REMARKETING - NOT A NEW ISSUE **(Book-Entry Only)**

This Remarketing Circular has been prepared by the North Carolina Housing Finance Agency to provide information on the remarketing of its Series 15-C (AMT) Home Ownership Variable Rate Revenue Bonds, Series 16-C (AMT) Home Ownership Variable Rate Revenue Bonds, Series 17-C (AMT) Home Ownership Variable Rate Revenue Bonds and Series 18-C (AMT) Home Ownership Variable Rate Revenue Bonds (collectively the "VRDOs"). Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the VRDOs, a prospective investor should read this Remarketing Circular in its entirety and the original Official Statements for each of the above referenced issues. Unless indicated, capitalized terms used on this cover page have the meanings given in the Remarketing Circular.

Remarketing of
NORTH CAROLINA HOUSING FINANCE AGENCY
HOME OWNERSHIP VARIABLE RATE REVENUE BONDS
(1998 Trust Agreement)

Series 15-C (AMT) Home Ownership Variable Rate Revenue Bonds CUSIP #65820E4Q0
Series 16-C (AMT) Home Ownership Variable Rate Revenue Bonds CUSIP #65820E5W6
Series 17-C (AMT) Home Ownership Variable Rate Revenue Bonds CUSIP #65820E8L7
Series 18-C (AMT) Home Ownership Variable Rate Revenue Bonds CUSIP #65820E8M5

Dated: Date of Original Delivery- See Inside Cover **Due: Original Stated Maturity- See Inside Cover**

Tax Matters *On the issuance dates of each series of the VRDOs, Bond Counsel delivered an opinion to the effect that as of the date thereof, pursuant to the requirements of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations thereunder (collectively, the "Federal Tax Requirements"), interest on the VRDOs was not includable in gross income of the owners thereof for federal income tax purposes; however such interest was treated as a preference item in computing the federal alternative minimum tax imposed by the Code on individuals and corporations. In addition, Bond Counsel also delivered an opinion on such dates that as of the date thereof, pursuant to the laws of the State of North Carolina, interest on the VRDOs was exempt from all income taxes of the State of North Carolina. In rendering its opinion, Bond Counsel assumed continued compliance by the Agency with its covenants relating to the Federal Tax Requirements. Bond Counsel expresses no opinion as to the current tax-exempt status of the interest on the VRDOs. In addition, in connection with the remarketing of the VRDOs, Bond Counsel is of the opinion that the execution of the Liquidity Facilities (as defined below) and the consummation of the transactions related thereto will not, in and of itself, adversely affect the tax-exempt status of the interest on the VRDOs. See "TAX MATTERS."*

Security Each of the above captioned series of bonds are issued pursuant to and secured by a Trust Agreement dated as of May 1, 1998 (the "Trust Agreement") by and between the Agency and The Bank of New York Mellon Trust Company, N.A., Jacksonville, Florida, as successor trustee (the "Trustee") and pursuant to respective Supplemental Trust Agreements for each series of VRDOs entered into by the Agency and the Trustee (each a "Series Supplemental Trust Agreement" and collectively (the "Series Supplemental Trust Agreements") and together with the Trust Agreement, the "Trust Agreements") as described herein. The VRDOs 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 VRDOS." The VRDOs 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 VRDOs.

Liquidity The Agency has agreed to enter into separate Standby Bond Purchase Agreements dated as of January 11, 2012, with respect to each Series of the VRDOs (each a Liquidity Facility and collectively the "Liquidity Facilities") with TD Bank, N.A. (the "Bank") pursuant to which the Bank has agreed, subject to satisfaction of the provisions specified in the Liquidity Facilities, to provide funds to the Trustee and the Tender Agent to purchase VRDOs tendered for optional or mandatory purchase and not remarketed. The Liquidity Facilities will expire on January 11, 2015 and are subject to termination including automatic termination without notice under the terms and conditions described herein. See "THE LIQUIDITY FACILITIES" and "THE BANK" herein.

Interest All of the VRDOs bear interest in the Weekly Mode (as defined herein) and are being remarketed by Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Remarketing Agent") as described herein. Interest on the VRDOs is payable on July 1 and January 1, commencing July 1, 2012, until maturity, conversion or earlier redemption. The VRDOs are subject to optional and mandatory tender for purchase.

This cover and inside cover page contains information for quick reference only. Investors must read the entire Remarketing Circular, including all Appendices, and the original Official Statements for each of the above referenced issues to obtain information essential to making an informed decision regarding investment in the VRDOs.

In connection with the remarketing of the VRDOs, certain legal matters will be passed upon by Womble Carlyle Sandridge & Rice, LLP, Bond Counsel and certain legal matters will be passed upon for the Remarketing Agent by their counsel, Bode, Call & Stroupe, L.L.P.

BofA Merrill Lynch

Remarketing Circular dated January 6, 2012

Remarketing of
NORTH CAROLINA HOUSING FINANCE AGENCY
HOME OWNERSHIP VARIABLE RATE REVENUE BONDS
(1998 Trust Agreement)

Series of VRDOs	Current Principal Balance	Date of Original Delivery	Maturity Date
Series 15-C	$14,580,000	May 8, 2003	July 1, 2032
Series 16-C	$14,900,000	September 16, 2003	July 1, 2032
Series 17-C	$17,780,000	December 11, 2003	July 1, 2033
Series 18-C	$17,235,000	April 20, 2004	January 1, 2035

THIS REMARKETING CIRCULAR PROVIDES INFORMATION RELATING TO THE VRDOS ONLY WHILE THEY BEAR INTEREST IN A WEEKLY MODE AND DOES NOT PROVIDE ANY INFORMATION REGARDING THE VRDOS AFTER THE DATE, IF ANY, ON WHICH A CONVERSION OR SUBSTITUTION OF A SUBSTITUTE LIQUIDITY FACILITY (AS DEFINED HEREIN) HAS OCCURRED. SEE "DESCRIPTION OF THE VRDOS" HEREIN.

The VRDOs 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 VRDOs. The Bank's obligations with respect to the VRDOs are solely as provided in the Liquidity Facilities.

The Remarketing Agent has reviewed the information in this Remarketing Circular in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does 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 Remarketing Agent 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 Remarketing Circular does not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of the VRDOs 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. All 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 Remarketing Circular 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 Remarketing Circular 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 order and placement of materials in this Remarketing Circular, including the Appendices, are not deemed to be a determination of relevance, materiality or importance, and this Remarketing Circular, including the attached Appendices, must be considered in its entirety.

Any information regarding Assured Guaranty Municipal Corp. ("Assured Guaranty" or the "Insurer") included herein under the caption "SECURITY FOR AND SOURCES OF PAYMENT OF THE VRDOS – Municipal Bond Insurance for Series 15-C Bonds" or included in a document incorporated by reference herein (collectively, the "Assured Guaranty Information") shall be modified or superseded to the extent that any subsequently included Assured Guaranty Information (either directly or through incorporation by reference) modifies or supersedes such previously included Assured Guaranty Information. Any Assured Guaranty Information so modified or superseded shall not constitute a part of this Remarketing Circular, except as so modified or superseded.

Assured Guaranty makes no representation regarding the Series 15-C Bonds or the advisability of investing in the Series 15-C Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Remarketing Circular or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "SECURITY FOR AND SOURCES OF PAYMENT OF THE VRDOS – Municipal Bond Insurance for Series 15-C Bonds."

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REMARKETING CIRCULAR

OF

NORTH CAROLINA HOUSING FINANCE AGENCY

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Home Ownership Variable Rate Revenue Bonds Series 17-C (AMT)
Home Ownership Variable Rate Revenue Bonds Series 18-C (AMT)
(1998 Trust Agreement)

INTRODUCTION AND PURPOSE

This Remarketing Circular (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 remarketing of the Agency's Home Ownership Variable Rate Revenue Bonds, Series 15-C (AMT) (the "Series 15-C Bonds"), Home Ownership Variable Rate Revenue Bonds, Series 16-C (AMT) (the "Series 16-C Bonds"), Home Ownership Variable Rate Revenue Bonds, Series 17-C (AMT) (the "Series 17-C Bonds") and Home Ownership Variable Rate Revenue Bonds, Series 18-C (AMT) (the "Series 18-C Bonds") (collectively, the "VRDOs"), 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 Mellon Trust Company, N.A., as successor trustee (the "Trustee") and the respective Supplemental Trust Agreements for each Series of Bonds (each a "Supplemental Trust Agreement" and collectively the "Series Supplemental Trust Agreements").

The VRDOs were issued by the Agency in 2003 and 2004 as variable rate demand obligations, containing terms that include a provision to the effect that the owners thereof may tender, and under certain conditions are required to tender, their VRDOs for purchase at a purchase price equal to the principal amount thereof, plus accrued interest to the purchase date. At the time of issuance of each Series of the VRDOs, the Agency entered into a Standby Bond Purchase Agreement with a financial institution (the "Initial Liquidity Provider") that provided that the Initial Liquidity Provider would purchase VRDOs that were tendered and not remarketed in accordance with their terms. The Standby Bond Purchase Agreements with the Initial Liquidity Provider were replaced on December 23, 2009 by a Standby Irrevocable Temporary Liquidity Facility issued by Fannie Mae and The Federal Home Loan Corporation (together the "GSEs"). The Agency has determined to terminate the arrangement with the GSEs.

In order to provide for continuing liquidity for the VRDOs, the Agency will enter into a separate Standby Bond Purchase Agreement, dated as of January 11, 2012, with respect to each Series of the VRDOs (each, a "Liquidity Facility," and, collectively, the "Liquidity Facilities") with TD Bank, N.A. (the "Bank"), pursuant to which the Bank has agreed, subject to satisfaction of certain provisions specified in the Liquidity Facilities to provide funds to the Trustee and Tender Agent to purchase VRDOs tendered for optional or mandatory purchase and not remarketed.

Each Liquidity Facility contains substantially identical terms, except the Liquidity Facility with respect to the Series 15-C VRDOs which contains certain provisions that reflect the existence of the municipal bond insurance policy issued with respect to the Series 15-C Bonds.

In connection with of the issuance of the Series 15-C Bonds, the Agency prepared its Official Statement, dated April 11, 2003, which is set forth in its entirety at http://www/nchfa.com/About/officialstatements/OS15C.pdf. In connection with the issuance of the Series 16-C Bonds, the Agency prepared its Official Statement, dated August 7, 2003, which is set forth in its entirety at http://www.nchfa.com/About/officialstatements/OS16C.pdf. In connection with the issuance of the Series 17-C Bonds, the Agency prepared its Official Statement, dated November 14, 2003, which is set forth in its entirety at http://www.nchfa.com/About/officialstatements/OS17C.pdf. In connection with the issuance of the Series 18-C Bonds, the Agency prepared its Official Statement, dated April 19, 2004, which is set forth in its entirety at http://www.nchfa.com/About/officialstatements/OS18C.pdf. Each of said Official Statements is referred to herein individually as a "Prior Official Statement" and said Official Statements are referred to herein collectively as the "Prior Official Statements." The Prior Official Statements were prepared to provide to potential investors with information regarding the Agency, the VRDOs, the security and source of payment for the VRDOs, and other relevant information needed in order to make an investment decision in connection with the VRDOs.

The purpose of this Remarketing Circular is to provide supplemental information that updates or replaces the information set forth in the Prior Official Statements. To the extent information set forth in the Prior Official Statements is not revised or updated hereby, such information has been deemed by the Agency to continue to be reliable information regarding the applicable Series of VRDOs. The information set forth herein should be read in conjunction with the information set forth in the Prior Official Statements.

RECENT EVENTS

On August 25, 2011 the Agency issued $34,000,000 Home Ownership Revenue Bonds, Series 1 (2009 Trust Agreement) (the "Series 1 Bonds") and converted $51,000,000 aggregate principal amount of Series A Bonds (2009 Trust Agreement) (the "Series A Bonds") into the Series A-1 Bonds (2009 Trust Agreement) (the "Series A-1 Bonds") to bear interest at a fixed rate under the 2009 Trust Agreement. On November 17, 2011, the Agency issued $136,160,000 Home Ownership Revenue Bonds, Series 32 (Taxable Interest) (1998 Trust Agreement) to refund $49,475,000 of its Bonds previously issued under the 1985 Resolution and $89,025,000 of its Bonds previously issued under the Trust Agreement. On December 22, 2011, the Agency issued $40,000,000 Home Ownership Revenue Bonds, Series 2 (2009 Trust Agreement) (the "Series 2 Bonds") and converted $60,000,000 aggregate principal amount of Series A Bonds into the Series A-2 Bonds (2009 Trust Agreement) (the "Series A-2 Bonds") to bear interest at a fixed rate under the 2009 Trust Agreement.

SECURITY FOR AND SOURCES OF PAYMENT OF THE VRDOS

The Prior Official Statements set forth information regarding the security and source of payment of the VRDOs. Except as supplemented as described below, the information in the Prior Official Statements is accurate and should be reviewed in connection with any investment decision regarding the VRDOs.

Liquidity Facilities

The Agency is arranging for the delivery of the Liquidity Facilities. See "THE LIQUIDITY FACILITIES" below for a description of the credit facility portion of the Liquidity Facilities.

Under the arrangements with the GSEs being discontinued by the Agency, the GSEs provided credit support for the VRDOs in addition to liquidity support. **The Liquidity Facilities only provide liquidity support for the VRDOs and do not provide such credit support. Following the replacement of the GSE arrangement, bond holders should look only to the security and sources of payment described in the Prior Official Statements (including, with respect to the Series 15-C Bonds, payments under the Policy) for security for payment of their VRDOs.**

Debt Service Reserve Fund

As described in the Prior Official Statements, the Trust Agreement creates a Debt Service Reserve Fund for the additional security of the Bonds, including the VRDOs, issued thereunder. 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 June 30, 2011 there was on deposit in the Debt Service Reserve Fund $20,785,000. 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 and the Series 14 Bonds by Ambac Assurance Corporation ("Ambac Assurance"), and a debt service reserve fund surety policy issued in connection with the issuance of the Series 12 Bonds and Series 15 Bonds by Assured Guaranty. 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 Assured Guaranty, and were, as of June 30, 2011:

Series	Related Requirement	Notional Value	Provider
10	Debt Service Reserve Requirement	$379,400	Ambac Assurance
12	Debt Service Reserve Requirement	$749,800	Assured Guaranty
14	Debt Service Reserve Requirement	$947,100	Ambac Assurance
15	Debt Service Reserve Requirement	$705,500	Assured Guaranty

Total Debt Service Reserve Requirement Surety Bonds: $2,781,800

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.

The surety bonds of Ambac Assurance and Assured Guaranty in the Debt Service Reserve Fund continue to meet the requirements for a Reserve Alternative Instruments as provided by the Trust Agreement (the Trust Agreement imposes rating requirements with respect to such providers only at the time of delivery of the respective Reserve Alternative Instrument). However, the claims paying ability of certain municipal bond insurers has been adversely impacted by the economic downturn. Additional information regarding Ambac Assurance may be found at www.ambac.com and additional information regarding Assured Guaranty may be found at www.assuredguaranty.com.

Since the date of the Prior Official Statements, Ambac Assurance has encountered significant financial difficulty. Further information regarding Ambac Assurance may be obtained from Ambac Assurance.

Insurance Reserve Surety Bonds

The Insurance Reserve Requirement for the Series 10 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, and was, as of June 30, 2011:

Series	Related Requirement	Notional Value	Provider
10	Insurance Reserve Requirement	$745,000	Ambac Assurance
14	Insurance Reserve Requirement	$865,000	Ambac Assurance

Total Insurance Reserve Requirement Surety Bonds: $1,610,000

Since the date of the Prior Official Statements, Ambac Assurance has encountered significant financial difficulty. Further information regarding Ambac Assurance may be obtained from Ambac Assurance.

Municipal Bond Insurance for Series 15-C Bonds

Concurrently with the issuance of the Series 15-C Bonds, Financial Security Assurance Inc. ("FSA") issued its Municipal Bond Insurance Policy (the "Policy") for the Series 15-A Bonds, the Series 15-B Bonds and the Series 15-C Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Series 15-C Bonds when due as set forth in the form of the Policy included in the Prior Official Statement for the Series 15-C Bonds.

On July 1, 2009, Assured Guaranty Ltd. acquired the financial guaranty operations of Financial Security Assurance Holdings Ltd. ("FSA"), the parent of FSA. As a result of this acquisition, the resulting financial guarantor of the Series 15-C Bonds is Assured Guaranty Municipal Corp. As of the date of this Remarketing Circular, the insurer financial strength rating of Assured Guaranty Municipal Corp. by Moody's is "Aa3" (negative outlook) from Moody's and "AA-" ("stable outlook") from Standard & Poor's Ratings Group ("S&P"). The significance of such ratings and the reports associated therewith may be obtained from such respective rating agencies. Additional information regarding Assured Guaranty may be found at www.assuredguaranty.com.

DESCRIPTION OF THE VRDOS

Reference is made to the Prior Official Statements for a complete description of the VRDOs. Except as provided herein, such provisions continue to be applicable with respect to the VRDOs.

Weekly Interest Rate

The VRDOs will continue to bear interest at the Weekly Interest Rate described in the Prior Official Statements, payable on July 1 and January 1. Interest payable on July 1, 2012 will accrue from January 11, 2012 (the mandatory tender date in connection with the delivery of the Liquidity Facilities and the expiration of the GSE Standby Irrevocable Temporary Liquidity Facility).

Remarketing Agent

Merrill Lynch, Pierce, Fenner & Smith, Incorporated serves as the Remarketing Agent (the "Remarketing Agent") for the VRDOs. Its principal office for purposes of carrying out its responsibilities as Remarketing Agent for the VRDOs is located at Bank of America Tower, One Bryant Park – 12th Floor, New York, NY 10036, Attention: Tax-Exempt Money Markets Department.

The Remarketing Agent and the Agency have entered into separate Remarketing Agreements, pursuant to which the Remarketing Agent undertakes to perform the duties of Remarketing Agent under each of the respective Supplemental Trust Agreements, including to make its best efforts to remarket VRDOs tendered for purchase by the owners thereof.

The Remarketing Agent is Paid by the Agency

The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing the VRDOs that are optionally or mandatorily tendered by the owners thereof, all as further described in this Remarketing Circular. The Remarketing Agent is appointed by the Agency and is paid by the Agency for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of VRDOs.

The Remarketing Agent Routinely Purchases VRDOs for its Own Account

The Remarketing Agent is permitted, but not obligated, to purchase tendered VRDOs for its own account. The Remarketing Agent, in its sole discretion, routinely acquires tendered VRDOs for its own inventory in order to achieve a successful remarketing of the VRDOs (i.e., because there are not enough buyers to purchase the VRDOs otherwise) or for other reasons. However, the Remarketing Agent is not obligated to purchase VRDOs and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the VRDOs by routinely purchasing and selling VRDOs other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the VRDOs. The Remarketing Agent may also sell any VRDOs it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the VRDOs. The purchase of VRDOs by the Remarketing Agent may create the appearance that there is greater third party demand for the VRDOs in the market than is actually the case. The practices described above may also reduce the supply of VRDOs that may be tendered in a remarketing.

VRDOs May be Offered at Different Prices on any Date

The Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the VRDOs at par plus accrued interest, if any, on the effective date of such rate. The interest rate will reflect, among other factors, the level of market demand for the VRDOs (including whether the Remarketing Agent is willing to purchase VRDOs for its own account). There may or may not be VRDOs tendered and remarketed on an effective date, the Remarketing Agent may or may not be able to remarket any VRDOs tendered for purchase on such date at par and the Remarketing Agent may sell VRDOs at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the VRDOs at the remarketing price. In the event the Remarketing Agent owns any VRDOs for its own account, the Remarketing Agent may, in its sole discretion in a secondary market transaction outside the tender process, offer the VRDOs on any date, including the interest rate determination date, at a discount to par to some investors.

The Ability to Sell the VRDOs other than through Tender Process May Be Limited

While the Remarketing Agent may buy and sell VRDOs, it is not obligated to do so and may cease doing so at any time without notice. Thus, investors who purchase the VRDOs, whether in a remarketing or otherwise, should not assume that they will be able to sell their VRDOs other than by tendering the VRDOs in accordance with the tender process. The Liquidity Facility is not available to purchase VRDOs other than those tendered in accordance with a sale of VRDOs by the bondholder to the Remarketing Agent. The Liquidity Facility will only be drawn upon when such VRDOs have been properly tendered in accordance with the terms of the transaction.

The Remarketing Agent may be Removed, Resign or Cease Remarketing the VRDOs, Without a Successor Being Named

Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement.

Trustee, Tender Agent and Paying Agent

The Bank of New York Mellon Trust Company, N.A., Jacksonville, Florida, has succeeded to the duties of Trustee under the Trust Agreement and is the Tender Agent and Paying Agent for the VRDOs. The Tender Agent has arranged for the tender of the VRDOs to it at 10161 Centurion Parkway, Jacksonville, Florida 32256, Attention: Trust Department. Such delivery is subject to the terms of the Book-Entry Only System of registration of ownership interests in the VRDOs and the procedures of The Depository Trust Company with respect to the Book-Entry Only System as described in the Prior Official Statements.

Tender Provisions

The VRDOs will continue to be subject to optional tender and mandatory tender by the Owners thereof, under their existing provisions as described in the Prior Official Statements. In addition to the mandatory tender provisions set forth in the Series Supplemental Trust Agreements, the VRDOs shall also be subject to mandatory tender for purchase at a purchase price equal to the principal amount thereof, plus accrued interest, if any, to the date of purchase upon receipt by the Trustee of written notice from the Bank stating that an event of default under the Reimbursement Agreement has occurred and directing that the VRDOs be subject to mandatory tender.

Redemption Provisions

The VRDOs will continue to be subject to mandatory and optional redemption as described in the Prior Official Statements.

THE LIQUIDITY FACILITIES

General

As described under "DESCRIPTION OF THE VRDOS — Tender Provisions" in the Prior Official Statements, under certain circumstances, the Owners of the VRDOs may elect or be required to tender their VRDOs for purchase. The Agency has arranged for the delivery of the Liquidity Facilities for the VRDOs from TD Bank, N.A. (the "Bank") upon the issuance of the VRDOs to ensure timely payment of the purchase price of the VRDOs so tendered for purchase. Pursuant to the Liquidity Facilities, the Bank agrees, subject to the terms and conditions stated therein, to purchase VRDOs (excluding any VRDOs registered in the name of, or beneficially owned by, the Agency) tendered or deemed tendered for purchase from time to time on the purchase date and at the purchase price specified in the respective Series Supplemental Trust Agreement for each Series of Bonds in the event remarketing proceeds are not available therefore. The Liquidity Facility for each Series of Bonds provides liquidity support for the purchase of tendered Bonds of only such Series.

The Agency is required by the Series Supplemental Trust Agreements to maintain in effect a Liquidity Facility that results in the highest short term ratings from each Rating Agency then rating the VRDOs so long as the VRDOs bear interest at a Daily Interest Rate, Weekly Interest Rate, Bond Interest Term Rate or Long-Term Interest Rate not fixed until the stated maturity of the VRDOs.

Each Liquidity Facility contains substantially similar terms except the Liquidity Facility with respect to the Series 15-C Bonds wherein the Events of Default are different because of the municipal bond insurance policy. Those differences are set forth below under the captions "Immediate Termination by the Bank for the Series 15-C Bonds" and "Notice Termination by the Bank for the Series 15-C Bonds".

The Liquidity Facilities have a term of three years and may be extended thereafter upon agreement by the Bank and the Agency.

The Bank's Principal Commitment for the Series 15-C Bonds initially is $14,580,000 (the "15-C Principal Commitment"). "15-C Principal Commitment" means, initially, $14,580,000 and thereafter means such initial amount adjusted from time to time as follows: (a) downward by the amount of any reduction of the 15-C Principal Commitment pursuant to the Liquidity Facility; (b) downward by the principal amount of any Series 15-C Bonds purchased by the Bank as of the date of such purchase; and (c) upward by the principal amount of any Series 15-C Bonds theretofore purchased by the Bank and which are repurchased by the Tender Agent or the Agency (with remarketing proceeds or otherwise) or retained by the Bank and not redeemed.

The Bank's Interest Commitment for the Series 15-C Bonds initially is $905,958 (the "15-C Interest Commitment"). "15-C Interest Commitment" means an amount equal to $905,958, computed as the interest on the outstanding principal amount of the Series 15-C Bonds for a period of 189 days in a year of 365 days and calculated at the rate of 12% per annum; and thereafter means such initial amount adjusted from time to time as follows: (a) downward by an amount that bears the same proportion to such initial amount as the amount of any reduction in the 15-C Principal Commitment bears to the initial 15-C Principal Commitment as of the date of such reduction and (b) upward by an amount that bears the same proportion to such initial amount as the amount of any increase in the 15-C Principal Commitment bears to the initial 15-C Principal Commitment as of the date of such increase.

The Bank's Principal Commitment for the Series 16-C Bonds initially is $14,900,000 (the "16-C Principal Commitment"). "16-C Principal Commitment" means, initially, $14,900,000 and thereafter means such initial amount adjusted from time to time as follows: (a) downward by the amount of any reduction of the 16-C Principal Commitment pursuant to the Liquidity Facility; (b) downward by the principal amount of any Series 16-C Bonds purchased by the Bank as of the date of such purchase; and (c) upward by the principal amount of any Series 16-C Bonds theretofore purchased by the Bank and which are repurchased by the Tender Agent or the Agency (with remarketing proceeds or otherwise) or retained by the Bank and not redeemed.

The Bank's Interest Commitment for the Series 16-C Bonds initially is $925,842 (the "16-C Interest Commitment"). "16-C Interest Commitment" means an amount equal to $925,842, computed as the interest on the outstanding principal amount of the Series 16-C Bonds for a period of 189 days in a year of 365 days and calculated at the rate of 12% per annum; and thereafter means such initial amount adjusted from time to time as follows: (a) downward by an amount that bears the same proportion to such initial amount as the amount of any reduction in the 16-C Principal Commitment bears to the initial 16-C Principal Commitment as of the date of such reduction and (b) upward by an amount that bears the same proportion to such initial amount as the amount of any increase in the 16-C Principal Commitment bears to the initial 16-C Principal Commitment as of the date of such increase.

The Bank's Principal Commitment for the Series 17-C Bonds initially is $17,780,000 (the "17-C Principal Commitment"). "17-C Principal Commitment" means, initially, $17,780,000 and thereafter means such initial amount adjusted from time to time as follows: (a) downward by the amount of any reduction of the 17-C Principal Commitment pursuant to the Liquidity Facility; (b) downward by the principal amount of any Series 17-C Bonds purchased by the Bank as of the date of such purchase; and (c) upward by the principal amount of any Series 17-C Bonds theretofore purchased by the Bank and which are repurchased by the Tender Agent or the Agency (with remarketing proceeds or otherwise) or retained by the Bank and not redeemed.

The Bank's Interest Commitment for the Series 17-C Bonds initially is $1,104,796 (the "17-C Interest Commitment"). "17-C Interest Commitment" means an amount equal to $1,104,796, computed as the interest on the outstanding principal amount of the Series 17-C Bonds for a period of 189 days in a year of 365 days and calculated at the rate of 12% per annum; and thereafter means such initial amount adjusted from time to time as follows: (a) downward by an amount that bears the same proportion to such initial amount as the amount of any reduction in the 17-C Principal Commitment bears to the initial 17-C Principal Commitment as of the date of such reduction and (b) upward by an amount that bears the same proportion to such initial amount as the amount of any increase in the 17-C Principal Commitment bears to the initial 17-C Principal Commitment as of the date of such increase.

The Bank's Principal Commitment for the Series 18-C Bonds initially is $17,235,000 (the "18-C Principal Commitment"). "18-C Principal Commitment" means, initially, $17,235,000 and thereafter means such initial amount adjusted from time to time as follows: (a) downward by the amount of any reduction of the 18-C Principal Commitment pursuant to the Liquidity Facility; (b) downward by the principal amount of any Series 18-C Bonds purchased by the Bank as of the date of such purchase; and (c) upward by the principal amount of any Series 18-C Bonds theretofore purchased by the Bank and which are repurchased by the Tender Agent or the Agency (with remarketing proceeds or otherwise) or retained by the Bank and not redeemed.

The Bank's Interest Commitment for the Series 18-C Bonds initially is $1,070,931 (the "18-C Interest Commitment"). "18-C Interest Commitment" means an amount equal to $1,070,931, computed as the interest on the outstanding principal amount of the Series 18-C Bonds for a period of 189 days in a year of 365 days and calculated at the rate of 12% per annum; and thereafter means such initial amount adjusted from time to time as follows: (a) downward by an amount that bears the same proportion to such initial amount as the amount of any reduction in the 18-C Principal Commitment bears to the initial 18-C Principal Commitment as of the date of such reduction and (b) upward by an amount that bears the same proportion to such initial amount as the amount of any increase in the 18-C Principal Commitment bears to the initial 18-C Principal Commitment as of the date of such increase.

The Liquidity Facilities secure only payment of the purchase price of VRDOs tendered for purchase as described above, and do not otherwise secure payment of the principal of, premium, if any, or interest on the VRDOs. The Liquidity Facilities are subject to termination at the option of the Bank as described below.

Immediate Termination by the Bank for the Series 15-C Bonds

The Bank's Commitment and obligation to purchase the Series 15-C Bonds is subject to immediate termination by the Bank upon the occurrence of any of the following "Events of Default" under the Series 15-C Liquidity Facility, each of which is an "Immediate Termination Event":

(a) the Agency fails to pay when due principal of or interest on any Series 15-C Bond, and such principal or interest is not paid by the Insurer when, as and in the amounts required to be paid pursuant to the terms of the Policy; or

(b) (1) the Policy at any time for any reason ceases to be valid and binding on the Insurer in accordance with the terms of the Policy or is declared to be null and void by a court or other governmental agency of appropriate jurisdiction, or (2) the President or any Executive Vice President of the Insurer shall claim in writing to the Trustee, the Agency or the Bank that the Policy, with respect to the payment of principal of or interest on the Series 15-C Bonds, is not valid and binding on the Insurer, or repudiate the obligations of the Insurer under the Policy with respect to payment of principal of or interest on the Bonds, or deny that the Insurer has any or further liability or obligation under the Policy to the extent set forth in the Policy; or

(c) a proceeding is instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect of the Insurer or for any substantial part of its property under any applicable bankruptcy, insolvency, or other similar law or Article 16 of the Insurance Law of the State of New York or any successor provision thereto, now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) and such proceeding is not terminated within sixty (60) days of commencement or such court enters an order granting the relief sought in such proceeding; or the Insurer (1) shall institute or take any corporate action for the purpose of instituting any such proceeding, or the Insurer shall become insolvent or admits in writing its inability to pay its debts as they mature or claims under any of its insurance policies, or similar municipal bond financial guaranty, as such claims are made, (2) shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, (3) shall consent to the entry of an order for relief in an involuntary case under any such law, or (4) shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of the Insurer or for any substantial part of its property, or (5) shall make a general assignment for the benefit of creditors, or (6) shall fail generally to pay its debts or claims as they become due, or (7) shall take any corporate action in furtherance of any of the foregoing; or

(d) any default by the Insurer in making payment when, as and in the amounts required to be made pursuant to the express terms and provisions of any other municipal bond insurance policy delivered by the Insurer and on parity with the Policy, and such failure to pay such amounts shall continue for seven (7) days following notice to the Insurer of such failure unless the obligation of the Insurer to pay such amounts is being contested in good faith by the Insurer by appropriate judicial proceedings; or

(e) The Insurer's long-term rating is reduced below "Baa3" by Moody’s and below "BBB-" by S&P.

Upon the occurrence of an "Immediate Termination Event" but subject to the following paragraph in the case of such event under (b) above, the commitment and the obligation of the Bank to purchase Series 15-C Bonds shall immediately terminate without prior notice or demand, and thereafter the Bank shall be under no obligation to purchase Series 15-C Bonds. Promptly after the Bank receives notice of the occurrence of an Immediate Termination Event, the Bank shall give written notice of the same to the Trustee, the Agency, the Tender Agent and the Remarketing Agent, provided that the Bank shall incur no liability or responsibility whatsoever by reason of its failure to receive or give such notice and such failure shall in no way affect the termination of the Bank's commitment and of its obligation to purchase Series 15-C Bonds.

Notwithstanding the foregoing paragraph, in the case of an Immediate Termination Event specified in (b)(1) above, the Bank shall automatically be deemed to have suspended the Bank's obligations to purchase Series 15-C Bonds; and in the case of an Immediate Termination Event specified in (b)(2) above, the Bank may suspend the Bank's obligations to purchase Series 15-C Bonds by providing notice of such waiver and suspension to the Agency, the Trustee and the Insurer at any time during the continuance of such an Immediate Termination Event. Any such suspension shall be deemed in effect until such time as a final nonappealable order of a court having jurisdiction in the premises shall be entered declaring that the Policy is upheld in its entirety. In the event such order is entered declaring the Policy null and void, or declaring that the Insurer does not have any further liability or obligation under the Policy, then the Bank's obligation to purchase Series 15-C Bonds shall immediately terminate. In the event such order is entered declaring that the Policy is upheld in its entirety, the Bank's obligations shall be automatically reinstated and continue in full force and effect. Notwithstanding the foregoing, if, upon the earlier of the Bank Purchase Termination Date or the date which is two years after the effective date of suspension of the Bank's obligations pursuant to this paragraph, litigation is still pending and a judgment regarding the validity of the Policy as is the subject of such Immediate Termination Event has not been obtained, then the Commitment and the obligation of the Bank to purchase Series 15-C Bonds shall at such time terminate without notice or demand and thereafter the Bank shall be under no obligation to purchase Series 15-C Bonds.

Notice Termination by the Bank for the Series 15-C Bonds

The Bank's commitment and obligation to purchase the Series 15-C Bonds is subject to termination by the Bank upon 30 days' written notice to the Agency, the Trustee, the Tender Agent and the Remarketing Agent following the occurrence and continuation of any of the following "Events of Default" under the Series 15-C Liquidity Facility, each of which is a Notice Termination Event:

(a) the Agency fails to pay when due any amount payable under the Series 15-C Liquidity Facility (other than payments on Bank Bonds) and, such failure shall continue unremedied for 10 days after notice thereof has been given to the Agency and the Insurer; or

(b) for a period of ninety (90) consecutive days, each of the following occurs: (1) S&P fails to maintain a financial strength rating of the Insurer of an "A" category (without regard to qualifier, numeric or otherwise) (or its equivalent) or higher, and (2) Moody's fails to maintain a financial strength rating of the Insurer of an "A" category (without regard to qualifier, numeric or otherwise) (or its equivalent) or higher.

Upon the occurrence of a "Notice Termination Event", the Bank may terminate the Commitment only giving written notice (a *"Notice of Termination"*) to the Agency, the Trustee and the Tender Agent and the Insurer, specifying the date on which the Commitment shall terminate, but without limiting the other events included within the definition of Bank Purchase Termination Date, which shall be not less than thirty (30) days from the date of receipt of such notice by the Tender Agent, and on and after the Bank Purchase Termination Date the Bank shall be under no further obligation to purchase Series 15-C Bonds.

Other Remedies

In addition to the rights and remedies set forth above (i) in the case of an Immediate Termination Event, the Bank may accelerate all amounts due or to become due under the Series 15-C Liquidity Facility and the Bank Bonds, and (ii) in the case of a Notice Termination Event, upon the expiration of the thirty (30) day notice period, the Bank may accelerate all amounts due or to become due under the Series 15-C Liquidity Facility and the Bank Bonds (excluding, in the case of a Notice Termination Event, principal and interest on Bank Bonds but including Accrued Interest and Differential Interest Amounts as defined in the Series 15-C Liquidity Facility), and in such event all amounts shall upon notice to the Agency become immediately due and payable without further presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Agency; and the Bank may exercise all the rights and remedies available to it under the Series 15-C

Liquidity Facility, the Related Documents, or otherwise pursuant to law or equity. Upon the occurrence of any Immediate Termination Event, the Bank Bonds shall bear interest at the Default Rate. Bank Bonds which have been accelerated shall be subject to mandatory redemption under the Fifteenth Supplemental Trust Agreement without further notice to the Agency.

Immediate Termination by the Bank for the Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds

The Bank's Commitment and obligation to purchase the Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds is subject to immediate termination by the Bank upon the occurrence of any of the following "Events of Default" under the respective Series 16-C, Series 17-C and Series 18-C Liquidity Facilities, each of which is an "Immediate Termination Event":

(a) the Agency fails to pay when due principal of or interest on any Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds or any other Bond issued pursuant to the Trust Agreement; or

(b) the Agency files any petition or action for relief under any bankruptcy, reorganization, insolvency or moratorium law, or any other law or laws in relief of or relating to debtors or any such petition or action shall be filed against the Agency and, in the case of any such petition or action filed against the Agency, such petition or action (i) results in the entry of an order for relief or (ii) continues undismissed, or pending and unstayed for any period of 90 consecutive days; or

(c) the "rating" assigned to the Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds is withdrawn or reduced below "BBB-" by S&P and "Baa3" by Moody’s.

Upon the occurrence of an Immediate Termination Event as specified above, the Bank’s Commitment and the obligation of the Bank to purchase Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds shall immediately terminate without prior notice or demand, and thereafter the Bank shall be under no obligation to purchase Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds pursuant to their respective Liquidity Facilities. Promptly after the Bank receives notice of the occurrence of an Immediate Termination Event, the Bank shall give written notice of the same to the Trustee, the Agency, the Tender Agent and the Remarketing Agent, provided that the Bank shall incur no liability or responsibility whatsoever by reason of its failure to receive or give such notice and such failure shall in no way affect the termination of the Bank’s Commitment and of its obligation to purchase Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds pursuant to their respective Liquidity Facilities.

In the event of such an Immediate Termination Event, the Bank will not be obligated to purchase the Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds on any optional or mandatory purchase date, and, under their respective Series Supplemental Trust Agreements, funds to purchase the Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds on any purchase date will be available only from the proceeds of the remarketing of the Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds (which remarketing proceeds will not be available unless the Agency obtains a Substitute Liquidity Facility or the Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds are converted to a Long-Term Interest Rate which is fixed until the stated maturity of the Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds) or from other funds made available to the Tender Agent by the Agency; provided, however, that the Agency will not be obligated to pay such purchase price. See "DESCRIPTION OF THE VRDOS — Tender Provisions — Insufficient Funds for Purchase of VRDOS" in the Prior Official Statements.

Notice Termination by the Bank for the Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds

The Bank's commitment and obligation to purchase the Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds is subject to termination by the Bank upon 30 days' written notice to the Agency, the Trustee, the Tender Agent and the Remarketing Agent following the occurrence and continuation of any of the following "Events of Default" under their respective Liquidity Facilities, each of which is a Notice Termination Event:

(a) any representation or warranty made or deemed made by the Agency in the Series 16-C, Series 17-C and Series 18-C Liquidity Facilities or in any Related Document to which it is a party or representation or warranty made or deemed made by the Agency in any other document, certificate or instrument proves to have been untrue or incomplete in any material respect when made or deemed made; or

(b) the Agency fails to perform in all material respects any of the terms, conditions, covenants or agreements required to be performed by the Agency in the Series 16-C, Series 17-C and Series 18-C Liquidity Facilities, or a material default occurs under any Related Document, and in either such case such failure or default continues uncured for a period of 30 days after the Agency has been given notice thereof by the Bank; or

(c) the Agency fails to pay when due any amount payable under the Series 16-C, Series 17-C and Series 18-C Liquidity Facilities (other than payments on Bank Bonds) and, such failure shall continue unremedied for 10 days after notice thereof has been given to the Agency; or

(d) the Agency denies that it has any or further liability or obligation under the Series 16-C, Series 17-C and Series 18-C Liquidity Facilities or a final and non-appealable order of a court or a final and non-appealable finding of a governmental agency having jurisdiction is entered to the effect that any payment provision of the Liquidity Facilities is not valid and binding on the Agency under applicable law; or

(e) the rating assigned to the Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds is reduced below "A1" by Moody's or "A+" by S&P.

Upon the occurrence of a Notice Termination Event as specified above the Bank may terminate the commitment and obligation to purchase the Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds only by giving written notice (a *"Notice of Termination"*) to the Agency, the Trustee and the Tender Agent, specifying the date on which the commitment and obligation to purchase the Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds shall terminate, which shall be not less than thirty (30) days from the date of receipt of such notice by the Tender Agent, and on and after such date the Bank shall be under no further obligation to purchase the Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds pursuant to their respective Liquidity Facilities.

Other Remedies

Upon the occurrence of an Immediate Termination Event or a Notice Termination Event the Bank may accelerate all amounts due or to become due under the Series 16-C, Series 17-C and Series 18-C Liquidity Facilities and the Bank Bonds (excluding, in the case of a Notice Termination Event, principal and interest on Bank Bonds but including Accrued Interest and Differential Interest Amounts), and in that event all amounts shall upon notice to the Agency become immediately due and payable without further presentment, demand, protest or further notice of any kind, the Bank Bonds shall bear interest at the Default Rate, and the Bank may exercise all the rights and remedies available to it under the Liquidity Facilities, the Related Documents, or otherwise pursuant to law or equity. Bank Bonds which have been accelerated shall be subject to mandatory redemption under their respective Series Supplemental Trust Agreements without further notice to the Agency.

Other Event Remedies

In the event that the Agency:

(a) Fails to pay any Differential Interest Amount or Accrued Interest Fee or any other amount payable under the Liquidity Facilities when due; or

(b) A determination that any representation made by the Agency to the Bank was inaccurate when made and has a material adverse effect on the Bank; or

(c) A breach by the Agency of a provision of the Liquidity Facilities or of the Trust Agreements and the failure to cure such breach within sixty (60) days after written notice from the Bank to the Agency, then the Bank may exercise all the rights and remedies available to it under the Liquidity Facilities, the Related Documents or otherwise pursuant to law or in equity. The Bank shall in no event be entitled to force an acceleration of payment of Bank Bonds hereunder, unless such acceleration occurs as a result of the Trustee's enforcement of the Trust Agreement.

Substitute Liquidity Facility

The Agency may at any time deliver to the Tender Agent for the VRDOs (i) one or more Substitute Liquidity Facilities, (ii) an Opinion of Counsel stating that the delivery of such Substitute Liquidity Facilities is authorized under the Series Supplemental Trust Agreements and complies with the terms thereof, (iii) a Favorable Opinion of Bond Counsel, (iv) one or more Opinions of Counsel addressed to the Tender Agent and the Remarketing Agent to the effect, singly or together, that the Substitute Liquidity Facilities are legal, valid and binding obligations of the Bank enforceable against the Bank in accordance with their terms, except as limited by applicable reorganization, insolvency, liquidation, readjustment of debt, moratorium or other similar laws affecting the enforcement of the rights of creditors generally as such laws may be applied in the event of a reorganization, insolvency, liquidation, readjustment of debt or other similar proceeding of or moratorium applicable to the Bank and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), and (v) written evidence that notice of mandatory tender as required by the Series Supplemental Trust Agreements has been sent to the Owners of the VRDOs prior to such substitution, and the Tender Agent shall, so long as such Substitute Liquidity Facilities shall contain administrative procedures which are acceptable to the Tender Agent in its reasonable discretion, accept such Substitute Liquidity Facilities, enforce payment of any amounts due under the existing Liquidity Facilities to the extent required by the Series Supplemental Trust Agreements and promptly surrender the existing Liquidity Facilities to the Bank.

Any Substitute Liquidity Facility for the VRDOs (except liquidity support being provided by the Agency) shall be a purchase agreement, letter of credit or other liquidity facility, or any combination thereof having a stated expiration date of at least 364 days following the effective date thereof issued by one or more commercial banks or savings and loan associations, or other financial institutions located within or without the State of North Carolina. The Substitute Liquidity Facility must provide for the purchase from the Bank providing the Liquidity Facilities being replaced of any Bank Bonds held by or on behalf of such Bank.

In connection with the termination, expiration, cancellation or substitution of the Liquidity Facilities for the VRDOs requiring mandatory purchase of the VRDOs, the Paying Agent will give the notice of mandatory tender for purchase of the VRDOs.

The Paying Agent for the VRDOs shall give notice by mail to the Owners of VRDOs then subject to purchase from the Liquidity Facilities on or before the 25th day preceding the expiration of the Liquidity Facilities in accordance with its terms, or any cancellation, termination or substitution of the Liquidity Facilities which will cause the VRDOs to cease to be subject to purchase from the Liquidity Facilities (except upon the occurrence of an Immediate Liquidity Termination, in which case notice will be given as described in the Series Supplemental Trust Agreements), which notice shall, to the extent applicable, (i) describe generally the Liquidity Facilities in effect prior to such cancellation, termination or expiration and the Substitute Liquidity Facilities in effect or to be in effect upon such cancellation, termination or expiration, (ii) state the date of such cancellation, termination, expiration or proposed substitution of the Substitute Liquidity Facilities, (iii) describe any termination of the Liquidity Facilities and the effective date thereof, (iv) specify the rating, if any, to be applicable to the VRDOs after such cancellation, termination, expiration or substitution of the Liquidity Facilities or state that no ratings have been obtained with respect to the VRDOs for the period subsequent to such cancellation, termination, expiration or substitution of the Liquidity Facilities, and (iv) unless the Liquidity Facilities has been substituted with a Substitute Liquidity Facilities, state (A) that the VRDOs will be purchased pursuant to the Series Supplemental Trust Agreements and (B) the date of such purchase, which date shall be a Business Day that is not less than ten (10) days after the giving of such notice and at least five (5) days prior to such cancellation, expiration or termination.

The Agency may with the prior written consent of the Local Government Commission provide its own liquidity support for the VRDOs.

THE BANK

TD Bank, N.A. (the "Bank") is a national banking association organized under the laws of the United States, with its main office located in Wilmington, Delaware. The Bank is an indirect, wholly-owned subsidiary of The Toronto-Dominion Bank ("TD") and offers a full range of banking services and products to individuals, businesses and governments throughout its market areas, including commercial, consumer, trust and insurance agency services. The Bank operates banking offices in Connecticut, Delaware, the District of Columbia, Florida, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, North Carolina, New York, Pennsylvania, Rhode Island, South Carolina, Vermont and Virginia. As of September 30, 2011, the Bank had consolidated assets of $187.5 billion, consolidated deposits of $150.6 billion and stockholder's equity of $28.1 billion, based on regulatory accounting principles.

On April 1, 2011, TD and the Bank acquired Chrysler Financial Services Americas LLC ("Chrysler Financial") for cash consideration of approximately $6.3 billion. The purchase is comprised of net assets of $5.9 billion and approximately $400 million in goodwill. Under the terms of the acquisition agreement, the Bank acquired the Chrysler Financial business in the U.S. and TD acquired the Chrysler Financial business in Canada. The acquisition gives TD and the Bank all of Chrysler Financial's processes and technology as well as its existing portfolio of retail assets in both countries, and gives TD and the Bank a platform for asset generation in the North American automotive lending market, giving it the opportunity to significantly grow its consumer loan portfolio.

Additional information regarding the foregoing, and the Bank and TD, is available from the filings made by TD with the U.S. Securities and Exchange Commission (the "SEC"), which filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. In addition, the SEC maintains a website at http://www.sec.gov, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning TD and the Bank contained herein is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

The Liquidity Facilities have been issued by the Bank and are the obligation of the Bank and not TD.

The Bank will provide copies of the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

TD Bank, N.A.
1701 Route 70 East
Cherry Hill, New Jersey 08034
Attn: Corporate and Public Affairs

Information regarding the financial condition and results of operations of the Bank is contained in the quarterly Call Reports of the Bank delivered to the Comptroller of the Currency and available online at https://cdr.ffiec.gov/public. General information regarding the Bank may be found in periodic filings made by TD with the SEC. TD is a foreign issuer that is permitted, under a multijurisdictional disclosure system adopted by the United States, to prepare certain filings with the SEC in accordance with the disclosure requirements of Canada, its home country. Canadian disclosure requirements are different from those of the United States. TD's financial statements are prepared in accordance with Canadian generally accepted accounting principles, and may be subject to Canadian auditing and auditor independence standards, and thus may not be comparable to financial statements of United States companies prepared in accordance with United States generally accepted accounting principles.

The delivery hereof shall not create any implication that there has been no change in the affairs of TD or the Bank since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

THE PROGRAM

General

The general terms of the Program are described in the Prior Official Statements. As of the date of this Remarketing Circular, the Agency has issued thirty-two series of Bonds under the Trust Agreement for purposes of financing the Program and funding costs in connection therewith.

Experience to Date Under 1998 Trust Agreement

As of June 30, 2011, the Agency had issued $2,078,530,000 of bonds under the Trust Agreement for the purposes of the Program. $2,026,359,000 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 June 30, 2011, the origination history and delinquency rate of Program Loans purchased by the Agency under the 1998 Trust Agreement.

The bond series below denoted by an asterisk were refunded with a portion of the proceeds of the Series 32 Bonds.

		Bonds Payable (000's)		Program Loans Receivable (000's)			
Series	Date of Issue	Original Principal Amount	Amount Outstanding	Outstanding Principal Balance	Interest Rate(s) On Mortgage[1] (%)	Type of Mortgage Insurance	Delinquency Rate[4] (%)
1*	6/17/98	$62,115	$14,145	$13,467	5.75-6.65	FHA, USDA	5.3
2	12/2/98	35,000	8,190	8,512	5.75 and 6.65	FHA, VA, USDA	3.5
3	3/11/99	65,000	17,220	18,039	5.75 -6.95	FHA, VA, USDA, PMI	4.9
4	5/27/99	50,000	12,590	12,995	5.99-6.65	FHA, VA, USDA	5.8
5*	8/19/99	55,000	12,375	13,282	5.75-6.95	FHA, VA, USDA	9.8
6*	12/2/99	45,000	6,700	7,492	6.95	FHA, VA, USDA	7.5
7*	4/5/00	65,000	12,635	12,592	6.50-7.25	FHA, VA, USDA, PMI	6.9
8	6/21/00	100,000	2,660	14,521	6.95-7.375	FHA, VA, USDA,	7.8
9*	12/13/00	65,000	23,555	22,058	5.99-7.125	FHA, VA, USDA, PMI	5.7
10[2]	4/26/01	60,000	12,810	18,202	4.75-8.375	FHA, VA, USDA, PMI	6.2
11*	9/27/01	65,000	24,885	24,164	5.99	FHA, VA, USDA, PMI	2.7
12[3]	12/20/01	78,075	33,150	26,334	4.99-13.00	FHA, VA, USDA, PMI	3.1
13	4/4/02	75,000	28,725	25,691	4.99-6.50	FHA, VA, USDA, PMI	3.7
14	6/26/02	75,000	34,700	31,821	5.125-6.25	FHA, VA, USDA, PMI	4.4
15	5/8/03	50,060	26,480	26,830	4.95-5.375	FHA, VA, USDA, PMI	2.7
16	9/16/03	50,000	25,725	26,230	5.125-5.75	FHA, VA, USDA, PMI	3.5
17	12/11/03	53,280	31,115	30,161	5.125-5.375	FHA, VA, USDA, PMI	3.1
18	4/20/04	50,000	27,905	29,061	4.625-5.875	FHA, VA, USDA, PMI	2.9
19	8/18/04	65,000	42,530	40,640	5.25-5.75	FHA, VA, USDA, PMI	3.7
20	12/7/04	65,000	44,780	42,299	5.125-5.25	FHA, VA, USDA, PMI	3.7
21	4/21/05	65,000	42,295	40,158	5.125-5.375	FHA, VA, USDA, PMI	2.2
22A	11/30/05	65,000	47,925	45,513	5.125-6.125	FHA, VA, USDA, PMI	5.4
22CE	10/1/07	80,000	69,110	65,300	5.50-5.75	FHA, VA, USDA, PMI	1.8
23	3/30/06	65,000	45,935	43,714	5.125-6.125	FHA, VA, USDA, PMI	3.7
24	6/29/06	85,000	63,440	60,325	3.95-6.375	FHA, VA, USDA, PMI	3.8
25	9/26/06	65,000	50,030	49,106	5.125-6.375	FHA, VA, USDA, PMI	4.6
26	12/20/06	65,000	51,270	48,604	5.125-6.25	FHA, VA, USDA, PMI	4.2
27	6/26/08	65,000	54,525	52,554	5.75-6.50	FHA, VA, USDA, PMI	5.3
28	4/25/07	65,000	53,650	51,491	4.75-5.99	FHA, VA, USDA, PMI	4.0
29	6/13/07	100,000	81,285	75,930	3.95-6.25	FHA, VA, USDA, PMI	3.0
30	10/23/07	65,000	55,370	53,391	5.50-6.50	FHA, VA, USDA, PMI	2.1
31	1/10/08	65,000	57,275	55,362	4.625-6.375	FHA, VA, USDA, PMI	2.8
Total		$2,078,530	$1,114,985	$1,085,839			

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

2 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 1998 Trust Agreement.

3 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 1998 Trust Agreement.

4 Program Loans that are 60/90+ days delinquent, as a percentage of the total number of Program Loans in such series outstanding as of June 30, 2011.

The overall 60/90+ day delinquency rate for the Program Loans issued pursuant to the 1998 Trust Agreement was 4.3% as of June 30, 2011. At June 30, 2011, 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 4.6%; the South Atlantic Region, 5.1%; and the United States, 4.7%.

As of June 30, 2011, the Agency had 94 conventional and USDA real estate owned properties with a total principal balance of $9,517,623.

The following table summarizes as of June 30, 2011 certain information with respect to all insurance and guarantee programs for the Program Loans held by the Agency under the 1998 Trust Agreement:

Insurance or Guarantee Program	Number of Program Loans Outstanding	Percentage of Total Number
FHA Mortgage Insurance	5,248	41.36%
VA Guarantee	493	3.88%
USDA Guarantee	1,275	10.05%
Primary Mortgage Insurance		
Genworth	2,225	17.53%
RMIC	396	3.12%
MGIC	840	6.62%
UGI	398	3.14%
Triad	29	0.23%
Radian	96	0.76%
PMI	186	1.47%
CMG	14	0.11%
Uninsured and Non-guaranteed loans (Loan to Value less than 80%)	1,490	11.73%
Total	12,690	100.00%

Declining Markets

During the last few years, the residential mortgage loan market has experienced increasing levels of delinquencies, defaults and losses, and the Agency cannot give any assurance that this will not continue. In addition, in recent years housing prices and appraisal values in the State have declined or stopped appreciating, after extended periods of significant appreciation. This decline and flattening of values has resulted and may continue to result in additional increases in delinquencies, defaults and losses on residential mortgage loans generally, particularly with respect to residential mortgage loans whose aggregate loan amounts (including any subordinate liens) are close to or greater than the related property values. Upon a default on a Mortgage Loan, a decline in value will affect the Agency's risk of loss. The Agency can give no assurance that housing prices will not continue to decline or flatten or that such decline or flattening will not have a material adverse effect on delinquencies and losses on Mortgage Loans or on the Agency's financial condition.

In recent months, in response to increased delinquencies and losses with respect to mortgage loans, Fannie Mae, Freddie Mac and many other mortgage loan originators have implemented more conservative underwriting criteria for loans, particularly in the subprime, Alt-A and other nonprime sectors. This may result in reduced availability of financing alternatives for mortgagors seeking to refinance their mortgage loans. The reduced availability of refinancing options for a mortgagor may result in higher rates of delinquencies, defaults and losses on the mortgage loans, particularly mortgagors with adjustable rate mortgage loans or interest only mortgage loans that experience significant increases in their monthly payments following the adjustment date or the end of the interest only period, respectively.

The general market conditions discussed above may affect the performance of the Agency's single-family loans and may adversely affect the Agency's financial condition.

TAX MATTERS

Opinion of Bond Counsel. In connection with the initial issuance of each series of the VRDOs, Bond Counsel stated in its approving legal opinion that certain federal tax requirements must be met subsequent to the initial issuance and delivery of the VRDOs in order that interest on such VRDOs be excluded, on and after the dates of such original issuance and delivery, from the gross income of the owners thereof for federal income tax purposes under the Code. The Agency established procedures in its Program documents and in its Trust Agreements to meet these federal tax requirements. The Agency also covenanted in the Trust Agreements to comply with the requirements of Section 143 and 148 of the Code. In the opinion of Bond Counsel issued in connection with the initial issuance of each series of the VRDOs, Bond Counsel opined that the procedures established were sufficient, if followed, to comply with the federal tax requirements. The Agency also covenanted in the Trust Agreements 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 all or some portion of the VRDOs to become included in gross income for federal income tax purposes retroactive to their date of issue.

On the issuance dates of each series of the VRDOs, Bond Counsel delivered an opinion to the effect that as of the date thereof, assuming the Agency would carry out the aforementioned procedures set forth in the Program documents and comply with the aforementioned covenants contained in the Trust Agreements, interest on the VRDOs was not includable in gross income of the owners thereof for federal income tax purposes. Bond Counsel further opined on such dates that interest on the VRDOs interest was treated as a preference item in computing the federal alternative minimum tax imposed by the Code on individuals and corporations. In addition, Bond Counsel also delivered an opinion on such dates that as of the date thereof, pursuant to the laws of the State of North Carolina, interest on the VRDOs was exempt from all income taxes of the State of North Carolina. In connection with the remarketing of the VRDOs, Bond Counsel has not expressed any opinion as to the current tax-exempt status of the interest on the VRDOs.

In connection with the remarketing of the VRDOs, Bond Counsel is of the opinion that the execution of the Liquidity Facilities and the consummation of the transactions related thereto will not, in and of itself, adversely affect the exclusion of the interest on the VRDOs from gross income of the owners thereof for purposes of federal income taxation and the exemption from income taxation by 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 Bond Counsel rendered no opinion, as a result of the ownership or transfer of each series of the VRDOs or the inclusion in certain computations of interest that is excluded from gross income for purposes of federal and North Carolina income taxation.

Other Tax Consequences. Ownership or transfer of, or the accrual or receipt of interest on, each series of the VRDOs 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 each series of the VRDOs 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, 2011, included in this Remarketing Circular as Appendix B have been audited by BDO USA, LLP,, independent auditors, as stated in their report appearing herein.

CERTAIN LEGAL MATTERS

Legal matters incident to the remarketing of the VRDOs are subject to the approving opinion of Womble Carlyle Sandridge & Rice, LLP, 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 A will be available at the time of remarketing of the VRDOs. Certain legal matters will be passed upon for the Agency by the Counsel and Manager of Legal Services for the Agency and for the Remarketing Agent by their counsel, Bode, Call & Stroupe, L.L.P., Raleigh, North Carolina.

CONTINUING DISCLOSURE

The Agency has covenanted (the "Covenant") for the benefit of beneficial owners of the VRDOs 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 VRDOs, 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 VRDOs;

(7) modification to the rights of the beneficial owners of the VRDOs;

(8) call of any of the VRDOs for redemption;

(9) defeasance of any of the VRDOs;

(10) release, substitution or sale of any property securing repayment of the VRDOs; 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 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 Rule 15c2-12 (the "Rule") promulgated by the SEC 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 VRDOs, 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 VRDOs 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 each Series 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 VRDOs in such Series.

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 each respective series of VRDOs, 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 Series Supplemental Trust Agreements 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 Remarketing Circular involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Remarketing Circular is not to be construed as a contract or agreement between the Agency and the purchasers or holders of any of the VRDOs.

NORTH CAROLINA HOUSING FINANCE AGENCY

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

The remarketing of and the manner of sale of the VRDOs 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: January 6, 2012

APPENDIX A

FORM OF APPROVING OPINION OF BOND COUNSEL

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APPENDIX A

LEGAL OPINION

[In connection with the mandatory tender for purchase and remarketing of the VRDOs on January 11, 2012 Bond Counsel to the Agency proposes to render the following opinion]

January 11, 2012

North Carolina Housing Finance Agency
Raleigh, North Carolina

Re: North Carolina Housing Finance Agency Variable Rate Home Ownership Revenue Bonds, (1998 Trust Agreement), Series 15-C, dated May 8, 2003

North Carolina Housing Finance Agency Variable Rate Home Ownership Revenue Bonds, (1998 Trust Agreement), Series 16-C, dated September 16, 2003

North Carolina Housing Finance Agency Variable Rate Home Ownership Revenue Bonds, (1998 Trust Agreement), Series 17-C, dated December 11, 2003

North Carolina Housing Finance Agency Variable Rate Home Ownership Revenue Bonds, (1998 Trust Agreement), Series 18-C, dated April 19, 2004

This firm (then organized as a professional limited liability company known as "Womble Carlyle Sandridge & Rice, PLLC") acted as bond counsel to the North Carolina Housing Finance Agency in connection with the authorization and issuance of the above-referenced bonds (the "Bonds"). At the time of issuance of each Series of the Bonds, this firm rendered its approving legal opinion as to, among other matters, the due authorization, execution and delivery of the Bonds and the exclusion of interest thereon from the gross income of the owners thereof for purposes of federal income taxation (the "Original Opinions"). The forms of the Original Opinions are included in the respective Official Statements of the Agency prepared in connection with the original public offerings of the Bonds. As stated therein, the Original Opinions were delivered in reliance upon certain assumptions regarding existing factual matters and in reliance upon future compliance by the Agency with its covenants to comply with federal tax laws following the issuance of the Bonds. For purposes of rendering this opinion, we have not performed any investigation as to the accuracy of such assumptions or future compliance by the Agency with such covenants.

The Bonds (together with other Bonds of the Agency) are issued under the provisions of the Trust Agreement, dated as of May 1, 1998, between the Agency and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), as supplemented by Supplemental Trust Agreements thereto (the "Supplemental Trust Agreements").

On the date hereof, the Agency is entering into separate Standby Bond Purchase Agreements, each dated as of January 11, 2012 (the "Standby Bond Purchase Agreements") with TD Bank, N.A., a national banking association (the "Bank"), pursuant to which the Bank has agreed to purchase the Bonds tendered by the owners thereof pursuant to the terms of the Bonds that are not remarketed. The Standby Bond Purchase Agreements contain provisions permitting the early termination thereof at the option of the Bank and the automatic mandatory termination thereof upon the occurrence of certain events specified in the Standby Bond Purchase Agreements.

Based upon the foregoing, we are of the opinion, as of the date hereof and under existing law, that:

1. The consummation of the transactions described above is permitted by the laws of the State of North Carolina, including the Act, the Trust Agreement and the Supplemental Trust Agreements.

2. The consummation of the transactions described above and the performance by the Agency of its obligations thereunder in accordance with their respective terms will not, in and of themselves, adversely affect the exclusion of interest on the Bonds from gross income of the owners thereof for purposes of federal income taxation and the exemption from income taxation by the State of North Carolina.

Very truly yours,

[To be Signed "Womble Carlyle Sandridge & Rice, LLP"]

APPENDIX B

NORTH CAROLINA HOUSING FINANCE AGENCY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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NORTH CAROLINA HOUSING FINANCE AGENCY

Financial Statements
Year Ended June 30, 2011

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NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011

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FINANCIAL STATEMENTS

ADDITIONAL INFORMATION

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MANAGEMENT DISCUSSION AND ANALYSIS (*Unaudited*)
June 30, 2011

The 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, 2011. 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 North Carolina households with low and moderate incomes. The Agency has issued bonds to finance housing throughout the State of North Carolina (State). In addition to its bond programs, the Agency administers the U.S. Department of the Treasury's (Treasury) Hardest Hit Fund (HHF), Section 8 Program, the HOME Investment Partnerships Program (HOME), Low-Income Housing Tax Credits, the North Carolina Housing Trust Fund (HTF) and other federal and state programs. These programs provide different types of assistance such as rent subsidies, down payment assistance, low-interest mortgage loans, foreclosure prevention mortgage assistance, foreclosure prevention counseling, 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, 2011, with reference to prior fiscal year's results and activities.

The Agency's *Total Assets* decreased $97,638,000 or 4.8%, and *Total Liabilities* decreased $114,363,000 or 7.5%. *Total Operating Revenues* increased $60,412,000 or 18.4% and *Total Operating Expenses* increased $60,004,000, or 19.0%.

The low interest rate environment continued to be a challenge as it directly impacted the Agency's ability to issue bonds that would produce a marketable mortgage interest rate. Low interest rates also encouraged borrowers to refinance their mortgages and pay off their existing loans. The impact of the low interest rates is evident throughout the Agency's financial statements. *Mortgage loans receivable, net* decreased $94,386,000, or 6.5% from the previous year because of increased prepayments and weak production of FirstHome mortgage loans resulting in a $6,285,000, or 7.6%, reduction in *Interest on mortgage loans*. The Agency funded mortgage loans with its existing funds in the absence of a traditional bond issuance during the year, which accounts for the majority of the $23,716,000, or 8.2%, decrease in *Cash and cash equivalents*. The weak economy caused mortgage loan delinquencies to rise which necessitated an increase in the loan loss reserve; this increase in the loan loss reserve accounts for most of the $3,748,000, or 142.6%, increase in *Other expenses*.

Additionally, *Bonds payable, net* decreased $115,517,000, or 7.9%, as prepayments were used to call outstanding bonds, reducing the *Interest on bonds* by $10,082,000, or 14%. (See additional comments under the section on "Debt Administration"). GASB Statement No. 62 (GASB 62) required deferred bond issuance costs to be reported as deferred charges, and thus these costs were reclassified from *Bonds payable, net* to *Other assets, net* in 2011 which accounts for the majority of the $13,554,000, or 90.2%, increase in *Other assets, net*. *Accrued interest payable* decreased by $12,943,000, or 30.7%, as a result of bond calls and the reclassification of bond premium/discounts of $6,503,000 to *Bonds payable, net*.

Interest on investments decreased by $3,338,000, or 29%, as the interest rate on the State's Short Term Investment Fund was 23.9% lower than last year, and the Agency used its cash to purchase mortgage loans.

Long-term interest rates at June 30, 2011 were higher than interest rates at June 30, 2010 which accounts for the $1,640,000, or 24.5%, decrease in *Deferred outflow of resources* and corresponding *Derivative instrument-interest rate swap*.

Federal program awards received and *Federal program expense* increased $63,668,000, or 28.9%, and $63,453,000, or 28.9%, respectively, due to the disbursement of tax credit funds for rental properties using the Tax Credit Assistance Program (TCAP) and U.S. Department of the Treasury's Exchange Program. *State tax credits* increased $6,334,000, or 22.6%, as a result of the increased tax credit production in low and moderate income counties. *State program expense* increased $11,279,000, or 26.5%, as disbursements for construction on state tax credit properties increased.

As discussed in the "New Business" section, the Agency was awarded $482 million as part of the Treasury 's Hardest Hit Fund (HHF) initiative to help prevent foreclosures in the state. The impact of the new program is reflected throughout the Agency's financial statements. *Deferred revenues* increased $15,849,000, or 173.5%, from funds the Agency received but were not disbursed as of June 30, 2011 for HHF. *Accounts payable* increased $598,000, or 25.2%, and *General and administrative expense* increased $3,009,000, or 18.2%, due in large part to the additional operating expenses that the Agency incurred for HHF. *Program income/fees* increased $6,165,000, or 45.5%, from the reimbursement of costs associated with HHF. The Home Protection Program which was previously funded with *State appropriations received* accounts for the $2,193,000, or 15.8%, decrease; since the Agency has received HHF, HPP is still intact but does not require funding at the same level. Because of the Agency's experience in foreclosure prevention, the State Home Foreclosure Prevention Project was transferred to the Agency effective July 1, 2011. Any funds remaining at June 30, 2011 were earmarked to be transferred to the Housing Trust Fund. These funds were accrued and account for the $6,883,000, or 133.1%, increase in *State grant received*.

Net Assets increased $16,725,000, or 3.2%, due to the receipt of federal stimulus funds in difficult economic times and as a result of the Agency's proactive management of its funds in an unstable economy.

Financial Analysis

The following tables summarize the changes in net assets between June 30, 2011 and 2010 (*in thousands):*

Condensed Balance Sheet Information

	2011	2010	Change	%
Assets**				
Cash and cash equivalents	$ 265,631	$ 289,347	$ (23,716)	(8.2)
Accrued interest receivable on investments	834	898	(64)	(7.1)
Accrued interest receivable on mortgage loans	11,098	11,111	(13)	(0.1)
Investments	229,967	222,770	7,197	3.2
Mortgage loans receivable, net	1,347,572	1,441,958	(94,386)	(6.5)
State receivables	54,470	53,040	1,430	2.7
Deferred outflow of resources	5,058	6,698	(1,640)	(24.5)
Other assets, net	28,583	15,029	13,554	90.2
Total Assets	$ 1,943,213	$ 2,040,851	$ (97,638)	(4.8)
Liabilities**				
Bonds payable, net	$ 1,339,633	$ 1,455,150	$ (115,517)	(7.9)
Derivative instrument-interest rate swap	5,058	6,698	(1,640)	(24.5)
Accrued interest payable	29,274	42,217	(12,943)	(30.7)
Accounts payable	2,974	2,376	598	25.2
Deferred revenues	24,982	9,133	15,849	173.5
Other liabilities	4,856	5,566	(710)	(12.8)
Total Liabilities	$ 1,406,777	$ 1,521,140	$ (114,363)	(7.5)
Net Assets				
Restricted	$ 522,565	$ 507,456	$ 15,109	3.0
Unrestricted	13,871	12,255	1,616	13.2
Total Net Assets	$ 536,436	$ 519,711	$ 16,725	3.2
Total Liabilities and Net Assets	$ 1,943,213	$ 2,040,851	$ (97,638)	(4.8)

** For information on current and noncurrent balance sheet items, please see the audited balance sheet in the accompanying financial statements.

Condensed Statement of Revenues, Expenses and Changes in Net Assets Information

		2011		2010		Change	%
Operating Revenues							
Interest on investments	$	8,163	$	11,501	$	(3,338)	(29.0)
Net increase (decrease) in fair value of investments		178		(46)		224	(487.0)
Interest on mortgage loans		76,371		82,656		(6,285)	(7.6)
Federal program awards received		283,907		220,239		63,668	28.9
Program income/fees		19,716		13,551		6,165	45.5
Other revenues		288		310		(22)	(7.1)
Total Operating Revenues	$	388,623	$	328,211	$	60,412	18.4
Operating Expenses							
Interest on bonds	$	62,105	$	72,187	$	(10,082)	(14.0)
Mortgage servicing expense		4,314		4,626		(312)	(6.7)
Federal program expense		282,927		219,474		63,453	28.9
Nonfederal program expense		963		775		188	24.3
General and administrative expense		19,521		16,512		3,009	18.2
Other expenses		6,376		2,628		3,748	142.6
Total Operating Expenses	$	376,206	$	316,202	$	60,004	19.0
Operating Income	$	12,417	$	12,009	$	408	3.4
Non-Operating Revenues (Expenses)							
State appropriations received	$	11,685	$	13,878	$	(2,193)	(15.8)
State grant received		12,053		5,170		6,883	133.1
State tax credits		34,339		28,005		6,334	22.6
State program expense		(53,769)		(42,490)		(11,279)	26.5
Total Non-Operating Revenues(Expenses)	$	4,308	$	4,563	$	(255)	(5.6)
Change in Net Assets	$	16,725	$	16,572	$	153	0.9

New Business

The economy continued to struggle throughout fiscal year 2011, and any temporary improvements in the market were matched with an equal number of setbacks. The market reflects domestic and international unease, both financial as well as political. Ironically, these poor economic conditions created what should be tremendous benefits for a potential homebuyer: unprecedented low mortgage rates along with the lowest housing prices in years. However, these advantages have not been sufficient to increase mortgage loan production in a market where people continue to worry about whether they will have a job. Unemployment or the threat of unemployment continues to be one of the biggest impediments in the decision to buy a home. Therefore, the Agency has focused a significant amount of its attention on helping struggling homeowners who are facing foreclosure.

The Treasury approved the Agency's Hardest Hit Fund (HHF) programs effective August 2010 to use $482 million of funds authorized under the Emergency Economic Stabilization Act of 2008 in the Troubled Asset Relief Program (TARP). These funds are made available to homeowners in all counties through the N.C. Foreclosure Prevention Fund™ which operates under the Agency's Home Protection Program (HPP). Services are provided by the U.S. Department of Housing and Urban Development (HUD) approved counseling agencies statewide. The fund is expected to enable 21,000 unemployed homeowners to keep their homes, and the programs will be available over the next three to five years.

The N.C. Foreclosure Prevention Fund™ currently offers two programs. The Mortgage Payment Program (MPP) makes mortgage payments and pays related expenses for unemployed homeowners while they seek jobs or job training in a new field. As of June 30, 2011, approximately 3,800 applications had been submitted to the Agency, and 926 homeowners had received assistance. The Second Mortgage Refinance Program (SMRP) provides refinancing for high-cost second mortgages in order to make the total monthly housing payment affordable for the borrower.

The Agency closed a multifamily bond issue for $14,200,000 on December 15, 2010. The Multifamily Housing Revenue Bonds (Pendergraph 2010 Rural Development Portfolio) Series 2010 is a special facility for the Agency, and is structured as a draw-down bond. The bond issue financed the cost of the acquisition, rehabilitation and equipping of eight multifamily rental housing projects throughout the state.

Due to federal budget constraints, HUD decreased its appropriation of the HOME program for fiscal year 2011 by $2.6 million, bringing the total to $19.1 million for the year ended June 30, 2011. HOME is the largest federal block grant to state and local governments designed exclusively to create affordable housing for low-income households.

The General Assembly appropriated $10 million to the Housing Trust Fund and $1.6 million as matching funds for the federal HOME program. The $3 million appropriation for the HPP was reduced to $500,000 due to the Agency's receipt of the Hardest Hit Fund. The State reduced the Agency's total fiscal year 2011 appropriation by 3.5%.

The Rapid Equity Builder (REB) Program was created to provide incentives for the purchase of Agency-owned properties (REOs) in its portfolio. The REB provides an interest-free, forgivable subordinate lien up to $10,000 to pay a substantial part of the down payment for homebuyers below 80% of the area median income. Homebuyers must purchase an Agency REO property and use a Federal Housing Administration (FHA) first mortgage. The Agency is using sales price discounts, interest rate reductions, and paid closing costs to attract buyers.

Debt Administration

The Agency's *Bonds payable, net* decreased $115,517,000, or 7.9%, in the absence of a single-family bond issuance during the fiscal year. The last traditional single-family bond issuance for the Agency occurred in 2008. Since that time, the Agency has continued funding its mortgage loans through the use of recycled prepayments and reserves. The Agency's FirstHome Mortgage Program assisted 362 families during the year. Although mortgage production for the Agency remained low during the fiscal year, the Agency continued to warehouse mortgage loans in anticipation of a future bond sale.

In response to the difficulties that housing finance agencies (HFAs) nationwide experienced in obtaining a full-spread rate on a bond issue, Treasury, together with HUD and the Federal Housing Finance Agency (FHFA), developed the HFA Initiative as a part of President Obama's Making Home Affordable program. The HFA Initiative consisted of two programs: the New Issue Bond Program (NIBP) and the Temporary Credit and Liquidity Program (TCLP). The NIBP offered lower-cost bonds, and the TCLP offered more affordable liquidity rates on variable rate debt. The Agency continued to participate in both programs in fiscal year 2011.

The Agency sold $135,000,000 of bonds to Fannie Mae and Freddie Mac (the GSEs) in December 2009 as a part of the NIBP, and received the proceeds of the sale in January 2010. The Agency created the 2009 Single-Family Resolution in which to place the NIBP proceeds. Based on program requirements, the bonds sold to the GSEs represent 60% of a total bond issue, and the other 40% to be sold on the open market. The program was originally set to expire in December 2010. However, many HFAs were unable to use their NIBP proceeds because the market's mortgage rates remained so low that obtaining a full-spread rate was unachievable. In response, the NIBP program was extended through December 2011. The Agency's NIBP proceeds remained in escrow at June 30, 2011. On August 25, 2011, the Agency issued $85 million in Home Ownership Revenue Bonds related to the NIBP in the 2009 Trust Agreement. The Agency rolled out $51,000,000 in NIBP proceeds (60% of the bond issue) which were paired with $34,000,000 in market bonds (40% of the bond issue) for a total bond issue of $85,000,000. The remaining $84,000,000 of NIBP proceeds remain in escrow invested in 4-week treasuries, the only permitted investment available to the Agency under the NIBP program.

The TCLP continued to offer below-market rates on liquidity for its variable rate debt. The Agency paid 50 basis points (bps) until January 2010, at which time the rate increased to 75 bps. In January 2012, the rate will increase to 100 bps, so the Agency is actively seeking alternative liquidity sources to ensure that it is receiving the most favorable rates available.

Changes in market interest rates saw short-term rates drop during fiscal year 2011 while long-term interest rates rose. The historically low short-term rate environment contributed to lower debt service for the Agency's variable rate bonds and higher periodic payments on its swap agreements for the current fiscal year. The increase in long-term rates resulted in noticeably lower termination values for the swap portfolio with the fair market value liability falling from $6,698,000 as of June 30, 2010, to $5,058,000 as of June 30, 2011. Since their inception, the Agency's swap contracts have produced variable cash flows in excess of the rates paid to bondholders, and this positive basis has also kept debt service low.

The Agency has many direct and indirect business partners, including repurchase agreement providers, private mortgage insurers, bond insurers, and swap counterparties. As a result of the continued downgrades of the private mortgage insurers, the rating agencies assumed more rigorous stresses when determining the Agency's appropriate parity for its current bond ratings. Based on the rating agencies' periodic reviews of the Agency's loan loss models, the Agency was not required to take action as a result of downgrades of any of its partners during fiscal year 2011.

The rating agencies are keeping watch over HFA delinquency rates, and they are adjusting their loan loss models accordingly. As of June 30, 2011, the Agency's 60-day-plus quarterly average delinquency rate was 4.9%. This rate was below the North Carolina average of 5.4% and well below the national average of 6.0%. The loan servicers and the Agency are working closely with borrowers to ensure that they are receiving every loss mitigation tool possible to keep borrowers in their homes, including the N.C. Foreclosure Prevention Fund™.

The Agency had scheduled bond maturities of $35,950,000 for Single-Family Revenue Bonds and $530,000 for Multifamily Revenue Bonds. There were unscheduled bond redemptions of $99,885,000 for Single-Family Revenue Bonds and $675,000 for the Multifamily Revenue Bonds. In August 2010, the Agency redeemed the 1984 J Multifamily Resolution in its entirety. The remaining mortgage loans, cash and other assets in this resolution were transferred to the 1985 Single-Family Resolution. As of June 30, 2011, the only multifamily resolution (not including special facilities) remaining is the 1992 Multifamily Resolution. Refer to the accompanying notes to financial statements for more detailed information concerning maturities and redemptions for the single-family and multifamily revenue bonds.

Programs

For the year ended June 30, 2011, the Agency made cash disbursements of approximately $302,718,000 in federal funds for the following programs:

- Affordable Home Ownership Program (AHOP)
- Construction Training Partnership Program (CTP)
- Displacement Prevention Partnership (DPP)
- Exchange Program (Exchange)
- Individual Development Account Loan Pool (IDALP)
- Lead Abatement Partnership Program (LAPP)
- Mortgage Payment Program (MPP)
- National Foreclosure Mitigation Counseling Program (NFMC)
- Neighborhood Stabilization Loan Program (NSLP)
- New Homes Loan Pool (NHLP)
- Preservation Loan Program (PLP)
- Rental Production Program (RPP)
- Reverse Mortgage Counseling and Training Program (RMCT)
- Section 8 Contract Administration
- Section 8 New Construction
- Section 8 Rehabilitation
- Self-Help Loan Pool (SHLP)
- Single-Family Rehabilitation Program (SFR)
- Single-Family Rehabilitation Loan Pool (SFRLP)
- Statewide Down Payment Assistance Program (SWDAP)
- Supportive Housing Development Program (SHDP)
- Supportive Housing Predevelopment Loan Program (SHPL)
- Tax Credit Assistance Program (TCAP)
- Urgent Repair Program (URP)

For the year ended June 30, 2011, the Agency made cash disbursements of approximately $55,349,000 in state funds for the following programs:

- Displacement Prevention Partnership (DPP)
- Home Protection Program (HPP)
- Key Program (KEY)
- Loan Modification Program (LMP)
- Preservation Loan Program (PLP)

- Rental Production Program (RPP)
- Self-Help Loan Pool (SHLP)
- Statewide Down Payment Assistance Program (SWDAP)
- Supportive Housing Development Program (SHDP)
- Supportive Housing Development Program 400 (SHDP400)
- State Tax Credit (STC)
- Urgent Repair Program (URP)

For the year ended June 30, 2011, the Agency made cash disbursements of approximately $794,000 in Agency funds for the following programs:

- Duke Home Energy Loan Pool (HELP)
- Individual Development Account Loan Pool (IDALP)
- Loan Modification Program (LMP)
- Multifamily Rental Assistance (MFRA)
- Statewide Down Payment Assistance Program (SWDAP)
- Statewide Down Payment Assistance Program High Income (SWDAPHI)

<u>Home Ownership Programs</u> The Agency's mission is to create affordable housing opportunities for North Carolinians whose needs are not met by the market. Given the historic lows in market mortgage rates and the overall recession, the Agency has focused its efforts to help homeowners in trouble or those needing additional assistance in buying or rehabilitating their home.

The FirstHome Mortgage Program, funded with tax-exempt mortgage revenue bonds, offers 30-year low-rate mortgages to moderate and low-income individuals who have not owned a home in the last three years. Annual household income and home purchase price limits apply to borrowers. In the current fiscal year, 362 homes were purchased.

The Statewide Down Payment Assistance Program offered $8,000 for an interest-free, deferred second mortgage to qualified households whose incomes are equal to or below 80% of area median income. The SWDAPHI allowed households above 80% of area median income to apply for a down payment up to $4,000. However, the program was expanded as of June 30, 2011 to offer $8,000 in down payment assistance to all qualifying borrowers regardless of whether they were above or below 80% of median income. This down payment assistance is available for FHA and VA loans only, and it requires a 650 minimum credit score. The program was expanded to increase the homeowner benefit from the FirstHome program and to differentiate the Agency's program from other lenders. In the current fiscal year, 110 FirstHome mortgage loans used SWDAP assistance.

The Agency helped community-based groups bring home ownership opportunities to 327 lower-income households. The Individual Development Account Loan Pool provides interest-free, deferred second mortgages to homebuyers participating in local Individual Development Account (IDA) programs. Grants of up to $1,000 are also provided to participants to match their IDA savings. The NHLP provides interest-free, deferred payment second mortgages for the purchase of newly-constructed, substantially rehabilitated, or foreclosed homes. The SHLP provides interest-free and amortizing mortgage loans for permanent financing of newly-built homes using homebuyer sweat equity. Incentive funding of $4,000 is also available when homes are built to certain SystemVision standards of energy efficiency and with an additional $1,000 if the affiliate also meets a major Green Building Certification.

The Neighborhood Stabilization Program provides federal funding to aid in the purchasing, rehabilitating, redeveloping, and reselling of foreclosed or abandoned homes to stabilize neighborhoods and stem the decline of property values. The Agency provided second mortgages for buyers of foreclosed homes or rental housing developments. This fiscal year, 46 FirstHome borrowers received assistance from NSP.

The Mortgage Credit Certificate Program (MCC) permits first-time homebuyers who are within federal guidelines for family income and acquisition costs to take up to 30% or $2,000 of annual mortgage interest as a federal income tax credit for every year the homebuyer occupies the home. The Agency provided MCCs for 322 homebuyers this fiscal year.

Single-Family Rehabilitation and Single-Family Rehabilitation Loan Pool programs provide deferred, forgivable loans to rehabilitate moderately deteriorated owner-occupied homes, primarily assisting homeowners below 80% of area median income with elderly and/or disabled household members. All units are improved to stringent energy and construction standards. This fiscal year the Agency upgraded the program to a loan pool in order for funds to be reserved on a unit-by-unit basis.

The Urgent Repair Program provides grants to local governments, regional agencies, and nonprofit organizations to correct housing conditions that pose an imminent threat to life, safety, or displacement of low-income homeowners. The number of households expected to be assisted with the 2011 awards is 570.

The Displacement Prevention Partnership, which operates in partnership with local offices of the Independent Living Rehabilitation Program in the N.C. Department of Health and Human Services, provides accessibility modifications to very low-income households that may be displaced due to severe mobility limitations. This year 323 households were assisted.

The Duke Home Energy Loan Pool provides funds for energy-efficiency measures performed in association with the comprehensive rehabilitation of the homes of Duke Energy customers. The Pool is funded by a subsidiary of Duke Energy Corporation. Eligible owner-occupants must have an income of 80% or less of the area median income. This year 49 households were assisted.

<u>Foreclosure Prevention Programs</u> In light of North Carolina's high unemployment rate, the Agency made use of several programs that target troubled homeowners. The National Foreclosure Mitigation Counseling Program provides Federal funds for foreclosure prevention counseling and legal assistance across the state. Counseling sessions are provided on a short-term basis by HUD-approved counseling intermediaries primarily in defined areas of greatest need. This year 2,519 households received counseling.

Through the Home Protection Program (HPP), the Agency partners with housing counseling organizations that serve all 100 counties. HPP is funded by the General Assembly. The program helps homeowners who lose their jobs through no fault of their own, and it provides up to $24,000 in assistance for up to a 24-month period. The interest-free, deferred payment loan is used to cover monthly mortgage payments and mortgage-related expenses on a one-time, short-term, or long-term basis. This year, 117 unemployed homeowners were assisted. The N.C. Foreclosure Prevention Fund, discussed in "New Business", will now serve homeowners who would have previously qualified for HPP.

<u>Rental Programs</u> The Agency administers both the Federal Low-Income Housing Tax Credit Program and the State Tax Credit (STC) Program. These credits are available to developers on a competitive basis to fund the creation of affordable rental housing in the state. The Agency's goals include awarding tax credits to the best developments possible given the limited resources available. The Qualified Allocation Plan establishes criteria that include the following to use in selecting developments that serve low-income residents: locations with strong market demand, healthy financial structures, attractive architectural design, and the best quality of building materials and workmanship.

Unlike the federal tax credit, the 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 by the N.C. Department of Revenue. The amount of the transferred STC becomes a secured loan from the Agency to the property owner. In every case to date, the owner has transferred its credit to the Agency because of the federal income tax treatment and the needs of the project. Once the property has reached certain milestones, primarily completion of a certain amount of construction, the loan becomes eligible to close.

The Rental Production Program provides new development, substantial rehabilitation, or acquisition/rehabilitation loans for the production of rental housing for low-income tenants. These RPP loans are gap financing for the projects financed with federal low-income tax credits.

The Federal Low-Income Housing Tax Credit Program, in conjunction with STC and RPP, is expected to create 2,384 units from the 2011 awards.

The Agency and the N.C. Department of Health and Human Services partnered to create the KEY Program by providing rental assistance to low-income persons with disabilities, including the homeless. Funding is available to all targeted units produced under the Preservation Loan Program, Housing Credit, and the Supportive Housing Development Program 400 programs; however, it does not provide assistance if rental subsidies are available through another program. This year 858 households were assisted.

The Supportive Housing Development Program provides funding for emergency, transitional, and permanent housing for children and adults with a wide range of disabilities or special housing needs. Eligible applicants are mission driven nonprofit organizations and units of local government. The number of units expected to be assisted from the 2011 awards is 304.

The Agency administers the Section 8 Housing Assistance Payment Program on behalf of HUD for properties throughout North Carolina. The Agency contracted with a third-party administrator, Quadel Consulting Corporation, to assist with the administration of the program. This year, the program provided assistance to 24,172 apartments occupied by low-income tenants.

Other Programs The Construction Training Program, which is a partnership with the North Carolina Home Builders Association (NCHBA) and local governments, provides funding for the hard costs of new construction or rehabilitation projects. NCHBA conducts a range of training services to low-income unemployed persons. Training consists of classroom and "hands on" residential field training followed by job placement activities. The local government pays for the cost of training, identifies eligible projects, and serves as or procures a general contractor.

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, or visit the Agency's website at www.nchfa.com.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
North Carolina Housing Finance Agency

We have audited the accompanying basic financial statements of the North Carolina Housing Finance Agency (the Agency), a public agency and component unit of the State of North Carolina as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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. An audit includes 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, as well as 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 respective financial position of the Agency as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 22, 2011 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 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 10 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

BDO USA, LLP

September 22, 2011

NORTH CAROLINA HOUSING FINANCE AGENCY

BALANCE SHEET

YEAR ENDED JUNE 30, 2011

(in thousands)		
ASSETS		
Current assets:		
Cash and cash equivalents	$	3,999
Restricted cash and cash equivalents		261,632
Restricted investments		136,309
Accrued interest receivable on investments		834
Mortgage loans receivable, net		145,054
Accrued interest receivable on mortgage loans		11,098
State receivables		54,470
Other assets		12,605
TOTAL CURRENT ASSETS	$	626,001
Noncurrent assets:		
Investments	$	2,044
Restricted investments		91,614
Mortgage loans receivable, net		1,202,518
Deferred outflow of resources		5,058
Other assets, net		15,978
TOTAL NONCURRENT ASSETS	$	1,317,212
TOTAL ASSETS	$	1,943,213
LIABILITIES		
Current liabilities:		
Bonds payable	$	171,450
Accrued interest payable		29,274
Accounts payable		2,974
Deferred revenues		16,787
Other liabilities		520
TOTAL CURRENT LIABILITIES	$	221,005
Noncurrent liabilities:		
Bonds payable, net	$	1,168,183
Derivative instrument - interest rate swap		5,058
Deferred revenues		8,195
Other liabilities		4,336
TOTAL NONCURRENT LIABILITIES	$	1,185,772
TOTAL LIABILITIES	$	1,406,777
NET ASSETS		
Restricted	$	522,565
Unrestricted		13,871
TOTAL NET ASSETS	$	536,436
TOTAL LIABILITIES AND NET ASSETS	$	1,943,213

The accompanying notes are an integral part of this financial statement.

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2011

(in thousands)

OPERATING REVENUES		
Interest on investments	$	8,163
Net increase in fair value of investments		178
Interest on mortgage loans		76,371
Federal program awards received		283,907
Program income/fees		19,716
Other revenues		288
TOTAL OPERATING REVENUES	$	388,623
OPERATING EXPENSES		
Interest on bonds	$	62,105
Mortgage servicing expense		4,314
Federal program expense		282,927
Nonfederal program expense		963
General and administrative expense		19,521
Other expenses		6,376
TOTAL OPERATING EXPENSES	$	376,206
OPERATING INCOME	$	12,417
NON-OPERATING REVENUES (EXPENSES)		
State appropriations received	$	11,685
State grant received		12,053
State tax credits		34,339
State program expense		(53,769)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$	4,308
CHANGE IN NET ASSETS	$	16,725
TOTAL NET ASSETS-BEGINNING	$	519,711
TOTAL NET ASSETS-ENDING	$	536,436

The accompanying notes are an integral part of this financial statement.

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2011

(in thousands)	
Cash flows from operating activities:	
Interest on mortgage loans	$ 76,152
Principal payments on mortgage loans	140,335
Purchase of mortgage loans	(51,193)
Federal awards received	299,186
Federal program expense	(282,772)
Nonfederal program expense	(963)
Federal grant administration income	13,283
Program income/fees	6,622
Other expenses	(22,169)
Other revenues	(2,458)
Net cash provided by operating activities	$ 176,023
Cash flows from non-capital financing activities:	
Principal repayments on bonds	$ (137,040)
Interest paid	(66,778)
Bond issuance costs paid	(7)
State appropriations received	11,685
State grant received	5,994
State tax credits	38,968
State program expense	(53,769)
Net cash used in non-capital financing activities	$ (200,947)
Cash flows from investing activities:	
Proceeds from sales or maturities of investments	$ 2,025,486
Purchase of investments	(2,032,505)
Earnings on investments	8,227
Net cash provided by investing activities	$ 1,208
Net decrease in cash	(23,716)
Cash and cash equivalents at beginning of year	289,347
Cash and cash equivalents at end of year	$ 265,631
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 12,417
Adjustments to reconcile operating income to net cash	
(used in) provided by operating activities:	
Interest on investments	(8,163)
Increase in fair value of investments	(178)
Interest on bonds	62,105
Change in assets and liabilities:	
Decrease in mortgage loans	94,386
Decrease in interest receivable on mortgage loans	13
Increase in other assets	(3,750)
Increase in accounts payable and other liabilities	3,344
Increase in deferred revenues	15,849
Total adjustments	$ 163,606
Net cash provided by operating activities	$ 176,023

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2011

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 accompanying financial statements represent the financial position of the Agency only. 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 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 line of credit of the State, and the State is not liable for the repayment of such obligations.

Basis of Presentation The accompanying financial statements of the Agency have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) establishes standards of financial accounting and reporting for state and local government entities. Financial Accounting Standards Board standards of financial accounting and reporting issued on or before November 30, 1989, are applied by the Agency to the extent that those standards do not conflict with or contradict GASB pronouncements.

Measurement Focus and Basis of Accounting The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for Agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

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 (STC) program, the General Assembly of the State of North Carolina awarded $255,315,000 in STCs, of which the Agency received $38,968,000 during fiscal year 2011. Under this program, the STC 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 State 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 $9,576,000 for the year ended June 30, 2011. This appropriation is reported in *Non-Operating 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. In June 2011, the North Carolina General Assembly, Session 2011, passed a bill to transfer the management of the State Home Foreclosure Prevention Project and Fund to the Agency. Allocated funds are to be used to counsel homeowners who are at risk of foreclosure. The act became effective July 1, 2011. Per the enabling legislation, the remainder of the 2011 fund in the amount of $6,059,000 was transferred to the Housing Trust Fund in July 2011. These funds are to complement the amount appropriated by the General Assembly for the Housing Trust Fund. These funds are also reported in *Non-Operating Revenues (Expenses)* in the financial statements.

Federal and State Programs The Agency administers thirteen federal programs. The Section 8 Programs, the Low-Income Housing Projects in Lieu of Tax Credits program, the Tax Credit Assistance Program, and the HOME Investment Partnerships Program (HOME program) represent 44%, 29%, 18%, and 7% respectively, of *Federal program expense*. The Agency receives a fee for administering these programs. The HOME program is matched with funds appropriated by the General Assembly of the State; the amount of matching funds received during the year was $1,608,000. In August 2010, the U.S. Department of the Treasury (Treasury) authorized the Agency to use Hardest Hit Funds to help unemployed homeowners avoid foreclosure. This program is similar to the Home Protection Program (HPP) that was established by the General Assembly of the State in 2004. Because of the federal funding, the HPP appropriation was reduced to $500,000 in fiscal year 2011.

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 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.

Significant Accounting Policies Below is a summary of the Agency's significant 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 fewer. 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 the Agency's debt service payments and bond calls and for purchasing mortgage loans under the Agency's different programs.

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 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 receivables In 2002, the General Assembly converted the State Housing Credit into a refundable credit providing funds that can be efficiently invested directly in Housing Credit properties through the Agency. The Agency recorded a $48,411,000 receivable for STCs for the fiscal year ended June 30, 2011. This amount represents the remaining 2009 and 2010 outstanding awards. During the year, the Agency received STCs in the amount of $38,968,000 from the General Assembly for the 2008 outstanding awards (second installment) and the 2009 awards (first installment). These funds are committed to provide loans to housing credit properties through the Agency. The North Carolina General Assembly passed legislation transferring the State Home Foreclosure Prevention Project (SHFPP) and Fund to the Agency as of July 1, 2011. The SHFPP will provide counseling to homeowners who are at risk of foreclosure on their homes. The Agency recorded a $6,059,000 receivable for the fiscal year ended June 30, 2011 which represents the remaining funds in the State Home Foreclosure Prevention Trust Fund as of June 30, 2011. Funds received and disbursed are reflected in *Non-Operating Revenues (Expenses).*

Other assets, net Fixed assets, net of accumulated depreciation, in the amount of $3,596,000 are included in *Other assets, net* in the financial statements. Assets of $500 or greater are capitalized and depreciated over the economic useful lives of five years using the straight-line method. Recorded in *Other assets* (current) is $3,554,000 in accounts receivables for Quadel Consulting Corporation contract administration, Hardest Hit Fund Program advanced expenses, Neighborhood Stabilization Program (NSP) program expenses, National Foreclosure Mitigation Counseling (NFMC) Rounds Two, Three, and Four program close-out, and HOME Program loans closed in fiscal year 2011 but reimbursed in fiscal year 2012. Other assets in the amount of $20,961,000 are reflected in the Home Ownership Bond Programs. Included in this amount are mortgage payments collected by servicers that will be remitted to the Agency in fiscal year 2012 and deferred bond issuance costs of $13,260,000 (see footnote below).

Deferred bond issuance costs These 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 and are written down to the extent any bond calls are completed. The amortization of deferred losses on refunding and deferred bond issuance costs is included as a component of *Interest on bonds.* Deferred bond issuance costs in the past have been included as part of *Bonds payable, net*, but were reclassified to *Other assets, net* for financial statement presentation for June 30, 2011 as required by GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (GASB 62).

Bond premium/discount Bond premium/discount on bonds represents the difference in the amount received upon the sale of the bonds versus the par value of the bonds. The premiums and discounts relate to the planned amortization (PAC) bonds sold in conjunction with many series in the 1998 Home Ownership Revenue Bond Resolution. The bond premium/discount is amortized using the effective interest rate method over the life of the related PAC bonds and are adjusted accordingly for any bond calls that occur during the year. The amortization of the bond premium/discount is included as a component of *Interest on bonds.* In the prior fiscal year, bond premium/discount was included as a component of *Accrued interest payable.* As of June 30, 2011, the Agency reflected the unamortized portion of bond premium/discount as a component of *Bonds payable, net.*

Deferred revenues Deferred revenues are monitoring fees received for the Low-Income Housing Tax Credit and for loans issued under the 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. Also included under *Deferred revenues* is funding from the Treasury for the Hardest Hit Fund. The funds are to be used for loans to assist homeowners who are at risk of foreclosure.

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, 2011, these balances are recorded as *Interprogram receivable/(payable)*. These interprogram transactions are eliminated in the financial statements.

Net assets Net assets are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, or laws or regulations or by law through constitutional provisions.

The Agency's Board of Directors annually approves an operating budget that is funded with revenues generated by administrative fees earned on federal programs, interest income earned on investments, and reserves from bond resolutions. All of these revenue sources are earmarked to cover operating expenses. The decision to use restricted or unrestricted receipts to fund a payment is transactional-based. For projects funded by tax-exempt debt proceeds and other resources, the debt proceeds are always used first.

As of June 30, 2011, the Agency had $13,871,000 of unrestricted net assets. The Agency intends to use these net assets for potential home ownership mortgage loan losses, to meet rating agencies' requirements, to cover the operating budget, and to 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 Accounting and Financial Reporting for Certain Investments and for External Investment Pools 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 years ended June 30, 2011 and 2010 are as follows:

(*in thousands*)	**June 30, 2011**	**June 30, 2010**
Increase (Decrease) in Operating Income	$ 178	$ (46)
Increase in Net Assets	$ 185	$ 7

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.

Non-Operating Revenues and Expenses *State appropriations received, State grants received*, and *State tax credits* from the State of North Carolina are classified in *Non-Operating Revenues (Expenses)*. The related expenses are classified as *State program expense*. In fiscal year 2011, the Agency accrued $34,339,000 in *State tax credits* for the 2010 award year and $6,059,000 in State Home Foreclosure Prevention Program Funds (see additional comments under "State receivables").

General and administrative expense 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 programs 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 office 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.

New accounting pronouncements GASB 62 provides that reporting for governmental and business-type activities should be based on all applicable GASB pronouncements as well as the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, issued on or before November 30, 1989 (collectively, the FASB and AICPA Pronouncements), unless those pronouncements conflict with or contradict GASB pronouncements. The primary objective of GASB 62 is to directly incorporate the applicable guidance from those FASB and AICPA Pronouncements into the state and local government accounting and financial reporting standards, with the provisions modified, as appropriate, to recognize the effects of the governmental environment and the needs of governmental financial statement users without affecting the substance of the applicable guidance. GASB 62 is effective for financial statements for periods beginning after December 15, 2011 with earlier application being encouraged. The Agency adopted the provisions of GASB 62 as of July 1, 2010 and as described above in deferred bond issuance section of this footnote, resulted in a reclassification of bond issuance costs out of bonds payable and into other assets.

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

Cash and cash equivalents As of June 30, 2011, the Agency had deposits in pooled investment accounts of the State Treasurer with a carrying value of approximately $113,279,000 and a bank balance of approximately $114,017,000. The State Treasurer investment account has the characteristics of a demand deposit account in that the Agency may deposit cash at any time and may withdraw cash at any time without prior notice or penalty. Included in the investment accounts of the State Treasurer is the amount of $3,420,000 representing escrow and replacement reserves maintained on behalf of multifamily and single-family mortgagors; accordingly, a corresponding liability of the same amount is also included on the balance sheet.

The Agency also had deposits with both a carrying value of $152,349,000 and bank balance approximating $152,949,000 on deposit with the Agency's fiduciary agent. Such deposits are collateralized with eligible securities held by a third-party custodian. The Agency also had deposits held in other financial institutions with both a carrying value and bank balance of $3,300.

Deposits - custodial credit risk Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. At June 30, 2011, the Agency was not exposed to any material custodial credit risk.

Investments Repurchase agreements are collateralized by obligations of the U.S. 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, 2011, approximately $81,175,000 was invested in such long-term agreements having maturity dates ranging from September 1, 2018, to July 1, 2039, primarily at rates ranging from 4.00% to 7.15%.

At June 30, 2011, the Agency held the following investments with the listed maturities at annual rates ranging from 0.45% to 7.15%. Ratings are displayed with the Standard & Poor's rating listed first and the Moody's Investors Service second *(in thousands)*.

		Investment Maturities (in Years)			
Investments	Carry Amount	Less Than 1	1 - 5	6 – 10	More Than 10
GNMA MBS's** Rated AAA/Aaa	$ 1,768	$ -	$ -	$ -	$ 1,768
FNMA MBS's** Rated Aaa	384	-	-	-	384
Repurchase Agreements- Rated BBB*/Baa1 or higher	81,175	-	-	9,298	71,877
US Agency and State and Local Obligations- Rated AAA/Aaa**	146,640	136,309	-	10,331	-
Total Categorized	$229,967	$136,309	-	$19,629	$74,029

*Note that Bayerische Landesbank and Westdeutsche Landesbank are guaranteed by the German state of Bavaria.

**Note that in August 2011 Standard and Poor's Rating Agency downgraded federal government securities from AAA to AA+

Interest rate risk Interest rate risk is the risk that changes in the market rates will adversely affect the fair market value of an investment. 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. In practice, the Agency does limit investments to 20 years to minimize fair value losses arising from interest rate risk.

Credit risk Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. 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 U.S. Government; (ii) obligations issued by an approved Agency or corporation wholly-owned by the U.S. 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) repurchase 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) are securitized by the Federal National Mortgage Association (FNMA), (Fair Value - $384,000, rated AAA/Aaa), and by the Government National Mortgage Association (GNMA), (Fair Value - $1,768,000, rated AAA/Aaa). The Government National Mortgage Association is a direct obligation of the U.S. Government. Repurchase agreements are fully collateralized by obligations issued by the U.S. Government or its agencies. The Government Securities are comprised of U.S. Treasuries, State and Local Government Securities, and Federal Farm and Bank Securities which are direct obligations of the Treasury (rated AAA/Aaa). The U.S. Treasuries have a Fair Value of $135,125,000, the State and Local Government Securities have a Fair Value of $1,184,000 and Federal Farm and Bank Securities have a Fair Value of $10,331,000.

Concentration of credit risk The Agency has a practice of entering into repurchase agreements with several investment providers to minimize the Agency's exposure to a bond rating downgrade should one of the providers have a ratings event. The investments consist of repurchase agreements and obligations of the U.S. and state government which represent 35.30% and 63.77%, respectively, of the Agency's total investments. Investments in any one issuer that represent 5% or more of total investments as of June 30, 2011 are as follows (in thousands):

Investment Issuer	**Amount**
Bayerische Landesbank, repurchase agreement	$18,907
Westdeutsche Landesbank, repurchase agreement	16,989
Societe Generale, repurchase agreement	11,673

Custodial credit risk Custodial credit risk occurs in the event that investment securities are uninsured and are not registered in the name of the Agency, and there is a failure of the counterparty. At year end, the Agency was not exposed to custodial credit risk. The U.S. Government securities are on deposit with the Agency's fiduciary agent, which holds these securities by book entry in its fiduciary Federal Reserve accounts. The Agency's ownership of these securities is identified through the internal records of the fiduciary agent.

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 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.

<u>Foreign currency risk</u> Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Agency is not at risk for foreign currency risk.

Securities lending transactions GASB 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 100% 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, 2011, related to these transactions.

As of June 30, 2011, the Agency had deposits in the pooled investment accounts of the State Treasurer. The risk associated with these transactions is 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 issuances have stated interest rates ranging from 3.95% to 13.00%. Unamortized discounts as of June 30, 2011 totaled $760,000.

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, guaranteed by the Veterans Administration, guaranteed by the U.S. Department of Agriculture, Rural Department, insured under a private mortgage insurance program, or have a loan-to-value ratio equal to or less than 80%. As of June 30, 2011, all outstanding mortgage loans purchased with mortgage revenue bond proceeds satisfy these requirements. The Agency has an allowance for loan losses in the single-family mortgage loan program of $5,585,000 as of June 30, 2011.

Mortgage loans made with funds from the Agency Programs, Housing Trust Fund Programs, and federal and state programs have allowances for loan losses of $13,000, $784,000 and $1,404,000 respectively, as of June 30, 2011.

For the Home Ownership and Rental Bond Programs, the Agency has collateralized $1,261,618,000 in mortgage loans receivable, and $128,338,000 in reserves to repay $1,333,130,000 single-family and multi-family bonds payable at June 30, 2011. Proceeds from the bonds issued were used to finance housing throughout the State. The bonds are payable through 2039 and are paid down from cash collections on mortgage loans receivable, interest receivable on mortgage loans, unexpended bond proceeds, and sale of investments. The Agency expects 100% of the mortgage loans, both principal and interest, to pay the principal and interest debt service requirements on the bonds. The total debt service requirement to be paid based on projected cash flows as of June 30, 2011 is $2,188,111,000 (see page 26 “maturities”). For the current fiscal year, principal and interest paid for scheduled debt service payments and Homeownership and Rental Programs’ operating income excluding bond interest expense were $103,258,000 and $72,134,000 respectively.

D. BONDS PAYABLE

Bonds payable activity for the year ended June 30, 2011 was as follows (*in thousands*):

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds payable				
Home Ownership	$ 1,457,955	$ -	$ (135,835)	$ 1,322,120
Rental	12,215	-	(1,205)	11,010
	$ 1,470,170	-	$ (137,040)	$ 1,333,130
Plus Bond Premium/Discount				
Home Ownership	$ 8,746	$ -	$ (2,243)	$ 6,503
Rental	-	-	-	-
	$ 8,746	$ -	$ (2,243)	$ 6,503
Total Bonds payable, net	**$ 1,478,916**	**$ -**	**$ (139,283)**	**$ 1,339,633**

Bonds payable as of June 30, 2011 are as follows (*in thousands*):

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Single-family Revenue Bonds			
(1985 Resolution)			
Series AA/BB	6.25	2017	$1,870
Series CC/DD	5.95 - 6.20	2027	2,375
Series EE/FF	5.90 - 6.25	2028	2,905
Series GG/HH	5.90 - 6.30	2028	4,335
Series II/JJ	6.20	2017	4,120
Series KK/LL	5.88 - 6.20	2028	4,235
Series MM/NN	5.45 - 5.95	2028	2,245
Series OO/PP	5.80 - 6.25	2028	6,705
Series QQ/RR	5.75 - 5.85	2028	9,825
Series SS/TT	5.38 - 5.70	2028	4,295
Series UU/VV	4.85 - 5.35	2029	6,780
Series WW	6.25	2018	22,445
			$72,135

Issue			
Home Ownership Revenue Bonds			
(1998 Trust Agreement)			
Series 1	5.00 - 5.38	2030	$14,145
Series 2	4.70 - 5.25	2030	8,190
Series 3	4.55 - 5.20	2030	17,220
Series 4	4.70 - 5.30	2030	12,590
Series 5	5.25 - 5.63	2030	12,375
Series 6	5.45 - 6.20	2030	6,700
Series 7	5.45 - 6.25	2031	12,635
Series 8	6.00 - 6.40	2031	2,660
Series 9	4.95 - 5.88	2032	23,555

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Home Ownership Revenue Bonds			
(1998 Trust Agreement)			
Series 10	4.35 - 5.40	2033	12,810
Series 11	4.60 - 5.38	2033	24,885
Series 12	4.55 - 5.45	2033	33,150
Series 13	4.55 - 5.35	2034	28,725
Series 14	4.50 - 5.53	2034	34,700
Series 15	*Variable - 4.95	2032	26,480
Series 16	*Variable - 5.40	2032	25,725
Series 17	*Variable - 5.00	2034	31,115
Series 18	*Variable - 4.45	2035	27,905
Series 19	3.80 - 5.25	2035	42,530
Series 20	3.90 - 4.75	2035	44,780
Series 21	3.85 - 5.00	2035	42,295
Series 22A	4.00 - 5.50	2037	47,925
Series 22CE	4.00 - 5.25	2039	69,110
Series 23	3.60 - 5.00	2037	45,935
Series 24	3.75 - 5.50	2038	63,440
Series 25	4.10 - 5.75	2037	50,030
Series 26	3.60 - 5.50	2038	51,270
Series 27 A	4.15 - 6.00	2038	54,525
Series 28	3.55 - 5.50	2039	53,650
Series 29	3.95 - 5.50	2038	81,285
Series 30	3.55 - 5.50	2039	55,370
Series 31	3.85 - 5.50	2038	57,275
			$1,114,985

Issue	
Home Ownership Revenue Bonds	
(2009 Resolution) Series A	$135,000
Total Bonds Outstanding	$1,322,120
Plus Bond Premium/Discount	$6,503
Total Home Ownership Bond Programs	**$1,328,623**

*See Footnote E. “Derivative Instrument-Interest Rate Swap” for variable rate interest calculation methodology.

Issue	Stated Rates (%)	Final Maturity	Principal Amount
Multifamily Revenue Refunding Bonds			
(1992 Resolution) Series C	3.40 - 4.80	2024	$ 11,010
Total Rental Bond Programs			**$ 11,010**

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 money 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, 2011, are as follows (*in thousands*):

Bonds Outstanding without Interest Rate Swaps

Fiscal Year Ending June 30	Principal	Interest
2012	$ 170,030	$ 56,344
2013	37,635	55,226
2014	38,765	53,482
2015	40,485	51,632
2016	38,540	49,725
2017-2021	170,780	221,132
2022-2026	175,610	180,046
2027-2031	261,395	124,053
2032-2036	243,490	55,625
2037-2039	88,920	6,810
Total Requirements	**$ 1,265,650**	**$854,075**

Bonds Outstanding with Interest Rate Swaps

Fiscal Year Ending June 30	Principal	Interest
2012	$1,420	$60
2013	1,355	59
2014	1,300	58
2015	1,235	57
2016	1,185	56
2017-2021	9,405	255
2022-2026	13,715	211
2027-2031	23,125	124
2032-2035	14,740	26
Total Requirements	**$67,480**	**$906**

Total Bonds Outstanding

Fiscal Year Ending June 30	Principal	Interest
2012	$171,450	$56,404
2013	38,990	55,285
2014	40,065	53,540
2015	41,720	51,689
2016	39,725	49,781
2017-2021	180,185	221,387
2022-2026	189,325	180,257
2027-2031	284,520	124,177
2032-2036	258,230	55,651
2037-2039	88,920	6,810
Total Requirements	**$1,333,130**	**$854,981**

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. Currently, no outstanding bonds have any prepayment premiums. However, the 1992 Multifamily Revenue Refunding Bonds do not allow redemption of bonds prior to January 1, 2012.

For the year ended June 30, 2011 bond redemptions and losses recognized by resolution were as follows (*in thousands*):

Issue		Amount Redeemed		Loss Recorded
Single-family Revenue Bonds (1985 Resolution)	$	3,650	$	(41)
Home Ownership Revenue Bonds (1998 Trust Agreement)		96,235		(953)
Total Home Ownership Bond Programs	**$**	**99,885**	**$**	**(994)**
Multifamily Revenue Bonds (1984 Resolution)	$	675	$	(33)
Total Multifamily Ownership Bond Programs	**$**	**675**	**$**	**(33)**

Special Facilities (Conduits) The Agency issued the Housing Facilities Revenue Bonds, Multifamily Housing Revenue Bonds and Student Housing Variable and Taxable Rate Revenue Bonds, which are not presented in the basic financial statements of the Agency. These bonds are secured solely by the properties and related revenues of the projects and the applicable credit enhancements, with the exception of the 2002 Resolution, which is secured by payments received on GNMA mortgages. These bonds do not constitute a debt of and are not guaranteed by the state of North Carolina, any political subdivision thereof or the Agency. Accordingly, these obligations are excluded from the Agency's financial statements.

Bonds payable as of June 30, 2011 for Special Facilities are as follows (*in thousands*):

Issue	**Bond Type**	**Bonds Outstanding**
2000 Resolution* (Series A/B)	Student Housing Variable and Taxable Rate Revenue Bonds	$15,235
2002 Resolution* (Series A, B, C, D)	Multifamily Housing Revenue Bonds	8,790
2002 Resolution*	Housing Facilities Revenue Bonds	4,000
2010 Resolution (Series 2010)	Multifamily Housing Revenue Bonds	9,341
Total		**$37,366**

*These are Section 501(c)3 entities and did not require volume cap when the bonds were issued.

E. DERIVATIVE INSTRUMENT - INTEREST RATE SWAP

Summary Information During the reporting period from July 1, 2010, to June 30, 2011 the Agency did not execute, amend or terminate any derivative contracts. The Agency has four, pay-fixed, interest rate swap agreements with four separate financial counterparties (further described herein) each designated as a hedging derivative instrument representing cash flow hedges for the organization (*in thousands*):

Hedgeable Item	Hedging Derivative Instrument	Notional Amount	Classification	Fair Value at June 30, 2011 Liability	Classification	Change in Fair Value Decrease
Series 15C Bonds	Pay-Fixed Interest Rate Swap	$15,285	Hedging Derivative	$ (568)	Deferred Outflow of Resources	$ (662)
Series 16C Bonds	Pay-Fixed Interest Rate Swap	15,615	Hedging Derivative	(1,632)	Deferred Outflow of Resources	(150)
Series 17C Bonds	Pay-Fixed Interest Rate Swap	18,580	Hedging Derivative	(1,932)	Deferred Outflow of Resources	(437)
Series 18C Bonds	Pay-Fixed Interest Rate Swap	18,000	Hedging Derivative	(926)	Deferred Outflow of Resources	(391)

There were no derivative instruments reclassified from a hedging derivative to an investment derivative instrument during the period. There was no deferral amount within investment revenue due to any reclassifications during the period.

Objective The Agency has entered into interest rate swaps in connection with all of its variable-rate revenue bonds associated with four series in its 1998 Home Ownership Revenue Bond Resolution as a means to manage the future cash flow impact associated with the hedged debt. The intention of the swap was to create more certainty for the Agency associated with the interest rate spread between its assets and liabilities.

Terms and credit risk The terms and credit risk of the outstanding swaps as of June 30, 2011 were as follows (*in thousands*):

Notional Amount	Counterparty	Counterparty Credit Rating Moody's/S&P	Date of Swap Execution	Maturity Date of Swap	Fixed Rate	Floating Index
$15,285[1]	UBS AG	Aa3/A+	5/8/2003	7/1/2032	3.508%	63%L[2] + 0.30%
15,615[1]	Bank of America, N.A.	Aa3/A+	9/16/2003	7/1/2032	3.810%	63%L[2] + 0.30%
18,580[1]	Bank of America, N.A.	Aa3/A+	12/11/2003	7/1/2033	3.725%	63%L[2] + 0.30%
18,000[1]	Goldman Sachs Mitsui Marine	Aa1/AAA	4/20/2004	1/1/2035	3.288%	63%L[2] + 0.30%

[1] The swap contracts contain optionality that allows the Agency the right to change the notional to better match the principal schedule on the bonds.

[2] L represents the USD, 1-Month LIBOR index as published on Telerate page 3750

Fair value In total, the swaps have a fair value of negative $5,058,000 as of June 30, 2011. 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. Additionally, if at the time of termination, the swap has a negative fair value, the Agency would be liable to the counterparty for a payment equal to the swap's fair value.

Interest rate risk Under all of the swaps, the Agency pays the counterparties a fixed rate and receives a variable payment computed as 63% of 1-Month LIBOR plus 30 basis points. The bonds' variable-rate coupons are remarketed weekly and generally track the variable SIFMA index, which was 0.09% as of June 30, 2011.

Basis risk and termination risk The swaps expose the Agency to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. The swap contracts for the Agency use a compound formula for the floating rate index to reduce this risk. During the accounting period, the Agency realized a benefit of 20.54 basis points due to the floating rate formula for its swap contracts when compared to the floating rate on the respective bonds. For all swaps, collateral thresholds have been established if the counterparty's ratings reach A2 for Moody's or A for S&P. Series 16C, 17C and 18C swaps may be terminated if the counterparty's or the Agency's rating falls below Baa2 as issued by Moody's or BBB as issued by S&P. The series 15C swap may be terminated if the counterparty's or the Agency's rating falls below Baa3 as issued by Moody's and BBB- as issued by S&P.

Credit risk Credit risk is the risk that the counterparty will not fulfill its obligations. All of the contracts as of June 30, 2011 reflect liabilities and, therefore, the Agency does not have current credit risk on its contracts. The Agency monitors the ratings of its counterparties to ascertain credit risk.

Foreign currency risk Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. All of the Agency's swaps are denominated in U.S. dollars and are, therefore, not subject to foreign currency risk.

Rollover risk Rollover risk exists when the derivative does not last as long as the associated debt is outstanding. The maturity dates of the Agency's swap contracts match the maturity dates of the hedged debts; therefore, the Agency has no rollover risk.

Market access risk Market access risk is the risk that the Agency will not be able to enter credit markets as planned or that credit will become more costly. The Agency's current market access risk is limited because of its participation in the TCLP, which will not expire until January 2013, and the Agency has cancellation features available with each of its swaps, offering the Agency flexibility.

Quantitative Method of Evaluating Effectiveness In order to assess the effectiveness of each hedging derivative instrument, the Agency employed the "Synthetic Instrument Method". Under the Synthetic Instrument Method, a hedging derivative instrument is effective if the synthetic price is substantively fixed. The synthetic price as of the evaluation date, June 30, 2011, is compared to the synthetic price expected at the establishment of the hedge by calculation of an effectiveness percentage. If the effectiveness percentage is within a range of 90 to 111 percent, the synthetic price is substantively fixed. Following are the results of the testing as of the end of the reporting period:

Hedgeable Item	Hedgeable Item Effective Bond Variable Rate	Derivative Instrument Floating Rate	Floating Rate Basis	Synthetic Price	90 to 111% Range	Test Performance
Series 15C Bonds	0.2681	0.4735	0.2054	3.3646%	3.2130 – 3.9627	PASS
Series 16C Bonds	0.2681	0.4735	0.2054	3.6046%	3.4290 – 4.2291	PASS
Series 17C Bonds	0.2681	0.4735	0.2054	3.5196%	3.3525 – 4.1348	PASS
Series 18C Bonds	0.2681	0.4735	0.2054	3.0826%	2.9592 – 3.6497	PASS

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, 2011, debt service requirements of the variable-rate debt and net swap payments are as follows (*in thousands*):

Fiscal Year	**Variable-Rate Bond**		**Interest Rate**	**Total**
Ending June 30	**Principal**	**Interest**	**Swap, Net**	**Interest**
2012	$ 1,420	$ 60	$ 2,122	$ 2,182
2013	1,355	59	2,077	2,136
2014	1,300	58	2,033	2,091
2015	1,235	57	1,991	2,048
2016	1,185	56	1,952	2,008
2017-2021	9,405	255	8,939	9,194
2022-2026	13,715	211	7,326	7,537
2027-2031	23,125	124	4,273	4,397
2032-2035	14,740	26	862	888
Total	**$67,480**	**$906**	**$31,575**	**$32,481**

F. NONCURRENT LIABILITY

Noncurrent Liability and Current Debt

Noncurrent liability and current debt activity for the year ended June 30, 2011 was as follows *(in thousands):*

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds Payable					
Bonds Payable, net	$1,470,170	$-	($137,040)	$1,333,130	$171,450
Bond Premium/Discount	8,746	-	(2,243)	6,503	-
Derivative Instrument— Interest Rate Swap	6,698	-	(1,640)	5,058	-
Deferred Revenues	9,133	47,023	(31,174)	24,982	16,787
Other Liabilities					
Arbitrage Rebate Payable	1,104	37	(723)	418	361
Compensated Absences	997	338	(317)	1,018	127
Deposits Payable	3,465	2,009	(2,054)	3,420	32
	$1,500,313	$49,407	($175,191)	$1,374,529	$188,757

G. OPERATING LEASE

The Agency leases office space with future minimum lease payments of $212,000 for fiscal year 2012, and $42,000 for four months in fiscal year 2013. Total rent expense for all operating leases amounted to $596,000 for the year ended June 30, 2011. The Agency's lease for its main office will expire August 31, 2011. The Agency will pay monthly rent in the amount of $43,000 until a new lease is negotiated.

H. FEDERAL AWARDS

As a designated Public Housing Authority for the Department of Housing and Urban Development's (HUD) Section 8 Programs, the Agency requisitions Section 8 Program funds and makes disbursements to eligible landlords. For the year ended June 30, 2011, $137,866,000 which was received by the Agency and disbursed to property owners, is included in the *Federal program awards received* and *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 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, 2011, $21,892,000 was received and disbursed by the Agency, and is included in the *Federal program awards received* and *Federal program expense* and *Mortgage loans receivable, net* in the Federal and State Programs, depending upon the terms of the transaction.

The Agency is designated as a participating entity under a grant agreement with HUD for the Tax Credit Assistance Program (TCAP). TCAP provides funding for the purpose of developing housing for persons of low and very low income to qualified low-income builders. For the year ended June 30, 2011, $47,628,000 was received and disbursed by the Agency and is included in the *Federal program awards received* and *Federal program expense* in the Federal and State Programs.

The Agency was selected as a participating entity under a grant agreement with the Treasury for the Section 1602, Grants to Low-Income Housing in Lieu of Low-Income Housing Credits Program. The Section 1602 program provides funding for the purpose of financing construction of low-income housing in lieu of low-income housing tax credits. For the year ended June 30, 2011, $72,845,000 was received and disbursed by the Agency, and is included in the *Federal program awards received* and *Federal program expense* in the Federal and State Programs.

The Agency was selected as a participating entity under a grant agreement with the Treasury passed through NeighborWorks® for the National Foreclosure Mitigation Counseling Program (NFMC). The NFMC Program provides funding for the purpose of counseling homeowners who are in danger of foreclosure. For the year ended June 30, 2011, $1,218,000 was received and disbursed by the Agency, and is included in the *Federal program awards received* and *Federal program expense* in the Federal and State Programs.

The Agency was selected as a participating entity under a grant agreement with the Treasury for the Hardest Hit Fund (HHF) Program. The HHF Program provides funding for the purpose of providing loans to unemployed homeowners who are unable to make their mortgage payments and are in danger of losing their homes to foreclosure. Loan proceeds will be used to pay the mortgage and related costs such as real estate taxes, homeowner insurance and homeowner dues until the homeowner secures employment or completes training for a new career. For the year ended June 30, 2011, $5,840,000 was received and disbursed to the Agency and is included in the *Federal program awards received* and the *Federal program expense* in the Federal and State Programs.

The Agency was awarded Neighborhood Stabilization Program (NSP) funds through the State of North Carolina, Department of Commerce, Division of Community Assistance. NSP funding is provided to the State through the U.S. Department of Urban Development Community Development Block Grant. The NSP provides funding for the purpose of providing zero-interest forgivable loans on foreclosed properties to stabilize neighborhoods in the State of North Carolina. For the year ended June 30, 2011, $2,084,000 was disbursed by the Agency and is included in the *Federal program awards received* and the *Federal program expense* in the Federal and State Programs.

The Agency earned fees of $14,934,000 for administering these and other federal programs for the year ended June 30, 2011. Of these fees, $4,403,000 was paid to Quadel Consulting Corporation for the Section 8 Program Contract Administration, and $1,218,000 was paid to counseling agencies for providing counseling services under the Hardest Hit Fund Program which is reported in *General and administrative expense*.

Federal awards are subject to be audited by the grantor agencies. The Agency could be held liable for amounts received in excess of allowable expenditures.

I. 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 10.51% 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 following table represents the three-year trend of the annual contributions made by the Agency to the State retirement system. The Agency made 100% of its required contributions for the years ended June 30, 2011, 2010, and 2009.

	2011	2010	2009
Retirement Benefit	$335,000	$244,000	$238,000
Percentage of Covered Payroll	4.93%	3.57%	3.36%

J. 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 retirees enrolled in the State's self-funded Teachers' and State Employees' Preferred Provider Organization (PPO) medical plan who were hired prior to October 1, 2006, and retire with five or more years of State System membership service. For employees hired on or after October 1, 2006, the System will pay the full cost of coverage for retirees with 20 or more years of service, the System will pay 50% of the cost of coverage for retirees with at least 10 years but less than 20 years of service, and the retiree with less than 10 years of service will pay the full cost of coverage. 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 worker's 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 payrolls. 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.

The following table represents the three-year trend of the annual contributions made by the Agency to the State post-employment benefit plans. The Agency made 100% of its required contributions for the years ended June 30, 2011, 2010, and 2009.

	2011	2010	2009
Health Care Benefit	$333,000	$307,000	$291,000
Disability Benefit	$35,000	$36,000	$37,000
Death Benefit	$11,000	$11,000	$11,000
Percentage of Covered Payroll			
Health Care Benefit	4.90%	4.50%	4.10%
Disability Benefit	0.52%	0.52%	0.52%
Death Benefit	0.16%	0.16%	0.16%

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.

K. 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:

- Automobile, Fire and Other Property Losses
- Public Officers' and Employees' Liability Insurance
- Employee Dishonesty and Computer Fraud
- Workers' Compensation Program/Fund

The State is responsible for the administration of all liability insurance policies. The deductible and amount of loss in excess of the policy is the responsibility of the Agency.

L. 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, 2011 for these two segments are as follows (*in thousands*):

BALANCE SHEET	Home Ownership	Rental
ASSETS		
Current assets		
Restricted cash and cash equivalents	$ 111,322	$ 13,584
Restricted investments	135,124	1,185
Accrued interest receivable on investments	773	15
Mortgage loans receivable	138,274	530
Accrued interest receivable on mortgage loans	10,945	45
Other assets	8,983	34
Interprogram receivable (payable)	418	801
TOTAL CURRENT ASSETS	$ 405,839	$ 16,194
Noncurrent assets		
Restricted investments	$ 86,486	$ 3,084
Mortgage loans receivable, net	1,108,138	9,107
Deferred outflow of resources	5,058	-
Other assets, net	11,978	404
TOTAL NONCURRENT ASSETS	$ 1,211,660	$ 12,595
TOTAL ASSETS	$ 1,617,499	$ 28,789
LIABILITIES		
Current liabilities		
Bonds payable	$ 170,890	$ 560
Accrued interest payable	29,031	243
Accounts payable	462	-
Other liabilities	361	-
TOTAL CURRENT LIABILITIES	$ 200,744	$ 803

BALANCE SHEET (continued)	Home Ownership	Rental
Noncurrent liabilities		
Bonds payable, net	$ 1,157,733	$ 10,450
Derivative instrument - interest rate swap	5,058	-
Other liabilities	58	-
TOTAL NONCURRENT LIABILITIES	$ 1,162,849	$ 10,450
TOTAL LIABILITIES	$ 1,363,593	$ 11,253
TOTAL NET ASSETS, RESTRICTED	$ 253,906	$ 17,536
TOTAL LIABILITIES AND NET ASSETS	$ 1,617,499	$ 28,789

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

OPERATING REVENUES		
Interest on investments	$ 6,577	$ 291
Net increase in fair value of investments	99	-
Interest on mortgage loans	74,557	561
Other revenues	122	-
TOTAL OPERATING REVENUE	$ 81,355	$ 852
OPERATING EXPENSES		
Interest on bonds	$ 61,543	$ 562
Mortgage servicing expense	4,301	10
General and administrative expense	1,054	2
Other expenses	4,706	-
TOTAL OPERATING EXPENSES	$ 71,604	$ 574
OPERATING INCOME	$ 9,751	$ 278
NON-OPERATING REVENUES (EXPENSES)		
Transfers in (out) to other Agency Programs	$ 7,135	$ (9,695)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 7,135	$ (9,695)
CHANGE IN NET ASSETS	$ 16,886	$ (9,417)
TOTAL NET ASSETS - BEGINNING	$ 237,020	$ 26,953
TOTAL NET ASSETS - ENDING	$ 253,906	$ 17,536

STATEMENT OF CASH FLOWS

Net cash provided by operating activities	$ 160,708	$ 1,104
Net cash used in non-capital financing activities	(195,938)	(10,447)
Net cash provided by investing activities	1,541	2,369
Net decrease in cash	$ (33,689)	$ (6,974)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	145,011	20,558
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 111,322	$ 13,584

M. SUBSEQUENT EVENTS

On August 25, 2011, the Agency issued $85 million in Home Ownership Revenue Bonds related to the New Issue Bond Program (NIBP) in the 2009 Trust Agreement. The Agency rolled out $51,000,000 in NIBP proceeds (60% of the bond issue) which were paired with $34,000,000 in market bonds (40% of the bond issue) for a total bond issue of $85,000,000. The remaining $84,000,000 of NIBP proceeds remain in escrow invested in 4-week treasuries, the only permitted investment available to the Agency under the NIBP program. Please see “Debt Administration” under the “Management Discussion and Analysis” for more information.

North Carolina Housing Finance Agency

Additional Information

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INDEPENDENT AUDITOR'S REPORT
ON ADDITIONAL INFORMATION

Our audit of the basic financial statements of the North Carolina Housing Finance Agency included in the preceding section of this report were performed for the purpose of forming an opinion on those statements taken as a whole. The additional information presented in the following section of this report 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 audits 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 a whole.

BDO USA, LLP

September 22, 2011

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING BALANCE SHEET

YEAR ENDED JUNE 30, 2011

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS			RENTAL BOND PROGRAMS		
(in thousands)		**Housing Trust Fund**	**Federal and State Programs**	**1985**	**1998**	**2009**	**1984**	**1992**	**TOTAL**
ASSETS									
Current assets:									
Cash and cash equivalents	$ 3,999	-	-	-	-	-	-	-	$ 3,999
Restricted cash and cash equivalents	47,251	39,879	49,596	8,390	102,931	1	-	13,584	261,632
Restricted investments	-	-	-	-	-	135,124	-	1,185	136,309
Accrued interest receivable on investments	11	35	-	692	81	-	-	15	834
Mortgage loans receivable, net	224	1,378	4,648	13,482	124,792	-	-	530	145,054
Accrued interest receivable on mortgage loans	76	11	21	1,165	9,780	-	-	45	11,098
State receivables	48,411	6,059	-	-	-	-	-	-	54,470
Other assets	33	-	3,555	1,158	7,582	243	-	34	12,605
Interprogram receivable/(payable)	3,899	(16)	(5,102)	106	312	-	-	801	-
TOTAL CURRENT ASSETS	$ 103,904	47,346	52,718	24,993	245,478	135,368	-	16,194	$ 626,001
Noncurrent assets:									
Investments	$ 2,044	-	-	-	-	-	-	-	$ 2,044
Restricted investments	2,044	-	-	37,681	48,805	-	-	3,084	91,614
Mortgage loans receivable, net	4,587	14,913	65,773	123,039	985,099	-	-	9,107	1,202,518
Deferred outflow of resources	-	-	-	-	5,058	-	-	-	5,058
Other assets, net	3,596	-	-	1,148	10,830	-	-	404	15,978
TOTAL NONCURRENT ASSETS	$ 12,271	14,913	65,773	161,868	1,049,792	-	-	12,595	$ 1,317,212
TOTAL ASSETS	$ 116,175	62,259	118,491	186,861	1,295,270	135,368	-	28,789	$ 1,943,213
LIABILITIES									
Current liabilities:									
Bonds payable	$ -	-	-	5,610	30,280	135,000	-	560	$ 171,450
Accrued interest payable	-	-	-	1,456	27,449	126	-	243	29,274
Accounts payable	358	-	2,154	110	352	-	-	-	2,974
Deferred revenues	1,127	-	15,660	-	-	-	-	-	16,787
Other liabilities	156	-	3	85	276	-	-	-	520
TOTAL CURRENT LIABILITIES	$ 1,641	-	17,817	7,261	58,357	135,126	-	803	$ 221,005
Noncurrent liabilities:									
Bonds payable, net	$ -	-	-	66,525	1,091,208	-	-	10,450	$ 1,168,183
Derivative instrument - interest rate swap	-	-	-	-	5,058	-	-	-	5,058
Deferred revenues	8,195	-	-	-	-	-	-	-	8,195
Other liabilities	4,278	-	-	25	33	-	-	-	4,336
TOTAL NONCURRENT LIABILITIES	$ 12,473	-	-	66,550	1,096,299	-	-	10,450	$ 1,185,772
TOTAL LIABILITIES	$ 14,114	-	17,817	73,811	1,154,656	135,126	-	11,253	$ 1,406,777
NET ASSETS									
Restricted	$ 88,190	62,259	100,674	113,050	140,614	242	-	17,536	$ 522,565
Unrestricted	13,871	-	-	-	-	-	-	-	13,871
TOTAL NET ASSETS	$ 102,061	62,259	100,674	113,050	140,614	242	-	17,536	$ 536,436
TOTAL LIABILITIES AND NET ASSETS	$ 116,175	62,259	118,491	186,861	1,295,270	135,368	-	28,789	$ 1,943,213

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2011

	AGENCY PROGRAMS	GRANT PROGRAMS		HOME OWNERSHIP PROGRAMS			RENTAL BOND PROGRAMS		
(in thousands)		Housing Trust Fund	Federal and State Programs	1985	1998	2009	1984	1992	TOTAL
OPERATING REVENUES									
Interest on investments	$ 711	404	180	2,348	4,229	-	15	276	$ 8,163
Net increase (decrease) in fair value of investments	79	-	-	27	81	(9)	-	-	178
Interest on mortgage loans	86	348	819	8,624	65,933	-	10	551	76,371
Federal program awards received	-	-	283,907	-	-	-	-	-	283,907
Program income/fees	3,650	819	15,247	-	-	-	-	-	19,716
Other revenues	166	-	-	-	25	97	-	-	288
TOTAL OPERATING REVENUES	$ 4,692	1,571	300,153	10,999	70,268	88	25	827	$ 388,623
OPERATING EXPENSES									
Interest on bonds	$ -	-	-	4,918	56,499	126	37	525	$ 62,105
Mortgage servicing expense	3	-	-	427	3,874	-	-	10	4,314
Federal program expense	1,343	-	281,584	-	-	-	-	-	282,927
Nonfederal program expense	963	-	-	-	-	-	-	-	963
General and administrative expense	12,848	-	5,617	33	994	27	-	2	19,521
Other expenses	-	406	1,264	37	4,669	-	-	-	6,376
TOTAL OPERATING EXPENSES	$ 15,157	406	288,465	5,415	66,036	153	37	537	$ 376,206
OPERATING INCOME (LOSS)	$ (10,465)	1,165	11,688	5,584	4,232	(65)	(12)	290	$ 12,417
NON-OPERATING REVENUES (EXPENSES)									
Transfers in (out)	$ 11,970	(90)	(9,320)	7,283	(182)	34	(9,703)	8	$ -
State appropriations received	-	9,576	2,109	-	-	-	-	-	11,685
State grant received	-	6,059	5,994	-	-	-	-	-	12,053
State tax credits	34,339	-	-	-	-	-	-	-	34,339
State program expense	(37,708)	(11,128)	(4,933)	-	-	-	-	-	(53,769)
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 8,601	4,417	(6,150)	7,283	(182)	34	(9,703)	8	$ 4,308
CHANGE IN NET ASSETS	$ (1,864)	5,582	5,538	12,867	4,050	(31)	(9,715)	298	$ 16,725
TOTAL NET ASSETS - BEGINNING	103,925	56,677	95,136	100,183	136,564	273	9,715	17,238	519,711
TOTAL NET ASSETS - ENDING	$ 102,061	62,259	100,674	113,050	140,614	242	-	17,536	$ 536,436

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2011

(in thousands)	AGENCY PROGRAMS	GRANT PROGRAMS: Housing Trust Fund	GRANT PROGRAMS: Federal and State Programs	HOME OWNERSHIP PROGRAMS: 1985	HOME OWNERSHIP PROGRAMS: 1998	HOME OWNERSHIP PROGRAMS: 2009	RENTAL BOND PROGRAMS: 1984	RENTAL BOND PROGRAMS: 1992	Total
Cash flows from operating activities:									
Interest on mortgage loans	$ 92	347	812	8,586	65,747	-	15	553	$ 76,152
Principal payments on mortgage loans	265	1,430	4,634	16,015	117,443	-	5	543	140,335
Purchase of mortgage loans	-	(1,001)	(9,227)	(21,914)	(19,051)	-	-	-	(51,193)
Federal awards received	-	-	299,186	-	-	-	-	-	299,186
Federal program expense	(1,343)	-	(281,429)	-	-	-	-	-	(282,772)
Nonfederal program expense	(963)	-	-	-	-	-	-	-	(963)
Federal grant administration income	-	-	13,283	-	-	-	-	-	13,283
Program income/fees	3,839	819	1,964	-	-	-	-	-	6,622
Other expenses	(13,455)	-	(2,162)	(354)	(6,159)	(27)	-	(12)	(22,169)
Other revenues	(2,880)	-	-	(159)	484	97	-	-	(2,458)
Net cash provided by (used in) operating activities	$ (14,445)	1,595	27,061	2,174	158,464	70	20	1,084	$ 176,023
Cash flows from non-capital financing activities:									
Principal repayments on bonds	$ -	-	-	(9,085)	(126,750)	-	(685)	(520)	$ (137,040)
Interest paid	-	-	-	(4,794)	(61,463)	-	(22)	(499)	(66,778)
Bond issuance costs paid	-	-	-	-	-	(7)	-	-	(7)
Net transfers	11,970	(90)	(9,320)	6,309	(182)	34	(8,729)	8	-
State appropriations received	-	9,576	2,109	-	-	-	-	-	11,685
State grant received	-	-	5,994	-	-	-	-	-	5,994
State tax credits	38,968	-	-	-	-	-	-	-	38,968
State program expense	(37,708)	(11,128)	(4,933)	-	-	-	-	-	(53,769)
Net cash provided by (used in) non-capital financing activities	$ 13,230	(1,642)	(6,150)	(7,570)	(188,395)	27	(9,436)	(1,011)	$ (200,947)
Cash flows from investing activities:									
Proceeds from sales or maturities of investments	$ -	-	-	12,212	68,632	1,941,284	2,219	1,139	$ 2,025,486
Purchase of investments	(4,009)	-	-	(15,152)	(70,673)	(1,941,381)	-	(1,290)	(2,032,505)
Earnings on investments	713	414	180	2,338	4,281	-	23	278	8,227
Net cash provided by (used in) investing activities	$ (3,296)	414	180	(602)	2,240	(97)	2,242	127	$ 1,208
Net increase (decrease) in cash	$ (4,511)	367	21,091	(5,998)	(27,691)	-	(7,174)	200	$ (23,716)
Cash and cash equivalents at beginning of year	55,761	39,512	28,505	14,388	130,622	1	7,174	13,384	289,347
Cash and cash equivalents at end of year	$ 51,250	39,879	49,596	8,390	102,931	1	-	13,584	$ 265,631
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:									
Operating income (loss)	$ (10,465)	1,165	11,688	5,584	4,232	(65)	(12)	290	$ 12,417
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:									
Interest on investments	(711)	(404)	(180)	(2,348)	(4,229)	-	(15)	(276)	(8,163)
Decrease (increase) in fair value of investments	(79)	-	-	(27)	(81)	9	-	-	(178)
Interest on bonds	-	-	-	4,918	56,499	126	37	525	62,105
Net operating transfers	-	-	-	974	-	-	(974)	-	-
Change in assets and liabilities:									
(Increase) decrease in mortgage loans	105	835	(3,330)	(6,959)	102,213	-	979	543	94,386
(Increase) decrease in interest receivable on mortgage loans	6	(1)	(7)	58	(50)	-	5	2	13
(Increase) decrease in other assets	(3,669)	-	(381)	(159)	459	-	-	-	(3,750)
Increase (decrease) in accounts payable and other liabilities	179	-	3,611	133	(579)	-	-	-	3,344
Increase in deferred revenues	189	-	15,660	-	-	-	-	-	15,849
Total adjustments	$ (3,980)	430	15,373	(3,410)	154,232	135	32	794	$ 163,606
Net cash provided by (used in) operating activities	$ (14,445)	1,595	27,061	2,174	158,464	70	20	1,084	$ 176,023