Tax Requirements"). Pursuant to the Federal Tax Requirements, interest on "qualified mortgage bonds" is not includable in gross income for federal income tax purposes. Bonds are "qualified mortgage bonds" if all of the following requirements are met: (i) all proceeds of the issue exclusive of issuance costs and a reasonably required reserve fund are to be used to finance owner-occupied residences, (ii) the mortgages financed with the issue meet certain eligibility requirements, (iii) the yield that is earned by the issuer of the bonds from such mortgages does not exceed specified limitations and certain investment earnings derived from non-mortgage investments are paid to the United States, (iv) certain proceeds of the issue are available for financing housing located in "targeted areas" and (v) the use of proceeds of the bonds does not meet the private business tests of Sections 141(b)(1) and 141(b)(2) of the Code. In addition to the foregoing requirements, qualified mortgage bonds must meet certain other requirements relating to the issue itself.

Failure to meet the above requirements at any time during the term of the Series 28 Bond issue could result in interest on the Series 28 Bonds being subject to federal income taxation as of the date of issuance. The Agency, however, has covenanted to comply with all such requirements. In addition, the Federal Tax Requirements provide that certain requirements will be deemed to have been satisfied if certain steps are taken (see "Good Faith Effort" below).

### **Eligibility Requirements**

The new Program Loans to be financed with the proceeds of the Series 28 Bonds must meet the following eligibility requirements:

Residence Requirements. As required by the Program Purchase Agreements and the Federal Tax Requirements, all residences for which owner financing is provided with the proceeds of the Series 28 Bonds must be single family residences located within the State, each of which can reasonably be expected to become the principal residence of the mortgagor within 60 days after the financing is provided. Each mortgagor is required to certify at the closing of the home mortgage loan that he or she intends to make the financed residence his principal residence within 60 days.

Absence of Prior Home Ownership. Except as described below, at least 95% of the proceeds of an issue, exclusive of a reasonably required reserve fund ("net proceeds"), must be used to finance residences of borrowers who have not had a present ownership interest in a principal residence at any time during the three-year period prior to the date on which the mortgage is executed. The Agency requires the borrower to provide his federal income tax returns for the preceding three years for review for evidence of prior ownership of a principal residence or to certify that he was not required to file federal income tax returns for the preceding three years, and to certify at the closing of the home mortgage loan that he or she has not had a present ownership interest in a principal residence at any time within the preceding three years. The Code creates an exception from this requirement for mortgage loans for residences located in targeted areas as described below and for mortgage loans and home ownership by veterans if the loan is funded from mortgage revenue bonds issued after December 20, 2007 and before 2008.

Purchase Price Limitations. The Code requires that the "acquisition cost" of each residence being financed may not exceed 90% (or 110% in the case of "targeted areas" as discussed below) of the "average area purchase price" applicable to such residence. The term "acquisition cost" is defined to mean the cost of acquiring a residence as a completed residential unit but does not include (i) usual and reasonable settlement or financing costs, (ii) the value of services performed by the mortgagor or members of his family in completing the residence, and (iii) the cost of land which has been owned by the mortgagor for at least two years before the date on which construction of a residence begins. For the purpose of this limitation, the term "average area purchase price" means, with respect to any residence, the average purchase price of single family residences in the Metropolitan Statistical Area ("MSA") or non-MSA county in which the residence is located which were purchased during the most recent twelve-month period for which sufficient statistical information is available. The determination as to whether a residence meets the purchase price requirements must be made as of the date on which the Lender commits to make the Program Loan or, if earlier, the date of purchase of the residence.

The Agency has provided in the Program Purchase Agreement that the acquisition cost of any residence shall not exceed the maximum acquisition cost for the statistical area in which the residence is located, as said figure may be from time to time amended by the Agency in order to assure compliance with the Federal Tax Requirements. The Agency has further provided that the appraised value or sales price of any residence, whichever is less, may not exceed the maximum acquisition cost.

First-time homebuyers may purchase new homes for up to \$185,000 and existing homes for up to \$170,000 and still qualify for the agency's low-interest rate mortgage program.

Downpayment assistance is offered in the form of a zero-interest second mortgage loan. Buyers must invest \$750 from their own funds in their home, and the second mortgage will pay up to \$7,000 of the balance. Loans are repayable upon resale or refinance of the home. To qualify for downpayment assistance, buyers must meet income limits lower than those for the low-interest mortgage program and are limited to a sales price of \$170,000 for new or existing homes.

Income Restrictions. The Code requires that all owner financing provided by an issue of qualified mortgage bonds be provided to mortgagors whose family income is 115% or less of the applicable median family income. With respect to any financing provided for "targeted area" residences, as described below, one third of the amount of such financing may be made to mortgagors who do not satisfy this requirement if the remaining two-thirds of such "targeted area" financing is made to mortgagors whose family income is 140% or less of the applicable median family income. Under the Code, the above percentages for households consisting of less than three persons are reduced to 100% for "non-targeted areas" and 120% for "targeted areas," respectively. For purposes of this income restriction, applicable median family income is the greater of the area median gross income for the area where the residence is located or the statewide median gross income. Each mortgagor is required to set forth his family income in his application and provide an affidavit that such statement is true and complete and that his family income does not exceed the applicable income limit. The applicable income restriction shall be the low or moderate income restriction of the Agency or the applicable median family income restriction of the Federal Tax Requirements, whichever is less. The Agency has provided in the Program Purchase Agreement that it shall not purchase any mortgage loan if the mortgagor does not meet the applicable income restriction. The Agency believes that the income limits set forth above under "THE PROGRAM — Income and Net Asset Limitations" comply with this requirement.

New Program Loan Requirement. In order to comply with the Federal Tax Requirements, none of the proceeds of a bond issue may be used to acquire or replace existing mortgages (except for construction period loans and temporary financings with a term not to exceed 24 months). The Agency's requirements with respect to the Program Purchase Agreements and its review procedures are designed to meet these restrictions.

Program Loan Assumption Limitation. To meet the Federal Tax Requirements, each mortgage financed with the proceeds of a bond issue may be assumed only if the residence requirements, absence of prior home ownership, purchase price limitations and the income restrictions are met with respect to the mortgage assumption. The determinations as to compliance with these requirements are to be made as of the date on which the mortgage is being assumed. Accordingly, the Agency must make the required statistical study or

otherwise determine (e.g., by reliance on "safe harbor" statistics published by the U.S. Treasury) the relevant average area purchase prices for each statistical area within the State on an annual basis, and must assure compliance with the other applicable Federal Tax Requirements as long as any Series 28 Bonds are outstanding. The Agency has so covenanted in the Twenty-Eighth Supplemental Trust Agreement and, in order to assure compliance with this requirement, has provided in the Program Purchase Agreement that no Program Loan may be assumed without the written consent of the Agency.

### **Requirements Related to Arbitrage**

In addition to the arbitrage requirements that apply to all tax-exempt bonds under Section 148 of the Code, the Agency must satisfy two additional arbitrage requirements. First, certain limitations are imposed upon the yield the Agency may receive from the Program Loans. The Code and the Treasury regulations thereunder require that all fees, charges and other amounts borne by the mortgagor that are attributable to the Program Loan or the bond issue be taken into account in determining the yield on the Program Loans. Accordingly, in computing the yield on the Program Loans, the Agency takes into account all discount points paid by the seller and origination fees paid by the mortgagor. Since the Lenders are prohibited from charging any other fees and charges in excess of those which would be charged when owner financing is not provided through the use of tax-exempt bonds, the Agency does not have to take such other charges into account in such computation. In addition, the Agency has reserved the right to adjust the yield on the Program Loans should circumstances indicate that such an adjustment is necessary in order to comply with the arbitrage requirements.

The second principal arbitrage requirement obligates the Agency to pay to the United States government amounts earned on non-mortgage investments in excess of the amounts which would have been earned on such investments if invested at a yield equivalent to the yield on the Series 28 Bonds, plus the earnings on such excess.

### **Other Requirements**

Application of Certain Payments. The Federal Tax Requirements provide that all prepayments and repayments (i) received ten years after the date of issuance of the Series 28 Bonds in respect of Program Loans purchased with proceeds attributable to the non-refunding proceeds of the Series 28-A Bonds, and (ii) received ten years after the date of issuance of the bonds refunded by the Series 28 Bonds in respect of Program Loans purchased with proceeds attributable to the refunding proceeds of the Series 28 Bonds (as described under the caption "SOURCES AND USES OF FUNDS" above) be applied to the payment of principal of, or to redeem, Series 28 Bonds no later than the beginning of the second semi-annual period beginning after the date of receipt. Accordingly, the Twenty-Eighth Supplemental Trust Agreement provides that such amounts (if not less than \$250,000 in aggregate) be applied to the redemption or payment of Series 28 Bonds.

Targeted Area Requirement. In order to comply with the Federal Tax Requirements, the Agency will, for at least one year after owner financing is first made available with respect to new Program Loans purchased with proceeds of the Series 28 Bonds, make available for Program Loans in Targeted Areas within the State an amount equal to 20% of the non-refunding proceeds of the Series 28-A Bonds deposited in the Series 28 Program Account. The Agency's efforts to place Program Loans in Targeted Areas will include advertising that mortgage funds are available for such areas, and may include the Agency's originating such loans directly.

Information Reporting Requirement. In addition to the information reporting requirement applicable to all tax-exempt obligations, issuers of qualified mortgage bonds must compile and submit to the Internal Revenue Service for each year in which proceeds of a qualified mortgage bond issue are used to provide mortgages, a report containing information on each mortgagor, including information with respect to the eligibility requirements and other data pertaining to a mortgagor's income.

Recapture of Portion of Federal Subsidy. The Code imposes a recapture provision (the "Recapture Provision"), which requires a payment to the United States from certain mortgagors of an amount determined to be the subsidy provided by a qualified mortgage upon disposition of the residence financed by the Program Loan. The Agency has established procedures to comply with the requirements imposed on it by the Recapture

Provision. In January 2007 the Agency created a Recapture Tax Reimbursement Program for borrowers who close an MRB or MCC assisted loan after January 1, 2007. Eligible borrowers will be reimbursed by the Agency for any recapture tax that they pay to the IRS after they have sold their home. The Agency estimates that its liability will be minimal.

### **Good Faith Effort**

An issue of qualified mortgage bonds which fails to meet the Eligibility Requirements will be treated as meeting all such requirements if:

- (i) the issuer in good faith attempted to meet such requirements before the mortgages were executed;
- (ii) 95% of the net proceeds devoted to owner-financing were devoted to residences with respect to which (at the time the mortgages were executed or assumed) all such requirements were met; and
- (iii) any failure to meet such requirements is corrected within a reasonable period after such failure is first discovered. Failure to meet one or more of the Eligibility Requirements can be corrected by either calling the non-qualifying mortgage or replacing it with a qualifying mortgage.

In determining whether the 95% requirement referred to in clause (ii) above is satisfied, the Treasury regulations provide that the Agency may rely on affidavits evidencing compliance from the mortgagors and sellers of residences and upon the examination by the Agency or its agents of the income tax returns filed by the mortgagors with the Internal Revenue Service for the preceding three years which indicate no prior home ownership during such period (or statements in the mortgagors affidavits that one or more of such returns were not required to have been filed).

The failure to meet the arbitrage and targeted area requirements will not affect the tax-exempt status of a qualified mortgage bond if:

- (i) the issuer in good faith attempted to meet all such requirements; and
- (ii) any failure to meet such requirements is due to inadvertent error after taking reasonable steps to comply with such requirements.

### **Agency Procedures**

In order to comply with the Federal Tax Requirements, the Agency has established procedures that include an approval process that must be completed before the Agency enters into a conditional commitment to purchase a Program Loan, including the examination of affidavits to determine applicant eligibility and Lender compliance, and guidance and assistance to the Lenders.

The Agency will not purchase any Program Loan until it has reviewed the documentation to verify compliance with the Federal Tax Requirements. As described above under "THE PROGRAM — General," the Agency begins its review of the Program Loan application after the Lender has processed and approved the loan application in accordance with applicable loan underwriting procedures as well as in compliance with the Agency's procedures and guidelines. Once the Lender has completed its processing and has approved the Program Loan, a submission package, which includes the loan application and the affidavits, is forwarded to the Agency.

The Agency will require that each submission package contain an affidavit from each mortgagor which represents and warrants, among other things (i) that he or she has not had a previous ownership interest in a principal residence within the preceding three years; (ii) that he or she will occupy the premises as his or her principal residence within 60 days after the Program Loan is made; (iii) that the residence is a completed

residential unit which needs no alteration for normal occupancy; (iv) that the property will not be used for business purposes; and (v) that the statement of family income set forth in the application is true and complete and does not exceed the applicable income limit. The Agency will also require each mortgagor to submit for inspection such mortgagor's federal income tax returns for each of the three years preceding the origination of the Program Loan or a certificate that the mortgagor was not required to file a federal income tax return during such period to verify the absence of prior home ownership during such period. The Agency will also require that each loan package contain an affidavit from the seller of the residence which evidences compliance with the purchase price limitations.

After the Agency determines that a loan is eligible for purchase, it provides for the issuance of a conditional commitment to the Lender for such loan. The Lender then closes such loan. The Agency will not purchase any Program Loan until the Agency receives the endorsed mortgage loan note from the originating lender and reviews all the documents which record the mortgage in the public record and evidence compliance with the applicable mortgage insurance or guarantee program, if any.

The Agency has published an originators' guide describing the process each Lender must perform with respect to each Program Loan. It has held conversations with Lenders which have executed Program Purchase Agreements to explain the Federal Tax Requirements and the procedures designed to assure compliance.

As noted above under "Program Purchase Agreements," the Lenders will be required to make representations and warranties that certain Federal Tax Requirements have been met and to repurchase Program Loans if misstatements or misrepresentations by any party in connection therewith adversely affect the Program Loan's eligibility for purchase under the Federal Tax Requirements.

Compliance by the Agency with certain other Federal Tax Requirements is discussed above under the following subcaptions:

- (1) Limitations with respect to the acquisition cost of eligible residences. See "Purchase Price Limitations."
- (2) Use of proceeds limited to newly originated mortgages and criteria with respect to the assumption of mortgages on resale. See "New Program Loan Requirement" and "Program Loan Assumption Limitation."
- (3) Determination of the interest rate on the Program Loans. See "Requirements Related to Arbitrage."

The Agency may direct Program Lenders to reduce or cause to be reduced the interest rate on Program Loans if the Agency determines such reductions to be necessary in order to preserve the federal tax exemption on the Bonds.

## **OTHER AGENCY PROGRAMS**

### **Single Family Programs**

Including refundings, the Agency has issued over \$3.2 billion of revenue bonds to provide funds for its single family home ownership programs. The bonds were issued pursuant to several bond resolutions of the Agency, all but one of which have been defeased. Such bonds are secured solely by the security pledged under their respective bond resolutions, and not by the security pledged under the Trust Agreement. Excluding the Bonds issued under the Trust Agreement, \$151,155,000 of the Agency's single family home ownership bonds were outstanding as of December 31, 2006.

The Agency entered into a memorandum of understanding with USDA-Rural Development (RD) to originate and close Agency 30-year fixed rate mortgages to help first-time, lower income homebuyers. The Agency will provide a first mortgage using HOME funds and USDA-RD will provide a second mortgage using

their RD Direct Loan Program which has interest rates as low as 1%. The Agency anticipates closing 100 loans annually using this leveraged feature.

### **Multifamily Programs**

In addition to its home ownership programs, the Agency has several programs to provide financing for residential rental housing for low and moderate income households. As of December 31, 2006, the Agency had approximately \$51,895,000 of multifamily revenue bonds outstanding, with a multifamily mortgage loan portfolio of approximately \$46,869,000 of loans securing such bonds. In addition to such mortgage loans and related reserve funds, funds have been set aside in an irrevocable escrow fund to redeem approximately \$7,500,000 of such multifamily revenue bonds on July 1, 2008, and to pay debt service with respect thereto until such date. All of the multifamily mortgage loans now owned by the Agency are FHA-insured.

In addition, the Agency is proceeding with plans to issue approximately \$10,000,000 of additional multifamily housing revenue bonds in 2007 to provide funds to developers to finance the costs of their acquisition and renovation of nine residential rental projects in various locations in the State. Such bonds would be payable from revenues derived from the operation of those projects.

The Agency also administers both the federal and state low-income housing tax credit programs and the rental production program. These funds are available to developers, on a competitive basis, for the development of affordable rental housing in the State. The Agency's goals include supporting the best developments possible given the limited resources available. Therefore, the Agency selects developments serving low-income residents for the longest period of time, at appropriate locations, with strong market demand, with the healthiest financial structures, the best architectural design and the best quality of building materials and workmanship. The Agency has administered this program since its inception in 1987 and has helped create 1,661 projects comprising 40,533 rental units, allocating \$1,353,699,000 of tax credits.

### **Other Activities**

The Agency established a mortgage credit certificate ("MCC") program in July 1987. An MCC permits first-time homebuyers who meet federal limits for family income and acquisition costs, to take 20% to 25% of annual mortgage interest as a federal income tax credit. As of December 31, 2006, the Agency had issued 24,332 certificates under the MCC program totaling \$1,836,379,000 in mortgages.

In September 2000, the Agency issued \$27,175,000 Student Housing Variable Rate Revenue Bonds for the purpose of financing a student housing facility located near the campus of Appalachian State University in Boone, North Carolina. These bonds are secured by the revenues of the student housing facility and by a letter of credit issued by a major bank. In May 2002 the Agency issued \$9,712,000 of multifamily housing bonds in four issues to finance the acquisition and renovation by four separate non-profit corporations of housing developments for elderly residents. The four non-profit corporations are controlled by National Church Residences, an Ohio non-profit corporation that specializes in providing housing for the elderly. The multifamily bonds are secured by Ginnie Mae certificates issued in connection with the financing. Also, in August 2002 the Agency issued \$8,000,000 of bonds to finance improvements to facilities owned and operated by The Masonic Home for Children at Oxford, Inc., a North Carolina non-profit corporation that provides housing for needy children. These bonds are secured by the loan repayments to be paid by the corporation and a letter of credit issued by a major bank.

The Agency may issue additional series of bonds under any of its programs, including the Program, and may adopt other programs under which bonds could be issued. The Agency's ability to issue additional bonds to finance its programs is restricted by federal tax law. See "FEDERAL TAX REQUIREMENTS."

### **TAX EXEMPTION**

Opinion of Bond Counsel. Certain federal tax requirements must be met subsequent to the initial issuance and delivery of the Series 28 Bonds in order that interest on such Bonds be excluded, on and after the

date of such issuance and delivery, from the gross income of the owners thereof for federal income tax purposes under the Code. The Agency has established procedures in its Program documents and the Twenty-Eighth Supplemental Trust Agreement to meet the Federal Tax Requirements. The Agency has also covenanted in the Twenty-Eighth Supplemental Trust Agreement to comply with the requirements of Sections 143 and 148 of the Code. Bond Counsel is of the opinion that the procedures established as of the date hereof in the Agency's Program documents and the Twenty-Eighth Supplemental Trust Agreement are sufficient, if followed, to comply with the Federal Tax Requirements. The Agency has also covenanted, in the Twenty-Eighth Supplemental Trust Agreement, to comply with the regulations promulgated with respect to the rebate and other arbitrage requirements under Sections 143 and 148 of the Code. Failure to comply with such aforementioned covenants or to carry out the procedures set forth in the Program documents may cause interest on the Series 28 Bonds to become included in gross income for federal income tax purposes retroactive from their date of issue.

In the opinion of Womble Carlyle Sandridge & Rice, PLLC, Raleigh, North Carolina, as Bond Counsel, assuming that the Agency will carry out the aforementioned procedures set forth in the Program documents and comply with the aforementioned covenants contained in the Twenty-Eighth Supplemental Trust Agreement, interest on the Series 28 Bonds is not includable in the gross income of the owners of the Series 28 Bonds for purposes of federal income taxation.

Bond Counsel is of the opinion that interest on the Series 28-A Bonds is treated as a preference item in computing the federal alternative minimum tax imposed by the Code on individuals and the alternative minimum tax imposed by the Code on corporations. Bond Counsel is of the opinion that interest on the Series 28-B Bonds is not treated as a preference item in the calculation of the federal alternative minimum tax of individuals and corporations; however, interest on the Series 28-B Bonds is includable in the adjusted current earnings of corporations for purposes of computing the alternative minimum tax imposed by the Code on corporations.

Bond Counsel is further of the opinion that interest on the Series 28 Bonds is exempt from all income taxes of the State.

Original Issue Premium. The Series 28-A Bonds maturing July 1, 2038 (the "Series 28 Premium Bonds") are being sold at initial offering prices which are in excess of the principal amount payable at maturity. The difference between (a) the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of the Series 28 Premium Bonds is sold and (b) the principal amount payable at maturity of such Series 28 Premium Bonds constitutes original issue premium, which original issue premium is not deductible for federal income tax purposes. In the case of an owner of a Series 28 Premium Bond, however, the amount of the original issue premium which is treated as having accrued over the term of such Series 28 Premium Bond is reduced from the owner's cost basis of such Series 28 Premium Bond in determining, for federal income tax purposes, the taxable gain or loss upon the sale, redemption or other disposition of such Series 28 Premium Bond (whether upon its sale, redemption or payment at maturity). Owners of Series 28 Premium Bonds should consult their tax advisors with respect to the determination, for federal income tax purposes, of the "adjusted basis" of such Series 28 Premium Bonds upon any sale or disposition and with respect to any state or local tax consequences of owning a Series 28 Premium Bond.

Other Tax Consequences. Ownership or transfer of, or the accrual or receipt of interest on, the Series 28 Bonds may result in collateral federal, State of North Carolina, other state or local tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers who may be eligible for the federal earned income tax credit, and taxpayers subject to franchise, estate, inheritance, gift or capital gains taxes.

Prospective purchasers of the Series 28 Bonds should consult their tax advisors as to any such possible collateral tax consequences. Except to the extent covered in their legal opinion, Bond Counsel expresses no opinion regarding any such collateral tax consequences.

## **FINANCIAL STATEMENTS**

The financial statements of the Agency as of and for the year ended June 30, 2006, included in this Official Statement as Appendix A have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing herein.

## **SOLDIERS' AND SAILORS' CIVIL RELIEF ACT**

The Soldiers' and Sailors' Civil Relief Act of 1940 applies to anyone called to active military duty and who has debts (including mortgage debt) incurred before they were so activated. The Act effectively provides that, upon activation and during the period of active duty, (1) such debts may not be foreclosed on and (2) any such debts bearing interest in excess of 6% shall have the rate reduced to 6%. As of December 31, 2006, the Agency has incurred losses related to the Soldiers' and Sailors' Civil Relief Act aggregating \$1,890.

## **LITIGATION**

At the time of the delivery of and payment for the Series 28 Bonds, the Agency will certify that, to the best of its knowledge, there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Series 28 Bonds, or in any way contesting or affecting the validity of the Series 28 Bonds or any proceedings of the Agency taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Series 28 Bonds or the existence or powers of the Agency.

## **CERTAIN LEGAL MATTERS**

Legal matters incident to the authorization, issuance and sale of the Series 28 Bonds are subject to the approving opinion of Womble Carlyle Sandridge & Rice, PLLC, Raleigh, North Carolina, Bond Counsel to the Agency. Copies of the approving opinion of said law firm in substantially the form included herein as Appendix B will be available at the time of delivery of the Series 28 Bonds. Certain legal matters will be passed upon for the Agency by the Attorney General of the State and for the Underwriters by their counsel, Bode, Call & Stroupe, L.L.P., Raleigh, North Carolina.

## **LEGAL INVESTMENT**

The Act provides that the Series 28 Bonds shall be securities in which all public officers and public bodies of the State and its political subdivisions, and all North Carolina insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them.

## **UNDERWRITING**

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase all of the Series 28 Bonds at a price equal to the aggregate principal amount of the Series 28-A Bonds plus the premium related thereto of \$66,261,065 and the aggregate principal amount of the Series 28-B Bonds. The Underwriters will receive from the Agency a fee of \$572,131.14. The initial public offering prices of the Series 28 Bonds may be changed from time to time by the Underwriters.

## **CONTINUING DISCLOSURE**

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the SEC, the Agency, pursuant to the provisions of the Twenty-Eighth Supplemental Trust Agreement, has covenanted (the "Covenant") for the benefit of beneficial owners of the Series 28 Bonds to provide:

- (a) by not later than seven months from the end of each fiscal year of the Agency to each nationally recognized municipal securities information repository ("NRMSIR") and to the state

information depository for the State of North Carolina ("SID"), if any, audited financial statements of the Agency for such fiscal year prepared in accordance with Section 159-34 of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute;

- (b) concurrently with the delivery of the audited financial statements referred to in (a) above, to each NRMSIR, and to the SID, if any, the most recent financial and statistical data available to the Agency as of a date not earlier than the end of the preceding fiscal year, regarding Bonds payable, Program Obligations held under the Trust Agreement and Agency experience with Program Obligation delinquencies and Program Obligations in foreclosure, under the Trust Agreement, to the extent such items are not included in the audited financial statements referred to in (a) above;
- (c) in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board, and to the SID, if any, notice of any of the following events with respect to the Series 28 Bonds, if material:
  - (1) principal and interest payment delinquencies;
  - (2) non-payment related defaults;
  - (3) unscheduled draws on debt service reserves reflecting financial difficulties;
  - (4) unscheduled draws on any credit enhancements reflecting financial difficulties;
  - (5) substitution of any credit or liquidity providers, or their failure to perform;
  - (6) adverse tax opinions or events affecting the tax-exempt status of the Series 28 Bonds;
  - (7) modification to the rights of the beneficial owners of the Series 28 Bonds;
  - (8) call of any of the Series 28 Bonds for redemption;
  - (9) defeasance of any of the Series 28 Bonds;
  - (10) release, substitution or sale of any property securing repayment of the Series 28 Bonds;  
or
  - (11) rating changes; and
- (d) in a timely manner, to each NRMSIR and to the SID, if any, notice of a failure of the Agency to provide required annual financial information described in (a) or (b) above on or before the date specified.

The Agency may meet the continuing disclosure filing requirements described above either by filing the required information with the NRMSIRs or SID, if any, or, to the extent permitted by the United States Securities and Exchange Commission, by providing such information to the Municipal Advisory Council of Texas as provided at [www.disclosureusa.org](http://www.disclosureusa.org) for subsequent transmission to the NRMSIRs and SID, if any, without separately providing such information to the NRMSIRs or SID, if any.

The Agency reserves the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the Agency, provided that:

- (a) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Agency;

- (b) the information to be provided, as modified, would have complied with the requirements of the Rule as of the date of the Official Statement, after taking into account any amendments or interpretations of the Rule, as well as any changes in circumstances; and
- (c) any such modification does not materially impair the interests of the beneficial owners of the Series 28 Bonds, as determined by the Trustee or bond counsel to the Agency, or by approving vote of the Owners of a majority in principal amount of the Series 28 Bonds pursuant to the terms of the Trust Agreement at the time of the amendment.

In the event that the Agency makes such a modification, the annual financial information containing the modified operating data or financial information shall explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

The provisions of the Twenty-Eighth Supplemental Trust Agreement pertaining to continuing disclosure shall terminate upon payment, or provision having been made for payment in a manner consistent with the Rule, in full of the principal and interest with respect to all of the Series 28 Bonds.

In the event of a failure of the Agency to comply with any provision of the Covenant, the Trustee may (and, at the request of the holders of at least 25% aggregate principal amount of Outstanding Series 28 Bonds, shall), or any beneficial owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Agency to comply with the Covenant. However, a default with respect to the Covenant as provided in the Twenty-Eighth Supplemental Trust Agreement shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy in the event of any failure of the Agency to comply with the Covenant shall be the actions referred to above.

The Agency has not failed to provide any information required to be provided by any undertaking previously made by the Agency pursuant to the requirements of the Rule.

#### MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or holders of any of the Series 28 Bonds.

#### NORTH CAROLINA HOUSING FINANCE AGENCY

By: /s/ Elizabeth I. Rozakis  
Chief Financial Officer

The interest rates, maturities, sale price and manner of sale of the Series 28 Bonds have been determined, with the approval of the North Carolina Housing Finance Agency, by the State Treasurer and Local Government Commission of the State of North Carolina.

By: /s/ T. Vance Holloman  
Secretary of the Local Government Commission  
of North Carolina

Dated: March 28, 2007

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## APPENDIX A

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### FINANCIAL STATEMENTS

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NORTH CAROLINA HOUSING FINANCE AGENCY

Audited Financial Statements  
Year Ended June 30, 2006

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**NORTH CAROLINA HOUSING FINANCE AGENCY  
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2006**

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# **MANAGEMENT DISCUSSION AND ANALYSIS**

## **June 30, 2006**

Our discussion and analysis of the North Carolina Housing Finance Agency's (the "Agency") financial performance provides an overview of the Agency's financial activities for the year ended June 30, 2006. The financial statements, accompanying notes, and additional information should be read in conjunction with the following discussion.

### **Overview**

The North Carolina Housing Finance Agency was created in 1974 to provide financing for residential housing, both ownership and rental, to families of North Carolina with low and moderate incomes. The Agency has issued bonds to finance housing throughout the State of North Carolina (the "State"). In addition to its bond programs, the Agency administers the Section 8 Lower Housing Assistance Payment Program ("HAP"), the HOME Investment Partnership Program ("Home Program"), Low Income Housing Tax Credits, the North Carolina Housing Trust Fund and other federal and state programs. These programs provide for different types of assistance such as rental subsidies, downpayment assistance, low interest mortgage loans, and various types of rehabilitation of both single and multifamily properties.

### **Financial Highlights**

The following information is an analysis of the Agency's performance for the year ended June 30, 2006:

- The Agency's total assets and liabilities increased \$292,766,000 or 17.4% and \$257,651,000 or 19.5%, respectively.
  - Mortgage loans receivables increased \$55,113,000 or 4.7%, as a result of the increased production in the Home Program and the mortgage loan purchases from three new bond issuances in the 1998 Single Family Bond Series totaling \$400,000,000. \$185,000,000 of the bonds issued were Convertible Option Bonds ("COB's") that will preserve volume cap. The COB proceeds were invested in investment agreements along with the reserves and proceeds from the remaining current year bond issuances, accounting for the \$323,925,000 or 145.2% increase in investments. The \$253,581,000 or 19.6% increase in bonds payable is also attributed to the bond issuances (see additional comments under Debt Administration).
  - Accounts payable increased \$4,421,000 or 172.2% because The Bank of New York ("Trustee") did not liquidate assets in a timely manner for the July 1, 2006 debt service requirement and alternatively used its own cash to ensure the debt service was paid timely.
  - Obligations under reverse repurchase agreements decreased \$5,377,000 or 53.8% as the Agency liquidated \$5,000,000 of the master reverse repurchase agreement with Merrill Lynch Government Securities Inc.
  - Other assets increased \$12,991,000 or 127.7%. During the 2006 fiscal year, the Agency began receiving monthly mortgage loans remittances from its outside servicers at the beginning of the following month to facilitate a more efficient mortgage reconciliation process. This change in process required the Agency to record an accounts receivable from the servicers in the amount of \$7,109,000. Also, one multifamily property defaulted under the 1984 Multifamily Bond Resolution in which the Agency has a debenture of \$1,556,000.
- Operating revenues increased \$19,506,000 or 8.7%. \$13,613,000 resulted from the loans closed under the United States Department of Agriculture ("USDA") Rural Opportunities

Mortgage Program (“ROM”) funded by the Home Program. Interest on investments increased \$5,969,000 or 29% as a result of the rising interest rate environment and the increased amount of investments due to the COB’s. Funding under the Section 8 Contract Administration program increased \$2,000,000 as a result of rent increases on the projects that are administered under the program throughout the year.

- Operating expenses increased \$9,145,000 or 4.5%. Federal disbursements under the Home Program increased as a result of loans closing under the New Home Loan Program and the Home Second Mortgages. General and administrative expenses increased \$785,000 or 6.5% as a result of increased salary, benefits, and general operation costs from the growth of the Agency. Interest expense increased \$3,396,000 or 5.0% as a result of the new bonds issued.
- Nonoperating revenues and expenses decreased \$47,328,000 or 93.2%. At June 30, 2005, the Agency recognized State Tax Credit revenue for the 2003 and 2004 awards in the amount of \$64,951,000. For the fiscal year ended June 30, 2006, the Agency only recognized revenue for the 2005 award year in the amount of \$31,068,000, resulting in a net decrease of \$33,883,000. Disbursements for the State Tax Credit increased \$18,469,000 from fiscal year ended June 30, 2005.
- Net assets increased \$35,115,000 or 9.7% as a result of the increased production of loans for the USDA Rural Opportunities Mortgage Program, the New Homes Loan Program, the Self-Help Program administered under the Home Program, and the methods used to manage debt and investments (see additional comments under Debt Administration).

## Financial Analysis

The following tables summarize the change in net assets between June 30, 2006 and 2005 (in thousands):

### Condensed Balance Sheet Information

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>%</u>
<b>Assets</b>				
Cash and cash equivalents	\$124,305	\$215,216	\$(90,911)	(42.2)
Accrued interest receivable on investments	2,858	2,513	345	13.7
Accrued interest receivable on mortgage loans	7,878	9,790	(1,912)	(19.5)
Investments	546,950	223,025	323,925	145.2
Investments-reverse repurchase agreement	4,615	9,992	(5,377)	(53.8)
Mortgage loans receivable, net	1,220,986	1,165,873	55,113	4.7
State tax credits receivable	46,944	48,352	(1,408)	(2.9)
Other assets, net	<u>23,162</u>	<u>10,171</u>	<u>12,991</u>	<u>127.7</u>
<b>Total Assets</b>	<b><u>\$1,977,698</u></b>	<b><u>\$1,684,932</u></b>	<b><u>\$292,766</u></b>	<b><u>17.4</u></b>
<b>Liabilities</b>				
Bonds payable	\$1,545,732	\$1,292,151	\$253,581	19.6
Accrued interest payable	12,404	8,668	3,736	43.1
Accounts payable	6,988	2,567	4,421	172.2
Deferred revenues	7,547	6,744	803	11.9
Obligations under reverse repurchase agreement	4,615	9,992	(5,377)	(53.8)
Other liabilities	<u>4,142</u>	<u>3,655</u>	<u>487</u>	<u>13.3</u>
<b>Total Liabilities</b>	<b><u>\$1,581,428</u></b>	<b><u>\$1,323,777</u></b>	<b><u>\$257,651</u></b>	<b><u>19.5</u></b>

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>%</u>
<b>Net Assets</b>				
Restricted	\$381,801	\$345,980	\$35,821	10.4
Unrestricted	<u>14,469</u>	<u>15,175</u>	<u>(706)</u>	<u>(4.7)</u>
<b>Total Net Assets</b>	<u>\$396,270</u>	<u>\$361,155</u>	<u>\$35,115</u>	<u>9.7</u>
<b>Total Liabilities and Net Assets</b>	<u>\$1,977,698</u>	<u>\$1,684,932</u>	<u>\$292,766</u>	<u>17.4</u>

### **Condensed Statement of Revenues, Expenses and Change in Net Assets Information**

#### **Operating Revenues**

Interest on investments	\$26,519	\$20,550	\$5,969	29.0
Net (decrease) increase in fair value of investments	(2,860)	398	(3,258)	(818.6)
Interest on mortgage loans	67,412	70,676	(3,264)	(4.6)
Federal program awards received	138,483	119,901	18,582	15.5
Program income/fees	13,683	12,793	890	7.0
Other revenues	<u>1,229</u>	<u>642</u>	<u>587</u>	<u>91.4</u>
<b>Total Operating Revenues</b>	<u>\$244,466</u>	<u>\$224,960</u>	<u>\$19,506</u>	<u>8.7</u>

#### **Operating Expenses**

Interest on bonds	\$71,802	\$68,406	\$3,396	5.0
Mortgage servicing expense	3,739	3,561	178	5.0
Federal program expense	122,578	117,167	5,411	4.6
Nonfederal program expense	383	599	(216)	(36.1)
General and administrative	12,861	12,076	785	6.5
Other expenses	<u>1,416</u>	<u>1,825</u>	<u>(409)</u>	<u>(22.4)</u>
<b>Total Operating Expenses</b>	<u>\$212,779</u>	<u>\$203,634</u>	<u>\$9,145</u>	<u>4.5</u>
<b>Operating Income</b>	<u>\$31,687</u>	<u>\$21,326</u>	<u>\$10,361</u>	<u>48.6</u>

#### **Nonoperating Revenues (Expenses)**

State appropriations received	\$10,451	\$6,427	\$4,024	62.6
State grant received	1,000	-	1,000	100.0
State tax credits	31,068	64,951	(33,883)	(52.2)
State program expense	<u>(39,091)</u>	<u>(20,622)</u>	<u>(18,469)</u>	<u>89.6</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<u>\$3,428</u>	<u>\$50,756</u>	<u>\$(47,328)</u>	<u>(93.2)</u>
<b>Change in Net Assets</b>	<u>\$35,115</u>	<u>\$72,082</u>	<u>\$(36,967)</u>	<u>(51.3)</u>

#### **New Business**

The Agency and the North Carolina Department of Health and Human Services ("DHHS") have partnered to provide the Key Program to help subsidize affordable housing for individuals with mental health, substance abuse, or developmental disabilities. DHHS has committed \$1 million from its Trust Fund and a federal grant to directly subsidize rental units. The Agency has committed \$4.5 million for this use. Together these funds will make over 280 rental units affordable to individuals

with a total income of less than \$600 a month for a period of ten years. This program connects individuals with disabilities to Housing Credit properties in their community. A survey of 15 properties revealed 92 units rented to persons with disabilities under this program. The first tenants began receiving rental assistance during fiscal year 2006. This program pays the difference between the rent affordable to a person with disability income and the rent charged in new apartments financed with the Tax Credit Program.

The Rental Preservation Loan Program was created to provide rehabilitation loans to ensure quality housing is available to residents and neighborhoods where property rents and financial structure do not provide for adequate renovations. The Agency set aside \$10 million of its Home Program allocation to allow for the rehabilitation and preservation of rental housing that is unable to utilize other resources. The Agency will be able to renovate 614 rental units.

During fiscal year 2006 the Agency's former trustee, Wachovia, sold its trust operation to U.S. Bank, the lead bank of US Bancorp. The Agency took this opportunity to evaluate its needs for trustee services and sent out a Request For Proposal ("RFP"). Six major municipal bond trustees responded to the RFP. Bank of New York ("Trustee") was selected as the Agency's new trustee and began serving as such on May 1, 2006.

As a continuation of the Agency's business plan, four strategies have been identified to guide the Agency for the next three years: (1) evaluate needs, resources and programs; (2) leverage technology; (3) promote internal efficiencies; and (4) expand awareness and understanding of the Agency. These strategies will guide the goals and tasks that each of the business groups will contribute towards the business plan. The BizTrac system was created to allow better tracking of the strategic goals and to support other planning activities.

During fiscal year 2006, the Agency continued its emphasis on information technology. The Fund Control System ("FCS") is a multi-year goal to design and develop a single system to track all Agency resources to include appropriations, awards, allocations, commitments, and disbursements. This project includes development of the Fund Control Engine, Fund Control Express, the integration of Fund Control into the operational systems, and the development of business processes related to the FCS operation. An analysis of the FCS requirements was conducted, and the FCS Engine and Express were developed in fiscal year 2006. In the upcoming year, efforts will be focused on integration to business group systems, and the development and implementation of new processes related to the FCS operation.

During September 2005, the Agency's staff helped displaced Hurricane Katrina victims who were relocated to North Carolina. The Agency coordinated with County Human Services, the Red Cross, and the Department of Housing and Urban Development emergency shelters in Raleigh and Charlotte and helped to place over 100 households in Tax Credit apartments. Agency staff recruited property management companies to provide onsite screening and identified donors to supply household goods and furniture. The staff volunteered their time and resources in order to create affordable housing opportunities for Hurricane Katrina victims and, by doing so, demonstrated their commitment to the Agency's values: Stewardship, Caring, Integrity, and Professionalism.

## **Debt Administration**

The Agency experienced an increase in bonds payable of 19.6% during fiscal year 2006. As a result of the increased demand for mortgage loans, Single Family Bonds have been issued at a higher volume than in 2005. The increase in bonds is also due to the issuances of COB's which were used to preserve the Agency's private activity bond volume cap that was set to expire at the end of calendar year 2005. COB's are short term bonds that are scheduled to mature in stages. At maturity, the COB's will be refunded with long term bonds or remarketed for another short term. The Agency issued three new Home Ownership Bond Series in the amount of \$215,000,000 and COB's in the amount of \$185,000,000. The Home Ownership Bond Program enabled the Agency to assist 1,722 additional families this year.

The Agency had scheduled bond maturities of \$25,540,000 for Single Family Revenue Bonds and \$2,370,000 for Multifamily Revenue Bonds. There were unscheduled bond redemptions of \$84,405,000 for Single Family Revenue Bonds and \$34,670,000 for the Multifamily Revenue Bonds.

The remaining property in the 93 Multifamily Bond Resolution was prepaid, and all of the 1993 Multifamily Bonds were redeemed on June 30, 2006. Refer to the accompanying footnotes for more detailed information concerning maturities and redemptions for the Single Family and Multifamily Revenue Bonds.

## **Programs**

Home Ownership Programs Since the inception of the Home Ownership Bond Programs the Agency has financed over \$5.1 billion of mortgage loans for first-time home buyers. In the current year, 39% of mortgages were issued to home buyers earning less than 60% of area median income. The Agency has also issued 34% of mortgages to buyers earning 61% to 80% of area median income and 27% to buyers earning more than 80% of area median. Currently, the Agency has over 14,293 loans in its portfolio. The majority of these loans are serviced by outside servicers.

The Agency established a Mortgage Credit Certificate ("MCC") Program in July 1987. A MCC permits first-time home buyers who meet federal limits for family income and acquisition cost to take 20% of annual mortgage interest as a federal income tax credit. As of June 30, 2006, the Agency had issued 24,308 Mortgage Credit Certificates under the MCC program totaling \$1,833,652,801 in credit authority.

The Home Loan Saver Program was created for Agency Mortgage Revenue Bond ("MRB") loans to provide payment or forbearance of up to four months principal and interest payments after a borrower is eligible for unemployment benefits. The program will help keep families from losing their homes to foreclosure. As of June 30, 2006, the Home Loan Saver Program has assisted 109 homeowners.

The Home Protection Pilot Program ("HPPP") has been expanded this year from eight to twenty-eight counties. During the year, HPPP has helped homeowners who have lost their jobs because of changing economic conditions by providing loans up to \$20,000 to help them make mortgage payments. The potential applicants are referred through housing counselors. More than 100 families have benefited from the temporary stay of foreclosure offered by the program. The Agency has approved 137 loans and provided \$1,308,561 in loan assistance.

The Rural Opportunities Mortgage ("ROM") provides home ownership opportunities to rural residents whose income is too low to qualify for the Agency's First-Time Home Buyer Mortgage. The Agency and the U.S. Department of Agriculture have collaborated to offer a program for very-low-income North Carolinians purchasing newly constructed homes. As of June 30, 2006, the Agency originated 278 ROM loans in the amount of \$13,613,000 to help rural residents in North Carolina.

Rental Programs The Agency also administers both the Federal and State Low-Income Housing Tax Credit Programs. These credits are available to developers on a competitive basis for the development of affordable rental housing in the State. The Agency's goals include supporting the best developments possible given the limited resources available. The Agency has developed criteria to use in selecting developments to serve low-income residents. The criteria include locations with strong market demand; healthy financial structures; attractive architectural design; and the best quality of building materials and workmanship. The Agency has administered this program since its inception in 1987 and has helped create 1,654 projects consisting of 40,535 rental units, and allocating \$1,383,507,000 of tax credits.

Unlike the Federal Tax Credit, the State Tax Credit ("STC") is not a tax-shelter equity investment. It is either claimed directly by the property owner in the form of a grant or transferred to the Agency. The amount of the transferred STC becomes a secured loan from the Agency to the property. In every case so far, the owner has transferred its credit to the Agency because of the preferential federal income tax treatment. Once the property has reached certain milestones, primarily completion of a certain amount of construction, it becomes eligible to close. The STC program began in fiscal year 2003. The Agency received the first STC installment for the 2003 tax credits from the North Carolina Department of Revenue in July 2004. As of June 30, 2006 the Agency has processed 78 STC loans for the total amount of \$45,409,000 since its inception. The STC has been extended to January 2010.

**Additional Information**

This discussion and analysis is intended to provide additional information regarding the activities of the Agency. If you have questions about the report or need additional financial information, contact Elizabeth I. Rozakis, Chief Financial Officer, North Carolina Housing Finance Agency, P.O. Box 28066, Raleigh, North Carolina 27611-8066, (919) 877-5687, [eirozakis@nchfa.com](mailto:eirozakis@nchfa.com) or go to the Agency's website at [www.nchfa.com](http://www.nchfa.com).

## Report of Independent Auditors

The Board of Directors  
North Carolina Housing Finance Agency

We have audited the accompanying balance sheet of the North Carolina Housing Finance Agency (the Agency), a public agency and component unit of the State of North Carolina as of June 30, 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Agency's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency at June 30, 2006, and the changes in financial position and, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2006 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Ernst + Young LLP*

August 31, 2006

# NORTH CAROLINA HOUSING FINANCE AGENCY

## BALANCE SHEET

YEAR ENDED JUNE 30, 2006

(in thousands)

### ASSETS

#### Current assets:

Cash and cash equivalents	\$	470
Restricted cash and cash equivalents		94,094
Investments - reverse repurchase agreements		4,615
Accrued interest receivable on investments		2,858
Accrued interest receivable on mortgage loans		7,878
State tax credits receivable		46,944
Other assets		20,861
<b>TOTAL CURRENT ASSETS</b>	<b>\$</b>	<b>177,720</b>

#### Noncurrent assets:

Restricted cash and cash equivalents	\$	29,741
Investments		5,528
Restricted investments		541,422
Mortgage loans receivable, net		1,220,986
Other assets, net		2,301
<b>TOTAL NONCURRENT ASSETS</b>	<b>\$</b>	<b>1,799,978</b>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>1,977,698</b>

### LIABILITIES

#### Current liabilities:

Bonds payable	\$	178,050
Accrued interest payable		12,404
Accounts payable		6,988
Deferred revenues		896
Obligations under reverse repurchase agreements		4,615
Other liabilities		174
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$</b>	<b>203,127</b>

#### Noncurrent liabilities:

Bonds payable, net	\$	1,367,682
Deferred revenues		6,651
Other liabilities		3,968
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>\$</b>	<b>1,378,301</b>
<b>TOTAL LIABILITIES</b>	<b>\$</b>	<b>1,581,428</b>

### NET ASSETS

Restricted	\$	381,801
Unrestricted		14,469
<b>TOTAL NET ASSETS</b>	<b>\$</b>	<b>396,270</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b>1,977,698</b>

See Notes to Financial Statements

# NORTH CAROLINA HOUSING FINANCE AGENCY

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2006

(in thousands)

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### OPERATING REVENUES

Interest on investments	\$	26,519
Net decrease in fair value of investments		(2,860)
Interest on mortgage loans		67,412
Federal program awards received		138,483
Program income/fees		13,683
Other revenues		<u>1,229</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$</b>	<b><u>244,466</u></b>

### OPERATING EXPENSES

Interest on bonds	\$	71,802
Mortgage servicing expense		3,739
Federal program expense		122,578
Nonfederal program expense		383
General and administrative		12,861
Other expenses		<u>1,416</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$</b>	<b><u>212,779</u></b>

### OPERATING INCOME

**\$ 31,687**

### NONOPERATING REVENUES (EXPENSES)

State appropriations received	\$	10,451
State grant received		1,000
State tax credits		31,068
State program expense		<u>(39,091)</u>
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>\$</b>	<b><u>3,428</u></b>

### CHANGE IN NET ASSETS

**\$ 35,115**

### TOTAL NET ASSETS-BEGINNING

361,155

### TOTAL NET ASSETS-ENDING

**\$ 396,270**

# NORTH CAROLINA HOUSING FINANCE AGENCY

## STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2006

(in thousands)

<b>Cash flows from operating activities:</b>	
Interest on mortgage loans	\$ 69,228
Principal payments on mortgage loans	151,619
Purchase of mortgage loans	(206,123)
Federal awards received	138,943
Federal program expense	(122,847)
Nonfederal program expense	(383)
Federal grant administration income	7,890
Program income/fees	7,891
Other expenses	(13,009)
Other revenues	(12,452)
<b>Net cash provided by operating activities</b>	<b>\$ 20,757</b>
<b>Cash flows from non-capital financing activities:</b>	
Issuance of bonds	\$ 400,000
Principal repayments	(146,985)
Interest paid	(64,720)
Bond issuance costs paid	(2,780)
State appropriations received	10,451
State grant received	1,000
State tax credits	31,068
State program expense	(39,091)
<b>Net cash provided by non-capital financing activities</b>	<b>\$ 188,943</b>
<b>Cash flows from investing activities:</b>	
Proceeds from sales or maturities of investments	\$ 266,743
Purchase of investments	(593,528)
Earnings on investments	26,174
<b>Net cash used in investing activities</b>	<b>\$ (300,611)</b>
Net decrease in cash	(90,911)
Cash and cash equivalents at beginning of year	215,216
<b>Cash and cash equivalents at end of year</b>	<b>\$ 124,305</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 31,687
<b>Adjustments to reconcile operating income to net cash provided by (used in) operating activities:</b>	
Interest on investments	(26,519)
Decrease in fair value of investments	2,860
Interest on bonds	71,802
Change in assets and liabilities:	
Increase in mortgage loans	(55,113)
Decrease in interest receivable on mortgage loans	1,912
Decrease state tax credit receivable	1,408
Increase in other assets	(13,072)
Increase in accounts payable and other liabilities	4,989
Increase in deferred revenues	803
<b>Total adjustments</b>	<b>\$ (10,930)</b>
<b>Net cash provided by operating activities</b>	<b>\$ 20,757</b>

See Notes to Financial Statements

# NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2006

## A. AUTHORIZING LEGISLATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Authorizing Legislation** The North Carolina Housing Finance Agency (the "Agency") is a public agency and component unit of the State of North Carolina (the "State"). The Agency was created to provide financing for residential housing construction, new or rehabilitated, for sale or rental, to residents of the State with low and moderate incomes. Pursuant to its enabling legislation (the "Act"), the Agency is authorized to issue bonds and other obligations to fulfill its corporate purpose up to a total outstanding amount of \$3 billion. The debt obligations of the Agency do not constitute a debt, grant or loan of credit of the State, and the State is not liable for the repayment of such obligations.

**Basis of Presentation** The Agency applies all statements issued by the Governmental Accounting Standards Board ("GASB") and Financial Accounting Standards Board ("FASB") issued on or before November 30, 1989, except those that conflict with the GASB.

**Programs** The Agency's accounts are organized on the basis of programs. Each program represents a separate accounting entity. Agency resources are allocated to these programs based on legal responsibility, fiscal accountability, and management designation. A summary of the Agency's primary programs are as follows:

Agency Programs Direct administrative and operational activities, including operating expenses of various programs, are recorded in Agency Programs. Since the inception of the State Tax Credit program, the General Assembly of the State of North Carolina awarded State Tax Credits in the amount of \$96,019,000 of which the Agency received \$32,476,000 during fiscal year 2006. Under this program the project will receive the credit in the form of a loan or direct refund.

Housing Trust Fund Programs The North Carolina Housing Trust and Oil Overcharge Act created the North Carolina Housing Trust Fund ("Housing Trust Fund") and the North Carolina Housing Partnership ("Housing Partnership").

The purpose of the Housing Trust Fund is to increase the supply of decent, affordable, and energy-efficient housing for residents of the State with low and moderate incomes. The General Assembly of the State of North Carolina has appropriated funds of which substantially all are to be used to make loans and grants under the Housing Trust Fund Programs. The Agency received State appropriations in the amount of \$8,000,000 for the year ended June 30, 2006. This appropriation is reported in Nonoperating Revenues (Expenses) in the financial statements. The Housing Partnership is responsible for developing policy with respect to the operation of programs within the Housing Trust Fund. The Agency provides staff services to the Housing Partnership and administers the Housing Trust Fund Programs.

Federal and State Programs The Agency administers six federal programs. The Section 8 Lower Income Housing Assistance Payment Program and the HOME Investment Partnership Program represent 74% and 24%, respectively, of federal program expenditures. The Agency receives a fee for administering these programs. The HOME Investment Partnership Program ("Home Program") is matched with funds appropriated by the General Assembly of the State; the amount of matching funds received during the year was \$1,750,945. The General Assembly of the State created the Home Protection Pilot Program in 2004 to assist North Carolinians who have lost their jobs due to recent plant closings. The purpose of this program is to help citizens keep their homes while they search for new jobs and learn new job skills. The Agency received an appropriation of \$700,000 in fiscal year 2006 to administer the program. Also in fiscal year 2006, the Agency and the Department of Health and Human Services ("DHHS") partnered to

create the Key Program. The Agency committed \$4,500,000 from state appropriated Home Program funds and DHHS committed \$1,000,000 from its Trust Fund to assist tenants with mental health, substance abuse, or developmental disabilities. The Agency received the \$1,000,000 from DHHS during the 2006 fiscal year, which is reflected in State grant received. These monies from the State are reported in the financial statements as Nonoperating Revenues (Expenses).

Home Ownership Bond Programs The Home Ownership Bond Programs were created through various single family bond resolutions and are restricted as to their use. The proceeds of individual bond issues are used to purchase first-time home buyer mortgage loans on single family residential units.

Rental Bond Programs The Rental Bond Programs were created through various multifamily and special facilities bond resolutions and are restricted as to their use. The proceeds of individual bond issues are used to provide mortgage loans to developers of rental housing projects.

**Accounting Policies** Below is a discussion of the Agency's accounting policies:

Cash and Cash Equivalents Cash and cash equivalents are comprised of cash on hand, amounts on deposit with financial institutions, which are insured or are collateralized under provisions of North Carolina laws and regulations, amounts in pooled cash accounts managed by the State Treasurer, and highly liquid investments with original maturities of three months or less. Funds deposited in an investment pool of the State Treasurer are invested in a variety of instruments as authorized by State law. The majority of cash and cash equivalents classified as restricted on the balance sheet are restricted for purchasing mortgage loans under our different programs. Cash and cash equivalents that are not available to cover current liabilities are classified as noncurrent.

Investments Investments are reported at fair value in accordance with GASB Statement 31 "Accounting and Financial Reporting for Certain Investments and External Investment Pools" ("GASB 31"), except for certain mortgage-backed securities. The difference between fair value and carrying value for these securities is not significant to the accompanying financial statements. The Agency intends to hold all securities to maturity.

Mortgage Loans Receivable, Net Mortgage loans receivable are carried at cost less unamortized discount and loan loss reserve, plus unamortized direct loan origination costs. The discount on loans and all direct loan origination costs are amortized over the terms of the mortgages using the effective interest rate method. It is the Agency's policy to provide for potential mortgage loan losses based on a periodic evaluation of the loan portfolios.

State Tax Credits Receivable In 2002, the General Assembly converted the State Housing Credit into a refundable credit providing the funds that can be efficiently invested directly in Housing Credit properties through the Agency. The Agency has recorded \$46,944,000 in State Housing Credits for the fiscal year ended June 30, 2006. This represents the remaining 2004 and 2005 outstanding awards. During the year, the Agency received State Tax Credits in the amount of \$32,476,000 from the General Assembly for the 2003 outstanding awards (second installment) and the 2004 award (first installment). These funds are committed to provide loans to housing credit properties through the Agency. Funds received and disbursed are reflected in Nonoperating Revenues (Expenses).

Other Assets, Net Fixed assets, net of accumulated depreciation, in the amount of \$2,301,000 are included in Other assets, net in the financial statements. During fiscal year 2006, the Agency capitalized internally developed software costs in the amount of \$615,400. Recorded in Other assets (current) is \$2,321,000 in accounts receivables for Quadel Contract

Administration, Section 8 Administration, Home Program administration fees earned, and Home Program loans closed in fiscal year 2006 but reimbursed in fiscal year 2007. At June 30, 2006, the Agency recorded a receivable from the Trustee in the amount of \$4,022,000. Additionally, the Agency changed procedures and began receiving monthly remittances from its outside servicers at the beginning of the following month which created \$7,109,000 in receivables.

Accounts Payable The Agency accrued an accounts payable of \$4,524,000, which resulted from the Trustee providing funds to ensure payment of the debt service for July 1, 2006. Certain expenses were incurred for the Federal and State Programs. Of these expenses \$1,000,000 represents mortgage loans closed in June 2006 but purchased under the Home Program in 2007, \$208,000 is due to HUD for the Section 8 Programs, and \$576,000 will be paid for cost incurred to administer the Section 8 Contract Administration and Home Protection Pilot Program. Accounts payable also consists of the June 30, 2006 Reverse Repurchase Investment pair-off of \$166,000 and year-end general and administrative accruals of \$90,000.

Deferred Bond Financing Costs Deferred bond financing costs represent deferred bond issuance costs and deferred losses on refundings. Deferred losses on refundings result from a difference between the reacquisition price and the net carrying amount of the old debt and are amortized on a straight-line basis over the shorter of the life of the old debt or the new debt. Deferred bond issuance costs are amortized on a straight-line basis over the terms of the bonds. The amortization of deferred losses on refunding and deferred bond issuance costs is included as a component of Interest on bonds. Deferred bond financing costs are included in Bonds payable, net for financial statement presentation.

Deferred Revenues Deferred revenues are monitoring fees received for the Low Income Housing Tax Credit and State Disaster Program. These fees are amortized on a straight-line basis over the life of the tax credit or over the life of the loan.

Interprogram Receivable/Payable During the normal course of operations, the Agency has numerous transactions among programs in order to provide services. To the extent that certain transactions among programs have not been settled as of June 30, 2006, these balances are recorded as interprogram receivables or payables. These interprogram transactions are eliminated in the financial statements.

Net Assets As of June 30, 2006, the Agency has \$14,469,000 of unrestricted net assets. The Agency intends to utilize these net assets for potential home ownership mortgage loan losses, meet rating agencies' requirements, cover 2007 operating budget, and support other Agency housing commitments.

Net assets of the Home Ownership Bond Programs and Rental Bond Programs are restricted pursuant to the Agency's agreements with its bondholders as determined in each bond resolution. The Agency has restricted net assets in amounts sufficient to meet required debt service and operating expenses as defined by each bond resolution.

The net assets of the Housing Trust Fund Programs are restricted in accordance with the policies of the Housing Partnership. The Federal and State Programs' net assets are restricted in accordance with each specific program's requirements.

The Agency implemented GASB 31 on July 1, 1997, which requires the Agency to report investments at fair market value. The effect of the adoption on the Agency's financial statements for the past year ended June 30, 2006 is as follows:

<i>(in thousands)</i>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Increase (Decrease) in Operating Income	\$ (2,860)	\$ 398
Increase (Decrease) in Net Assets	\$ (2,398)	\$ 461

Operating Revenues and Expenses One of the Agency's main functions is to borrow funds in the bond market and to use those funds to make home ownership and rental mortgage loans. The Agency has the authority to issue bonds to the investing public in order to create a flow of private capital. These funds are used to purchase mortgage loans for qualified housing sponsors and certain qualified individuals. A significant portion of operating income is derived from interest earned on mortgage loans less the interest expense of bonds outstanding. Additional operating income is earned from the administration of federal programs.

Nonoperating Revenues and Expenses State appropriations received, State grant received, and State tax credits from the State of North Carolina are classified in Nonoperating Revenues (Expenses). The related expenses are classified as State program expense. In fiscal year 2006 the Agency accrued \$31,068,000 in State Housing Credits for the 2005 award year (see additional comments under State Tax Credits Receivable).

General and Administrative Expenses General and administrative expenses are classified by the related program. To the extent allowed by bond resolutions and Federal and State Programs, transfers are made from the funds of the bond issue or the Federal and State Programs to the Agency to reimburse certain general and administrative expenses. In the event the bond resolution or Federal and State Program do not permit payment of general and administrative expenses, expenses are paid from Agency reserve funds. Certain indirect costs were allocated to Federal and State Programs based on an independently prepared cost allocation study. These costs are allocated on certain parameters such as square footage, number of approved positions, and number of transactions processed.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period (e.g. loan loss reserve). Actual results could differ from those estimates.

## **B. CASH, CASH EQUIVALENTS, INVESTMENTS, AND SECURITIES LENDING TRANSACTIONS**

**Cash and Cash Equivalents** As of June 30, 2006, the Agency had deposits in pooled investment accounts of the State Treasurer with a carrying value of approximately \$53,912,000 and a bank balance of approximately \$57,717,000. Cash on hand as of June 30, 2006 amounted to \$1,000.

The Agency also had deposits with both a carrying value and bank balance approximating \$67,250,000 on deposit with the Agency's fiduciary agent. Such deposits are collateralized with eligible securities held by a third-party custodian.

The Agency also held bank deposits with both a carrying value and bank balance approximating \$3,142,000. These funds are held in pooled investment accounts of the State Treasurer which represent escrow and replacement reserves maintained on behalf of multifamily mortgagors; accordingly, a corresponding liability of the same amount is also included on the balance sheet.

Custodial credit risk – At year end, the Agency was not exposed to any material custodial credit risk.

**Investments** Repurchase agreements are collateralized by obligations of the United States Government, its agencies, or direct investments of such obligations. The market value of securities subject to such agreements must be maintained at least equal to 100 percent of the principal and accrued interest on the invested funds daily. The Agency invests in repurchase agreements for mostly long-term (generally reserved) investments. On June 30, 2006, approximately \$461 million was invested in such long-term agreements having maturity dates ranging from January 1, 2018, to July 1, 2039 primarily at rates ranging from 3.50% to 7.15%.

The counterparties to the repurchase agreements are institutions whose unsecured debt securities are rated at least in one of the two highest rating categories by a nationally recognized securities rating agency.

In April of 2004, the Local Government Commission authorized the use of reverse repurchase agreements by the Agency. The reverse repurchase agreement is a sale of securities with an associated agreement to repurchase them in the future at the same price plus a contract rate of interest. The Agency entered into a master reverse repurchase transaction with Merrill Lynch Government Securities Inc. on September 13, 2004. This agreement is in the form of the Master Repurchase Agreement developed by the Bond Market Association. The Agency entered into a transaction for the sale and repurchase of securities for \$5,000,000. As of June 30, 2006, the carrying amount of these securities totaled \$4,615,000.

At June 30, 2006, the Agency held the following investments with the listed maturities at annual rates ranging from 0% to 12%. Ratings are displayed with the Standard & Poor's rating listed first and the Moody's Investors Service second.

**Investment Maturities (in years)**

(in thousands)

<u>Investments</u>	<u>Carry Amount</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
GNMA MBS's Rated AAA/Aaa	\$3,646	\$ -	\$ -	\$ -	\$3,646
FNMA MBS's Rated AAA/Aaa	715	-	-	-	715
Repurchase Agreements- Rated AAA/Aaa	461,342	4,615	-	-	456,727
US Agency Obligations- Rated AAA/Aaa	77,949	-	-	4,248	73,701
US Treasury Bonds	<u>7,913</u>	<u>559</u>	<u>6,769</u>	<u>585</u>	<u>-</u>
Total Categorized	<u>\$551,565</u>	<u>\$5,174</u>	<u>\$6,769</u>	<u>\$4,833</u>	<u>\$534,789</u>

Interest rate risk – The Agency does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk – The General Statutes of the State authorize the Agency to invest in (i) direct obligations or obligations on which the principal and interest are unconditionally guaranteed by the United States Government; (ii) obligations issued by an approved agency or corporation wholly-owned by the United States Government; (iii) interest-bearing time deposits, certificates of deposit, or other approved forms of deposits in any bank or trust company in North Carolina which satisfies insurance and, if necessary, collateral requirements for holding Agency money; (iv) duly established investment programs of the State Treasurer; (v) repurchase agreements; and (vi) investment agreements with banks and financial institutions which are chartered outside of North Carolina and meet specified rating and collateral requirements of the various bond resolutions. Mortgage-Backed Securities (“MBS’s”) are securitized by the Federal National Mortgage Association (“FNMA”), (Fair Value - \$741,000-rated AAA/Aaa), and by the Government National Mortgage Association (“GNMA”), (Fair Value - \$3,811,000-rated AAA/Aaa). The

Government National Mortgage Association is a direct obligation of the US Government. Repurchase agreements are fully collateralized by obligations issued by the United States Government or its agencies. Reverse repurchase agreements pose a credit risk the Agency would incur if the dealer defaults on its obligation to resell these securities to the Agency. The Agency would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. This credit exposure at June 30, 2006 was \$385,000. The underlying securities associated with the reverse repurchase agreement are US Agency Obligations, which include Federal National Mortgage Association (Fair Value - \$4,615,000-rated AAA/Aaa). The maturity dates for the master repurchase agreements and the underlying securities are short-term and long-term in nature, respectively. The US Agency Obligations are comprised of Federal National Mortgage Association (Fair Value - \$55,092,000-rated AAA/Aaa), Federal Home Loan Mortgage Corporation (Fair Value - \$7,218,000-rated AAA/Aaa), and Federal Home Loan Bank (Fair Value-\$11,024,000-rated AAA/Aaa). The US Agency Obligations also include the underlying securities for the reverse repurchase agreements at a fair value of \$4,615,000-Rated AAA/Aaa. The Agency does not have a formal investment policy that would further limit its investment choices.

Concentration of credit risk – There are no limits on the amount the Agency may invest in any one issuer. More than 5% of the Agency’s investments are in repurchase agreements and US Agency Obligations. The investments are 83.64% and 15.57%, respectively, of the Agency’s total investments.

Custodial credit risk – At year end, the Agency was not exposed to custodial credit risk.

The United States Government securities are on deposit with the Agency’s fiduciary agent, which holds these securities by book entry in their fiduciary Federal Reserve accounts. The Agency’s ownership of these securities is identified through the internal records of the fiduciary agent. Certain of these securities are optionally callable at par by the issuer on specified dates.

In accordance with the 1985 Single Family Revenue Bonds Series U and V, bond proceeds were used to purchase fully-modified mortgage-backed pass-through certificates of the GNMA and mortgage-backed pass-through certificates of FNMA from pools of qualified mortgages originated under the Agency’s program guidelines. The securities are based on cash flows from underlying mortgages and are not considered derivatives.

**Securities Lending Transactions** GASB Statement No. 28 “Accounting and Financial Reporting for Securities Lending Transactions” (“GASB 28”) established accounting and financial reporting standards for transactions where governmental entities transfer their securities to broker-dealers and other entities (borrowers) in exchange for collateral (which may be cash, securities, or letters of credit) and simultaneously agree to return the collateral in exchange for the original securities in the future. The Agency does not directly engage in securities lending transactions; however, the State Treasurer does. The State Treasurer is authorized to engage in these types of transactions under North Carolina General Statute 147-69.3c. The types of securities loaned include U.S. Government securities and corporate bonds and notes which are held in the pooled investment accounts of the State Treasurer. A securities custodian manages the securities lending program for the State and receives cash as collateral from the borrowers. Collateral is invested in a collateral investment pool and must be maintained at 102% of the market value of the original securities lent. This investment in the collateral investment pool is considered to be a highly liquid investment. The State has a custodial credit risk related to the transactions and incurred no losses during the year ended June 30, 2006 related to these transactions.

As of June 30, 2006 and during the year then ended, the Agency had deposits in the pooled investment accounts of the State Treasurer. The risk associated with these transactions will be recorded by the State in its fiduciary funds. No allocation will be made to the Agency; therefore, these financial statements do not reflect the risk associated with securities lending transactions as called for in GASB 28.

**C. MORTGAGE LOANS RECEIVABLE**

Mortgage loans purchased with the proceeds of the various single family and multifamily bond issues have stated interest rates ranging from 4.50% to 13.00%. Unamortized discounts as of June 30, 2006 total \$1,279,000.

The existing and future mortgage loans which the Agency may purchase under the bond programs must comply with guidelines established by the Agency, including the requirement that all such mortgage loans be insured by the Federal Housing Administration (“FHA”), guaranteed by the Veterans Administration, guaranteed by the United States Department of Agriculture, Rural Department, insured under a private mortgage insurance program, or have a loan to value ratio of less than 80%. As of June 30, 2006, all outstanding mortgage loans purchased with mortgage revenue bond proceeds satisfy these requirements; and, accordingly, no allowance for uncollectible mortgage loans is considered necessary.

Mortgage loans made with funds from the Agency Programs, Housing Trust Fund Programs, and Federal and State Programs have allowances for loan losses of \$234,000; \$766,000; and \$399,000, respectively, as of June 30, 2006.

**D. BONDS PAYABLE**

Bonds payable activity for the year ended June 30, 2006 was as follows (*in thousands*):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>Bonds Payable</b>				
Home Ownership	\$1,176,460	\$400,000	\$(109,945)	\$1,466,515
Rental	<u>135,405</u>	<u>-</u>	<u>(37,040)</u>	<u>98,365</u>
	<u>\$1,311,865</u>	<u>\$400,000</u>	<u>\$(146,985)</u>	<u>\$1,564,880</u>
Less Deferred Bond Financing Costs				
Home Ownership	\$(14,756)	\$(2,780)	\$1,621	\$(15,915)
Rental	<u>(4,958)</u>	<u>-</u>	<u>1,725</u>	<u>(3,233)</u>
	<u>\$(19,714)</u>	<u>\$(2,780)</u>	<u>\$3,346</u>	<u>\$(19,148)</u>
<b>Total Bonds Payable, Net</b>	<b><u>\$1,292,151</u></b>	<b><u>\$397,220</u></b>	<b><u>\$(143,639)</u></b>	<b><u>\$1,545,732</u></b>

Bonds payable as of June 30, 2006 are as follows (*in thousands*):

<u>Issue</u>	<u>Stated Rates (%)</u>	<u>Final Maturity</u>	<u>Principal Amount</u>
<b>Single Family Revenue Bonds</b>			
(1985 Resolution)			
Series W/X	6.20 - 6.70	2026	\$310
Series Y/Z	5.95 - 6.60	2026	7,030
Series AA/BB	5.80 - 6.50	2026	9,910
Series CC/DD	5.25 - 6.20	2027	7,095
Series EE/FF	5.35 - 6.25	2028	6,740
Series GG/HH	5.65 - 6.30	2028	8,700
Series II/JJ	5.75 - 6.45	2028	15,940
Series KK/LL	5.15 - 6.20	2028	8,540
Series MM/NN	5.15 - 5.95	2028	6,250

<u>Issue</u>	<u>Stated Rates (%)</u>	<u>Final Maturity</u>	<u>Principal Amount</u>
Series OO/PP	5.45 - 6.25	2028	19,035
Series QQ/RR	5.00 - 5.85	2028	26,215
Series SS/TT	4.90 - 5.70	2028	9,645
Series UU/VV	4.65 - 5.35	2029	21,465
Series WW	6.25	2018	<u>32,365</u>
			<u>179,240</u>

### Home Ownership Revenue Bonds

(1998 Trust Agreement)

Series 1	4.80 - 5.38	2030	32,460
Series 2	4.20 - 5.25	2030	20,030
Series 3	4.20 - 5.20	2030	32,970
Series 4	4.40 - 5.30	2030	30,645
Series 5	4.85 - 5.63	2030	29,305
Series 6	5.15 - 6.20	2030	21,150
Series 7	5.25 - 6.25	2031	32,565
Series 8	5.70 - 6.40	2031	21,520
Series 9	4.95 - 5.88	2032	47,750
Series 10	3.80 - 5.40	2033	27,460
Series 11	3.90 - 5.38	2033	51,070
Series 12	3.55 - 5.45	2033	44,725
Series 13	3.25 - 5.35	2034	58,145
Series 14	3.50 - 5.53	2034	60,745
Series 15	Variable-4.95	2032	43,755
Series 16	Variable-5.40	2032	45,870
Series 17	Variable-5.00	2034	50,395
Series 18	Variable-5.00	2035	46,385
Series 19	2.15 - 5.25	2035	62,235
Series 20	2.00 - 4.75	2035	64,045
Series 21	2.50 - 5.00	2035	64,050
Series 22A	3.40 - 5.50	2037	65,000
Series 22B	3.20	2038	65,000
Series 22C	3.45	2038	40,000
Series 22D	3.50	2039	40,000
Series 22E	3.50	2039	40,000
Series 23	3.30 - 4.80	2037	65,000
Series 24	3.50 - 4.90	2038	<u>85,000</u>

1,287,275

1,466,515

Less deferred bond financing costs

(15,915)

**Total Home Ownership Bond Programs**

**\$1,450,600**

<u>Issue</u>	<u>Stated Rates (%)</u>	<u>Final Maturity</u>	<u>Principal Amount</u>
<b>Multifamily Revenue bonds</b>			
(1984 Resolution)			
Series F/G	6.60 - 8.25	2027	\$3,310
Series H/I	5.95 - 7.85	2028	18,070
Series J	4.70 - 5.55	2029	<u>8,600</u>
			<u>29,980</u>
<b>Multifamily Revenue Refunding Bonds</b>			
(1992 Resolution)			
Series C	4.80	2024	13,100
Series D	Variable	2024	<u>2,945</u>
			<u>16,045</u>
<b>Multifamily Revenue Bonds</b>			
(1994 Resolution) Series 1994			
	5.35 - 5.45	2024	3,430
<b>Multifamily Revenue Bonds</b>			
(1995 Resolution) Series C/D			
	5.05 - 5.90	2020	9,675
<b>Special Facility Bonds*</b>			
(2000 Resolution) Series A/B			
	Variable	2031	23,710
<b>Special Facility Bonds*</b>			
(2002 Resolution) Series A, B, C, D			
	5.10 - 5.50	2043	9,525
<b>Special Facility Bonds*</b>			
(2002A Resolution)			
	Variable	2023	<u>6,000</u>
			<u>98,365</u>
<b>Less deferred bond financing costs</b>			<u>(3,233)</u>
<b>Total Rental Bond Programs</b>			<b><u>\$95,132</u></b>

\*These bonds represent special financings that are issued on behalf of Not-for-Profit 501(c)(3) qualified entities.

To the extent provided in the authorizing resolutions, the bonds of each Home Ownership Bond Program and Rental Bond Program are collateralized by the investments and mortgage loans receivable of that program and revenues derived therefrom and do not constitute a general obligation of the Agency. The bond resolutions further provide for the processing of monies through specifically designated funds and accounts, periodic reporting, and the performance of other covenants, conditions, agreements, and provisions contained therein.

**Maturities** Debt service requirements, including sinking fund requirements on term bonds, subsequent to June 30, 2006 are as follows (*in thousands*):

<b>Fiscal year Ending June 30</b>	<b>Home Ownership Programs</b>	<b>Rental Programs</b>	<b>Total</b>
2007	\$243,440	\$8,455	\$251,895
2008	134,367	7,247	141,614
2009	94,370	7,294	101,664
2010	94,527	7,328	101,855
2011	93,833	7,342	101,175
2012 - 2016	464,463	37,161	501,624
2017 - 2021	388,679	36,516	425,195
2022 - 2026	391,990	27,693	419,683
2027 - 2031	402,578	13,816	416,394
2032 - 2036	187,759	3,093	190,852
2037 - After	<u>10,479</u>	<u>4,503</u>	<u>14,982</u>
Total Requirements	\$2,506,485	\$160,448	\$2,666,933
Less Interest	<u>(1,039,970)</u>	<u>(62,083)</u>	<u>(1,102,053)</u>
<b>Principal</b>	<b>\$1,466,515</b>	<b>\$98,365</b>	<b>\$1,564,880</b>
Less deferred bond financing costs	<u>(15,915)</u>	<u>(3,233)</u>	<u>(19,148)</u>
<b>Bonds payable, net</b>	<b><u>\$1,450,600</u></b>	<b><u>\$95,132</u></b>	<b><u>\$1,545,732</u></b>

**Bond Redemptions** The bond series resolutions provide for various methods of redemption. Bonds are redeemed at par from prepayments of mortgage loans securing the issues, from unexpended bond proceeds of the issues, or from funds released via the related decreases in the respective debt service reserve requirements. Losses on these bond redemptions represent the reduction of the proportionate amount of unamortized deferred bond issuance costs for the bonds redeemed. Such losses are included in Interest on bonds for financial statement purposes. Various bond issues are redeemable at the option of the Agency with premiums ranging up to 2% for up to twelve years after the date of issue.

For the year ended June 30, 2006 bond redemptions by resolution were as follows (*in thousands*):

<b>Issue</b>	<b>Amount Redeemed</b>	<b>Loss Recorded</b>
Single Family Revenue Bonds (1985 Resolution)	\$22,655	\$(275)
Single Family Revenue Bonds (1998 Resolution)	<u>61,750</u>	<u>(726)</u>
<b>Total Home Ownership Bond Programs</b>	<b><u>\$84,405</u></b>	<b><u>\$(1,001)</u></b>
Multifamily Revenue Bonds (1984 Resolution)	8,635	(837)
Multifamily Revenue Bonds (1992 Resolution)	18,330	(589)
Multifamily Revenue Bonds (1993 Resolution)	2,810	-
Multifamily Revenue Bonds (1995 Resolution)	1,695	(98)
Special Facility Bonds (2000 Resolution)	2,000	-
Special Facility Bonds (2002A Resolution)	<u>1,200</u>	<u>-</u>
<b>Total Multifamily Ownership Bond Programs</b>	<b><u>\$34,670</u></b>	<b><u>\$(1,524)</u></b>

## E. INTEREST RATE SWAP

**Objective of the interest rate swap** The Agency has entered into interest rate swaps in connection with its \$78.7 million variable-rate revenue bonds associated with several series in its 1998 Home Ownership Revenue Bond Resolution as a means to lower its borrowing costs when compared against fixed-rate bonds at the time of issuance. The intention of the swap was to effectively lower the Agency's interest rate on the long term bonds to a fixed rate.

### Terms

Series	Counterparty	Rating*	Notional \$ Amount	Date of Swap	Maturity Date of Swap	Fixed Rate Paid	FMV
15	UBS AG	Aa2/AA+	\$19,205,000	May 8, 2003	July 1, 2032	3.510%	\$ 684,613
16	Bank of America NA	Aa2/AA-	\$19,485,000	Sept. 16, 2003	July 1, 2032	3.810%	\$ 266,177
17	Bank of America NA	Aa2/AA-	\$20,000,000	Dec. 11, 2003	July 1, 2032	3.725%	\$ 253,414
18	Goldman Sachs Mitsui Marine	Aa3/AA+	\$20,000,000	April 20, 2004	Jan. 1, 2035	3.288%	\$1,141,348

\* Ratings are Moody's Investor Service, Inc./Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc.

Under all of the swaps, the Agency pays the counterparties a fixed rate and receives a variable payment computed as 63% on the London Interbank Offered Rate ("LIBOR"), plus 30 basis points. The bonds' variable-rate coupons are based on the variable Bond Market Association Municipal Swap Index ("BMA"), which was 4.05% as of June 30, 2006.

**Fair value** In total, the swaps have a positive fair value of \$2,345,552 as of June 30, 2006. Because the coupons on the Agency's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

**Basis risk and termination risk** The swaps expose the Agency to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. Series 15 swap may be terminated if the counterparty's credit rating falls below "A3" as issued by Moody's Investor Service or "A-" as issued by Fitch Ratings or Standard & Poor's. For Series 16, 17 and 18, collateral thresholds have been established if the counterparty's ratings reach "A2" for Moody's or "A" for Standard & Poor's. Series 16, 17 and 18 swaps may be terminated if the counterparty's rating falls below "Baa" as issued by Moody's or "BBB" as issued by Standard & Poor's.

**Credit risk** All of the Agency's swaps rely upon the performance of the third parties who serve as swap counterparties, and as a result the Agency is exposed to credit risk – i.e., the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the column labeled "FMV" in the table above. The Agency is exposed to credit risk in the amount of any positive net fair value exposure to each counterparty. As of June 30, 2006, the Agency was

exposed to a total of \$2,345,552 of credit risk to 3 counterparties. To mitigate credit risk, the Agency maintains strict credit standards for swap counterparties. Additionally, credit events can trigger certain termination provisions or collateral provisions as outlined in the swap documents.

**Swap payments and associated debt** As rates vary, variable-rate bond interest payments and net swap payments will differ between the fixed payments paid to the counterparty and the variable rate paid to the Agency. Using rates as of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments are as follows. The amounts below are in thousands:

<b>Fiscal Year</b> <b>Ending June 30</b>	<b>Variable-Rate Bond</b>		<b>Interest Rate</b>	<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Swap, Net</b>	<b>Interest</b>
2007	\$2,380	\$3,158	\$(61)	\$3,097
2008	1,620	3,091	(62)	3,029
2009	1,560	3,024	(61)	2,963
2010	1,885	2,947	(61)	2,886
2011	3,650	2,763	(55)	2,708
2012 - 2035	<u>67,595</u>	<u>24,439</u>	<u>(457)</u>	<u>23,982</u>
<b>Total</b>	<b><u>\$78,690</u></b>	<b><u>\$39,422</u></b>	<b><u>\$(757)</u></b>	<b><u>\$38,665</u></b>

#### F. OPERATING LEASE

The Agency leases office space with future minimum lease payments of \$500,000 for fiscal year 2007, \$504,000 per fiscal year through 2009, and \$84,000 for two months in fiscal year 2010. Total rent expense for all operating leases amounted to \$466,000 for the year ended June 30, 2006.

#### G. FEDERAL AWARDS

As a designated Public Housing Authority for the Department of Housing and Urban Development's ("HUD") Section 8 Lower Income Housing Assistance Payment Program (Section 8 Program), the Agency requisitions Section 8 Program funds and makes disbursements to eligible landlords. For the year ended June 30, 2006, \$107,890,000, which was received by the Agency and disbursed to landlords or families, is included in Federal program expense in the Federal and State Programs.

The Agency is designated as the participating entity under grant agreements with HUD for the HOME Investment Partnership Program ("Home Program"). The Home Program provides funding for the purpose of developing affordable housing for persons of low and very low income. For the year ended June 30, 2006, \$33,940,000, which was received and disbursed by the Agency, is included in Federal program expense and Mortgage loans receivable, net in the Federal and State Programs, depending upon the terms of the transaction.

The Agency earned fees of \$7,892,000 for administering these and other federal programs for the year ended June 30, 2006 and are reported in Program income/fees. Of these fees, \$3,180,000 was paid to Quadel Consulting Corporation for the Section 8 Contract Administration, which is reported in General and administrative expense.

#### H. PENSION PLAN

**Plan Description** All permanent full-time employees of the Agency participate in the Teachers' and State Employees' Retirement System of North Carolina (the "System"), a cost-sharing multiple-employer defined benefit pension plan administered by the State. The System

provides retirement benefits to plan members and beneficiaries. State statute assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report ("CAFR") for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the System. The report may be obtained by writing to the Office of the State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

**Funding Policy** Plan members are required to contribute 6% of their annual covered salary, and the Agency is required to contribute at an actuarially determined rate. The current rate is 2.340% of the annual covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by the North Carolina General Assembly. The Agency's contribution to the System for the year ended June 30, 2006 was \$125,000, equal to the required contributions for the year.

## **I. POST-EMPLOYMENT / DISABILITY BENEFITS**

In addition to pension benefits, employees are provided post-employment health care benefits and long-term disability benefits in accordance with State statutes. These benefits are provided through plans administered by the State. The Agency makes monthly contributions to the State for these benefits. Health care benefits are provided to long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the System who have at least five years of creditable service under the System. The System pays the full cost of coverage for all retirees enrolled in the State's self-funded Teachers' and State Employees' Comprehensive Major Medical Plan. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees. Retirees and the aforementioned surviving spouses pay for the entire cost of coverage of their dependents. The health benefit plans are funded by the State on a pay-as-you-go basis.

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina ("Disability Income Plan"), a State-administered plan. Long-term disability benefits are payable from the Disability Income Plan after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five years of contributing membership service in the System earned within 96 months prior to the end of the short-term disability period; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period, after salary continuation payments cease, or after monthly payments for workers' compensation cease, whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of employees' usual occupation; (4) the disability must have been continuous, likely to be permanent and incurred at the time of active employment; and (5) the employee must not be eligible to receive unreduced retirement benefits from the System. In addition, recipients of long-term disability benefits are eligible to receive the State paid health insurance coverage. The monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation reduced by any social security or workers compensation to which the recipient may be entitled up to a maximum of \$3,900 per month. When an employee qualifies for an unreduced service retirement allowance from the System, the benefits payable from the Disability Income Plan cease and the employee will commence retirement under the System.

All short-term disability benefit payments are made by the various State-administered plans. The Agency has no liability beyond payment of monthly contributions except for short-term disability benefits, which are paid by the Agency during the first six months of the short-term period. Contributions are determined as a percentage of covered monthly payroll. Annually, the State sets monthly contribution rates for post-employment health care benefits, death benefits and disability benefits, which are the same for all agencies across the State.

For the year ended June 30, 2006, the Agency made contributions to the State for post-employment health care, disability and death benefits of \$204,000, \$28,000 and \$8,000, respectively. These contributions represent 3.80%, .520% and .16% of covered payroll, respectively. Since the benefit payments are made by the various State-administered plans and not by the Agency, the Agency does not determine the number of eligible participants.

**J. RISK MANAGEMENT**

The Agency's risk management policies provide for participation in the State's risk management programs. The following types of risk are covered under these programs, as disclosed in the State of North Carolina's Comprehensive Annual Financial Report:

- (i) Fire and Other Property Losses
- (ii) Public Officer's and Employees' Liability
- (iii) Workers' Compensation
- (iv) Unemployment Insurance
- (v) Contributory Death Benefit for Retirees
- (vi) Employee Health Benefits

**K. SEGMENT INFORMATION**

The Agency's Home Ownership Bond Programs and Rental Bond Programs are initially funded with bond proceeds. These proceeds are used to purchase mortgage loans which provide the income along with investment earnings to repay the debt. Condensed financial statements at June 30, 2006 for these two segments are as follows (*in thousands*):

**BALANCE SHEET**

	<b><u>Home Ownership</u></b>	<b><u>Rental</u></b>
<b>ASSETS</b>		
<b>Current assets</b>		
Restricted cash and cash equivalents	\$26,255	\$11,202
Accrued interest receivable on investments	2,186	354
Accrued interest receivable on mortgage loans	7,123	578
Other assets	11,137	2,153
Interprogram receivable/(payable)	<u>(85)</u>	<u>111</u>
<b>TOTAL CURRENT ASSETS</b>	<b><u>\$46,616</u></b>	<b><u>\$14,398</u></b>
<b>Noncurrent assets</b>		
Restricted cash and cash equivalents	\$29,741	\$ -
Restricted investments	498,848	37,104
Mortgage loans receivable, net	<u>1,059,829</u>	<u>92,785</u>
<b>TOTAL NONCURRENT ASSETS</b>	<b><u>\$1,588,418</u></b>	<b><u>\$129,889</u></b>
<b>TOTAL ASSETS</b>	<b><u>\$1,635,034</u></b>	<b><u>\$144,287</u></b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bonds payable	\$174,070	\$3,980
Accrued interest payable	11,980	424
Accounts payable	3,424	1,462
Other liabilities	<u>143</u>	<u>-</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>\$189,617</u></b>	<b><u>\$5,866</u></b>

	<u>Home Ownership</u>	<u>Rental</u>
<b>Noncurrent liabilities</b>		
Bonds payable, net	\$1,276,530	\$91,152
Other liabilities	<u>205</u>	<u>-</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>\$1,276,735</b>	<b>\$91,152</b>
<b>TOTAL LIABILITIES</b>	<b><u>\$1,466,352</u></b>	<b><u>\$97,018</u></b>
<b>TOTAL NET ASSETS, RESTRICTED</b>	<b><u>168,682</u></b>	<b><u>47,269</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$1,635,034</u></b>	<b><u>\$144,287</u></b>

#### **STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

##### **OPERATING REVENUES**

Interest on investments	\$21,475	\$2,243
Net decrease in fair value of investments	(1,749)	(623)
Interest on mortgage loans	61,262	5,253
Other revenues	<u>-</u>	<u>444</u>
<b>TOTAL OPERATING REVENUE</b>	<b><u>\$80,988</u></b>	<b><u>\$7,317</u></b>

##### **OPERATING EXPENSES**

Interest on bonds	\$65,656	\$6,146
Mortgage servicing expense	3,666	72
Federal program expense	-	15
General and administrative	512	49
Other expenses	<u>192</u>	<u>134</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>\$70,026</u></b>	<b><u>\$6,416</u></b>
<b>OPERATING INCOME</b>	<b><u>\$10,962</u></b>	<b><u>\$901</u></b>

##### **NONOPERATING REVENUES (EXPENSES)**

Transfers out from other Agency Programs	\$(978)	\$(1,964)
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##### **TOTAL NONOPERATING REVENUES (EXPENSES)**

**\$(978)**      **\$(1,964)**

**CHANGE IN NET ASSETS**      \$9,984      \$(1,063)

**TOTAL NET ASSETS – BEGINNING**      158,698      48,332

**TOTAL NET ASSETS – ENDING**      **\$168,682**      **\$47,269**

#### **STATEMENT OF CASH FLOWS**

Net cash (used in) provided by operating activities	\$(6,557)	\$30,206
Net cash provided by (used in) non-capital financing activities	225,526	(43,253)
Net cash used in investing activities	<u>(287,754)</u>	<u>(9,930)</u>
Net decrease in cash	\$(68,785)	\$(22,977)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>124,781</u>	34,179
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$55,996</u></b>	<b><u>\$11,202</u></b>

**L. SUBSEQUENT EVENTS**

**Series 25** On August 31, 2006, the Agency signed a bond purchase agreement under the 1998 Home Ownership Trust Indenture for Series 25A in the amount of \$65,000,000. The Agency will deliver these bonds on September 26, 2006.

# **North Carolina Housing Finance Agency**

## **Additional Information**

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## Report of Independent Auditors

The Board of Directors  
North Carolina Housing Finance Agency

We have audited the accompanying balance sheet of the North Carolina Housing Finance Agency (the Agency), a public agency and component unit of the State of North Carolina as of June 30, 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

*Ernst + Young LLP*

August 31, 2006

# NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING BALANCE SHEET

YEAR ENDED JUNE 30, 2006

(in thousands)	AGENCY PROGRAMS		GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS		
		Housing Trust		Federal and		1985	1998
		Fund	State Programs				
<b>ASSETS</b>							
<b>Current assets:</b>							
Cash and cash equivalents	\$ 470	-	-	-	-	-	
Restricted cash and cash equivalents	23,721	22,203	10,713	11,892	14,363		
Investments - reverse repurchase agreements	4,615	-	-	-	-	-	
Accrued interest receivable on investments	249	69	-	1,580	606		
Accrued interest receivable on mortgage loans	151	13	13	1,516	5,607		
State tax credits receivable	46,944	-	-	-	-	-	
Other assets	5,250	-	2,321	5,334	5,803		
Interprogram receivable/(payable)	888	(54)	(860)	(52)	(33)		
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 82,288</b>	<b>22,231</b>	<b>12,187</b>	<b>20,270</b>	<b>26,346</b>		
<b>Noncurrent assets:</b>							
Restricted cash and cash equivalents	\$ -	-	-	-	29,741		
Investments	5,528	-	-	-	-	-	
Restricted investments	5,470	-	-	75,272	423,576		
Mortgage loans receivable, net	6,046	17,330	44,996	166,577	893,252		
Other assets, net	2,301	-	-	-	-	-	
<b>TOTAL NONCURRENT ASSETS</b>	<b>\$ 19,345</b>	<b>17,330</b>	<b>44,996</b>	<b>241,849</b>	<b>1,346,569</b>		
<b>TOTAL ASSETS</b>	<b>\$ 101,633</b>	<b>39,561</b>	<b>57,183</b>	<b>262,119</b>	<b>1,372,915</b>		
<b>LIABILITIES</b>							
<b>Current liabilities:</b>							
Bonds payable	\$ -	-	-	6,750	167,320		
Accrued interest payable	-	-	-	3,556	8,424		
Accounts payable	318	-	1,784	29	3,395		
Deferred revenues	896	-	-	-	-		
Obligations under reverse repurchase agreements	4,615	-	-	-	-		
Other liabilities	20	1	10	143	-		
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 5,849</b>	<b>1</b>	<b>1,794</b>	<b>10,478</b>	<b>179,139</b>		
<b>Noncurrent liabilities:</b>							
Bonds payable, net	\$ -	-	-	169,492	1,107,038		
Deferred revenues	6,651	-	-	-	-		
Other liabilities	3,763	-	-	31	174		
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>\$ 10,414</b>	<b>-</b>	<b>-</b>	<b>169,523</b>	<b>1,107,212</b>		
<b>TOTAL LIABILITIES</b>	<b>\$ 16,263</b>	<b>1</b>	<b>1,794</b>	<b>180,001</b>	<b>1,286,351</b>		
<b>NET ASSETS</b>							
Restricted	\$ 70,901	39,560	55,389	82,118	86,564		
Unrestricted	14,469	-	-	-	-		
<b>TOTAL NET ASSETS</b>	<b>\$ 85,370</b>	<b>39,560</b>	<b>55,389</b>	<b>82,118</b>	<b>86,564</b>		
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 101,633</b>	<b>39,561</b>	<b>57,183</b>	<b>262,119</b>	<b>1,372,915</b>		

**RENTAL BOND PROGRAMS**

<b>1984</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>Special Facilities</b>	<b>TOTAL</b>
-	-	-	-	-	-	\$ 470
1,373	8,431	941	16	441	-	94,094
-	-	-	-	-	-	4,615
147	168	6	28	5	-	2,858
139	93	-	22	62	262	7,878
-	-	-	-	-	-	46,944
1,912	60	15	129	37	-	20,861
-	52	-	-	59	-	-
3,571	8,804	962	195	604	262	\$ 177,720
-	-	-	-	-	-	\$ 29,741
-	-	-	-	-	-	5,528
23,755	9,414	-	2,498	1,437	-	541,422
22,267	16,401	-	4,136	10,746	39,235	1,220,986
-	-	-	-	-	-	2,301
46,022	25,815	-	6,634	12,183	39,235	\$ 1,799,978
49,593	34,619	962	6,829	12,787	39,497	\$ 1,977,698
730	535	-	130	495	2,090	\$ 178,050
100	-	-	62	-	262	12,404
1,454	2	-	-	6	-	6,988
-	-	-	-	-	-	896
-	-	-	-	-	-	4,615
-	-	-	-	-	-	174
2,284	537	-	192	501	2,352	\$ 203,127
27,388	14,811	-	3,197	8,611	37,145	\$ 1,367,682
-	-	-	-	-	-	6,651
-	-	-	-	-	-	3,968
27,388	14,811	-	3,197	8,611	37,145	\$ 1,378,301
29,672	15,348	-	3,389	9,112	39,497	\$ 1,581,428
19,921	19,271	962	3,440	3,675	-	\$ 381,801
-	-	-	-	-	-	14,469
19,921	19,271	962	3,440	3,675	-	\$ 396,270
49,593	34,619	962	6,829	12,787	39,497	\$ 1,977,698

# NORTH CAROLINA HOUSING FINANCE AGENCY

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2006

(in thousands)	AGENCY			HOME OWNERSHIP BOND PROGRAMS	
	PROGRAMS	GRANT	PROGRAMS		
		Housing Trust	Federal and	1985	1998
		Fund	State Programs		
<b>OPERATING REVENUES</b>					
Interest on investments	\$ 2,061	690	50	5,170	16,305
Net increase (decrease) in fair value of investments	(488)	-	-	(949)	(800)
Interest on mortgage loans	183	213	501	12,360	48,902
Federal program awards received	-	-	138,483	-	-
Program income/fees	3,691	334	9,658	-	-
Other revenues	344	440	1	-	-
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 5,791</b>	<b>1,677</b>	<b>148,693</b>	<b>16,581</b>	<b>64,407</b>
<b>OPERATING EXPENSES</b>					
Interest on bonds	\$ -	-	-	12,141	53,515
Mortgage servicing expense	1	-	-	683	2,983
Federal program expense	1,351	1,007	120,205	-	-
Nonfederal program expense	383	-	-	-	-
General and administrative	9,116	-	3,184	65	447
Other expenses	821	40	229	79	113
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 11,672</b>	<b>1,047</b>	<b>123,618</b>	<b>12,968</b>	<b>57,058</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (5,881)</b>	<b>630</b>	<b>25,075</b>	<b>3,613</b>	<b>7,349</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Transfers in (out)	\$ 7,725	(72)	(4,711)	(1,507)	529
Equity transfer in (out)	3,114	-	(3,114)	-	-
State appropriations received	-	8,000	2,451	-	-
State grant received	-	-	1,000	-	-
State tax credits	31,068	-	-	-	-
State program expense	(33,000)	(3,400)	(2,691)	-	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>\$ 8,907</b>	<b>4,528</b>	<b>(7,065)</b>	<b>(1,507)</b>	<b>529</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 3,026</b>	<b>5,158</b>	<b>18,010</b>	<b>2,106</b>	<b>7,878</b>
<b>TOTAL NET ASSETS - BEGINNING</b>	<b>82,344</b>	<b>34,402</b>	<b>37,379</b>	<b>80,012</b>	<b>78,686</b>
<b>TOTAL NET ASSETS - ENDING</b>	<b>\$ 85,370</b>	<b>39,560</b>	<b>55,389</b>	<b>82,118</b>	<b>86,564</b>

**RENTAL BOND PROGRAMS**

<b>1984</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>Special Facilities</b>	<b>TOTAL</b>
1,089	863	40	126	125	-	\$ 26,519
(358)	(202)	-	(50)	(13)	-	(2,860)
2,401	1,137	263	270	860	322	67,412
-	-	-	-	-	-	138,483
-	-	-	-	-	-	13,683
410	-	-	-	34	-	1,229
<u>3,542</u>	<u>1,798</u>	<u>303</u>	<u>346</u>	<u>1,006</u>	<u>322</u>	<u>\$ 244,466</u>
3,231	1,412	169	195	817	322	\$ 71,802
33	17	3	4	15	-	3,739
-	-	-	-	15	-	122,578
-	-	-	-	-	-	383
5	35	-	1	8	-	12,861
100	-	-	-	34	-	1,416
<u>3,369</u>	<u>1,464</u>	<u>172</u>	<u>200</u>	<u>889</u>	<u>322</u>	<u>\$ 212,779</u>
<u>173</u>	<u>334</u>	<u>131</u>	<u>146</u>	<u>117</u>	<u>-</u>	<u>\$ 31,687</u>
1,331	(3,295)	-	-	-	-	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	10,451
-	-	-	-	-	-	1,000
-	-	-	-	-	-	31,068
-	-	-	-	-	-	(39,091)
<u>1,331</u>	<u>(3,295)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 3,428</u>
<u>1,504</u>	<u>(2,961)</u>	<u>131</u>	<u>146</u>	<u>117</u>	<u>-</u>	<u>\$ 35,115</u>
<u>18,417</u>	<u>22,232</u>	<u>831</u>	<u>3,294</u>	<u>3,558</u>	<u>-</u>	<u>361,155</u>
<u>19,921</u>	<u>19,271</u>	<u>962</u>	<u>3,440</u>	<u>3,675</u>	<u>-</u>	<u>\$ 396,270</u>

# NORTH CAROLINA HOUSING FINANCE AGENCY

## COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2006

(in thousands)	AGENCY PROGRAMS		GRANT PROGRAMS	HOME OWNERSHIP PROGRAMS	
	Housing Trust Fund	Federal and State Programs	Federal and State Programs	1985	1998
<b>Cash flows from operating activities:</b>					
Interest on mortgage loans	\$ 169	221	497	13,143	49,986
Principal payments on mortgage loans	364	1,444	1,118	30,827	92,232
Purchase of mortgage loans	(2,737)	(1,723)	(20,949)	(98)	(180,616)
Federal awards received	-	-	138,943	-	-
Federal program expense	(1,351)	(1,007)	(120,474)	-	-
Nonfederal program expense	(383)	-	-	-	-
Federal grant administration income	-	-	7,890	-	-
Program income/fees	5,866	334	1,691	-	-
Other expenses	(9,951)	(12)	(3,217)	(746)	(278)
Other revenues	374	-	1	(5,306)	(5,701)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (7,649)</b>	<b>(743)</b>	<b>5,500</b>	<b>37,820</b>	<b>(44,377)</b>
<b>Cash flows from non-capital financing activities:</b>					
Issuance of bonds	\$ -	-	-	-	400,000
Principal repayments on bonds	-	-	-	(29,485)	(80,460)
Interest paid	-	-	-	(12,248)	(48,223)
Bond issuance costs paid	-	-	-	-	(2,780)
Net transfers	11,139	(72)	(7,825)	(1,507)	229
State appropriations received	-	8,000	2,451	-	-
State grant received	-	-	1,000	-	-
State tax credits	31,068	-	-	-	-
State program expense	(33,000)	(3,400)	(2,691)	-	-
<b>Net cash provided by (used in) non-capital financing activities</b>	<b>\$ 9,207</b>	<b>4,528</b>	<b>(7,065)</b>	<b>(43,240)</b>	<b>268,766</b>
<b>Cash flows from investing activities:</b>					
Proceeds from sales or maturities of investments	\$ 2,312	-	-	54,349	189,720
Purchase of investments	(8,026)	-	-	(60,398)	(492,598)
Earnings on investments	2,077	660	50	4,985	16,188
<b>Net cash provided by (used in) investing activities</b>	<b>\$ (3,637)</b>	<b>660</b>	<b>50</b>	<b>(1,064)</b>	<b>(286,690)</b>
Net increase (decrease) in cash	\$ (2,079)	4,445	(1,515)	(6,484)	(62,301)
Cash and cash equivalents at beginning of year	26,270	17,758	12,228	18,376	106,405
<b>Cash and cash equivalents at end of year</b>	<b>\$ 24,191</b>	<b>22,203</b>	<b>10,713</b>	<b>11,892</b>	<b>44,104</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>					
Operating income (loss)	\$ (5,881)	630	25,075	3,613	7,349
<b>Adjustments to reconcile operating income to net cash provided by (used in) operating activities:</b>					
Interest on investments	(2,061)	(690)	(50)	(5,170)	(16,305)
Decrease (increase) in fair value of investments	488	-	-	949	800
Interest on bonds	-	-	-	12,141	53,515
Net operating transfers	(300)	-	-	-	300
<b>Change in assets and liabilities:</b>					
(Increase) decrease in mortgage loans	(2,453)	(719)	(19,603)	30,633	(88,512)
(Increase) decrease in interest receivable on mortgage loans	65	8	(4)	879	912
(Increase) decrease state tax credit receivable	1,408	-	-	-	-
(Increase) decrease in other assets	(261)	-	460	(5,306)	(5,701)
Increase (decrease) in accounts payable and other liabilities	466	28	(301)	81	3,265
Increase (decrease) in deferred revenues	880	-	(77)	-	-
<b>Total adjustments</b>	<b>\$ (1,768)</b>	<b>(1,373)</b>	<b>(19,575)</b>	<b>34,207</b>	<b>(51,726)</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (7,649)</b>	<b>(743)</b>	<b>5,500</b>	<b>37,820</b>	<b>(44,377)</b>

**RENTAL BOND PROGRAMS**

<b>1984</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>Special Facilities</b>	<b>Total</b>
2,495	1,137	188	271	873	248	\$ 69,228
16,270	507	2,844	110	2,233	3,670	151,619
-	-	-	-	-	-	(206,123)
-	-	-	-	-	-	138,943
-	-	-	-	(15)	-	(122,847)
-	-	-	-	-	-	(383)
-	-	-	-	-	-	7,890
-	-	-	-	-	-	7,891
1,316	(54)	(3)	(5)	(59)	-	(13,009)
(1,502)	(112)	(15)	(129)	(62)	-	(12,452)
<b>18,579</b>	<b>1,478</b>	<b>3,014</b>	<b>247</b>	<b>2,970</b>	<b>3,918</b>	<b>\$ 20,757</b>
-	-	-	-	-	-	\$ 400,000
(9,350)	(18,755)	(2,890)	(125)	(2,250)	(3,670)	(146,985)
(2,189)	(780)	(169)	(191)	(672)	(248)	(64,720)
-	-	-	-	-	-	(2,780)
1,331	(3,295)	-	-	-	-	-
-	-	-	-	-	-	10,451
-	-	-	-	-	-	1,000
-	-	-	-	-	-	31,068
-	-	-	-	-	-	(39,091)
<b>(10,208)</b>	<b>(22,830)</b>	<b>(3,059)</b>	<b>(316)</b>	<b>(2,922)</b>	<b>(3,918)</b>	<b>\$ 188,943</b>
12,277	2,860	1,321	1,810	2,094	-	\$ 266,743
(21,252)	(6,175)	(754)	(2,198)	(2,127)	-	(593,528)
1,080	847	35	124	128	-	26,174
<b>(7,895)</b>	<b>(2,468)</b>	<b>602</b>	<b>(264)</b>	<b>95</b>	<b>-</b>	<b>\$ (300,611)</b>
476	(23,820)	557	(333)	143	-	\$ (90,911)
897	32,251	384	349	298	-	215,216
<b>1,373</b>	<b>8,431</b>	<b>941</b>	<b>16</b>	<b>441</b>	<b>-</b>	<b>\$ 124,305</b>
173	334	131	146	117	-	\$ 31,687
(1,089)	(863)	(40)	(126)	(125)	-	(26,519)
358	202	-	50	13	-	2,860
3,231	1,412	169	195	817	322	71,802
-	-	-	-	-	-	-
16,270	504	2,754	110	2,233	3,670	(55,113)
94	3	15	1	13	(74)	1,912
-	-	-	-	-	-	1,408
(1,912)	(112)	(15)	(129)	(96)	-	(13,072)
1,454	(2)	-	-	(2)	-	4,989
-	-	-	-	-	-	803
<b>18,406</b>	<b>1,144</b>	<b>2,883</b>	<b>101</b>	<b>2,853</b>	<b>3,918</b>	<b>\$ (10,930)</b>
<b>18,579</b>	<b>1,478</b>	<b>3,014</b>	<b>247</b>	<b>2,970</b>	<b>3,918</b>	<b>\$ 20,757</b>

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**APPENDIX B**

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FORM OF APPROVING OPINION OF BOND COUNSEL  
WITH RESPECT TO SERIES 28 BONDS

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## APPENDIX B

### LEGAL OPINION

Upon the delivery of the Series 28 Bonds, Womble Carlyle Sandridge & Rice, PLLC, Bond Counsel to the Agency, proposes to issue its approving opinion in substantially the following form:

April \_\_, 2007

North Carolina Housing Finance Agency  
Raleigh, North Carolina

We have acted as bond counsel to the North Carolina Housing Finance Agency (the "Agency") in connection with the authorization and issuance of \$65,000,000 North Carolina Housing Finance Agency Home Ownership Revenue Bonds, Series 28 (1998 Trust Agreement) (the "Series 28 Bonds"). We have examined (i) the Constitution and laws of the State of North Carolina, including Chapter 122A of the General Statutes of North Carolina, as amended (the "Act"), (ii) certified copies of the proceedings of the Agency authorizing the issuance, sale and delivery of the Series 28 Bonds, (iii) executed originals of the Trust Agreement, dated as of May 1, 1998 (the "Trust Agreement") and the Twenty-Eighth Supplemental Trust Agreement, dated as of April 1, 2007 (the "Twenty-Eighth Supplemental Trust Agreement") pursuant to which the Series 28 Bonds are issued and (iv) other proofs submitted relative to the issuance and sale of the Series 28 Bonds.

The Series 28 Bonds are dated as of their date of delivery and are stated to mature on July 1, 2008, on each July 1 and January 1 from July 1, 2009 to July 1, 2017, inclusive, July 1, 2023, July 1, 2029, July 1, 2033, July 1, 2038 and January 1, 2039. Certain of the Series 28 Bonds are designated in the Twenty-Eighth Supplemental Trust Agreement as "Home Ownership Revenue Bonds, Series 28-A (AMT)" (the "Series 28-A Bonds") and certain of the Series 28 Bonds are designated in the Twenty-Eighth Supplemental Trust Agreement as "Home Ownership Revenue Bonds, Series 28-B (Non-AMT)" (the "Series 28-B Bonds"). The Series 28-A Bonds and the Series 28-B Bonds are one Series of Bonds under the Trust Agreement.

The Series 28 Bonds are issued for the purposes of providing funds to the Agency, together with other available funds, to purchase Program Loans to finance single family residential housing for households of low and moderate income in North Carolina.

The Series 28 Bonds are issued under and pursuant to the Trust Agreement and the Twenty-Eighth Supplemental Trust Agreement. The Agency has heretofore issued twenty-seven series of Bonds under the Trust Agreement (the "Existing Bonds"). The Trust Agreement also provides for the issuance, from time to time, under the conditions, limitations and restrictions therein set forth, of additional Bonds. The Existing Bonds, the Series 28 Bonds and any such additional Bonds are herein collectively referred to as the "Bonds."

The Series 28 Bonds are subject to redemption prior to their maturity at the times, in the manner and upon the terms set forth in the Trust Agreement and the Twenty-Eighth Supplemental Trust Agreement.

The Series 28 Bonds are subject to the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder, that must be met subsequent to the issuance and delivery of the Series 28 Bonds in order that interest on the Series 28 Bonds be excluded, on and after the date of such issuance and delivery, from the gross income of the owners thereof for federal income tax purposes under the Code. The Agency has established procedures to meet the requirements of the Code. The Agency has also covenanted in the Twenty-Eighth Supplemental Trust Agreement to comply with the requirements of the Code, and in particular Sections 143 and 148 of the Code. Our opinion in paragraph 6 below with respect to the treatment of interest on the Series 28 Bonds for purposes of federal income taxation is rendered on the assumption that the Agency will carry out its procedures and comply with the aforementioned covenant contained in the Twenty-Eighth Supplemental Trust Agreement.

From such examination, we are of the opinion, as of the date hereof and under existing law, that:

1. The Agency has been duly created as a body politic and corporate constituting a public agency and instrumentality of the State of North Carolina with good, right and lawful authority to carry out the program of purchasing the Program Loans and to perform its obligations under the terms and conditions of the Trust Agreement and the Twenty-Eighth Supplemental Trust Agreement.
2. The Agency has duly authorized, executed and delivered the Trust Agreement and the Twenty-Eighth Supplemental Trust Agreement and such Agreements constitute legal, valid and binding agreements of the Agency, enforceable in accordance with their terms.
3. The Series 28 Bonds are valid and binding special obligations of the Agency secured by a valid pledge in the manner and to the extent set forth in the Trust Agreement, enforceable in accordance with their terms.
4. The Trust Agreement creates the valid and binding pledge it purports to create of the Program Obligations, Revenues and Prepayments (as such terms are defined in the Trust Agreement), and all moneys, securities and Funds and Accounts held or set aside pursuant to the Trust Agreement, to secure the payment of the Bonds in accordance with the terms thereof, subject to the provisions of the Trust Agreement permitting the disposition, use and payment thereof for or to the purposes and on the terms and conditions of the Trust Agreement. Such pledge shall become effective with respect to the assets and revenues so pledged immediately upon the receipt thereof by the Agency in the manner provided in the Trust Agreement.
5. The Series 28 Bonds do not constitute a debt, liability or obligation of the State of North Carolina or of any political subdivision thereof or a pledge of the faith and credit of the State or of any such political subdivision, but are payable solely from the revenues and assets of the Agency pledged therefor.
6. Assuming that the Agency will carry out the procedures mentioned above and comply with the covenants with respect to the Code contained in the Twenty-Eighth Supplemental Trust Agreement and other certificates and documents, interest on the Series 28 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. Interest on the Series 28-A Bonds is treated as a preference item in computing the alternative minimum tax imposed by the Code on individuals and the alternative minimum tax imposed by the Code on corporations. Interest on the Series 28-B Bonds is not treated as a preference item in computing the alternative minimum tax imposed by the Code on individuals and corporations; however, such interest is includable in the adjusted current earnings of corporations for purposes of computing the alternative minimum tax imposed by the Code on corporations. Interest on the Series 28 Bonds is exempt from all income taxes of the State of North Carolina. The Code and other laws of taxation, including the laws of taxation of the State of North Carolina, of other states, and of local jurisdictions, may contain other provisions that could result in tax consequences, upon which we render no opinion, as a result of the ownership or transfer of the Series 28 Bonds or the inclusion in certain computations of interest that is excluded from gross income for purposes of federal and North Carolina income taxation.

The rights of the owners of the Series 28 Bonds and the enforceability thereof and of the Trust Agreement and Twenty-Eighth Supplemental Trust Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore and hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

To be signed:

WOMBLE CARLYLE SANDRIDGE & RICE  
*A Professional Limited Liability Company*

## APPENDIX C

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SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT  
AND THE TWENTY-EIGHTH SUPPLEMENTAL TRUST AGREEMENT

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## **SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT AND THE TWENTY-EIGHTH SUPPLEMENTAL TRUST AGREEMENT**

### **Definitions**

In addition to words and terms elsewhere defined in this Official Statement, the following words and terms have the following meanings under the Trust Agreement, the Supplemental Trust Agreements thereunder and as used in this Official Statement, unless some other meaning is plainly intended:

“BMA Swap Index Rate” means The Bond Market Association Municipal Swap Index, produced by Municipal Market Data to be an index of 7-day high grade tax-exempt variable rate demand obligations as announced from time to time by The Bond Market Association (or any successor index produced by or on behalf of The Bond Market Association). Any change in the BMA Swap Index Rate shall become effective as of the date the change is announced by The Bond Market Association. If The Bond Market Association does not publish The Bond Market Association Municipal Swap Index, then “BMA Swap Index Rate” shall be the alternative interest rate index designated by the Agency to the Trustee.

“Bond Insurance” means an irrevocable policy of municipal bond insurance, a guaranty agreement or any similar instrument issued or entered into with a municipal bond insurer assuring timely payment of principal and interest on all or a portion of a Series of Bonds.

“Borrower” means the borrower under a Program Loan.

“Capital Appreciation Bond” means any Bond or Bonds of a Series sold at a price less than the principal amount thereof payable at maturity, if such Bond or Bonds are designated as a Capital Appreciation Term or Serial Bond or Bonds (or such other term describing Bonds having the characteristics of Capital Appreciation Bonds) by the Supplemental Trust Agreement providing for the issuance of such Series of Bonds.

“Cash Flow Certificate” means a certificate that is filed as required or permitted by an Authorized Officer, which certificate, after taking into account the effect of the conditions or circumstances for which such certificate is required, will show that scheduled payments of principal and interest on the Program Obligations are such that the Revenues, including, without limitation, investment income (based on the investment rates reasonably expected by the Agency to be received from the investment of amounts held under the Trust Agreement and to be set forth in such certificate) on the Funds and Accounts available for such payments, excluding the investment of amounts held in the Insurance Reserve Fund, and the moneys held for the credit of the Debt Service Reserve Fund (and any Special Debt Service Reserve Account with respect to any Bonds secured by a Special Debt Service Reserve Account) shall be sufficient to pay when due the principal of, Sinking Fund Requirements on account of, and interest on the Bonds and the Program Expenses.

Each Cash Flow Certificate shall set forth the assumptions upon which the investments therein are based, which assumptions shall be based upon the Agency’s reasonable expectations at the time such Cash Flow Certificate is filed.

In determining the amount held in any Fund or Account under the Trust Agreement for purposes of preparing a Cash Flow Certificate, accrued but unpaid interest on amounts held in such Fund or Account invested in Investment Obligations shall be credited to the Fund or Account as if the same had been received and deposited to such Fund or Account on the date of calculation. In determining the amount held in the Funds and Accounts under the Trust Agreement, amounts held under any Fund or Account created under a Supplemental Trust Agreement shall be included in the calculation, unless the Supplemental Trust Agreement expressly excludes such amounts.

“Compounded Amount” means the amount of principal and accrued interest of a Capital Appreciation Bond as of a given date determined in the manner provided in the Supplemental Trust Agreement authorizing the issuance of such Capital Appreciation Bond.

“Debt Service Reserve Requirement” means, as of any particular time of calculation, the sum of the amounts established in each Supplemental Trust Agreement authorizing the issuance of a Series of Bonds secured by the Debt Service Reserve Fund as the portion of the Debt Service Reserve Requirement attributable to that Series (which amounts may decrease or increase over time in accordance with the terms of the Supplemental Trust Agreement). The portion of the Debt Service Reserve Requirement attributable to any Series of Bonds may be met through a deposit of cash, Investment Obligations or Reserve Alternative Instruments, or any combination thereof, as the case may be.

“Defeasance Obligations” means (a) noncallable Government Obligations and (b) Defeased Municipal Obligations.

“Defeased Municipal Obligations” means obligations of state or local government municipal bond issuers which are rated the highest rating category by each Rating Agency, the provision for the payment of the principal of, premium, if any, and interest on which shall have been made by deposit with a trustee or escrow agent of Government Obligations, the maturing principal of and interest on which, when due and payable, shall provide sufficient money to pay the principal of, premium, if any, and interest on such obligations of state or local government municipal bond issuers. References in this definition to state or local government bond issuers shall mean the State of North Carolina, local government bond issuers, and, to the extent permitted by law, states other than the State of North Carolina and local government bond issuers other than North Carolina local government bond issuers.

“Federal Mortgage Agency” means the Government National Mortgage Association, Fannie Mae, Freddie Mac and any other public or private agency created by the United States Congress for the purpose of housing finance and which is an agency or instrumentality of the United States or sponsored thereby.

“FHA-Insured Program Loan” means a Program Loan the payment of which is insured by the Federal Housing Administration under the National Housing Act of 1934, as amended.

“Financing Fees” means any fees, charges or deposits that are authorized to be collected by the Agency from a Borrower or a Lender in order for the Agency to assure that funds are available in the Program Fund to purchase a Program Obligation on behalf of a specific Borrower. Financing Fees may be refundable or non-refundable as shall be specified in the Supplemental Trust Agreement authorizing the issuance of the Bonds financing the segment of the Program for which such Financing Fees are paid. Financing Fee shall not be “Revenues” within the meaning of the Trust Agreement unless a Supplemental Trust Agreement specifically designates such funds as Revenues.

“Government Obligations” means direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States Government.

“Insurance Reserve Requirement” means, as of any particular time of calculation, the sum of the amounts, if any, established in each Supplemental Trust Agreement authorizing the issuance of a Series of Bonds as the portion of the Insurance Reserve Requirement attributable to that Series (which amounts may increase or decrease over time in accordance with the terms of the Supplemental Trust Agreement). The portion of the Insurance Reserve Requirement attributable to any Series of Bonds may be met through a deposit of cash, Investment Obligations or Reserve Alternative Instruments, or any combination thereof, as the case may be.

“Interest Payment Date” means for any Bond the dates specified in the Supplemental Trust Agreement authorizing such Bonds as the “Interest Payment Date” therefor, notwithstanding that in respect of Capital Appreciation Bonds all or some portion of the interest is paid on a deferred basis.

“Investment Obligations” means

- (1) Government Obligations,

(2) bonds, debentures, notes or other similar obligations (but not including “stripped” coupon obligations or the principal portion of any stripped obligation purchased in excess of par) issued by the Federal Intermediate Credit Bank, the Federal Home Loan Banks, Fannie Mae, the Bank for Cooperatives, the Federal Financing Bank, the Federal Farm Credit Bank, Freddie Mac, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration, the Export-Import Bank, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank and the Federal Land Banks, if the timely payment of the principal of and interest thereon is secured by the full faith and credit of the United States of America,

(3) interest bearing time deposits or certificates of deposit or such other forms of deposit as the Local Government Commission may approve in any bank or trust company located outside or in the State, including a Depository, provided that such bank or trust company with which moneys are invested as herein provided: (i) is duly chartered under the laws of the United States or any state within the United States and authorized to engage in banking or trust activities, (ii) has a credit rating from a Rating Agency with respect to such bank’s or trust company’s long-term unsecured debt (or, if the debt of the bank is not rated, if its parent holding company has such a rating and the obligations of such institution are expressly and unconditionally guaranteed by the parent holding company) in one of its top two ratings categories, without regard to gradations within a category, and (iii) is approved by the Local Government Commission,

(4) deposits with the State Treasurer in an investment program established pursuant to Section 147-69.3 of the General Statutes of North Carolina,

(5) repurchase agreements that meet the requirements of Section 122A-11(5) of the General Statutes of North Carolina or any successor statute,

(6) participating shares in a mutual fund for North Carolina local governments if the investments of the fund are limited to those qualifying for investment under Section 159-30(c) of the North Carolina General Statutes, as amended, and the fund is certified by the Local Government Commission of North Carolina as a mutual fund permitted for local government investment;

(7) any other investment in which the Agency is authorized from time to time to invest the moneys held under the Trust Agreement, if the Agency receives confirmation from each Rating Agency that such investment would not impair such Rating Agency’s Rating then in effect with respect to any Bonds.

“Lender” means any bank or trust company, savings bank, national banking association, savings and loan association, building and loan association, life insurance company, mortgage banking company, any governmental entity or other entity or institution authorized to transact mortgage lending business in the State, including the Agency and any local housing authority.

“Market Value” means the fair market value of property financed by a Program Loan, as demonstrated by an appraisal prepared by an appraiser acceptable to the Agency.

“Mortgage” means a deed of trust or other instrument securing a Program Loan that constitutes a first lien upon the property secured thereby, subject to minor easements, rights of way, and similar exceptions customarily acceptable to lenders of funds secured by residential real property and acceptable to the Agency.

“Officer’s Certificate” means a certificate signed by an Authorized Officer, including certificates signed by an “electronic signature” of such Authorized Officer.

“Opinion of Counsel” means a written opinion of counsel who may (except as otherwise expressly provided in the Trust Agreement) be counsel for the Agency.

“Outstanding,” when used with reference to the Bonds, shall mean, as of a particular date, all Bonds theretofore authenticated and delivered under the Trust Agreement, except:

(1) Bonds theretofore canceled by the Trustee;

(2) Bonds for the payment or redemption of which moneys or Defeasance Obligations, or both, in the necessary amount have theretofore been deposited in separate accounts with the Trustee in trust for the Owners (whether upon or prior to maturity or the redemption date of such Bonds), the principal of and the interest on such Defeasance Obligations, if any, when due, providing sufficient moneys to pay, with such other moneys so deposited with the Trustee, the principal and redemption premium of and the interest on such Bonds being paid or redeemed; and

(3) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to the Trust Agreement.

“PMI Insured Program Loan” means a Program Loan the payment of which has been insured by a private mortgage insurance company that has been approved by Fannie Mae or Freddie Mac to insure mortgages purchased by them.

“Prepayments” means any moneys representing principal of a Program Obligation received or recovered by or for the account of the Agency from any payment of principal of any Program Obligation prior to the scheduled payment of principal called for by such Program Obligation, including, without limitation, (i) any payments of principal of any Program Obligation prior to the scheduled payment of principal called for by such Program Obligation, including any prepayment penalty, fee, premium or other additional charge as may be provided by the terms of such Program Obligation, (ii) amounts received upon the sale, assignment or other disposition of any Program Obligation, (iii) proceeds from the condemnation of any property financed by a Program Obligation, (iv) amounts received from any legal proceedings taken upon an event of default by a Borrower, (v) any amounts received by the Agency from a claim under any mortgage insurance, mortgage guarantee, mortgage pool insurance, title insurance or hazard insurance (other than amounts to be applied to replace, repair or restore the property with respect to which the hazard insurance payment was paid), (vi) amounts received from the sale or other disposition, including pursuant to foreclosure proceedings, of any property financed under a Program Obligation, and (vii) transfers from the Insurance Reserve Fund or the Revenue Reserve Fund of amounts to cover the deficiencies between the principal amount of a Program Loan and the amount received by the Agency upon the disposition of the same from the proceeds of foreclosure and any applicable insurance or guaranty payments.

“Program” means the Agency’s program created under the Trust Agreement for the Agency to acquire Program Obligations and to hold the same, all for the purpose of assisting in providing housing to low and moderate income persons in the State.

“Program Expenses” means the Agency’s expenses of carrying out and administering its powers, duties and functions relating to the Program as authorized by the Enabling Act, including, without limiting the generality of the foregoing, administrative expenses, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, insurance premiums, legal, accounting, management, consulting and banking services and expenses, the fees and expenses of the Trustee and Depositaries, cost of issuance of Bonds not paid from proceeds of such Bonds, payments for pension, retirement, health and hospitalization and life and disability insurance benefits and any other expenses required or permitted to be paid by the Agency under the provisions of the Enabling Act or the Agreement, all to the extent such expenses are properly allocable to the Program in accordance with generally accepted accounting principles.

“Program Loan” means an obligation made or purchased by the Agency in order to finance or otherwise provide housing principally on behalf of households of low and moderate income with moneys in the Program Fund derived from the proceeds of, or otherwise made available in connection with the issuance of, Bonds pursuant to the Trust Agreement or that was purchased with the proceeds of bonds issued under another trust agreement or bond resolution of the Agency, which bonds were refunded by Bonds issued under the Trust Agreement.

“Program Obligation” means any Program Loan or Program Security.

“Program Security” means an obligation representing an undivided interest in a pool of Program Loans, to the extent the payments to be made on such obligations are guaranteed or insured by a Federal Mortgage Agency, acquired by the Agency by the expenditure of funds from the Program Fund or that was purchased with the proceeds of bonds issued under another trust agreement or bond resolution, which bonds were refunded by Bonds issued under the Trust Agreement.

“Rating” means with respect to any Series of Bonds, the rating issued by a Rating Agency in force immediately prior to the proposed action to be taken by the Agency, and an action which does not “impair” the Rating with respect to a Series of Bonds shall be an action that will not cause the Rating Agency to lower or withdraw the rating it has assigned to the Series of Bonds.

“Rating Agency” means any nationally recognized entity that, upon the request of the Agency, has issued a credit rating on any Series of Bonds issued under the Trust Agreement.

“Reserve Alternative Instrument” means an insurance policy, surety bond, irrevocable letter of credit, guaranty or similar instrument deposited in any Fund or Account created under the Trust Agreement, including any Supplemental Trust Agreement, in lieu of or in partial substitution for the deposit of cash and Investment Obligations in satisfaction of the Debt Service Reserve Requirement, Insurance Reserve Requirement, a Special Debt Service Reserve Account Requirement or other requirement of such Fund or Account. The Reserve Alternative Instrument shall be payable to make the payments otherwise required to be paid from such Fund or Account in a timely manner. Except as hereinafter provided, the provider of a Reserve Alternative Instrument shall be, at the time such Reserve Alternative Instrument is delivered to the Trustee (a) an insurer whose long term debt or claims paying ability has been assigned a rating by each Rating Agency in one of the two highest rating categories (without regard to gradations, such as “plus” or “minus,” of such categories), or (b) a commercial bank, insurance company or other financial institution the bonds payable or guaranteed by which are assigned a rating by each Rating Agency in one of the two highest rating categories (without regard to gradations such as “plus” or “minus” of such categories). In the event that a Reserve Alternative Instrument is being delivered to provide all or a portion of a requirement of a Special Debt Service Reserve Account, then the Reserve Alternative Instrument and the requirements of the provider thereof shall meet the requirements set forth in the Supplemental Trust Agreement creating such Special Debt Service Reserve Account. Whenever for any purposes of the Trust Agreement the amounts on deposit in the Funds or Accounts under the Trust Agreement are required to be determined, the amount available to be drawn under any Reserve Alternative Instrument shall be deemed to be cash on deposit in the applicable Fund or Account.

“Reserve Fund Surety Bonds” means any surety bonds issued with regard to the Debt Service Reserve Fund Requirements or Insurance Reserve Fund Requirements for a particular series of Bonds.

“Revenues” means all payments of principal of and interest on the Program Obligations including both timely and delinquent payments (including late charges to the extent such late charges are collected by the Agency), and investment earnings on any amounts held in any Fund or Account under the Trust Agreement to the extent said earnings are required pursuant to the Trust Agreement or a Supplemental Trust Agreement to be deposited to the Revenue Fund, but shall not include Escrow Payments, Prepayments, Program Obligation Accrued Interest or Financing Fees, or escrow fees or servicing fees received by a Servicer pursuant to a Servicing Agreement (including the Agency acting as Servicer).

“Serial Bonds” means the Bonds of a Series which shall be stated to mature in fixed installments on a fixed payment date, rather than through mandatory redemption in accordance with Sinking Fund Installments, as designated by the Supplemental Trust Agreement authorizing the issuance thereof.

“Series” means any issued or authorized to be issued at any one time pursuant to the Trust Agreement and authorized as “Series” of Bonds by the Supplemental Trust Agreement authorizing the issuance thereof.

“Servicer” means any bank or trust company, savings bank, national banking association, savings and loan association, building and loan association, life insurance company and other mortgage banker or financial institution which shall service any of the Program Loans pursuant to a Servicing Agreement with the Agency, or the Agency if the Agency determines to service any Program Loans held pursuant to the Trust Agreement.

“Servicing Agreement” means an agreement between the Agency and a Servicer, if the Agency is not the Servicer, for the servicing of any of the Program Loans by the Servicer.

“Sinking Fund Calculation Period” means the period of time set forth in the Supplemental Trust Agreement authorizing the issuance of Term Bonds during which the Agency is to deposit from the Revenue Fund to the credit of the Sinking Fund Account an established amount to be applied to the purchase or redemption of such Term Bonds in accordance with a Sinking Fund Requirement for such period also established in such Supplemental Trust Agreement.

“Sinking Fund Requirement” means, with respect to the Term Bonds of any Sinking Fund Calculation Period, the principal amount fixed or computed for such Sinking Fund Calculation Period for the retirement of such Term Bonds by purchase or redemption (or by payment at maturity in the case of the final Sinking Fund Requirement for any maturity).

“State Treasurer” means the Treasurer of the State of North Carolina.

“Subordinated Indebtedness” means all indebtedness incurred by the Agency in respect of the Program that is made payable from the Revenues, but only after the payments described below under the heading “Application of Revenues and Other Moneys” have been made, to the extent incurred in accordance with the requirements of the Trust Agreement.

“Supplemental Trust Agreement” means a resolution of the Board providing for the issuance of any particular Series of Bonds which is required to be executed and delivered prior to the issuance of such Series.

“Swap Agreement” means any interest rate swap agreement entered into by the Agency with a Swap Provider, pursuant to which the Agency and the Swap Provider agree to make payments thereunder with respect to a notional amount corresponding to Bonds for the purpose of effectively converting the interest rate on the Agency’s bonds bearing interest at a variable interest rate to a fixed interest rate, or converting the interest rate on the Agency’s bonds bearing interest at a fixed interest rate to a variable interest rate.

“Swap Agreement Periodic Payments” means payments required to be paid by the Agency under a Swap Agreement, other than Swap Agreement Termination Payments.

“Swap Agreement Termination Payments” means payments required to be paid by the Agency under a Swap Agreement in connection with the termination of the Swap Agreement, whether voluntarily or upon the occurrence of an event of default or similar event thereunder.

“Swap Provider” means any financial institution with which the Agency enters into an interest rate swap agreement with respect to Bonds.

“Swap Termination Value Holdback” means the amount, computed for each Fiscal Year as of July 1 of that Fiscal Year, equal to 35% of the Swap Agreement Termination Payment, if any, that the Agency would be

required to pay on each Swap Agreement entered into under the Trust Agreement if the Swap Agreement were terminated as of such July 1.

“Term Bonds” means the Bonds of a Series designated Term Bonds in the Supplemental Trust Agreement authorizing the issuance thereof.

“Trustee” means the Trustee serving as such under the Trust Agreement, whether original or successor.

“USDA Guaranteed Program Loan” means a Program Loan the payment of which is guaranteed by the United States Department of Agriculture Rural Development under its loan guarantee program created under Title V of the Housing Act of 1949, or any successor program.

“VA Guaranteed Program Loan” means a Program Loan the payment of which is guaranteed by the United States Veterans Administration.

### **Additional Bonds; Supplemental Trust Agreements**

Bonds of the Agency may be issued under and secured by the Trust Agreement from time to time for the purpose of providing sufficient funds, with any other available funds, for (a) the making or purchase by the Agency of Program Obligations, (b) refunding Bonds of the Agency issued under the Trust Agreement or under trust agreements or bond resolutions other than the Trust Agreement, including the payment of any redemption premium thereon, (c) the payment of Program Expenses, (d) the payment of interest on such Bonds for the period specified in the Supplemental Trust Agreement authorizing the issuance thereof, and (e) the making of any deposit to the credit of the Debt Service Reserve Fund, the Insurance Reserve Fund or a Special Debt Service Reserve Account required in connection with the issuance of such Series of Bonds.

Before any Bonds shall be issued under the Trust Agreement, the Agency and the Trustee shall enter into a Supplemental Trust Agreement authorizing the issuance of such Bonds fixing the amount and the details thereof. Such Supplemental Trust Agreement shall designate the Series of Bonds and shall set forth the authorized denominations, dates, maturities, interest rates, Interest Payment Dates, redemption provisions, Sinking Fund Requirements and other terms of the details of the Bonds authorized thereby. Each Supplemental Trust Agreement shall specify whether the Series of Bonds authorized thereby shall be entitled to the benefit of the Debt Service Reserve Fund, a Special Debt Service Reserve Account created under the Supplemental Trust Agreement or neither and shall specify the Debt Service Reserve Requirement or the requirement for the Special Debt Service Reserve Account in connection with the Bonds of such Series. Each Supplemental Trust Agreement shall specify the Insurance Reserve Requirement in connection with the Program Obligations to be financed with the proceeds of the Bonds issued thereunder. Each Supplemental Trust Agreement shall specify any requirements for the Program Obligations to be purchased with the proceeds of the Bonds authorized thereby, including how payment of such Program Obligations must be insured, guaranteed or otherwise secured. Each Supplemental Trust Agreement shall specify whether a policy of Bond Insurance will be delivered in connection with the issuance of such Bonds and provide any additional covenants and provisions with respect thereto.

### **Funds and Accounts**

The Trust Agreement creates the following Funds and Accounts:

- (a) Revenue Fund
- (b) Bond Service Fund
  - (i) Interest Account
  - (ii) Principal Account

- (iii) Sinking Fund Account
- (c) Reserve Fund Surety Bond Reimbursement Fund
- (d) Swap Agreement Payment Fund
- (e) Debt Service Reserve Fund
  - (i) Contribution Reserve Account
  - (ii) Equity Reserve Account
  - (iii) Proceeds Reserve Account
- (f) Insurance Reserve Fund
- (g) Redemption Fund
- (h) Revenue Reserve Fund
- (i) Program Fund

Any Supplemental Trust Agreement may establish such additional Funds and Accounts as shall be deemed necessary or desirable in order to effectuate the transactions contemplated by the Trust Agreement. A Supplemental Trust Agreement may provide for the creation of a Special Debt Service Reserve Account for the Bonds authorized by such Supplemental Trust Agreement and for the deposit of moneys to and withdrawal of moneys from such Account.

In addition to the foregoing, the Seventeenth Supplemental Trust Agreement created the Reserve Fund Surety Bond Reimbursement Fund and the Swap Agreement Payment Fund.

**Program Fund.**

Each Supplemental Trust Agreement authorizing the issuance of a Series of Bonds shall create a separate account in the Program Fund for the Program Obligations associated with the Bonds of such Series.

Money held for the credit of any Program Account shall be used to pay the following costs of the Program relating to the Series of Bonds for which such Account was established:

- (a) the amount determined by the Agency to be required to make or purchase any Program Obligation;
- (b) costs of issuance;
- (c) interest on such Bonds to the extent set forth in the Supplemental Trust Agreement authorizing such Series of Bonds;
- (d) any obligation or expense heretofore or hereafter incurred or paid by the Agency for any of the items mentioned in clause (b) above; and
- (e) to pay, either at maturity or otherwise in accordance with their terms, any notes theretofore issued by the Agency to provide interim financing for any of the purposes for which Bonds may be issued pursuant to the Trust Agreement.

The Agency covenants that immediately after any moneys are paid by the Trustee to a Lender or other person, firm, or corporation for the making of or purchase by the Agency of any Program Loans, the Agency will physically deliver, or cause to be physically delivered, to the Trustee the note or other instrument evidencing each Program Loan made or acquired as a result of such payment.

The Trustee shall not apply any moneys in the Program Fund to the purchase of a Program Security unless arrangements have been made so that immediately after such use the Trustee shall hold, on behalf of the Owners, a first perfected security interest in such Program Security, either through physical delivery of such Program Security or adequate notation on book-entry records for book-entry only securities. No Program Security shall be financed unless such Program Security represents a pass through or participation in a pool of mortgage loans that the Agency is eligible to finance under the Enabling Act and the Program Security provides for a guaranty of all payments to be made thereunder by a Federal Mortgage Agency.

Any Program Obligation may be withdrawn from the Program Fund and transferred by the Trustee to the recipient directed by the Agency free and clear from any pledge, lien, security interest or other interest created under the Trust Agreement upon the delivery to the Trustee of an Officer's Certificate directing such transfer and certifying that:

(a) such transfer is being made in order to provide for the redemption (whether optional or special, to the extent permitted by the applicable Supplemental Trust Agreement) or purchase of Bonds having a value corresponding to the value of the Program Obligation being withdrawn as reasonably estimated by the Agency and set forth in the Officer's Certificate; and

(b) the proposed transfer of the Program Obligation to the Agency and the sale, assignment, transfer or other disposition thereof by the Agency would not have a material adverse effect on the ability of the Agency to pay the principal of, and interest on, and premium, if any on the Bonds as the same become due, and to pay the Program Expenses.

## **Pledge**

Pursuant to the Trust Agreement, the Agency has pledged for the security of the Bonds, subject to the provisions of the Trust Agreement:

(a) All Program Obligations, Revenues, Program Obligation Accrued Interest, Financing Fees and Prepayments (as such terms are herein defined), and all moneys, securities and Funds and Accounts held or set aside pursuant to the Trust Agreement; and

(b) All money and securities held by or on behalf of the Trustee in all of the funds, accounts or subaccounts established pursuant to the Trust Agreement, except those funds, accounts and subaccounts that are expressly pledged in a Supplemental Trust Agreement as security only for a specified Series of Bonds and a Special Debt Service Reserve Account (hereinafter defined).

The pledge of the moneys, securities and Funds and Accounts and of the Program Obligations, Revenues, Program Obligation Accrued Interest, Financing Fees and Prepayments is valid and binding from and after the delivery of the first Bond delivered under the Trust Agreement. The Program Obligations, Revenues, Program Obligation Accrued Interest, Financing Fees and Prepayments and other moneys and securities so pledged and then or thereafter received by the Agency shall immediately be subject to the lien of such pledge without any physical delivery or further act, except that the Program Obligations shall be subject to the lien of such pledge only after the delivery of the Program Loan notes to the Trustee and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Agency, irrespective of whether such parties have notice thereof.

## **Application of Revenues and Other Moneys**

All Revenues, Program Obligation Accrued Interest, Financing Fees and Prepayments shall be collected by or on behalf of the Agency and deposited as received either with the Trustee or with a qualified depository designated by the Agency which shall receive the same as deposits of moneys held by the Trustee. The Trustee is only responsible for money actually deposited with the Trustee.

All Revenues shall be deposited by the Trustee to the credit of the Revenue Fund.

Any Prepayment shall be deposited by the Trustee to the credit of the Special Redemption Account for the Series of Bonds that provided the funds that financed the purchase of the Program Obligation to which such Prepayment relates (or that refunded the Bonds that financed such purchase), or, to the extent provided by the Supplemental Trust Agreement for the Series of Bonds that provided the funds that financed the purchase of the Program Obligation to which such Prepayment relates, to the credit of the Program Account for such Series of Bonds to be applied to purchase additional Program Obligations.

Any Financing Fees attributable to a Series of Bonds received by the Agency shall be deposited by the Agency as received as shall be provided in the Supplemental Trust Agreement for such Series.

Any moneys or other assets received by the Trustee from the Agency with instructions that the same be deposited to the credit of any Fund or Account under the Trust Agreement shall be so deposited to such Fund or Account.

In the event the Trustee or Agency receives a single payment all or any part of which constitutes Revenues, Prepayments, Program Obligation Accrued Interest or Financing Fees, the Trustee or Agency, as the case may be, shall segregate such payment into Revenues, Prepayments, or Program Obligation Accrued Interest and Financing Fees prior to making the deposits provided for above.

The Trustee, as of the last business day of each month, shall withdraw from the Revenue Fund and deposit to the credit of the following several Funds or Accounts, but as to each Fund or Account only within the limitation hereinbelow indicated with respect thereto and only after maximum payment within such limitation into every such Fund or Account previously mentioned in the following tabulation:

First: To the credit of the Interest Account, to the extent, if any, needed to increase the amount in the Interest Account so that it equals the amount of interest then or to become within the next ensuing six months due and payable on the Bonds of each Series then Outstanding; provided, however, that if interest on any Bonds is payable on a periodic basis other than a semi-annual basis, then the deposit requirement for the Interest Account may be adjusted pursuant to the Supplemental Trust Agreement authorizing such Bonds to reflect the payment of interest on such other periodic basis, provided, further, however, that the Agency shall not establish any schedule for the deposit of funds to the Interest Account to pay interest on Bonds on other than a semi-annual basis that would cause the Agency to default in the payment of the principal and Sinking Fund Requirements of, and interest on, any other Series of Bonds;

Second: To the credit of the Principal Account, to the extent, if any, needed to increase the amount in the Principal Account so that it equals the amount of principal of the Serial Bonds of each Series then or to become due and payable within the next ensuing six months; provided, however, that if the principal of any Series of Bonds is payable on an annual basis, then such amount of principal of the Serial Bonds of such Series, then or to become due and payable within the next ensuing twelve months (or if the date of such deposit is the last business day of the first six months of such annual period, one-half of the amount of such principal to become due and payable within the next ensuing twelve months); and provided further, that if principal on any Bonds is payable on a periodic basis other than a semi-annual or annual basis, then the deposit requirement for the Principal Account may be adjusted pursuant to the Supplemental Trust Agreement authorizing such Bonds to reflect the payment of principal on such other

periodic basis, provided, further, however, that the Agency shall not establish any schedule for the deposit of funds to the Principal Account to pay principal on Bonds on other than a semi-annual or annual basis that would cause the Agency to default in the payment of the principal and Sinking Fund Requirements of, and interest on, any other Series of Bonds;

Third: To the credit of the Sinking Fund Account, to the extent, if any, needed to make the amounts so deposited in the then current Sinking Fund Calculation Period to the credit of the Sinking Fund Account for the Term Bonds of each Series then Outstanding equal to the Sinking Fund Requirements, if any, for each such Sinking Fund Calculation Period, plus the premiums, if any, on such principal amount of the Term Bonds which would be payable if such principal amount of Term Bonds were to be redeemed in such period from money held for the credit of the Sinking Fund Account;

Fourth: To the credit of the Reserve Fund Surety Bond Reimbursement Fund the amount, if any, necessary to make payments to the issuers of the Reserve Fund Surety Bonds to reimburse such issuers for payments with respect to the Reserve Fund Surety Bonds in accordance with the terms of the agreements between the Agency and such issuers in connection therewith;

Fifth: To the credit of the Swap Agreement Payment Fund the amount, if any, needed to increase the amount in that Account so that it equals the amount estimated at the time of the transfer to be necessary to pay to any Swap Providers (i) the Swap Agreement Periodic Payments required to be paid during the ensuing six months and (ii) any Swap Agreement Termination Payments then due and payable. In the event that the Agency enters into more than one Swap Agreement and there are not sufficient funds at the end of a month to make all deposits to all Accounts of the Swap Agreement Payment Fund, amounts shall be deposited to the Series 17 Account of the Swap Agreement Payment Fund and any other Account created with respect to a Swap Agreement on a pro rata basis;

Sixth: To the credit of the Debt Service Reserve Fund, to the extent, if any, needed to increase the amount in the Debt Service Reserve Fund so that it equals the Debt Service Reserve Requirement;

Seventh: To the credit of any Special Debt Service Reserve Account, to the extent, if any, needed to increase the amount in such Special Debt Service Reserve Account to the amount required to be on deposit therein by the Supplemental Trust Agreement creating such Special Debt Service Reserve Account; in the event that there are deficiencies in more than one Special Debt Service Reserve Account, to the extent there are insufficient funds to make the deposits required to be made to all Special Debt Service Reserve Accounts, the available amount shall be deposited to all of the Special Debt Service Reserve Accounts pro rata based upon the amounts then required to be deposited to each such Special Debt Service Reserve Account;

Eighth: To the credit of the Insurance Reserve Fund, to the extent, if any, needed to increase the amount in the Insurance Reserve Fund so that it equals the Insurance Reserve Requirement;

Ninth: To the credit of the Revenue Reserve Fund, for deposit therein, the balance remaining.

A Supplemental Trust Agreement may provide for the deposit of Revenues to a Fund or Account created thereunder or for another application of Revenues prior to the deposit of remaining Revenues to the credit of the Debt Service Reserve Fund, a Special Debt Service Reserve Account, the Insurance Reserve Fund or the Revenue Reserve Fund; provided however, that the Supplemental Trust Agreement providing for such

change in the application of Revenues shall not be effective without the prior written consent of any Swap Provider that is adversely affected by such change.

#### **Interest Account and Principal Account.**

The Trustee shall, on each Interest Payment Date remit payment of interest on the Bonds then due from the Interest Account. The Trustee shall, on each Principal payment date remit payment of principal on the Bonds then due from the Principal Account.

#### **Sinking Fund Account.**

Moneys held for the credit of the Sinking Fund Account shall be applied during each Sinking Fund Calculation Period for the retirement of Term Bonds of each Series then Outstanding.

#### **Reserve Fund Surety Bond Reimbursement Fund**

Amounts deposited to the Reserve Fund Surety Bond Reimbursement Fund shall be applied to reimburse the issuer of the respective Prior Reserve Surety Bonds for the amount of drawings and to pay expenses with respect to drawings, including interest expenses, incurred by the Agency under agreements entered by the Agency in connection with the procurement of the Prior Reserve Fund Surety Bonds.

#### **Swap Agreement Payment Fund**

Amounts deposited to the respective accounts of the Swap Agreement Payment Fund shall be applied to make payments to the Swap Provider in accordance with the terms of the respective Swap Agreement.

#### **Redemption Fund.**

Moneys in the Redemption Fund will be applied to the optional or special redemption of Bonds. Each Supplemental Trust Agreement authorizing a Series of Bonds under the Trust Agreement shall create a separate account in the Redemption Fund designated the Special Redemption Account. The Redemption Prices and the times and conditions for redemption of Bonds of each Series which are subject to redemption from moneys held for the credit of a Special Redemption Account, and the Redemption Prices and the times and conditions for redemption of Bonds of each Series which are subject to redemption from moneys held for the credit of the Optional Redemption Account shall be the respective Redemption Prices and times and conditions for redemption specified in the Supplemental Trust Agreement for such Series of Bonds. Any Supplemental Trust Agreement may provide redemption priorities or protection to any maturities of the Bonds authorized by such Supplemental Trust Agreement with respect to redemptions to be made.

Any Supplemental Trust Agreement may provide that Prepayments deposited to the Special Redemption Account created thereby may be applied to redeem Bonds other than the Series of Bonds authorized thereby, and may provide any additional conditions that must be met prior to such a redemption.

#### **Debt Service Reserve Fund**

Moneys deposited to the credit of the Debt Service Reserve Fund shall be credited to the Proceeds Reserve Account to the extent such moneys are proceeds of Bonds, to the Contribution Reserve Account to the extent that such moneys are derived from appropriations by the State to the Agency and to the Equity Reserve Account to the extent such moneys are not proceeds of Bonds or are not derived from appropriations by the State to the Agency. Any amounts deposited to the Debt Service Reserve Fund from the Revenue Fund as described above under the heading "Application of Revenues and Other Moneys" shall be credited to the Proceeds Reserve Account, Contribution Reserve Account or the Equity Reserve Account as necessary to replenish the amounts withdrawn from such respective Accounts as hereinafter described.

If at any time the moneys held for the credit of the Bond Service Fund, including moneys transferred from the Revenue Reserve Fund as described below under the heading "Revenue Reserve Fund" and any

amounts transferred under Funds and Accounts created under any Supplemental Trust Agreement to the extent required to be transferred to the Bond Service Fund or an Account thereof, shall be insufficient to pay when due the interest, principal and Sinking Fund Requirements of the Bonds secured by the Debt Service Reserve Fund the Trustee shall transfer from the Debt Service Reserve Fund to the credit of the Bond Service Fund an amount sufficient to make up any such deficiency.

Amounts shall be transferred from the Debt Service Reserve Fund to the Bond Service Fund only to the extent necessary to pay the interest on and principal and Sinking Fund Requirements of Bonds secured by the Debt Service Reserve Fund. In the event that any portion of the Debt Service Reserve Requirement is being provided by a Reserve Alternative Instrument, the Trustee shall make such drawings under such Reserve Alternative Instrument, pursuant to the terms thereof, as shall be necessary so that the proceeds of such drawing shall be available to make the transfers to the Bond Service Fund required by this paragraph.

If at any time the moneys held for the credit of the Debt Service Reserve Fund shall exceed the Debt Service Reserve Requirement and all transfers of moneys from the Debt Service Reserve Fund have been made, the Agency, by an Officer's Certificate, may instruct the Trustee to withdraw from the Debt Service Reserve Fund the amount of the excess therein over the Debt Service Reserve Requirement. If the Trustee is directed to make such withdrawal, the Trustee shall (i) if the withdrawal is from the Proceeds Reserve Account, deposit the amount withdrawn to the Optional Redemption Account or a Special Redemption Account as shall be directed in such Officer's Certificate, or (ii) if the amount withdrawn is from the Contribution Reserve Account or the Equity Reserve Account, pay the amount as directed by the Agency, including depositing such amounts to the credit of the Optional Redemption Account or a Special Redemption Account.

Any deficiency in the Debt Service Reserve Fund, whether resulting from a drawing on a Reserve Alternative Instrument or transfers of cash, may be satisfied through the deposit of additional moneys or the providing of an additional, or increase in a, Reserve Alternative Instrument. If a drawing under a Reserve Alternative Instrument occurs, amounts held in the Debt Service Reserve Fund shall be applied to reimburse the issuer of the Reserve Alternative Instrument, including interest thereon, in connection with such drawing under such terms as shall be agreed upon between the Agency and the issuer of the Reserve Alternative Instrument.

### **Insurance Reserve Fund**

The Insurance Reserve Requirement with respect to each Series of Bonds, if any, is to be set forth in the Supplemental Trust Agreement authorizing the issuance of such Bonds. To date, the Insurance Reserve Requirement for each Series of Bonds, including the Insurance Reserve Requirement for the Bonds now being offered, has been a percentage of the Program Loans to be financed with the proceeds of the Bonds, with the percentage based upon whether the Program Loan is an FHA Insured Program Loan, a VA Guaranteed Program Loan, a USDA Guaranteed Program Loan, a PMI Insured Program Loan or a Program Loan that does not require insurance or a guaranty.

The Insurance Reserve Requirement for any subsequent Series of Bonds, if any, will be set forth in the Supplemental Trust Agreement authorizing the issuance of such Bonds.

Money deposited in the Insurance Reserve Fund shall be used for the purpose of paying the portion of any loss with respect to a Program Loan in default that is not paid from any public or private insuring or guaranteeing agency. The Agency shall promptly furnish to the Trustee an Officer's Certificate stating the amount of the loss, when determinable, and whether such loss is attributable to the receipt by the Agency of less than a scheduled payment of principal and interest on the defaulted Program Loan or less than the principal amount of the Program Loan upon final payment of the insurance claim or guaranty. To the extent the loss is attributable to a deficiency in payment of scheduled principal and interest on the Program Loan, the amount of such loss shall be transferred to the Revenue Fund. To the extent the loss is attributable to a deficiency in the loss payment over the principal amount of the Program Loan, the amount of such loss shall be transferred to the Special Redemption Account for the Series of Bonds that financed the purchase of the Program Loan (or that refunded the Bonds that financed such purchase).

To the extent any amounts in the Insurance Reserve Fund are required to be applied to the payment of Bonds, the Agency is not required to replenish such amounts.

If, at any time, the amount on deposit in the Insurance Reserve Fund shall be in excess of the Insurance Reserve Requirement, the Trustee shall leave the amount of such excess in the Insurance Reserve Fund, or, if so directed in writing by the Agency in an Officer's Certificate, transfer the amount of such excess as described in this Section. In the event that the amount of the surplus in the Insurance Reserve Fund was provided from the proceeds of Bonds, the amount of the surplus shall be transferred to the Special Redemption Account for the Series of Bonds that provided the deposit to the Insurance Reserve Fund. In the event that the amount of the surplus in the Insurance Reserve Fund was provided from Revenues transferred from the Revenue Fund or a transfer from the Revenue Reserve Fund, the amount of the surplus shall be transferred to the Revenue Fund. In the event that the amount of the surplus in the Insurance Reserve Fund was provided from Agency funds, the amount of the surplus shall be transferred to the Agency's General Fund.

### **Revenue Reserve Fund**

Money deposited in the Revenue Reserve Fund shall be used in the following order of priority:

1. If at any time the moneys held to the credit of the Bond Service Fund shall be insufficient to pay when due the interest, principal or the Sinking Fund Requirements of any Bonds, the Trustee shall transfer from the Revenue Reserve Fund to the credit of the Bond Service Fund an amount sufficient to make up any such deficiency.

2. The Trustee shall transfer from the Revenue Reserve Fund such amount as shall be necessary to be paid from time to time to the United States of America or to the borrowers under the Program Obligations in order for the Agency to comply with the applicable covenants made by the Agency regarding the exclusion of interest on the Bonds from federal income taxation.

3. The Trustee shall transfer from the Revenue Reserve Fund to the credit of the applicable Special Redemption Account, whenever Prepayments are received with respect to any defaulted Program Loan, the amount, if any, by which the portion of such Prepayments to be deposited in such Special Redemption Account, representing the payment of principal on such Program Loan, is less than the amount by which the principal balance of the defaulted Program Loan has been reduced as a result of the receipt of such Prepayments, as determined in an Officer's Certificate filed with the Trustee.

4. The Trustee shall transfer from the Revenue Reserve Fund to the Agency any amount certified in an Officer's Certificate filed with the Trustee as necessary for the payment of real estate taxes, insurance, foreclosure fees, including appraisal and legal fees, and similar expenses incurred by the Agency in connection with the acquisition of any property secured by a mortgage on behalf of the Agency or expenses for repairs, rehabilitation, improvements, maintenance, renting or sale and similar expenses incurred by the Agency in connection with such property.

5. The Trustee shall transfer from the Revenue Reserve Fund to the Optional Redemption Account or any Special Redemption Account the amount specified to the Trustee by the Agency to redeem Bonds.

6. The Trustee shall transfer from the Revenue Reserve Fund to any Program Account the amount specified to the Trustee by the Agency in an Officer's Certificate for the purpose of paying Issuance Costs in connection with the issuance of a new Series of Bonds or to purchase additional Program Obligations.

7. The Trustee shall transfer from the Revenue Reserve Fund the amount specified to the Trustee by the Agency in an Officer's Certificate for the purpose of paying Program Expenses if, as shown by an Officer's Certificate filed with the Trustee, the Agency has purchased and owns Program Obligations with scheduled payments of principal and interest such that the Revenues and Prepayments,

if any, estimated by the Agency in good faith to be received from such Program Obligations, together with any other moneys estimated in good faith to be available for the payments hereinafter mentioned, including, without limitation, investment income on the Funds and Accounts available for such payments and the moneys held for the credit of the Debt Service Reserve Fund and any Special Debt Service Reserve Account, shall be sufficient to pay when due (i) the Program Expenses and (ii) the principal of, Sinking Fund Requirements on account of, and interest on the Bonds.

8. The Trustee shall transfer from the Revenue Reserve Fund the amounts directed by the Agency for any purpose for which amounts in the Revenue Reserve Fund may be applied pursuant to the Trust Agreement.

9. The Trustee shall transfer from the Revenue Reserve Fund to the Agency's General Fund the amount specified to the Trustee by the Agency in an Officer's Certificate, at any time by which (A) the amount in the Revenue Reserve Fund, together with the amount in all other Funds and Accounts under the Resolution (other than the Interest Account and the Insurance Reserve Account) and the outstanding principal balance of all Program Obligations exceeds (B) 102% of the Outstanding principal amount of Bonds plus the most recently calculated Swap Termination Value Holdback; but only if as shown by an Officer's Certificate filed with the Trustee, the Agency has purchased and owns Program Obligations with scheduled payments of principal and interest such that the Revenues and Prepayments, if any, estimated by the Agency in good faith to be received from such Program Obligations, together with any other moneys estimated in good faith to be available for the payments hereinafter mentioned, including, without limitation, investment income on the Funds and Accounts available for such payments and the moneys held for the credit of the Debt Service Reserve Fund and any Special Debt Service Reserve Account, shall be sufficient to pay when due (A) the Program Expenses and (B) the principal of, Sinking Fund Requirements on account of, and interest on the Bonds. For purposes of determining whether such a transfer to the General Fund may be made, investments in all Funds and Accounts shall be valued at cost plus amortization of discount or minus amortization of premium.

In addition, amounts deposited to the Revenue Reserve Fund may be applied to the following additional purposes:

(i) If at any time the Agency is required to make a Swap Agreement Periodic Payment or a Swap Agreement Termination Payment, the Trustee shall transfer from the Revenue Reserve Fund to the Swap Agreement Payment Fund the amount required to pay the applicable payment to the Swap Provider.

(ii) In the event there is a Swap Agreement Periodic Payment or a Swap Agreement Termination Payment required to be paid by the Agency, and such payment is paid by an insurer or guarantor, the Trustee shall transfer from the Revenue Reserve Fund to the Swap Agreement Payment Fund the amount required to reimburse the payment of the Swap Agreement Periodic Payment or a Swap Agreement Termination Payment by such insurer or guarantor.

Funds on deposit in the Revenue Reserve Fund shall be used for the purposes described in items (i) and (ii) above without regard to the priorities for expenditure of funds set forth above; provided, however, that if funds are required for the purpose described in item 1. above (relating to transfers from the Revenue Reserve Fund to pay principal and interest on Bonds), then the funds shall be used for that purpose before the uses described in items (i) and (ii) above.

### **1974 Appropriation Reserve Fund**

In addition to the foregoing, the Twelfth Supplemental Trust Agreement creates the 1974 Appropriation Reserve Fund. In connection with the issuance of the Series 12 Bonds, the Agency deposited \$4,000,000 to the 1974 Appropriation Reserve Fund.

If at any time the moneys held to the credit of the Bond Service Fund shall be insufficient to pay when due the principal and Sinking Fund Requirements of, and interest on, the Bonds, and if the amounts transferred

to the credit of the Bond Service Fund from the Debt Service Reserve Fund and the Revenue Reserve Fund are insufficient to make up the deficiency, the Trustee shall transfer from the 1974 Appropriation Reserve Fund to the credit of the Bond Service Fund an amount sufficient to make up the deficiency.

The Board may by resolution, which may be amended from time to time, direct the Trustee to withdraw all or any part of the interest earned or other income derived from the investment or deposit of moneys in the 1974 Appropriation Reserve Fund and pay such moneys to the Agency, and the Agency may apply such moneys to the payment of any operating expenses of the Agency incurred or to be incurred under the program of the Agency.

The Board may from time to time by resolution direct the Trustee to withdraw any moneys held for the credit of the 1974 Appropriation Reserve Fund and pay such moneys to the Agency or to the trustee under a bond resolution or trust agreement of the Agency other than the Trust Agreement for deposit by the Agency or such trustee to the credit of one or more debt service reserve funds securing bonds of the Agency not issued under the provisions of the Trust Agreement.

### **Investment of Money**

Money held for the credit of each Fund and Account shall, as nearly as may be practicable, be continuously invested and reinvested by the Trustee, at the direction of the Agency, in Investment Obligations

The Investment Obligations may be purchased by the Trustee through its own investment division or other bank facilities established for such purpose.

### **Encumbrances**

The Agency covenants that it will not create or suffer to be created any lien, encumbrance or charge upon the Program Obligations, Revenues, Prepayments or Funds and Accounts pledged under the Trust Agreement except the pledge, lien and charge for the security of the Bonds secured hereby upon the Program Obligations, Revenues, Prepayments and Funds and Accounts, except as otherwise provided in the Trust Agreement.

To the extent of their respective rights therein, the Agency and the Trustee have granted to the Swap Provider(s) a security interest in the moneys, securities and Funds and Accounts and Program Obligations, Revenues, Program Obligation Accrued Interest, Financing Fees and Prepayments (the "Trust Estate") to secure the obligations of the Agency to the Swap Providers under any Swap Agreements entered into by the Agency. Such security interest shall be subject and subordinate to the security interest in and pledge of the Trust Estate created in favor of the Trustee and the holders of the Bonds under the Trust Agreement and the security interest and pledge made by the Agency to the issuers of the Reserve Fund Surety Bonds to secure the payments required to be paid to such issuers in connection with drawings under such surety bonds from the Reserve Fund Surety Reimbursement Fund in accordance with the provisions of the Seventeenth Supplemental Trust Agreement.

The Agency may at any time issue indebtedness secured by a lien, pledge or other security interest in the Program Obligations, Revenues, Prepayments and Funds and Accounts pledged under the Trust Agreement if such indebtedness constitutes Subordinated Indebtedness. The Agency shall not incur such Subordinated Indebtedness unless:

- (i) Prior to incurring such Subordinated Indebtedness, the Agency shall file with the Trustee an Officer's Certificate to the effect that the incurrence of such Subordinated Indebtedness and the payment thereof from the Revenues and other amounts available will not materially and adversely affect the ability of the Agency to pay the principal of, Sinking Fund Requirements on account of, and interest on the Bonds then outstanding.

(ii) The terms of such Subordinated Indebtedness shall provide that payment of such indebtedness shall be subordinate and junior in right of payment to the prior payment in the event (a) of any insolvency or bankruptcy proceedings, any receivership, liquidation, reorganization, arrangement or other similar proceedings in connection therewith, relative to the Agency or the Program, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the Agency or the Program whether or not involving insolvency or bankruptcy, (b) any Subordinated Indebtedness is declared or otherwise becomes due and payable before its stated maturity because of the occurrence of an event of default occurring under the documents pursuant to which such Subordinated Indebtedness was incurred, or (c) any Event of Default under the Trust Agreement shall occur and be continuing and (1) written notice of such default shall have been given to the Agency and (2) judicial proceedings shall be commenced in respect of such Event of Default within 180 days in the case of a default in payment of principal or interest on the Bonds and within 90 days in the case of any other default after the giving of such notice, then, for so long as any action described in clause (a), (b) or (c) hereof shall not have been remedied or cured in the opinion of the Trustee, the Owners of the Bonds shall be entitled to receive payment in full of all principal, premium and interest on all Bonds before the owners of the Subordinated Indebtedness are entitled to receive any payment on account of principal or interest on the Subordinated Indebtedness, and to that end the Owners of the Bonds shall be entitled to receive for application in payment thereof any payment or distribution of any kind of character, whether in cash or property or securities, which may be payable or deliverable in any such proceedings in respect of the Subordinated Indebtedness after giving effect to any concurrent payment or distribution in respect to the Bonds.

## **Records and Accounts**

The Agency covenants that promptly after the close of each Fiscal Year it will cause an audit to be made of its books and accounts by an independent firm of certified public accountants of recognized ability and standing. The Agency covenants that it will cause an annual report of the operations and accomplishments of each program of the Agency to be prepared. As soon as practicable thereafter, reports of each such audit and copies of each annual report shall be filed with the Trustee, and copies of such reports shall be mailed to all Owners who have sent the Agency a written request for such reports.

## **Program Covenants**

The Agency shall do all such acts and things necessary to receive and collect Revenues, Prepayments and Escrow Payments, and to enforce the Servicing Agreements, as may be consistent with sound banking practices and principles and shall diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Agency for the enforcement of all terms, covenants and conditions of the Program Obligations. The Agency may, in its discretion, reduce the amounts to be collected under any Program Loan to the extent that such action is required in connection with the federal income tax requirements relating to the tax-exempt status of the Agency's Bonds.

The Agency shall not cause Bonds to be purchased or redeemed unless, after such purchase or redemption, there shall be no material adverse effect on the ability of the Agency to pay when due the principal of and the interest on, and any Sinking Fund Requirements on account of, the Bonds then Outstanding.

The Agency will make or purchase Program Obligations with the proceeds of such Bonds with scheduled payments of principal and interest such that the Revenues and Prepayments, if any, estimated by the Agency to be received from such Program Obligations, together with any other moneys estimated to be available will be sufficient to pay when due the principal of, Sinking Fund Requirements on account of, and interest on the Bonds.

The Agency will not cause money to be withdrawn from the Debt Service Reserve Fund unless an Authorized Officer shall determine in an Officer's Certificate which shall be filed with the Trustee at the time of such withdrawal that such amounts being so withdrawn are not likely to be needed while any Bonds are

Outstanding under the provisions of the Trust Agreement for paying the principal of, Sinking Fund Requirements on account of, and interest on Bonds secured by the Debt Service Reserve Fund.

The Agency will not delay in the prosecution and collection of any claim for a mortgage insurance or guarantee payment to which it shall be entitled, permit any such delay under its control nor fail to elect to assign any Program Obligation whenever it shall be necessary to do so to obtain the benefits of mortgage insurance or guarantees. The Agency shall not delay in the prosecution or collection of any claim for insurance which it shall be entitled to make or permit any such delay under its control.

Whenever necessary in order to protect and enforce the interests and security of Owners of the Bonds, the Agency shall commence foreclosure or pursue other appropriate remedies with respect to any Program Obligation which is in default. In the event that the Agency shall, in its discretion, determine such action to be in the best interests of the Owners of the Bonds, the Agency may bid for and purchase the premises covered by any such Program Obligation at any foreclosure sale thereof and may otherwise take possession of or acquire such property.

The Agency shall not expend for Program Expenses in any Fiscal Year more than is reasonable and necessary therefor.

### **Default and Remedies**

Each of the following events is an "Event of Default":

(a) payment of the principal or Redemption Price of any of the Bonds is not made when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(b) payment of any installment of interest on any of the Bonds is not made when the same shall become due and payable; or

(c) the total amount deposited in the Sinking Fund Account in any applicable period set forth in a Supplemental Trust Agreement shall be less than the Sinking Fund Requirements for such period; or

(d) final judgment for the payment of money is rendered against the Agency and any such judgment is not discharged within sixty (60) days from the entry thereof or an appeal is not taken therefrom or from the order, decree or process upon which or pursuant to which such judgment was granted or entered, in such manner as to stay the execution of or levy under such judgment, order, decree or process or the enforcement thereof; or

(e) an order or decree is entered, with the consent or acquiescence of the Agency, appointing a receiver or receivers of any Revenues, Prepayments, or other money or assets, including the Program Obligations pledged under the provisions of the Trust Agreement, or if such order or decree, having been entered without the consent or acquiescence of the Agency, is not vacated, discharged or stayed on appeal within ninety (90) days after the entry thereof; or

(f) any proceeding is instituted, with the consent or acquiescence of the Agency, for the purpose of effecting a composition between the Agency and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or State statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from any Revenues or Prepayments, or other moneys or assets, including the Program Obligations, pledged under the provisions of the Trust Agreement; or

(g) the Agency defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the Trust

Agreement or any Supplemental Trust Agreement on the part of the Agency to be performed, and such default continues for thirty (30) days after written notice specifying such default and requiring it to be remedied shall have been given to the Agency by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding; provided, however, that if the default cannot be corrected within such thirty day period and the Agency is pursuing diligent efforts to cure such default, then an Event of Default shall not have occurred so long as the Agency continues diligent efforts to cure the default.

Upon the happening and continuance of any Event of Default the Trustee may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall, by a notice in writing to the Agency, declare the principal of all of the Bonds then Outstanding (if not then due and payable) to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable, anything contained in the Bonds or in the Trust Agreement to the contrary notwithstanding; subject to certain actions by the Agency to cure the Event of Default before the Bonds are paid.

Upon the happening and continuance of any Event of Default, then and in every such case the Trustee may proceed, and upon the written request of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall proceed, to protect and enforce its rights and the rights of the Owners by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, for the specific performance of any covenant or agreement contained herein or in aid or execution of any power herein the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Trust Agreement, the Trustee shall be entitled to sue for, enforce payment of and receive any and all unpaid amounts then or during any default becoming and at any time remaining, due from the Agency for principal, interest or otherwise under any of the provisions of the Trust Agreement or of the Bonds and unpaid, with interest on overdue payments of principal at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses, without prejudice to any other right or remedy of the Trustee or of the Owners, and to recover and enforce any judgment or decree against the Agency, but solely as provided herein and in such Bonds, for any portion of such amounts remaining unpaid and interest, costs and expenses as above provided, and to collect (but solely from money in the Funds and Accounts pledged to secure the Bonds under the provisions of the Trust Agreement and any other money available for such purpose) in any manner provided by law, the money adjudged or decreed to be payable.

If at any time the money in the Bond Service Fund shall not be sufficient to pay the interest on or the principal of the Bonds as the same shall become due and payable (either by their terms or by acceleration of maturities), such money, together with any money then available or thereafter becoming available for such purpose, including any money then held for the credit of any Funds and Accounts pledged to secure the payment of the Bonds, whether through the exercise of the remedies provided for in this Article or otherwise, shall be applied as follows:

(a) If the principal of all the Bonds shall not have become or shall not have been declared due and payable, all such money shall be applied:

first: to the payment to the persons entitled thereto of all installments of interest then due and payable in the order in which such payments became due and payable and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment, ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds;

second: to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due and payable (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of

the Trust Agreement) in the order of their due dates, with interest on the principal amount of such Bonds at the respective rates specified therein from the respective dates upon which such Bonds became due and payable, and, if the amount available shall not be sufficient to pay in full the principal of the Bonds due and payable on any particular date, together with such interest, then principal of the Bonds due and payable on any particular date, together with such interest, then to the payment first of such interest, ratably, according to the amount of such interest due on such date, and then to the payment of such principal, ratably, according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds; and

third: to the payment of the interest on and the principal of the Bonds, to the purchase and retirement of Bonds and to the redemption of Bonds.

(b) If the principal of all the Bonds shall have become or shall have been declared due and payable, all such money shall be applied:

first: to the payment to the persons entitled thereto of all interest due and payable on or prior to maturity, if any, in the order in which such interest became due and payable and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment, ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds, and then to the payment of any interest due and payable after maturity on the Bonds, ratably, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds; and

second: to the payment of the principal of the Bonds, ratably, to the persons entitled thereto, without preference or priority of any Bond over any other Bond.

### **Control of Proceedings by the Owners**

The Owners of a majority in principal amount of the Bonds then Outstanding shall have the right, subject to the indemnification provisions described below to direct the method and place of conducting all remedial proceedings to be taken by the Trustee.

No Owner shall have any right to institute any suit, whether in equity or at law, on any Bond or for any other remedy unless such Owner previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Owners of not less than twenty per centum (20%) in aggregate principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers hereinabove granted or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time.

Nothing impairs the right of any Owner to enforce the payment of the principal of and interest on his Bond, or the obligation of the Agency to pay the principal of and interest on each Bond to the Owner thereof, at the time and place in said Bond expressed.

### **Concerning the Trustee**

The Trustee shall be under no obligation to institute any suit, or to take any remedial proceeding under the Trust Agreement, or to enter any appearance or in any way defend in any suit in which it may be made

defendant, or to take any steps in the execution of the trusts hereby created or in the enforcement of any rights and powers under the Trust Agreement, until it shall be indemnified to its reasonable satisfaction against any and all costs and expenses, outlays and counsel fees and other reasonable disbursements, and against all liability.

Any bank or trust company acting as Trustee under the Trust Agreement, and its directors, officers, employees or agents, may in good faith buy, sell, own, hold and deal in any of the Bonds issued under and secured by the Trust Agreement, may join in any action which any Owner may be entitled to take with like effect as if such bank or trust company were not the Trustee under the Trust Agreement.

The Trustee may resign and thereby become discharged from the trusts hereby created by notice in writing to the Owners, but such resignation shall take effect immediately upon the appointment of a successor Trustee. If no Event of Default shall have occurred and be continuing, and no event that but for the giving of notice on the passage of time would become an Event of Default shall have occurred and be continuing, the Agency may remove the Trustee at any time. The Trustee may also be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of the Trust Agreement with respect to the duties and obligations of the Trustee, by any court of competent jurisdiction upon the application of the Agency or of the Owners of not less than ten per centum (10%) in aggregate principal amount of the Bonds then Outstanding.

### **Supplemental Trust Agreements**

The Agency and the Trustee may from time to time and at any time enter into such Agreements supplemental hereto to amend the provisions hereof as, in the opinion of the Agency and the Trustee, shall not materially adversely affect the interests of the Owners (which supplemental indentures shall thereafter form a part hereof), including supplemental indentures:

- (a) to cure any ambiguity or formal defect or omission, to correct or supplement any provision therein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under the Trust Agreement which shall not be inconsistent with the provisions of the Trust Agreement, or
- (b) to grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee, including, without limitation, the issuance of bearer Bonds with appurtenant interest coupons, or
- (c) to add to the conditions, limitations and restrictions on the issuance of Bonds under the provisions of the Trust Agreement other conditions, limitations and restrictions thereafter to be observed, or
- (d) to amend any of the provisions of the Trust Agreement to the extent required to permit compliance by the Agency with the Internal Revenue Code of 1986, as amended, and the regulations in effect thereunder, or
- (e) to add to the covenants and agreements of the Agency in the Trust Agreement other covenants and agreements thereafter, to be observed by the Agency or to surrender any right or power herein reserved to or conferred upon the Agency, or
- (f) to make any other change to the provisions of the Trust Agreement that do not materially impair the security of the Owners.

The Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding may consent to and approve the adoption by the Board of such other supplemental trust agreements as shall be deemed necessary or desirable by the Agency for the purpose of modifying, altering, amending, adding to, repealing or rescinding in any particular any of the terms or provisions contained in the Trust Agreement or in

any supplemental indenture; provided, however, that nothing herein contained shall permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bond, (b) a reduction in the principal amount or Redemption Price of any Bond, any Sinking Fund Requirement on account of the Bonds or the rate of interest on any Bond, (c) the creation of a lien upon or a pledge of the Program Obligations, Revenues, Prepayments and other money and assets pledged other than the lien and pledge created by the Trust Agreement, (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture without the consent of the Owners of all Bonds Outstanding under the Trust Agreement.

A Supplemental Agreement that relates only to the issuance of a particular Series of Bonds and that does not purport to alter or amend the rights or security of any Owners of any Bonds of any other Series shall not be deemed or considered to be a supplemental trust agreement for purposes of the amendment provisions.

### **Defeasance**

If, the Bonds have become due and payable in accordance with their terms or shall have been duly called for redemption or irrevocable instructions to call the Bonds for redemption shall have been given by the Agency to the Trustee, the whole amount of the principal and the interest and the premium, if any, so due and payable upon all of the Bonds then Outstanding shall be paid or sufficient money, or Government Obligations the principal of and the interest on which when due will provide sufficient money to pay such whole amount, shall be held by the Trustee for such purpose under the provisions of the Trust Agreement, and provision shall also be made for paying all other sums payable by the Agency, then and in that case the right, title and interest of the Trustee under the Trust Agreement shall thereupon cease, determine and become void.

## APPENDIX D

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BOOK-ENTRY-ONLY SYSTEM

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## BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 28 Bonds. The Series 28 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 28 Bond certificate will be issued for each maturity of the Series 28 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Series 28 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 28 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 28 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 28 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 28 Bonds, except in the event that use of the book-entry system for the Series 28 Bonds is discontinued.

To facilitate subsequent transfers, all Series 28 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 28 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 28 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 28 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 28 Bonds may wish to take certain steps to augment transmission

to them of notices of significant events with respect to the Series 28 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Series 28 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 28 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 28 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Agency as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 28 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 28 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Agency or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Agency or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Agency and the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 28 Bonds at any time by giving reasonable notice to the Agency or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 28 Bond certificates are required to be printed and delivered.

The Agency may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 28 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Agency believes to be reliable, but the Agency takes no responsibility for the accuracy thereof.

## APPENDIX E

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INFORMATION REGARDING AMBAC ASSURANCE CORPORATION  
AND FINANCIAL SECURITY ASSURANCE INC.

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## INFORMATION REGARDING AMBAC ASSURANCE CORPORATION

The following information has been obtained from material made available for public dissemination by Ambac Assurance. Ambac Assurance has not been asked to review and has not reviewed this information in connection with the preparation of this Official Statement. The Agency has not verified, and is not in a position to verify, the accuracy of the following information.

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$9,699,000,000 (unaudited) and statutory capital of approximately \$6,223,000,000 (unaudited) as of September 30, 2006. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of a bond by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such bond and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the obligor.

### Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

### Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006;
2. The Company's Current Report on Form 8-K dated and filed on April 26, 2006;
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2006 and filed on May 10, 2006;
4. The Company's Current Report on Form 8-K dated July 25, 2006 and filed on July 26, 2006;
5. The Company's Current Report on Form 8-K dated and filed on July 26, 2006;

6. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2006 and filed on August 9, 2006;
7. The Company's Current Report on Form 8-K dated and filed on October 25, 2006; and
8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2006 and filed on November 8, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "**Available Information**".

## INFORMATION REGARDING FINANCIAL SECURITY ASSURANCE INC.

**The following information has been obtained from material made available for public dissemination by FSA. FSA has not been asked to review and has not reviewed this information in connection with the preparation of this Official Statement. The Agency has not verified, and is not in a position to verify, the accuracy of the following information.**

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2006, Financial Security's combined policyholders' surplus and contingency reserves were approximately \$2,581,107,000 and its total net unearned premium reserve was approximately \$1,992,163,000 in accordance with statutory accounting principles. At September 30, 2006, Financial Security's consolidated shareholder's equity was approximately \$3,058,987,000 and its total net unearned premium reserve was approximately \$1,590,538,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).