

NEW ISSUE

This Official Statement has been prepared by the North Carolina Housing Finance Agency to provide information on the Series 37 Bonds. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Series 37 Bonds, a prospective investor should read this Official Statement in its entirety. Unless indicated, capitalized terms used on this cover page have the meanings given in the Official Statement.



\$192,000,000
North Carolina Housing Finance Agency
\$96,745,000 Home Ownership Revenue Refunding Bonds, Series 37-A (AMT)
\$95,255,000 Home Ownership Revenue Bonds, Series 37-B (Non-AMT)
(1998 Trust Agreement)

Dated: Date of Delivery

Due: as shown on inside front cover

<i>Tax Treatment</i>	In the opinion of Bond Counsel and subject to the qualifications described herein, interest on the Series 37 Bonds is not includable in gross income for federal income tax purposes and is exempt from all income taxes of the State of North Carolina. See "TAX TREATMENT" herein for additional information including information regarding the application of federal alternative minimum tax provisions to the Series 37 Bonds.
<i>Redemption</i>	The Series 37-A Bonds and Series 37-B Bonds are subject to optional redemption, special redemption and mandatory redemption as described herein.
<i>Security</i>	The Series 37 Bonds are payable from and secured by a pledge of all Program Obligations, Revenues and Prepayments and certain other assets, on parity with outstanding Bonds heretofore or hereafter issued under the Trust Agreement. <i>The Series 37 Bonds do not constitute a debt, liability or obligation of the State of North Carolina or of any political subdivision thereof nor is the faith and credit or taxing power of the State of North Carolina or of any political subdivision thereof pledged to payment of the Series 37 Bonds.</i>
<i>Interest Payment Dates</i>	January 1 and July 1, commencing July 1, 2017 for the Series 37-A Bonds and the Series 37-B Bonds.
<i>Denominations</i>	The Series 37-A Bonds and Series 37-B Bonds will be issuable in denominations of \$5,000 or any whole multiple thereof.
<i>Closing/Settlement</i>	November 17, 2016
<i>Bond Counsel</i>	Womble Carlyle Sandridge & Rice, LLP, Raleigh, North Carolina
<i>Underwriters' Counsel</i>	Bode & Harrell, LLP, Raleigh, North Carolina
<i>Trustee and Paying Agent</i>	The Bank of New York Mellon Trust Company, National Association, Jacksonville, Florida

The Series 37-A Bonds and Series 37-B Bonds are offered, when, as and if issued and received by the Underwriters, subject to prior sale and the opinion of Bond Counsel as to the validity, the tax treatment of interest on the Series 37-A Bonds and Series 37-B Bonds and certain other matters.

RBC Capital Markets

BofA Merrill Lynch

Citigroup

Raymond James

Wells Fargo Securities

The date of this Official Statement is October 20, 2016.

\$192,000,000
North Carolina Housing Finance Agency
\$96,745,000 Home Ownership Revenue Refunding Bonds, Series 37-A (AMT)
\$95,255,000 Home Ownership Revenue Bonds, Series 37-B (Non-AMT)

MATURITY SCHEDULE

Series 37-A Bonds

\$26,825,000 Serial Bonds

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP</u>
July 1, 2017	\$1,265,000	1.100%	100%	658207RY3
January 1, 2018	1,960,000	1.250	100	658207RZ0
July 1, 2018	2,060,000	1.300	100	658207SA4
January 1, 2019	2,170,000	1.450	100	658207SB2
July 1, 2019	2,300,000	1.500	100	658207SC0
January 1, 2020	2,400,000	1.600	100	658207SD8
July 1, 2020	2,530,000	1.650	100	658207SE6
January 1, 2021	2,635,000	1.750	100	658207SF3
July 1, 2021	2,760,000	1.800	100	658207SG1
January 1, 2022	2,875,000	2.000	100	658207SH9
July 1, 2022	3,005,000	2.000	100	658207SJ5
January 1, 2023	865,000	2.200	100	658207SK2

\$69,920,000 3.500% Term Bonds maturing July 1, 2039 at 105.694% CUSIP 658207SL0

Series 37-B Bonds

\$26,290,000 Serial Bonds

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP</u>
January 1, 2023	\$2,270,000	1.900%	100%	658207SM8
July 1, 2023	3,270,000	1.950	100	658207SN6
January 1, 2024	3,125,000	2.050	100	658207SP1
July 1, 2024	3,325,000	2.100	100	658207SQ9
January 1, 2025	3,330,000	2.250	100	658207SR7
July 1, 2025	3,515,000	2.300	100	658207SS5
January 1, 2026	3,660,000	2.450	100	658207ST3
July 1, 2026	3,795,000	2.500	100	658207SU0

\$55,435,000 3.150% Term Bonds maturing July 1, 2031 at 100% CUSIP 658207SV8

\$13,530,000 3.600% Term Bonds maturing July 1, 2041 at 100% CUSIP 658207SW6

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

No dealer, broker, salesman or other person has been authorized by the North Carolina Housing Finance Agency or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of the Series 37 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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

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

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 37 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or hyperlinks contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, Rule 15c2-12 of the Securities and Exchange Commission.

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

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OFFICIAL STATEMENT
OF
NORTH CAROLINA HOUSING FINANCE AGENCY

\$192,000,000
North Carolina Housing Finance Agency
\$96,745,000 Home Ownership Revenue Refunding Bonds, Series 37-A (AMT)
\$95,255,000 Home Ownership Revenue Bonds, Series 37-B (Non-AMT)

(1998 Trust Agreement)

INTRODUCTION AND PURPOSE

This Official Statement (including the cover page and appendices hereto) has been prepared and is being distributed by the North Carolina Housing Finance Agency (the "Agency") in order to furnish information in connection with the sale of the Agency's Home Ownership Revenue Refunding Bonds, Series 37-A (AMT) (the "Series 37-A Bonds") and the Home Ownership Revenue Bonds, Series 37-B (Non-AMT) (the "Series 37-B Bonds"), being offered hereby in the aggregate principal amounts of \$96,745,000 and \$95,255,000 respectively, pursuant to the North Carolina Housing Finance Agency Act, being Chapter 122A of the General Statutes of North Carolina, as amended (the "Act"), a Trust Agreement, dated as of May 1, 1998 (the "Trust Agreement"), between the Agency and The Bank of New York Mellon Trust Company, National Association (hereinafter the "Trustee") and a Thirty-Seventh Supplemental Trust Agreement, dated as of November 1, 2016, between the Agency and the Trustee (the "Thirty-Seventh Supplemental Trust Agreement"), authorizing the issuance of the Series 37 Bonds.

Separately, the Agency is issuing \$24,745,000 in aggregate principal amount of its Home Ownership Variable Rate Revenue Bonds, Series 37-C (Non-AMT) (the "Series 37-C Bonds"). On October 20, 2016, the Agency is expected to enter into an agreement for the direct sale of the Series 37-C Bonds to TD Bank, N.A. The Series 37-C Bonds will be delivered at a closing on the same day as the Series 37-A Bonds and the Series 37-B Bonds. In this Official Statement, the term "Series 37 Bonds" refers, collectively, to the Series 37-A Bonds, Series 37-B Bonds and the Series 37-C Bonds.

THE SERIES 37-C BONDS ARE NOT BEING OFFERED TO INVESTORS BY THIS OFFICIAL STATEMENT.

Except for bonds issued under the Trust Agreement that by the terms thereof are subordinate to the other bonds issued under the Trust Agreement, all bonds issued under the Trust Agreement will be equally and ratably secured by the pledges and covenants contained therein. All such bonds that are equally and ratably secured, including the prior series of bonds issued in the respective aggregate principal amounts and on the respective dates as described in "THE PROGRAM – Experience to Date Under The Program" herein, and the Series 37 Bonds are herein referred to as the "Bonds." Information descriptive of the Series 37 Bonds which is included on the cover page and inside cover page hereof is part of this Official Statement.

All capitalized terms used in this Official Statement which are defined in the Trust Agreement shall have the same meanings as are set forth therein (see Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT AND THE THIRTY-SEVENTH SUPPLEMENTAL TRUST AGREEMENT – Definitions"). The summaries of and references to the Act, the Trust Agreement and the other statutes and documents referred to herein and the description of the Series 37 Bonds which are included in or attached to this Official Statement do not purport to be comprehensive or definitive, and such summaries, references and

descriptions are qualified in their entirety by reference to each such document or statute, copies of which are available from the Agency upon request.

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

The Trust Agreement authorizes the issuance of Bonds thereunder for the purpose of paying the costs of the Program and for refunding certain bonds of the Agency. Generally, Bonds issued to pay the costs of the Program are issued to finance the making or purchase by the Agency of "Program Loans" or "Program Securities." Under the Trust Agreement, and as used herein, a "Program Loan" is an obligation made or purchased by the Agency in order to finance or otherwise provide housing principally on behalf of households of low and moderate income, and a "Program Security" is an obligation representing an interest in a pool of Program Loans, which obligations are guaranteed or insured by a mortgage agency authorized by the Trust Agreement. As defined in the Trust Agreement and used herein, a "Program Obligation" is a Program Loan or a Program Security. See "Definitions" and "The Program Fund" in Appendix C hereto.

The Trust Agreement further provides that the Supplemental Trust Agreement authorizing the issuance of a Series of Bonds shall direct whether the proceeds of such Series will be used to purchase Program Loans or Program Securities and, if Program Securities are to be purchased, the requirements therefor, including any insurance or guarantee requirements for the Program Securities that may be purchased. In the Thirty-Seventh Supplemental Trust Agreement, the Agency has provided that the new Program Securities that may be purchased with the proceeds of the Series 37 Bonds must be mortgage-backed securities issued by the Government National Mortgage Association ("GNMA") or Federal National Mortgage Association ("FNMA"), representing mortgage loans financing single family residential housing for households of low and moderate income in the State. The Thirty-Seventh Supplemental Trust Agreement also permits the purchase as Program Securities of mortgage-backed securities issued by Federal Home Loan Mortgage Corporation ("Freddie Mac") representing mortgage loans for single family housing in the State, but at present the Agency does not intend to utilize the proceeds of the Series 37 Bonds for such purpose.

The proceeds of the Series 37 Bonds will be used by the Agency to (a) to refund certain of the Agency's Home Ownership Revenue Bonds heretofore issued under the Trust Agreement as described herein, (b) purchase Program Securities as described above, and (c) pay a portion of the costs of issuance of the Series 37 Bonds. For a more detailed discussion of the manner in which the Agency intends to apply the proceeds of the Series 37 Bonds, see "PLAN OF FINANCE" and "THE PROGRAM – The Series 37 Program Account and Program Loans – Purchase of Program Securities."

The Series 37 Bonds and the interest thereon are payable solely from the Revenues and other moneys and assets pledged therefor under the Trust Agreement. The Series 37 Bonds are additionally secured by a Debt Service Reserve Fund, as more fully described below in "SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 37 BONDS – Debt Service Reserve Fund."

The Series 37 Bonds do not constitute a debt, liability or obligation of the State or any political subdivision thereof, nor is the faith and credit or the taxing power of the State or any political subdivision thereof pledged to payment of the Series 37 Bonds. The Agency has no taxing power.

PLAN OF FINANCE

The Series 37-A Bonds and Series 37-B Bonds will be issued as fixed rate bonds under a combined plan of finance which will also include the variable interest rate Series 37-C Bonds, which will be delivered concurrently with the Series 37-A Bonds and Series 37-B Bonds.

Refunding of Refunded Bonds

Under the plan of finance, proceeds of the Series 37-A Bonds will be used, together with other available funds, to refund the balance of the Agency Home Ownership Revenue Bonds, Series 15-C, Series 16-C, Series 17-C, Series 18-C, Series 25-A, Series 28-A, Series 29-A and Series 30-A (collectively, the “Refunded Bonds”). The proceeds of the Series 37-A Bonds will either be applied immediately to redeem certain of the Refunded Bonds, or will be held uninvested and applied to redeem the balance of the Refunded Bonds on or before January 1, 2017. The Refunded Bonds were previously issued under the Trust Agreement to provide funds to purchase Program Loans made by mortgage lenders in the State to provide home ownership loans to low and moderate income homebuyers in the State.

In connection with the refunding of the Refunded Bonds, the remaining Program Loans purchased with the proceeds of the Refunded Bonds will be transferred from the various Program Accounts of the Program Fund created under the Trust Agreement to the Series 37 Program Account, and all of such Program Loans will be “Series 37 Program Loans” for all purposes of the Trust Agreement.

Purchase of New Program Securities

Proceeds of Series 37-B Bonds and Series 37-C Bonds will be used to fund the purchase by the Agency of GNMA Certificates and FNMA Certificates, securitizing new mortgage loans for home ownership made to persons of low and moderate income in certain designated areas of the State. Upon the purchase of such GNMA Certificates and FNMA Certificates with the proceeds of the Series 37 Bonds, the GNMA Certificates and FNMA Certificates so purchased will be deposited to the Series 37 Program Account and will be Series 37 Program Securities for all purposes of the Trust Agreement.

Series 37-C Bonds; Interest Rate Swap Agreements

The Series 37-C Bonds will bear interest at a variable interest rate based upon a variable interest rate index specified therein.

The Series 15-C Bonds, Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds (collectively, the “Refunded Variable Rate Bonds”) being refunded by the Series 37-A Bonds all bear interest at variable interest rates. In connection with the issuance of the Refunded Variable Rate Bonds, the Agency previously entered into interest rate swap agreements with the counterparties, under which the counterparty agreed to pay the Agency a payment based on a variable interest rate, and the Agency agreed to pay the counterparty a payment based on a fixed rate, in each case on a notional amount corresponding to the original principal amounts (as reduced from time to time) of the Refunded Variable Rate Bonds. Such arrangement resulted in a synthetic fixed interest rate on the Refunded Variable Rate Bonds.

In connection with the issuance of the Series 37 Bonds, the Agency will terminate its obligations under the interest rate swap agreement entered into for the Series 15-C Bonds. The Series 37-C Bonds are being issued in an aggregate principal amount equal to the notional amounts as of January 1, 2017 under the interest rate swap agreements associated with the Series 16-C Bonds, Series 17-C Bonds and Series 18-C Bonds, and the Series 37-C Bonds are subject to mandatory sinking fund redemptions at the times and in the amounts of the reduction of those interest rate swap agreements. This arrangement will result in a synthetic fixed rate for the Series 37-C Bonds that approximates the fixed rates under the swap agreements. The Agency will pay a termination payment to the counterparty for the interest rate swap agreement associated with the Series 15-C Bonds. Such payment will not be paid from proceeds of the Series 37 Bonds.

<u>Series</u>	<u>Swap Counterparty</u>	<u>Date</u>	<u>Fixed Rate</u>	<u>Notional Amount as of June 30, 2016</u>
16-C	Bank of America, N.A.	9/16/2003	3.810%	\$9,760,000
17-C	Bank of America, N.A.	12/11/2003	3.725%	\$12,305,000
18-C	Goldman Sachs Mitsui Marine Derivative Products, L.P.	4/20/2004	3.251%	\$5,665,000

THIS OFFICIAL STATEMENT DOES NOT APPLY TO THE SERIES 37-C BONDS.

SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 37 Bonds, together with other available moneys, shall be applied approximately as follows:

Sources of Funds:

Principal Amount of Series 37-A Bonds.....	\$96,745,000
Original Issue Premium of Series 37-A Bonds.....	3,981,245
Principal Amount of Series 37-B Bonds.....	95,255,000
Principal Amount of Series 37-C Bonds (sold separately)	24,745,000
Transfer from Other Available Agency Funds *	<u>1,815,522</u>
Total Sources	<u>\$222,541,767</u>

Uses of Funds:

Redemption of the Refunded Bonds	\$100,730,000
Series 37 Program Account.....	120,000,000
Costs of Issuance **	<u>1,811,767</u>
Total Uses	<u>\$222,541,767</u>

* Other Agency Funds include certain prepayments on the Series 37 Program Loans as described below under "DESCRIPTION OF THE SERIES 37 BONDS – Special Redemption – *Series 37 Prepayments*," surplus reserves and other funds available under the Trust Agreement.

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

SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 37 BONDS

Pledge Created Under the Trust Agreement

The Series 37 Bonds are special obligations of the Agency payable from the following moneys and assets of the Agency, which are pledged in the manner and to the extent provided under the Trust Agreement for the payment of the Bonds:

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

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

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

Series 37 Principal/Special Redemption Account and Disposition of Certain Funds

Pursuant to the Trust Agreement, the Agency has created, among other things, the Revenue Fund, the Bond Service Fund and the Redemption Fund, and the accounts thereof. In addition, the Trust Agreement provides that all Revenues (as defined in the Trust Agreement) are to be deposited to the credit of the Revenue Fund and all Prepayments are deposited to the Special Redemption Account of the Redemption Fund for the Series of Bonds that provided the funds for the purchase of the Program Obligations to which such Prepayment relates. In order to facilitate the management of the Revenues and Prepayments derived from the Series 37 Program Obligations, the Agency has determined to combine (1) the amounts that would be deposited to the Revenue Fund representing payments of principal on the Series 37 Program Obligations and (2) the amounts that would be deposited to the Series 37 Special Redemption Account into one account designated the Series 37 Principal/Special Redemption Account.

The Thirty-Seventh Supplemental Trust Agreement has created a special account within the Bond Service Fund designated the "Series 37 Principal/Special Redemption Account." So long as no Event of Default has occurred and is continuing under the Trust Agreement, principal payments on the Series 37 Program Obligations, whether constituting scheduled principal payments or Prepayments, shall be deposited to the Series 37 Principal/Special Redemption Account. The Series 37 Principal/Special Redemption Account is established for the convenience of administration of the Trust Agreement and the Series 37 Bonds under the Trust Agreement and notwithstanding the creation of the Series 37 Principal/Special Redemption Account and the deposit and application of funds as provided therein, all amounts deposited and held in the Series 37 Principal/Special Redemption Account remain pledged for the benefit, security and protection of all present and future Owners of Bonds issued and secured under the Trust Agreement, without preference, priority or distinction as to lien or otherwise of any one Bond over any other Bond. See "AMENDMENT OF TRUST AGREEMENT" below for a discussion of an amendment to the Trust Agreement that would amend the Trust Agreement to make the provisions described above apply in all circumstances.

Payments of principal on the Series 37 Bonds, whether on account of a scheduled maturity payment or a redemption, shall be paid from the Series 37 Principal/Special Redemption Account and not from the Principal Account or Sinking Fund Account of the Bond Service Fund. In addition, Revenues transferred from the Revenue Fund to the Bond Service Fund shall not be deposited to the Series 37 Principal/Special Redemption Account.

In the event that an Event of Default occurs and is continuing under the Trust Agreement, the Agency shall take such steps as shall be necessary or convenient to identify whether a payment of principal on the Series 37 Program Obligations is derived from a scheduled payment on the Program Obligation or a Prepayment. Thereafter, so long as the Event of Default is continuing, payments of scheduled principal on Series 37 Program Obligations shall be deposited to the Revenue Fund and Prepayments on Series 37 Program Obligations shall be deposited to the Series 37 Principal/Special Redemption Account. Upon such occurrence, transfers shall be made from the Revenue Fund to the Principal Account and the Sinking Fund Account to pay maturing principal and mandatory sinking fund redemptions of the Series 37 Bonds as otherwise provided in the Trust Agreement. See "AMENDMENT OF TRUST AGREEMENT" below for a discussion of an amendment to the Trust Agreement that would amend the Trust Agreement to make the provisions described above apply in all circumstances.

All payments of principal and interest on the Series 37 Program Obligations shall be collected by or on behalf of the Agency and deposited as received in the name of the Trustee. Unless an Event of Default shall have occurred and is continuing, upon receipt, the Trustee shall apply the amounts received as follows:

- (1) All amounts comprising the payment of interest on the Series 37 Program Obligations shall be deposited to the credit of the Revenue Fund.
- (2) All other amounts received shall be deposited to the credit of the Series 37 Principal/Special Redemption Account.

Amounts deposited to the Revenue Fund shall be applied as provided in the Trust Agreement.

Amounts deposited to the Series 37 Principal/Special Redemption Account shall be applied as follows, in the following order of priority:

- (1) An amount, if any, needed to increase the amount in the Series 37 Principal/Special Redemption Account so that the amount on deposit equals the principal of all Series 37 Serial Bonds maturing within the next six months shall be retained in the Series 37 Principal/Special Redemption Account, and such amount shall be applied on the principal maturity date to pay such principal.
- (2) An amount, if any, needed to increase the amount in the Series 37 Principal/Special Redemption Account so that the amount on deposit (in addition to the amount set forth in (1)) equals the amount, if any, needed to increase the amount in the Series 37 Principal/Special Redemption Account so that the amount on deposit equals the Sinking Fund Requirements of the Series 37 Term Bonds to be redeemed within the next six months pursuant to the Sinking Fund Requirement therefor specified in the Thirty-Seventh Supplemental Trust Agreement, and such amount shall be applied on the sinking fund redemption date to redeem such Series 37 Term Bonds pursuant to the Sinking Fund Requirement therefor.
- (3) To the Special Redemption of Series 37-A Term Bonds maturing July 1, 2039 (the "Series 37 PAC Bonds") up to the amounts set forth in the Thirty-Seventh Supplemental Trust Agreement. See "REDEMPTION OF SERIES 37 BONDS – Special Redemption."
- (4) At the option of the Agency, as evidenced by an Officer's Certificate, to (a) redeem Series 37 Bonds; (b) redeem Bonds other than Series 37 Bonds, to the extent the Supplemental Trust Agreement authorizing the issuance of such Bonds allows for such Bonds to be redeemed from such amounts; or (c) to purchase additional Program Obligations that meet the requirements of the Thirty-Seventh Supplemental Trust Agreement.

Debt Service Reserve Fund

The Trust Agreement creates a Debt Service Reserve Fund for the additional security of the Bonds issued thereunder. The Trust Agreement provides that each Supplemental Trust Agreement providing for the issuance of Bonds shall specify whether the Bonds authorized thereby will be entitled to the benefit of the Debt Service Reserve Fund and shall specify the portion of the Debt Service Reserve Requirement with respect to such Bonds. The Debt Service Reserve Requirement under the Trust Agreement is the sum of amounts established by each Supplemental Trust Agreement as the portion of the requirement with respect to the Bonds issued under that Supplemental Trust Agreement. The Trust Agreement does not provide a minimum requirement for the portion of the Debt Service Reserve Requirement in connection with a particular issue of Bonds. All Bonds secured by the Debt Service Reserve Fund will be secured equally and ratably by the Debt Service Reserve Fund, regardless of the amount of the Debt Service Reserve Requirement with respect to a particular Series of Bonds set forth in the Supplemental Trust Agreement authorizing the issuance thereof. As of June 30, 2016, there was on deposit in the Debt Service Reserve Fund \$10,067,000. It is anticipated that approximately \$2,619,000 of this amount will be used to call a portion of the Refunded Bonds on or before January 1, 2017.

To date, each Supplemental Trust Agreement has provided that the portion of the Debt Service Reserve Requirement related to the series of bonds authorized thereby be equal to two percent (2%) of the outstanding principal amount of such authorized bonds. **The Thirty-Seventh Supplemental Trust Agreement provides**

that, while the Series 37 Bonds are secured by the Debt Service Reserve Fund, there is no additional Debt Service Reserve Requirement for the Series 37 Bonds.

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

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

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

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

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

Revenue Reserve Fund

To the extent that Revenues are not needed for debt service, to fund or make up a deficiency in the Debt Service Reserve Fund or for the other purposes provided for by the Trust Agreement, they are required to be deposited to the credit of the Revenue Reserve Fund. As of June 30, 2016, there was on deposit in the Revenue Reserve Fund \$9,728,000 in cash and investments derived from revenues.

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

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

In addition, the Agency has also deposited to the credit of the Revenue Reserve Fund additional funds made available to the Agency from the refunding of Bonds of the Agency issued under other Resolutions or

Trust Agreements, following the discharge of all obligations under such other Resolutions or Trust Agreements. While in the Revenue Reserve Fund, such amounts may be used for any purpose described in the preceding paragraph (including transfer to the Agency's General Fund under certain conditions), other than for transfer to a Special Redemption Account for the redemption of Bonds from surplus Revenues in the Revenue Reserve Fund. In addition, the Agency has established within the Revenue Reserve Fund a special account called the "TBA Loan Administration Account" to which the Agency may deposit or withdraw from time to time cash or investments of cash in connection with the administration by the Agency of the single family homeownership program being carried out by the Agency utilizing mortgage-backed securities issued by FNMA and GNMA and sold in the secondary market. Cash or other assets held in the TBA Loan Administration Account are not pledged to secure payment of any Bonds issued under the Trust Agreement and the amounts received thereunder do not constitute Revenues under the Trust Agreement. Such funds do not provide security for the Bonds and the Owners of the Bonds shall have no rights in respect thereto.

Insurance Reserve Fund

The Trust Agreement creates an Insurance Reserve Fund for the additional security of the Bonds issued thereunder. The Trust Agreement provides that each Supplemental Trust Agreement providing for the issuance of Bonds shall specify the Insurance Reserve Requirement with respect to such Bonds and the manner in which such requirement is to be funded. **The Thirty-Seventh Supplemental Trust Agreement provides that there shall not be any Insurance Reserve Requirement with respect to the Series 37 Program Obligations and losses with respect to any Series 37 Program Loans will not be funded from transfers from the Insurance Reserve Fund.**

As of June 30, 2016, there was on deposit in the Insurance Reserve Fund \$15,829,000.

1974 Appropriation Reserve Fund

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

Additional Bonds

The Trust Agreement authorizes the issuance of additional Bonds by the Agency, under the circumstances set forth in the Trust Agreement. Such additional Bonds may be issued to finance additional costs of the Program, to refund outstanding bonds issued under the Trust Agreement or issued under other resolutions or indentures other than the Trust Agreement, or for other purposes set forth in the Trust Agreement. In order to issue additional Bonds under the Trust Agreement, the Agency must comply with the provisions of a Supplemental Trust Agreement executed in connection with the additional Bonds, which Supplemental Trust Agreement must be authorized by the Commission and must contain the terms and provisions of the additional Bonds. The additional Bonds must not materially and adversely affect the ability of the Agency to pay the principal of, Sinking Fund Requirements on account of, and interest on the Bonds then outstanding. Such additional Bonds, together with the Bonds issued and outstanding under the Trust Agreement, including the Series 37 Bonds, would be equally and ratably secured by the moneys and assets which are pledged for the payment of all of the Bonds issued under the Trust Agreement and would be entitled to the equal benefit and protection of the provisions, covenants and agreements of the Trust Agreement.

Investments

The Trust Agreement provides that funds held thereunder may be invested in investments permitted by the Trust Agreement. For a complete description of investments that are permitted, see the definition of "Investment Obligations" in Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT AND THE THIRTY-SEVENTH SUPPLEMENTAL TRUST AGREEMENT."

Historically, the Agency utilized investment agreements and repurchase agreements for the investment of a significant amount of Program Funds, Revenues and Prepayments and Reserve Funds under the Trust Agreement. More recently, on account of current market conditions, the Agency has been unable to enter into such agreements that provided for rates of return and other provisions acceptable to the Agency. In addition, as the Agency has refunded or otherwise retired entire Series of Bonds previously issued under the Trust Agreement, the investment agreements and repurchase agreements entered in connection with such issues have expired in accordance with their terms. As a result, as of June 30, 2016, the Agency only had investment agreement arrangements in place for the investment of Revenues, Prepayments, Interest, Principal and Revenue Reserve Funds associated with the Series 15-C Bonds, Series 16-C Bonds and Series 18-C Bonds, all of which are with FSA Capital Management Services LLC. As a result of the refunding of Series 15-C Bonds, Series 16-C Bonds and Series 18-C Bonds, the Agency will no longer have any investment agreement arrangements effective on that date. Other funds held under the Trust Agreement are currently invested in other investments, principally consisting of Government Obligations and a commingled short-term Investment Fund maintained by North Carolina State Treasurer.

Should market conditions result in a return of investment rates to more attractive levels, the Agency may return to a broader use of investment and repurchase agreements permitted by the Trust Agreement.

DESCRIPTION OF THE SERIES 37 BONDS

General

The Series 37 Bonds will be dated the date of delivery thereof. The Series 37-A Bonds and Series 37-B Bonds will bear interest (computed on the basis of a 360-day year consisting of twelve 30-day months) from their date until payment thereof, such interest to the maturity thereof being payable on July 1, 2017, and semiannually thereafter on January 1 and July 1 in each year.

The Series 37-A Bonds and Series 37-B Bonds will be issuable only in book-entry form as fully registered bonds and will be subject to the provisions of the book-entry-only system as described in Appendix D — "BOOK-ENTRY-ONLY SYSTEM." Purchases of the Series 37-A Bonds and Series 37-B Bonds will be made in the denominations of \$5,000 or any whole multiple thereof.

The Trustee, The Bank of New York Mellon Trust Company, National Association, Jacksonville, Florida, will perform, with respect to the Series 37 Bonds, the fiduciary duties for the Owners, such as maintaining the Funds and Accounts established under the Trust Agreement. In addition, the Trustee shall perform the duties of bond registrar, including the keeping of the registration books, the authentication of the Series 37 Bonds upon original issuance and upon subsequent exchange or transfer, the exchange and transfer of the Series 37 Bonds, and the payment of the principal or redemption price of and interest on the Series 37 Bonds subject to the provisions relating to the book-entry-only system, as described in Appendix D.

REDEMPTION OF SERIES 37 BONDS

The Series 37 Bonds shall not be subject to prior redemption except as provided in the Thirty-Seventh Supplemental Trust Agreement and the Trust Agreement.

Optional Redemption

The Series 37-A Bonds and Series 37-B Bonds are each subject to redemption prior to their maturity, at the option of the Agency, either in whole or in part on any date on or after January 1, 2026 at a price of par, plus accrued interest. The Series 37-C Bonds are subject to optional redemption at any time.

Any such optional redemption shall be from any moneys on hand held for the credit of the Optional Redemption Account on or before the date fixed for redemption, including, without limitation, the proceeds of any Refunding Bonds issued pursuant to the Trust Agreement, upon receipt of an Officer's Certificate as provided in the Trust Agreement, in such manner as the Agency in its discretion may determine, and upon notice as provided in the Trust Agreement at a Redemption Price equal to the principal amount of the Series 37 Bonds to be redeemed, plus accrued interest to the redemption date (except that the Series 37 PAC Bonds will be redeemed at the principal amount thereof to be redeemed plus accrued interest to the date fixed for redemption, plus a premium that maintains the same yield to the unexpended proceeds redemption date as the initial reoffering price thereof, calculated based on the assumption that the PAC Bonds are redeemed in each semiannual period such that the amount outstanding following each such redemption equals the related PAC Bonds Outstanding Amounts as set forth in the Target Outstanding PAC Amount in "REDEMPTION OF SERIES 37 BONDS – Series 37 PAC Bonds" below).

Mandatory Sinking Fund Redemption

The Series 37-A Term Bonds maturing on July 1, 2039 are subject to mandatory sinking fund redemption by lot on July 1, 2032 and on each January 1 and July 1 thereafter, in the principal amounts set forth below from moneys deposited to the credit of the Series 37 Principal/Special Redemption Account, at a Redemption Price equal to 100% of the principal amount of the Term Bonds to be redeemed, plus accrued interest to the redemption date:

<u>Date</u>	<u>Amount</u>
July 1, 2032	\$3,285,000
January 1, 2033	6,090,000
July 1, 2033	6,125,000
January 1, 2034	5,965,000
July 1, 2034	5,545,000
January 1, 2035	5,285,000
July 1, 2035	5,345,000
January 1, 2036	5,400,000
July 1, 2036	5,420,000
January 1, 2037	5,290,000
July 1, 2037	4,640,000
January 1, 2038	3,340,000
July 1, 2038	2,770,000
January 1, 2039	2,705,000
July 1, 2039*	2,715,000

*Maturity

The Series 37-B Term Bonds maturing on July 1, 2031 are subject to mandatory sinking fund redemption by lot on January 1, 2027 and on each July 1 and January 1 thereafter, in the principal amounts set forth below from moneys deposited to the credit of the Series 37 Principal/Special Redemption Account, at a Redemption Price equal to 100% of the principal amount of the Term Bonds to be redeemed, plus accrued interest to the redemption date:

<u>Date</u>	<u>Amount</u>
January 1, 2027	\$4,865,000
July 1, 2027	4,910,000
January 1, 2028	5,035,000
July 1, 2028	5,225,000
January 1, 2029	5,420,000
July 1, 2029	5,595,000
January 1, 2030	5,830,000
July 1, 2030	5,990,000
January 1, 2031	6,195,000
July 1, 2031*	6,370,000

*Maturity

The Series 37-B Term Bonds maturing on July 1, 2041 are subject to mandatory sinking fund redemption by lot on January 1, 2040 and on each July 1 and January 1 thereafter, in the principal amounts set forth below from moneys deposited to the credit of the Series 37 Principal/Special Redemption Account, at a Redemption Price equal to 100% of the principal amount of the Term Bonds to be redeemed, plus accrued interest to the redemption date:

<u>Date</u>	<u>Amount</u>
January 1, 2040	\$3,370,000
July 1, 2040	3,390,000
January 1, 2041	3,370,000
July 1, 2041*	3,400,000

*Maturity

The Series 37-C Bonds (not offered pursuant to this Official Statement) are subject to mandatory sinking fund redemption at the time and in the amounts set forth in the Thirty-Seventh Supplemental Trust Agreement in the principal amounts set forth below from moneys deposited to the Series 37 Principal/Special Redemption Account at a Redemption Price equal to 100% of the principal amount of the Series 37-C Bonds to be redeemed, plus accrued interest to the redemption date:

<u>Date</u>	<u>Amount</u>
July 1, 2017	\$1,155,000
January 1, 2018	1,100,000
July 1, 2018	1,075,000
January 1, 2019	1,045,000
July 1, 2019	995,000
January 1, 2020	975,000
July 1, 2020	930,000
January 1, 2021	905,000
July 1, 2021	870,000
January 1, 2022	840,000
July 1, 2022	805,000
January 1, 2023	765,000
July 1, 2023	735,000
January 1, 2024	975,000
July 1, 2024	885,000
January 1, 2025	980,000
July 1, 2025	905,000
January 1, 2026	870,000
July 1, 2026	850,000
January 1, 2027	790,000
July 1, 2027	760,000
January 1, 2028	725,000
July 1, 2028	680,000
January 1, 2029	630,000
July 1, 2029	610,000
January 1, 2030	535,000
July 1, 2030	510,000
January 1, 2031	460,000
July 1, 2031	415,000
January 1, 2032	345,000
July 1, 2032	360,000
January 1, 2033	65,000
July 1, 2033	65,000
January 1, 2034	40,000
July 1, 2034	55,000
January 1, 2035*	40,000

*Maturity

THE SERIES 37-C BONDS ARE NOT BEING OFFERED BY THIS OFFICIAL STATEMENT.

Special Redemption

General. The Series 37 Bonds may be redeemed pursuant to an Officer's Certificate in whole or in part on any date at a redemption price of 100% of the principal amount thereof, except as hereinafter provided with respect to the Series 37 PAC Bonds, plus accrued interest to the date of redemption, from (i) unexpended proceeds of the Series 37 Bonds, (ii) amounts deposited in the Series 37 Principal/Special Redemption Account

as provided in the Thirty-Seventh Supplemental Trust Agreement, (iii) excess Revenues transferred from the Revenue Reserve Fund pursuant to the Trust Agreement, (iv) moneys withdrawn from the Proceeds Reserve Account of the Debt Service Reserve Fund in connection with an excess over the Debt Service Reserve Requirement and (v) prepayments on Program Obligations held under the Trust Agreement that were financed by the proceeds of Bonds other than the Series 37 Bonds or Bonds refunded by the Series 37 Bonds ("Non-Series 37 Prepayments"). Notwithstanding the foregoing, in the event that any Series 37 PAC Bonds are redeemed from unexpended proceeds pursuant to the Thirty-Seventh Supplemental Trust Agreement, such special redemption shall be at a redemption price of par, plus accrued interest, plus the unamortized premium thereon as determined by the Agency by an effective interest rate amortization of the original issue premium on the Series 37 PAC Bonds between the date of issue and January 1, 2026, at which date the premium would reduce to zero.

Unexpended Proceeds. Unexpended proceeds of the Series 37 Bonds may be transferred, pursuant to the Trust Agreement, from the Series 37 Program Account to the Series 37 Principal/Special Redemption Account and applied to the special redemption of Series 37 Bonds on any date directed by the Agency. In such event, the Series 37 Bonds to be so redeemed shall be selected pro rata by maturity in proportion to the principal amount of each maturity outstanding, unless the Agency files with the Trustee prior to the date of redemption, a notice of intent to redeem such Series 37 Bonds on other than a pro rata basis, together with a Cash Flow Certificate indicating the proposed form of redemption and prepared assuming that the Series 37 Bonds to be redeemed are selected in the manner proposed by the Agency.

Series 37 PAC Bonds. Amounts deposited to the Series 37 Principal/Special Redemption Account as described under "SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 37 BONDS – Series 37 Principal/Special Redemption Account and Disposition of Certain Funds" during each semi-annual period ending January 1 or July 1 (or longer period for the period ending July 1, 2017) and not used to pay maturing principal or mandatory sinking fund redemptions on the Series 37 Bonds on the next January 1 or July 1 shall be applied on one or more days during the period to the special redemption of the Series 37 PAC Bonds, provided that after giving effect to such redemption and giving effect to the payment at scheduled maturity or mandatory sinking fund redemption of Series 37 PAC Bonds on the next January 1 or July 1, the aggregate principal amount of Series 37 PAC Bonds on a redemption date or January 1 or July 1 shall not be less than the related Target Outstanding PAC Bond Amount of Series 37 PAC Bonds set forth in the table below:

<u>Semi-Annual Period Ending</u>	<u>Target Outstanding PAC Bond Amount</u>
Date of Issuance	\$69,920,000
July 1, 2017	66,205,000
January 1, 2018	61,930,000
July 1, 2018	57,190,000
January 1, 2019	52,040,000
July 1, 2019	46,510,000
January 1, 2020	40,755,000
July 1, 2020	35,285,000
January 1, 2021	30,190,000
July 1, 2021	25,465,000
January 1, 2022	21,105,000
July 1, 2022	17,100,000
January 1, 2023	13,440,000
July 1, 2023	10,135,000
January 1, 2024	7,165,000
July 1, 2024	4,530,000
January 1, 2025	2,230,000
July 1, 2025	250,000
January 1, 2026	-

In the event that the amounts deposited to the Series 37 Principal/Special Redemption Account are insufficient during any period set forth to permit the special redemption of the Series 37 PAC Bonds in the amount described, unless the Series 37 PAC Bonds are called for special redemption from other sources permitted hereunder, the amount of Series 37 PAC Bonds exceeding the Target Outstanding PAC Bond Amount shall continue to be subject to special redemption from future amounts when deposited to the Series 37 Principal/Special Redemption Account.

In addition, after the amount of Series 37 PAC Bonds required to be redeemed during any period as described above have been called for special redemption in any semiannual period, if additional amounts deposited in the Series 37 Principal/Special Redemption Account are required pursuant to the requirements of clause (iv) of Section 143(a)(2)(A) of the Code to be used to redeem Series 37 Bonds (sometimes referred to as the "Ten Year Rule"), such amounts may be applied to redeem the Series 37 PAC Bonds if at the time there are no Outstanding Series 37-A Bonds other than the Series 37 PAC Bonds and no Outstanding Series 37-B Bonds.

If the Series 37 PAC Bonds are redeemed from unexpended proceeds pursuant to Unexpended Proceeds above, the Target Outstanding PAC Bond Amount for each semiannual period will be reduced on a proportionate basis.

Projected Weighted Average Lives of the Series 37 PAC Bonds. The "projected weighted average life" of a security refers to the average amount of time that is projected to elapse from the date of delivery of such security to the date of projected payment to the investor of each dollar paid to reduce the principal of such security (assuming no losses). The projected weighted average life of a security is determined by (a) multiplying each projected reduction, if any, of the outstanding amount of such security by the number of years from the date of delivery of such security to the related redemption date or maturity dated, (b) adding the results and (c) dividing the sum by the initial outstanding amount of such security.

The calculation of the projected weighted average lives of the Series 37 PAC Bonds requires the making of certain assumptions (collectively, the "Portfolio Assumptions") with respect, but not limited, to the future financing and prepayment of Program Obligations as well as certain assumptions (collectively, the "Agency Option Assumptions"), with respect, but not limited, to the future use by the Agency of its options under the Trust Agreement related to: (a) the repayments and Prepayments on the new Series 37 Program Securities and the Series 37 Program Loans reallocated to the Series 37 Bonds upon the redemption of the Refunded Bonds

(the "Reallocated Series 37 Program Loans") to: (i) the redemption of Series 37 Bonds, (ii) the financing of additional Program Obligations, or (iii) the redemption of other Bonds; (b) the application of repayments, Prepayments, and excess revenues related to other Series to the redemption of Series 37 Bonds; and (c) the optional redemption of all or a portion of the Series 37 Bonds on January 1, 2026 from any source.

Set forth in the table captioned "Projected Average Lives (in years)" (the "Table") are projected weighted average lives for the Series 37 PAC Bonds under a number of different scenarios, each such scenario representing a unique combination of assumptions, as described below. Both the Portfolio Assumptions and the Agency Option Assumptions are hypothetical in nature and are provided only to give a general sense of how the weighted average lives for each of the Series 37 PAC Bonds might behave as such assumptions are varied. The actual characteristics and the performance of the Program Obligations (including, without limitation, prepayments thereof) will differ from the Portfolio Assumptions utilized in constructing the Table, and the actual use of options under the Trust Agreement by the Agency will differ from the Agency Option Assumptions utilized in constructing the Table.

Any difference between such Portfolio Assumptions and the actual characteristics and performance of the Program Obligations or between the Agency Option Assumptions and the actual use of such options will cause the actual weighted average lives of the Series 37 PAC Bonds to differ (which difference could be significant) from the projected weighted average lives in the Table. Accordingly, the Agency makes no representation as to the reasonableness of any of such assumptions and makes no representation that the projected average lives set forth in the Table will reflect the actual course of events. The Agency Option Assumptions are not necessarily consistent with the current or historical approach of the Agency to recycling and selecting Bonds to be redeemed, and they are not binding upon or necessarily indicative of future actions of the Agency with respect to the redemption of the Bonds.

All of the scenarios represented in the Table with respect to the Series 37 PAC Bonds are based on the assumptions that the Series 37 Program Securities will consist of approximately \$59.5 million of GNMA Certificates and \$59.5 million of FNMA Certificates each securitizing loans with a weighted average interest rate of approximately 4.0% and a weighted average remaining term of approximately 360 months. Additionally, the Reallocated Series 37 Program Loans, as of August 31, 2016, will consist of approximately \$134.1 million of Program Loans originally financed by the Refunded Bonds with a weighted average interest rate to the borrower of approximately 5.61% and a weighted average maturity of approximately 241 months. See "Reallocated Series 37 Program Loans" herein.

Each of the scenarios represented in the Table is based on an indicated prepayment assumption, in each case expressed as a percentage of the PSA Prepayment Model. As used in the Table, for example, (a) "0%" assumes no prepayments of the principal of the applicable Program Loans, (b) "50%" assumes the principal of the applicable Program Loans will prepay at a rate one-half times as fast as the prepayment rates for one hundred percent (100%) of the PSA Prepayment Model, (c) "200%" assumes the principal of the applicable Program Loans will prepay at a rate twice as fast as the prepayment rates for one hundred percent (100%) of the PSA Prepayment Model, and so on.

The computation of the weighted average life of the Series 37 PAC Bonds under each of the scenarios represented in the Table is based on the assumption that, with respect to the fulfillment by the Agency of its obligations pursuant to the redemption provisions described under "Special Redemption," the Agency will redeem the Series 37 PAC Bonds on each Interest Payment Date commencing on July 1, 2017. In addition, the Table is based on the assumption that the Agency will not redeem the Series 37 Bonds from any other source.

The computation of the weighted average life of the Series 37 PAC Bonds under each of the scenarios represented in the Table is based on one of two sets of indicated assumptions about the exercise of the Optional Redemption provisions under the Trust Agreement:

(a) In the case of scenarios labeled "Optional Call Exercised," it is assumed that the Agency will exercise its right to optionally redeem all Outstanding Series 37 Bonds on January 1, 2026.

(b) In the case of scenarios labeled "Optional Call Not Exercised," it is assumed that the Agency will not exercise its right to optionally redeem the Series 37 Bonds.

Investors owning less than all of the Series 37 PAC Bonds, as applicable, may experience redemption at a rate that varies from the projected weighted average lives shown in the Table.

Series 37 PAC Bonds Projected Average Lives (in years)		
PSA	Optional Call Not Exercised	Optional Call Exercised*
0	18.0	9.1
25	13.5	7.8
50	9.6	6.5
75	6.4	5.3
100	4.1	4.1
150	4.1	4.1
200	4.1	4.1
300	4.1	4.1
400	4.1	4.1
500	3.8	3.8

* Assumes January 1, 2026 Optional Call date

See the information set forth in "Appendix G — PROJECTED PERCENTAGES OF INITIAL PRINCIPAL BALANCE OUTSTANDING AND PROJECTED WEIGHTED AVERAGE LIVES OF THE SERIES 37 PAC BONDS" attached hereto.

Additional Amounts Deposited to Series 37 Principal/Special Redemption Account. After the amount of Series 37 PAC Bonds required to be redeemed during any period as described above have been called for special redemption in any semiannual period described in Series 37 PAC Bonds above, any additional amounts deposited in the Series 37 Principal/Special Redemption Account during the period may be applied by the Agency to redeem Series 37 Bonds other than the Series 37 PAC Bonds. In such event, the Series 37 Bonds to be so redeemed shall be selected pro rata by maturity (excluding the Series 37 PAC Bonds) among such Series 37 Bonds in proportion to the principal amount of each maturity outstanding, unless the Agency files with the Trustee prior to the date of redemption, a notice of intent to redeem such Series 37 Bonds on other than a pro rata basis, together with a Cash Flow Certificate indicating the proposed form of redemption and prepared assuming that the Series 37 Bonds to be redeemed are selected in the manner proposed by the Agency.

Excess Revenues. Revenues transferred from the Revenue Reserve Fund pursuant to the Trust Agreement may be applied to the special redemption of the Series 37 Bonds at the option of the Agency. The Series 37 Bonds to be redeemed shall be selected in any manner directed by the Agency, provided that the Series 37 PAC Bonds may not be redeemed from such transfers except as provided in "Special Provisions for the Series 37 PAC Bonds" below.

Excess Debt Service Reserve Funds. Moneys in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement may be withdrawn from the Debt Service Reserve Fund, as provided in the Officer's Certificate pursuant to the Trust Agreement and applied to the special redemption of the Series 37 Bonds. The Series 37 Bonds to be redeemed shall be selected in any manner directed by the Agency, provided that the Series 37 PAC Bonds may not be redeemed from such transfers except as provided in "Special Provisions for the Series 37 PAC Bonds" below.

Cross Call Redemption. Non-Series 37 Prepayments may be used to redeem Series 37 Bonds, provided that the Agency will deliver to the Trustee a Cash Flow Certificate with respect thereto. The Series 37 Bonds to be redeemed shall be selected in any manner directed by the Agency, provided that the Series 37 PAC Bonds

may not be redeemed from such transfers, except as provided in "Special Provisions for the Series 37 PAC Bonds" below.

Special Provisions for the Series 37 PAC Bonds. Except as described herein, the Series 37 PAC Bonds may not be redeemed from excess Revenues, excess moneys in the Debt Service Reserve Fund or Non-Series 37 Prepayments. The Series 37 PAC Bonds may be redeemed from such sources at any time to the extent necessary to preserve the exclusion of interest on the Series 37 Bonds from the gross income of the owners thereof for purposes of federal income taxation. In addition, if the amount deposited to the Series 37 Principal/Special Redemption Account during any period specified in the table set forth in PAC Bonds above is less than the amount required so that the amount of Outstanding Series 37 PAC Bonds at the end of the period will be more than its Target Outstanding PAC Bond Amount, then the Agency may redeem Series 37 PAC Bonds from excess Revenues, excess moneys in the Debt Service Reserve Fund or Non-Series 37 repayments or Prepayments in amount sufficient to achieve the Target Outstanding PAC Bond Amount.

Agency Mortgage Loan Default Advances. In the event that the payment on a Series 37 Program Loan is delinquent for the lesser of ninety (90) calendar days or a sufficient time for the Agency to file a claim for the benefits of any insurance or guaranty insuring or guaranteeing the payment of such Series 37 Program Loan, the Agency may at its option and in its discretion, advise the Trustee that it will advance to the Series 37 Principal/Special Redemption Account from any funds available to the Agency for such purpose an amount equal to the principal balance of the Series 37 Program Loan in default. Upon the advancement of such amount by the Agency, the amount advanced shall be treated as a Prepayment of the Series 37 Program Loan for all purposes of the Thirty-Seventh Supplemental Trust Agreement and the Trust Agreement.

If the Agency advances funds to the Series 37 Principal/Special Redemption Account as set forth above, then any funds received from or on behalf of the borrower or realized upon the foreclosure on the delinquent Series 37 Program Loan or under any insurance policy or guarantee with respect to the payment of the delinquent Series 37 Program Loan shall be deposited, upon receipt, to the credit of the fund or account from which the Agency advanced the funds and upon this deposit shall not be treated as a Series 37 Prepayment under the Thirty-Seventh Supplemental Trust Agreement. Upon such deposit, the funds realized may be used for any purpose for which funds in the Revenue Reserve Fund may be used, and may be withdrawn from the Trust Agreement as provided in the Trust Agreement.

Ten Year Rule. As discussed under the heading "FEDERAL TAX REQUIREMENTS – Other Requirements," the Agency is required to apply certain repayments and prepayments on Series 37 Program Obligations to the payment of principal on the Series 37 Bonds.

The following amounts of Prepayments and repayments on Series 37 Program Obligations received during the following periods are required to be applied to pay at maturity or redeem Series 37 Bonds, including the Series 37-C Bonds:

Series 37 Program Loans Transferred from Prior Program Accounts:

<u>Period Collected</u>	<u>Percentage to be Applied to Payment of Series 37 Bonds</u>
November 17, 2016 to April 24, 2017	70.32%
April 25, 2017 to June 12, 2017	72.16%
June 13, 2017 to October 22, 2017	95.51%
October 23, 2017 and thereafter	100.00%

**Series 37 Program Securities purchased with
the proceeds of the Series 37-B and Series 37-C Bonds:**

<u>Period Collected</u>	<u>Percentage to be Applied to Payment of Series 37 Bonds</u>
November 17, 2016 to November 16, 2026	0.00%
November 17, 2026 and thereafter	100.00%

REALLOCATED SERIES 37 PROGRAM LOANS

The Reallocated Series 37 Program Loans were originally financed by the Refunded Bonds and will be reallocated to the Series 37 Bonds upon the redemption of the Refunded Bonds. The anticipated Reallocated Series 37 Program Loans are described below.

Reallocated Series 37 Program Loans as of August 31, 2016

<u>Interest Rate</u>	<u>Par</u>	<u>Weighted Average Interest Rate</u>	<u>Weighted Average Remaining Term (months)</u>	<u>1 Year PSA*</u>	<u>Lifetime PSA*</u>
3.950% - 4.999%	\$ 5,268,900	4.75%	236	198	121
5.000% - 5.499%	29,079,316	5.22%	215	165	145
5.500% - 5.999%	85,651,928	5.71%	248	270	166
6.000% - 6.499%	<u>14,098,372</u>	<u>6.14%</u>	<u>251</u>	<u>336</u>	<u>208</u>
	\$134,098,516	5.61%	241	252	164

* 1 Year and Lifetime PSA speeds are based on mortgage loans held under the Trust Agreement of comparable coupon and year of origination. Such historical speeds are not necessarily indicative of future prepayment speeds of the Reallocated Series 37 Program Loans.

In the case of the Reallocated Series 37 Program Loans and many mortgage loans financed with other Bond issues, certain mortgage loans were made in amounts not exceeding 100% of the Fair Market Value, provided that there was issued a Private Mortgage Insurance Policy by a program insurer or the Agency, under which the insurer, upon foreclosure and conveyance of marketable title to the mortgaged property, is obligated to pay a claim including unpaid principal, accrued interest and certain expenses of foreclosure, or in lieu thereof may permit the mortgagee or its assignee to retain title and may pay an agreed percentage of the claim. See APPENDIX F for a brief description of private and federal insurance programs for Mortgage Loan insurance.

Redemption Notice for the Series 37-A Bonds and Series 37-B Bonds. At least thirty (30) days but not more than sixty (60) days before the redemption date of any Series 37-A Bond or Series 37-B Bond, whether such redemption shall be in whole or in part, the Trustee shall cause a notice of any such redemption to be provided to The Depository Trust Company ("DTC"), New York, New York as the Owner of the Series 37-A Bonds or Series 37-B Bonds in accordance with the procedures of DTC for notices of redemption. If there is no securities depository, then notice shall be mailed, postage prepaid, to all Owners of Series 37-A Bonds and Series 37-B Bonds to be redeemed at their addresses as they appear on the registration books maintained by the Trustee, but failure to mail any such notice to one or more Owners or any defect in such notice shall not affect the validity of the proceedings for such redemption with respect to any other Owner. Each such notice shall set forth the CUSIP numbers of the Series 37-A Bonds and Series 37-B Bonds to be redeemed, the interest rate of the Series 37-A Bonds and Series 37-B Bonds to be redeemed, the dated date of the Series 37-A Bonds and Series 37-B Bonds to be redeemed, the date fixed for redemption, the Redemption Price to be paid, the maturities of the Series 37-A Bonds and Series 37-B Bonds to be redeemed, in the case of Series 37-A Bonds and Series 37-B Bonds of any maturity to be redeemed in part only, the portion of the principal amount thereof

to be redeemed and the Bond certificate numbers of the Series 37-A Bonds and Series 37-B Bonds to be redeemed, and, in the case that less than the entire principal amount of any one bond certificate is redeemed, the portion of the principal amount thereof to be redeemed, the address and phone number of the Trustee, the date of the redemption notice, that on the redemption date the Series 37-A Bonds and Series 37-B Bonds called for redemption will be payable at the principal corporate trust office of the Trustee and that from the redemption date interest will cease to accrue and be payable.

Any notice of redemption at the option of the Agency may state that the redemption to be effected is conditioned upon the receipt by the Trustee on or prior to the redemption date of moneys sufficient to pay the principal of and premium, if any, and interest on the Series 37-A Bonds and Series 37-B Bonds to be redeemed and that if such moneys are not so received such notice shall be of no force or effect and such Series 37-A Bonds and Series 37-B Bond shall not be required to be redeemed. In the event that such notice contains such a condition and moneys sufficient to pay the principal of and premium, if any, and interest on such Series 37-A Bonds and Series 37-B Bonds are not received by the Trustee on or prior to the redemption date, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

So long as DTC or its nominee is the owner of the Series 37-A Bonds and Series 37-B Bonds, the Agency and the Trustee will recognize DTC or its nominee as the registered owner of the Series 37-A Bonds and Series 37-B Bonds for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to Participants and by Participants to beneficial owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. Any failure on the part of DTC or failure on the part of a nominee of a beneficial owner (having received notice from a Participant or otherwise) to notify the beneficial owner so affected shall not affect the validity of the redemption.

General Provisions as to Purchase or Redemption of Series 37 Bonds

Any Series 37 Bonds or portions of Series 37 Bonds to be purchased or redeemed other than by operation of the Sinking Fund Account shall be purchased or redeemed by the Trustee only upon receipt by the Trustee of an Officer's Certificate determining the following: (a) the Series from which the Series 37 Bonds are to be purchased or redeemed; (b) the maturities within such Series from which the Series 37 Bonds are to be purchased or redeemed; (c) the principal amount of Series 37 Bonds or portion of Series 37 Bonds within such maturities to be purchased or redeemed; and (d) if any of the Series 37 Bonds to be purchased or redeemed are Term Bonds, the years in which Sinking Fund Requirements are to be reduced and the amount by which such Sinking Fund Requirements are to be reduced. Pursuant to the Trust Agreement, the Agency shall not cause Series 37 Bonds to be purchased or redeemed unless, after such purchase or redemption, there shall be no material adverse effect on the ability of the Agency to pay when due the principal of and interest on the Series 37 Bonds then Outstanding. If less than all the Series 37 Bonds of a single maturity shall be redeemed, the Series 37 Bonds shall be redeemed by lot.

So long as DTC or its nominee is the owner of the Series 37 Bonds, if less than all of the Series 37 Bonds of any one maturity shall be called for redemption, the particular Series 37 Bonds or portions of Series 37 Bonds of such maturity to be redeemed shall be selected by DTC and its Participants in such manner as DTC and its Participants may determine. If a Series 37 Bond is of a denomination in excess of \$5,000, portions of the principal amount in the amount of \$5,000 or any whole multiple thereof may be redeemed.

THE AGENCY

Organization and Purposes

The Agency was created in 1973 by the Act as a body politic and corporate and as an instrumentality of the State. It is positioned within the Office of State Budget and Management for financial reporting and budgetary purposes, and it is managed solely by its Board of Directors (the "Board"). The Executive Director is appointed by the Board subject to the approval of the Governor. The Executive Director appoints all other

employees subject to an organization chart which is approved by the Board. All employees of the Agency are exempt from the State Personnel Act, but they are considered State employees for certain purposes. They receive the State employee benefits package and participate in the Teachers' and State Employees' Retirement System of North Carolina.

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

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

Board of Directors

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

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

<u>Name and Position</u>	<u>Term Expires</u>	<u>Occupation</u>
Stancil Barnes, Chairman	6/30/2017	Retired Businessman, Tarboro
J. Dean Carpenter	6/30/2017	President, Carpenter’s Real Estate, Dallas
Joseph D. Crocker	12/10/2017	Director, Poor & Needy Division, Kate B. Reynolds Charitable Trust, Winston-Salem
R. Gene Davis, Jr.	6/30/2017	Attorney, Raleigh
Elizabeth P. Foley	6/30/2018	Attorney, Winston-Salem
Patricia G. Garrett	6/30/2018	Retired Businesswoman, Surf City
Paul S. Jaber	6/30/2017	Executive Vice President, First South Bank, Rocky Mount
Paul L. Kennedy	6/30/2017	Sr. Vice President, Carolina Bank, Greensboro
M. Charles Mullen	6/30/2017	President, Mullen & Company, Inc., Rocky Mount

<u>Name and Position</u>	<u>Term Expires</u>	<u>Occupation</u>
James E. Nance, Vice Chairman	6/30/2017	Private Businessman, Albemarle
James W. Oglesby	6/30/2017	Owner, Oglesby Insurance, Asheville
Christopher C. Parrish	6/30/2017	Co-Owner, Parrish Manor, Inc., Garner
Tom E. Smith	6/30/2017	Berkshire Hathaway Homeservices York Simpson Underwood Realty

Agency Staff

The Agency currently employs approximately 112 persons. The following persons have been appointed as the principal staff of the Agency:

<u>Name and Position</u>	<u>Experience</u>
A. Robert Kucab Executive Director	Executive Director, North Carolina Housing Finance Agency, 1988 to present; Executive Director, Idaho Housing Agency, Boise, ID, 1982-1987; Executive Director, Flint Neighborhood Improvement and Preservation Project, Flint, MI, 1977-1982. Mr. Kucab is a Past President and a former Member of the Board of Directors of the National Council of State Housing Agencies.
Carrie Freeman Chief Financial Officer	Chief Financial Officer, North Carolina Housing Finance Agency, May 2016 to present, Manager of Bond Financing, October 2007 to May 2016; Tax Manager, Visa International Service Association, 2002-2005; Senior Tax Analyst and Tax Manager, The Gap, Inc., 2000-2001; Supervisor-Tax, Senior Business Analyst, Business Analyst, Analyst, Carolina Power & Light, 1996-2000; Senior, Staff, Arthur Andersen LLP, 1992-1996.
Rob Rusczak Manager of Home Ownership Lending	Manager of Home Ownership Lending, North Carolina Housing Finance Agency, 2007-2016; Area Manager, Countrywide Financial, 2004-2007; Vice President, ConEdison, 1999-2003.
Scott Farmer Director of Rental Investment	Director of Rental Investment, North Carolina Housing Finance Agency, 2005 to present, Manager of Rental Development, 2001-2005, Debt Restructuring Specialist, 1999-2001; REO/Commercial Asset Supervisor, CDSI Mortgage Services, 1998-1999, Commercial Asset Manager, 1996-1998; Problem Loan Specialist, Wendover Funding, 1993-1996; Legal Assistant, W.A. Bason, Attorney at Law, 1990-1993.
Patricia L. Amend Director of Policy, Planning and Technology	Director of Policy, Planning and Technology, North Carolina Housing Finance Agency, 2004 to present; Chief Financial Officer, 1997-2004; Controller, 1995-1997, Senior Accountant, 1994-1995; Senior Accountant, Deloitte & Touche, LLP, Raleigh, NC, 1992-1994.

<u>Name and Position</u>	<u>Experience</u>
Jennifer Percy General Counsel	General Counsel, North Carolina Housing Finance Agency 2012-present; Counsel and Manager of Legal Services, North Carolina Housing Finance Agency 2006-2012; Associate, Nelson Mullins Riley & Scarborough 2006; Attorney, North Carolina Housing Finance Agency 2003-2005.
Molly Rodgers Director of HR and Administration	Director of HR and Administration, North Carolina Housing Finance Agency 2008 to Present; Director of Human Resources, Manpower/The Greenwood Group, 2003-2008; Director of Human Resources, The International Society of Automation – 1999-2003; Director of Human Resources/Senior Staff, Chautauqua Opportunities, Inc., 1980-1999.
Tim Carroll Chief Information Officer	Chief Information Officer, North Carolina Housing Finance Agency, 2014 to present, Manager of Information Technology, 2011-2014, Senior Systems Analyst, 2006-2011; Senior Consultant, Keane, Inc., Durham, NC 1999-2006.

The Executive Director, A. Robert Kucab, is planning to retire in the first quarter of 2017. The Agency’s Human Resources Committee, which is comprised of six members of the Board of Directors and is supported by staff, issued a request for proposal for an executive search firm and selected Conway and Greenwood in May 2016. Conway and Greenwood has initiated its nationwide search and is regularly meeting with the Human Resources Committee to communicate its progress on finding a replacement for the Executive Director. The current plan is to have a period of overlap between the outgoing Executive Director and the incoming Executive Director, once identified, to allow for a smooth transition.

The Agency is located at 3508 Bush Street, Raleigh, North Carolina 27609, its mailing address is P.O. Box 28066, Raleigh, North Carolina 27611-8066, and its telephone number is (919) 877-5700. The Agency's web site is www.nchfa.com. Carrie Freeman is the contact person at the Agency for questions regarding the Agency’s bond programs. Her telephone number is 919-877-5680 and her e-mail address is scfreeman@nchfa.com.

THE PROGRAM

General

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

Program Loans under the FirstHome Mortgage Program

Historically, proceeds of Bonds have been used by the Agency to purchase Program Loans originated by Lenders specifically for sale to the Agency for the purpose of providing financing for residential housing for low and moderate income households in North Carolina. The mortgage program financed with the sale of the tax-exempt bond proceeds to date is called the FirstHome Mortgage program ("FirstHome"). Under the Thirty-Seventh Supplemental Trust Agreement, the Agency will refund certain of the Agency’s Home Ownership Revenue Bonds heretofore issued under the Trust Agreement with Series 37-A Bonds and pay a portion of the costs of issuance of the Series 37 Bonds. The FirstHome mortgage loans associated with the Refunded Bonds,

also known as "Program Loans" will be transferred to the Series 37 Program Account no later than December 1, 2016.

Program Securities

As a result of the lengthy recession starting in 2007, the economic feasibility for issuance of tax-exempt bonds to fund the purchase of mortgage loans was limited. Therefore, the Agency transitioned its method of financing mortgage loans from the sale of tax-exempt mortgage revenue bonds to the sale of mortgage-backed securities in the secondary market, also known as the TBA market. In conjunction with the new method of financing, the Agency created a new mortgage loan product called NC Home Advantage Mortgage ("HomeAd"), which was made available in March 2013. The mortgage loans are pooled into GNMA and FNMA mortgage-backed securities by the Agency's master servicer, which is currently ServiSolutions, a division of Alabama Housing Finance Authority. Historically, under the HomeAd program, the mortgage-backed securities are sold to a third-party hedger to generate income for funding future mortgage loan production. The HomeAd program provides multiple options to borrowers, including no down payment assistance, 3% of down payment assistance and 5% of down payment assistance across all loan types (FHA, USDA, VA and conventional).

In 2010, the Agency obtained funds from the U.S. Department of the Treasury's ("Treasury") Hardest Hit Fund program ("HHF") to assist borrowers facing foreclosure in the State of North Carolina. In 2015, the Agency set aside \$15 million from the HHF to fund a down payment assistance program ("HHF DPA") approved by the Treasury. The HHF DPA is a 5-year, \$15,000 subordinate loan deferred with 0% interest, forgiven at a rate of 20% per year if the homeowner continues to own and occupy the residence financed. It is available in five counties in North Carolina: Cabarrus, Cumberland, Guilford, Johnston and Mecklenburg. The five counties were selected based on a defined set of distressed housing market indicators and other criteria approved by and in cooperation with Treasury. To be eligible for the HHF DPA, a borrower must be a first-time homebuyer or veteran, or purchase a home in a targeted area. The home must be located within one of the five counties, and it must be of existing construction (i.e. previously inhabited). The borrower must be under the Mortgage Credit Certificate income and sales price limits, which are the same as the tax-exempt mortgage revenue bond income and sales price limits. With \$15 million of hardest hit funds set aside, the program served 1,000 borrowers. The HHF DPA program quickly ramped up after its introduction in September 2015, reflecting over 280 reservations at its peak month of rollout. More details about Treasury's HHF are in the following website: <http://treasury.gov/initiatives/financial-stability/TARP-Programs/housing/hhf/Pages/default.aspx>.

HHF DPA Loans are not Program Loans or Program Securities and any payments received thereunder are not Revenues or Prepayments under the Trust Agreement.

The Agency will use the proceeds of the Series 37 Bonds to integrate the mortgage-backed securities/down payment assistance aspects of HomeAd into a mortgage revenue bond funded program. In March 2016, the Agency received additional HHFs from Treasury. The Agency intends to use \$45,000,000 of these funds for the HHF DPA which will ultimately serve 3,000 borrowers. The proceeds of the Series 37-B Bonds and the Series 37-C Bonds will provide the funds for the purchase of the Program Securities whose underlying mortgage loans will have an associated HHF DPA. The interest rates, origination fees and terms of such mortgage loans may vary. The Agency anticipates originating (a) FHA/VA/USDA insured Mortgage Loans which will be financed through the purchase of GNMA Certificates by the Trustee and (b) conventional loans which may be financed through the purchase of FNMA Certificates by the Trustee. The fixed interest rate on the Mortgage Loans is initially expected to be approximately 4% per annum and the term of the Mortgage Loan will be 30 years. Pursuant to the Program, the fixed interest rate may change from time to time and the Agency expects to evaluate interest rates and to change the interest rates as appropriate in light of rates in the residential mortgage market generally, economic conditions and financial considerations of the Agency, all within the limitations established by federal tax laws and regulations. See "TAX TREATMENT." The Agency has entered into (and anticipates entering into additional) mortgage origination agreements ("Origination Agreements") with qualified mortgage lending institutions (the "Lenders"), pursuant to which the Lenders may originate Mortgage Loans under the Program. Upon closing of the Mortgage Loans, the Lenders will sell

approved GNMA Loans and the FNMA Loans to ServiSolutions, which ServiSolutions will pool into fully modified GNMA Certificates and FNMA Certificates (Program Securities).

In connection with the origination of Mortgage Loans, the Trustee, on behalf of the Agency, will purchase from ServiSolutions, (i) fully modified GNMA Certificates (as defined herein) backed by Mortgage Loans and guaranteed as to timely payment of principal and interest by GNMA, or (ii) FNMA Certificates (as defined herein) backed by Mortgage Loans and guaranteed as to timely payment of principal and interest by FNMA. The Agency currently expects that approximately 50% of the Mortgage Loans will be originated through the purchase of GNMA Certificates and approximately 50% will be originated through the purchase of FNMA Certificates. The obligations of GNMA are considered general obligations of the United States backed by its full faith and credit. The obligations of FNMA under its guarantees of the FNMA Loans are obligations of FNMA only. The FNMA Loans, including the interest thereon, are not guaranteed by the United States or constitute debts or obligations of the United States or any agency or instrumentality of the United States, other than FNMA, and FNMA is not entitled to the full faith and credit of the United States. See "Appendix E: SUMMARY OF GNMA CERTIFICATE, FNMA CERTIFICATE AND FREDDIE MAC CERTIFICATE PROGRAM."

ServiSolutions

ServiSolutions®, a department of Alabama Housing Finance Agency ("ServiSolutions"), has entered into an agreement with the Agency as its Master Servicer for the purchase of Mortgage Loans from Mortgage Lenders, the issuance of GNMA Certificates and FNMA Certificates backed by such Mortgage Loans, and, with respect to the GNMA Certificates and FNMA Certificates that will be acquired with Series 37 Bond proceeds, to sell the GNMA Certificates and FNMA Certificates to the Trustee. Once the GNMA Certificates and FNMA Certificates have been issued to the Trustee, ServiSolutions' primary duties involve the collection and distribution to the Trustee of payments received on account of the underlying Mortgage Loans. This includes payments received from GNMA and FNMA with respect to defaulted Mortgage Loans. ServiSolutions' ability to purchase and pool Mortgage Loans, and to issue and deliver GNMA Certificates and FNMA Certificates, underlies the Trustee's ability to spend Series 37 Bond proceeds in a timely manner.

The Agency is responsible under the Servicing Agreement for reviewing each Mortgage Loan originated by the Mortgage Lenders to determine compliance with the Agency's program requirements. ServiSolutions reviews the mortgage loans to determine compliance with GNMA and FNMA loan documentation. Upon completion of such review, ServiSolutions is required to acquire approved Mortgage Loans on behalf of the Agency, and complete all required documents and forms incidental to the inclusion of such Mortgage Loans in GNMA and FNMA pools.

The information under this subheading has been provided solely by Alabama Housing Finance Agency and is believed to be reliable, but has not been verified independently by the Agency. No representation whatsoever as to the accuracy, adequacy, or completeness of such information is made by the Agency.

Alabama Housing Finance Agency ("AHFA") was established in 1980 by an act of the Alabama legislature as a public corporation and instrumentality of the State of Alabama. ServiSolutions, a department of AHFA, offers residential mortgage servicing for financial institutions. As of September 15, 2016, ServiSolutions services and manages a portfolio of more than 73,000 mortgages, totaling \$5.98 billion, and is approved as a residential mortgage servicer by FHA, VA, USDA, FNMA and GNMA. Headquartered in Montgomery, Alabama, ServiSolutions services mortgage loans in Alabama, Florida, Georgia, Tennessee, Mississippi, Missouri, North Carolina and Washington. ServiSolutions commenced servicing mortgages in March 2005.

Experience to Date Under The Program

The Agency has issued \$2,078,530,000 of Bonds under the Trust Agreement (excluding Refunding Bonds) for the purposes of the Program. To date, all of the Bonds funded a program in which the Agency purchased Program Loans and not Program Securities. A total of thirty-six Series of Bonds have been issued

under the Trust Agreement. In addition to Bonds paid at maturity or redeemed from available funds of the Agency, Series 1 through Series 14, Series 19 through 21, Series 23 and 24 and Series 26 were refunded by the Series 32 through 36 Bonds. Upon such refunding, the Program Loans financed by the Bonds that were refunded were transferred to the Program Account for the respective Series of Refunding Bonds.

The following table summarizes as of June 30, 2016, the Program Loans purchased by the Agency under the Trust Agreement and the Series of Bonds with which they are associated:

The bond series below denoted by an asterisk are being refunded in whole by proceeds of the Series 37 Bonds, as described herein.

Series	Date of Issue	Bonds Payable (000's)		Program Loans Receivable (000's)			
		Original Principal Amount	Amount Outstanding	Outstanding Principal Balance	Interest Rate(s) On Mortgage ¹ (%)	Type of Mortgage Insurance	Delinquency Rate ² (%)
15*	5/8/2003	\$50,060	\$4,525	\$5,609	4.950-5.375	FHA, VA, USDA, PMI	4.05
16*	9/16/2003	50,000	9,005	10,702	5.125-5.625	FHA, VA, USDA, PMI	3.37
17*	12/11/2003	53,280	12,350	11,416	5.125-5.625	FHA, VA, USDA, PMI	3.17
18*	4/20/2004	50,000	5,985	13,315	4.625-5.750	FHA, VA, USDA, PMI	3.19
22CE	10/1/2007	80,000	33,375	30,263	5.500-5.750	FHA, VA, USDA, PMI	2.51
25*	9/26/2006	65,000	19,680	21,416	5.125-6.375	FHA, VA, USDA, PMI	2.63
27	6/26/2008	65,000	6,905	25,979	5.750-6.500	FHA, VA, USDA, PMI	4.47
28*	4/25/2007	65,000	24,465	23,692	5.500-5.990	FHA, VA, USDA, PMI	3.18
29*	6/13/2007	100,000	32,510	31,935	5.625-6.250	FHA, VA, USDA, PMI	3.53
30*	10/23/2007	65,000	24,280	21,824	5.500-6.250	FHA, VA, USDA, PMI	2.96
31	1/10/2008	65,000	26,445	23,843	4.625-6.375	FHA, VA, USDA, PMI	1.27
32	11/17/2011	136,160	67,485	75,726	4.950-8.600	FHA, VA, USDA, PMI	4.05
33	7/19/2012	121,670	73,435	66,792	4.750-8.375	FHA, VA, USDA, PMI	4.70
34	11/21/2013	66,150	44,185	50,559	4.950-5.750	FHA, VA, USDA, PMI	3.86
35	5/6/2014	54,335	41,325	43,913	5.125-6.125	FHA, VA, USDA, PMI	3.14
36	10/27/2015	66,000	<u>65,855</u>	<u>64,987</u>	5.125-6.375	FHA, VA, USDA, PMI	2.54
Total			<u>\$491,810</u>	<u>\$521,971</u>			

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

² Program Loans that are 60/90+ days delinquent, as a percentage of the total number of Program Loans in such series outstanding as of June 30, 2016.

The overall 60/90+ day delinquency rate for the Program Loans issued pursuant to the Trust Agreement was 3.46% as of June 30, 2016, which includes the Mortgage Loans held in Revenue Reserves. At June 30, 2016, 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 2.3%; the South Atlantic Region, 2.5%; and the United States, 2.3%.

As of June 30, 2016, the Trust Agreement had 76 properties in foreclosure with a total principal balance of \$5,368,000 and 36 conventional and USDA real estate owned properties with a total principal balance of \$3,022,000. These figures include the Mortgage Loans held in Revenue Reserves.

The following table summarizes as of June 30, 2016, certain information with respect to all insurance and guarantee programs for the Program Loans held by the Agency under the Trust Agreement:

Insurance or Guarantee Program	Number of Program Loans	
	Outstanding	Percentage of Total Number
FHA Mortgage Insurance	3,817	51.09%
VA Guarantee	163	2.18%
USDA Guarantee	706	9.45%
Private Mortgage Insurance*		
Genworth	1,287	17.23%
RMIC	218	2.92%
MGIC	450	6.02%
UGI	235	3.15%
Triad	12	0.16%
Radian	62	0.83%
PMI	112	1.50%
CMG	9	0.12%
Uninsured and Non-Guaranteed loans (Loan to Value less than 80%)	400	5.35%
Total	7,471	100.00%

* See Appendix F – "SUMMARY OF THE SERIES 37 PROGRAM ACCOUNT AND PROGRAM LOANS" for information regarding certain of the insurance companies that issued policies of private mortgage insurance.

The Series 37 Program Account and Program Loans

Transfer of Loans. The Trustee is required by the Thirty-Seventh Supplemental Trust Agreement, as soon as practicable following the issuance of the Series 37 Bonds, but not later than December 1, 2016, to transfer the Program Loans in the Series 15 Program Account, Series 16 Program Account, Series 17 Program Account, Series 18 Program Account, Series 25 Program Account, Series 28 Program Account, Series 29 Program Account and Series 30 Program Account, each created under the Supplemental Trust Agreements pursuant to which the Refunded Bonds were issued, to the Series 37 Program Account. Regardless of the time of such transfer, the transferred loans shall become Series 37 Program Loans immediately upon the issuance of the Series 37 Bonds.

Purchase of Program Securities. Except as hereinafter provided, cash amounts deposited in the Series 37 Program Account pursuant to the Thirty-Seventh Supplemental Trust Agreement shall be applied to the purchase of Series 37 Program Securities and lender compensation associated with the underlying Mortgage Loans associated with the Program Securities. All Series 37 Program Securities purchased shall comply with the requirements for GNMA Certificates or FNMA Certificates, as the case may be, as set forth in the Thirty-Seventh Supplemental Trust Agreement. The Agency shall take such action as shall be necessary to assure that the Agency and its servicers comply with the requirements for GNMA Certificates or FNMA Certificates.

Purchase of Other Mortgage Backed Program Securities and Program Loans. The Thirty-Seventh Supplemental Trust Agreement also provides that proceeds of the Series 37 Bonds may be used to purchase Program Securities consisting of mortgage-backed securities issued by Freddie Mac, but at present the Agency does not intend to utilize the proceeds of the Series 37 Bonds for such purpose. The Thirty-Seventh Supplemental Trust Agreement also provides that the Agency may use the proceeds of the Series 37 Bonds to purchase Program Loans meeting the requirements of the Trust Agreement and the Thirty-Seventh Supplemental Trust Agreement, but at present the Agency does not intend to utilize the proceeds of the Series 37 Bonds for such purpose. No amounts deposited to the Series 37 Program Account shall be applied to purchase new Program Loans unless the Agency files with the Trustee a certificate indicating that arrangements

are in place for the servicing of the Program Loans so purchased in accordance with the requirements of the Trust Agreement.

The Thirty-Seventh Supplemental Trust Agreement provides that amounts deposited to the Series 37 Principal/Special Redemption Account that are not required to be applied to pay principal or mandatory sinking fund redemption of Series 37 Bonds and are not required to be applied to the special redemption of the Series 37 PAC Bonds may be applied for a number of purposes, including to purchase additional Program Obligations. The requirements of the Thirty-Seventh Supplemental Trust Agreement for the purchase of Program Securities and Program Loans with the proceeds of the Series 37 Bonds also apply to the purchase of any additional Program Securities and Program Loans from these "recycled" principal payments.

Requirements for Program Securities and Program Loans. Appendix F hereto sets forth a discussion of the additional requirements of the Trust Agreement and the Supplemental Trust Agreements thereunder for Program Securities and also sets forth a discussion of the requirements of the Trust Agreement and Supplemental Trust Agreements thereunder for the Program Loans now held under the Trust Agreement (including the Series 37 Program Loans) and any additional Program Loans purchased with the proceeds of the Series 37 Bonds. Appendix F also includes a summary of the major provisions of the insurance or guaranty programs providing additional security for the payment of Program Loans.

AMENDMENT OF TRUST AGREEMENT

As described under "SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 37 BONDS," the Thirty-Seventh Supplemental Trust Agreement includes certain provisions regarding the handling of scheduled payments and Prepayments on Program Obligations in the Series 37 Program Account, including the creation of the Series 37 Principal/Special Redemption Account. Such provisions only apply to the Series 37 Bonds and only apply so long as no Event of Default has occurred and is continuing under the Trust Agreement.

The Agency intends to amend the Trust Agreement to revise the provisions of the Trust Agreement regarding the handling of scheduled payments and Prepayments on all Program Obligations held under the Trust Agreement so that the handling will be consistent with the manner created for the Series 37 Bonds. Such amendment will become effective only upon the receipt of the consent of the requisite amount of owners of Bonds issued and Outstanding under the Trust Agreement. BY THEIR PURCHASE AND OWNERSHIP OF THEIR INTEREST IN THE SERIES 37 BONDS, THE BENEFICIAL OWNERS OF INTERESTS IN THE SERIES 37 BONDS CONSENT TO THE AMENDMENT OF THE PROVISIONS OF THE TRUST AGREEMENT REGARDING THE HANDLING OF SCHEDULED PAYMENTS AND PREPAYMENTS OF PROGRAM OBLIGATIONS IN A MANNER CONSISTENT WITH THE TREATMENT ESTABLISHED FOR THE PROGRAM OBLIGATIONS IN THE SERIES 37 PROGRAM ACCOUNT AS DESCRIBED IN THIS OFFICIAL STATEMENT.

FEDERAL TAX REQUIREMENTS

General

The Series 37 Bonds are subject to the requirements of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations thereunder (the "Federal Tax Requirements"). Pursuant to the Federal Tax Requirements, interest on "qualified mortgage bonds" is not includable in gross income for federal income tax purposes. Bonds are "qualified mortgage bonds" if all of the following requirements are met: (i) all proceeds of the issue exclusive of issuance costs and a reasonably required reserve fund are to be used to finance owner-occupied residences, (ii) the mortgages financed with the issue meet certain eligibility requirements, (iii) the yield that is earned by the issuer of the bonds from such mortgages does not exceed specified limitations and certain investment earnings derived from non-mortgage investments are paid to the United States, (iv) certain proceeds of the issue are available for financing housing located in "targeted areas" and (v) the use of proceeds of the bonds does not meet the private business tests of Sections 141(b)(1) and 141(b)(2) of the Code. In addition to the foregoing requirements, qualified mortgage bonds must meet certain other requirements relating to the issue itself.

Failure to meet the above requirements at any time during the term of the Series 37 Bonds could result in interest on the Series 37 Bonds being subject to federal income taxation as of the date of issuance. The Agency, however, has covenanted to comply with all such requirements. In addition, the Federal Tax Requirements provide that certain requirements will be deemed to have been satisfied if certain steps are taken (see "Good Faith Effort" below).

Eligibility Requirements

The new mortgage loans to be financed with the proceeds of the Series 37 Bonds (whether Program Loans or the mortgage loans securitized by Program Securities) must meet the following eligibility requirements:

Residence Requirements. All residences for which owner financing is provided with the proceeds of the Series 37 Bonds must be single family residences located within the State, each of which can reasonably be expected to become the principal residence of the mortgagor within 60 days after the financing is provided. Each borrower is required to certify at the closing of the home mortgage loan that he or she intends to make the financed residence his principal residence within 60 days.

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

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

First-time homebuyers may purchase new or existing homes at a current sale price limit of \$245,000 and still qualify for the Agency's low-interest rate mortgage program. The current sales price limit is subject to change.

Income Restrictions. The Code requires that all financing provided by an issue of qualified mortgage bonds be provided to mortgagors whose family income is 115% or less of the applicable median family income. With respect to any financing provided for "targeted area" residences, as described below, one third of the amount of such financing may be made to mortgagors who do not satisfy this requirement if the remaining two-thirds of such "targeted area" financing is made to mortgagors whose family income is 140% or less of the applicable median family income. Under the Code, the above percentages for households consisting of less than three persons are reduced to 100% for "non-targeted areas" and 120% for "targeted areas," respectively. For

purposes of this income restriction, applicable median family income is the greater of the area median gross income for the area where the residence is located or the statewide median gross income. Each mortgagor is required to provide an affidavit that his or her family income does not exceed the applicable income limit. The applicable income restriction shall be the low or moderate income restriction of the Agency or the applicable median family income restriction of the Federal Tax Requirements, whichever is less.

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

Program Loan Assumption Limitation. To meet the Federal Tax Requirements, each mortgage financed with the proceeds of a bond issue may be assumed only if the residence requirements, absence of prior home ownership, purchase price limitations and the income restrictions are met with respect to the mortgage assumption. The determinations as to compliance with these requirements are to be made as of the date on which the mortgage is being assumed. Accordingly, the Agency must make the required statistical study or otherwise determine (e.g., by reliance on "safe harbor" statistics published by the U.S. Treasury) the relevant average area purchase prices for each statistical area within the State on an annual basis, and must assure compliance with the other applicable Federal Tax Requirements as long as any Series 37 Bonds are outstanding.

Requirements Related to Arbitrage

In addition to the arbitrage requirements that apply to all tax-exempt bonds under Section 148 of the Code, the Agency must satisfy two additional arbitrage requirements. First, certain limitations are imposed upon the yield the Agency may receive from the Program Obligations. The Code and the Treasury regulations thereunder require that all fees, charges and other amounts borne by the mortgagor be taken into account in determining the yield on the Program Obligations. Accordingly, in computing the yield on the Program Obligations, the Agency takes into account all discount points paid by the seller and origination fees paid by the mortgagor. Since the Lenders are prohibited from charging any other fees and charges in excess of those which would be charged when owner financing is not provided through the use of tax-exempt bonds, the Agency does not have to take such other charges into account in such computation. In addition, the Agency has reserved the right to adjust the yield on the Program Loans should circumstances indicate that such an adjustment is necessary in order to comply with the arbitrage requirements. In addition, the Agency may make a "yield reduction payment" to the federal government that will reduce the yield on the portfolio of Program Obligations allocated to the Series 37 Bonds.

The second principal arbitrage requirement obligates the Agency to pay to the United States government amounts earned on non-mortgage investments in excess of the amounts which would have been earned on such investments if invested at a yield equivalent to the yield on the Series 37 Bonds, plus the earnings on such excess.

Other Requirements

Application of Certain Payments. The Federal Tax Requirements provide that all prepayments and repayments received ten years after the date of issuance of the Series 37 Bonds in respect of Program Obligations allocable to the Series 37 Bonds be applied to the payment of principal of, or to redeem, Series 37 Bonds no later than the beginning of the second semi-annual period beginning after the date of receipt. For Program Loans financed with the proceeds of the Refunded Bonds, the ten year period runs from the date the Refunded Bond was issued (or if there is a series of refundings, from the date the original Bonds were issued).

Targeted Area Requirement. In order to comply with the Federal Tax Requirements, the Agency will, for at least one year after owner financing is first made available with respect to new mortgage loans financed with proceeds of the Series 37 Bonds, make available for mortgage loans in Targeted Areas within the State an amount equal to 20% of the proceeds of the Series 37-B Bonds and Series 37-C Bonds deposited in the Series 37

Program Account. The Agency's efforts to place mortgage financing in Targeted Areas will include the Agency's general advertising that mortgage funds are available for such areas.

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

Recapture of Portion of Federal Subsidy. The Code imposes a recapture provision (the "Recapture Provision"), which requires a payment to the United States from certain mortgagors of an amount determined to be the subsidy provided by a qualified mortgage upon disposition of the residence financed by the Program Loan. The Agency has established procedures to comply with the requirements imposed on it by the Recapture Provision. The Agency has also created a Recapture Tax Reimbursement Program for borrowers who receive mortgage revenue bond financing or mortgage financing that includes the issuance by the Agency of a mortgage credit certificate. Eligible borrowers will be reimbursed by the Agency for any Recapture Provision payment that they pay to the federal government after they have sold their home. The Agency estimates that its liability will be minimal.

Good Faith Effort

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

- (i) the issuer in good faith attempted to meet such requirements before the mortgages were executed;
- (ii) 95% of the net proceeds devoted to owner-financing were devoted to residences with respect to which (at the time the mortgages were executed or assumed) all such requirements were met; and
- (iii) any failure to meet such requirements is corrected within a reasonable period after such failure is first discovered.

Failure to meet one or more of the Eligibility Requirements can be corrected by either calling the non-qualifying mortgage or replacing it with a qualifying mortgage.

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

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

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

Agency Procedures

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

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

The Agency will require that each submission package contain an affidavit from each mortgagor which represents and warrants, among other things (i) that he or she has not had a previous ownership interest in a principal residence within the preceding three years; (ii) that he or she will occupy the premises as his or her principal residence within 60 days after the mortgage loan is made; (iii) that the residence is a completed residential unit which needs no alteration for normal occupancy; (iv) that the property will not be used for business purposes; and (v) that the statement of family income set forth in the application is true and complete. The Agency will also require each mortgagor to submit for inspection such mortgagor's federal income tax returns for each of the three years preceding the origination of the mortgage loan or a certificate that the mortgagor was not required to file a federal income tax return during such period to verify the absence of prior home ownership during such period. The Agency will also require that each loan package contain an affidavit from the seller of the residence which evidences compliance with the purchase price limitations.

The Agency has published a Program Guide describing the compliance process each Lender must perform with respect to the Federal Tax Requirements. The Agency regularly holds training classes and has held conversations with mortgage lenders to explain the procedures designed to assure compliance.

Lenders will be required to make representations and warranties that certain Federal Tax Requirements have been met and to repurchase mortgage loans if misstatements or misrepresentations by any party in connection therewith adversely affect the loan's eligibility for purchase under the Federal Tax Requirements.

OTHER AGENCY PROGRAMS

Single Family Programs

In addition to Bonds issued pursuant to the Trust Agreement, the Agency has issued bonds pursuant to separate trust agreements or bond resolutions entered into by the Agency and the Trustee on November 20, 2009 (the "2009 Trust Agreement"), the Single Family Revenue Bond Resolution adopted by the Agency on February 28, 1985 (the "1985 Resolution"), the Single Family Revenue Bond Resolution adopted by the Agency on April 14, 1983 (the "1983 Resolution"), the Home Mortgage Revenue Bond Resolution adopted by the Agency on November 12 1981 (the "1981 Resolution"), the Single Family Housing Bond Resolution adopted by the Agency on April 25, 1980 (the "1980 Resolution"), and the Single Family Mortgage Purchase Bond Resolution adopted by the Agency on July 28, 1976 (the "1976 Resolution") for the purpose of providing moneys to purchase mortgage loans for single family residential housing for households of low and moderate income in the state. All single family bond resolutions and trust agreements have been retired except the Trust Agreement and the 2009 Trust Agreement. As of June 30, 2016, the 2009 Trust Agreement had \$145,380,000 in single family home ownership bonds outstanding.

Multifamily Programs

In addition to its home ownership programs, the Agency has several programs to provide financing for residential rental housing for low and moderate income households. As of May 2012, the Agency no longer had

multifamily revenue bonds outstanding, other than conduit financing described under "Other Activities" below. As of June 30, 2016, the Agency had \$8,258,000 in multifamily mortgage loans in the Trust Agreement.

The Agency also administers both the federal and state low-income housing tax credit programs and the rental production program. These funds are available to developers, on a competitive basis, for the development of affordable rental housing in the State. The Agency's goals include supporting the best developments possible given the limited resources available. Therefore, the Agency selects developments serving low-income residents for the longest period of time, at appropriate locations, with strong market demand, with the healthiest financial structures, the best architectural design and the best quality of building materials and workmanship. The Agency has administered this program since its inception in 1987 and has helped create 2,091 projects comprising 73,553 rental units, allocating \$401,939,000 of tax credits. The state low-income housing tax credit program expired in January 2015, in spite of the Agency's attempts to extend its sunset provision. The state low-income housing tax credit program was replaced by the Workforce Housing Loan Program ("WHLP") in fiscal year 2015 with a non-recurring \$10 million appropriation for fiscal year 2015 and \$12.5 million appropriation for fiscal year 2016. The WHLP is a state program which provides loans up to \$1 million to fund construction or substantial rehabilitation of affordable rental developments, and it is administered in combination with the federal low-income housing tax credit program.

Other Activities

The Agency established a mortgage credit certificate ("MCC") program in July 1987. An MCC permits first-time homebuyers who meet federal limits for family income and acquisition costs to take a federal income tax credit of up to 30% of annual mortgage interest for existing construction homes and up to 50% for newly-constructed homes, up to a maximum credit of \$2,000 per year. As of June 30, 2016, the Agency had issued 31,491 certificates under the MCC program totaling \$2.81 billion in mortgages.

In 2010, the Agency became eligible to administer up to \$482.8 million from the United States Department of the Treasury's ("Treasury") Hardest Hit Fund to help prevent home foreclosures for workers who lose their jobs or experience other employment-related hardships. The Agency applied for and received another \$223.7 million of funds from Treasury in May 2016, bringing the total funds to \$706.5 million. Funds are expected to be available through 2020 and to assist over 28,500 homeowners. The Agency has created the NC Foreclosure Prevention Fund to disburse the fund, and it has offered five programs. The Mortgage Payment Program offers zero-interest loans to pay the mortgage and related expenses for struggling homeowners. The Second Mortgage Refinance Program refinances a high-cost second mortgage to reduce a borrower's monthly mortgage payment to an affordable level. The Modification Enabling Pilot Program is designed to provide assistance to eligible borrowers under the National Community Capital ReStart Program with the intent to permanently modify and reduce the borrower's loan amount to an affordable level. The Principal Reduction Recast/Lien Extinguishment for Unaffordable Mortgages provides eligible homeowners a principal reduction and reamortization of the remaining principal balance or a full lien extinguishment. The \$15,000 Down Payment Assistance Program is detailed in the Section entitled "Program Securities under the NC Home Advantage Mortgage Program." The mortgages to be issued under the NC Home Advantage Mortgage Program beginning October 17, 2016, will be funded with the proceeds of the Series 37-B and Series 37-C Bonds. The Agency has assisted over 22,700 homeowners with these programs. No Agency funds are used to operate the program.

In July 2011 the State Home Foreclosure Prevention Project was transferred to the Agency from the Office of the North Carolina Commissioner of Banks. This effort funds free counseling assistance through many of the same HUD-Approved counseling agencies that are participating in the NC Foreclosure Prevention Fund to homeowners facing foreclosure. No Agency funds are used to operate the program.

Since 1987 the General Assembly of North Carolina has provided appropriations for the North Carolina Housing Trust Fund to produce housing for low-income households by leveraging private, local government, and federal resources. The Agency manages the Trust Fund and pays its operating costs so that all appropriated funds go directly into housing construction and rehabilitation. The annual appropriation for the Trust Fund has varied over its history, from the initial appropriation of \$21 million in 1987 to zero. The most recent

appropriations have been \$10 million for fiscal years 2010 and 2011, \$7.88 million for fiscal years 2012 and 2013, \$6.92 million for fiscal year 2014, \$6.78 million for fiscal year 2015 and \$7.66 million for fiscal year 2016. The annual appropriation for the Trust Fund does not affect the Agency's operating budget.

In May 2002 the Agency issued \$9,712,000 of multifamily housing bonds in four issues to finance the acquisition and renovation by four separate non-profit corporations of housing developments for elderly residents. The four non-profit corporations are controlled by National Church Residences, an Ohio non-profit corporation that specializes in providing housing for the elderly. The multifamily bonds are secured by GNMA Certificates issued in connection with the financing. As of June 30, 2016, \$2,095,000 of these bonds were outstanding. These bond issues are "conduit" financings in which the Agency's obligation for the payment thereof is limited to the payment received from the third-party borrowers and the properties, revenues and the other security pledged to the payment of the bonds. The bonds are not secured by any funds or other assets that secure the payment of the Bonds issued under the Trust Agreement.

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

TAX TREATMENT

Opinion of Bond Counsel. Certain federal tax requirements must be met subsequent to the initial issuance and delivery of the Series 37 Bonds in order that interest on such Bonds be excluded, on and after the date of such issuance and delivery, from the gross income of the owners thereof for federal income tax purposes under the Code. The Agency has established procedures in its Program Documents and the Thirty-Seventh Supplemental Trust Agreement to meet the Federal Tax Requirements. The Agency has also covenanted in the Thirty-Seventh Supplemental Trust Agreement to comply with the requirements of Sections 143 and 148 of the Code. Bond Counsel is of the opinion that the procedures established as of the date hereof in the Agency's Program Documents and the Thirty-Seventh Supplemental Trust Agreement are sufficient, if followed, to comply with the Federal Tax Requirements. The Agency has also covenanted, in the Thirty-Seventh Supplemental Trust Agreement, to comply with the regulations promulgated with respect to the rebate and other arbitrage requirements under Sections 143 and 148 of the Code. Failure to comply with such aforementioned covenants or to carry out the procedures set forth in the Program Documents may cause interest on the Series 37 Bonds to become included in gross income for federal income tax purposes retroactive from their date of issue.

In the opinion of Womble Carlyle Sandridge & Rice, LLP, Raleigh, North Carolina, as Bond Counsel, assuming that the Agency will carry out the aforementioned procedures set forth in the Program Documents and comply with the aforementioned covenants contained in the Thirty-Seventh Supplemental Trust Agreement, interest on the Series 37 Bonds is not includable in the gross income of the owners of the Series 37 Bonds for purposes of federal income taxation.

Bond Counsel is of the opinion that (i) interest on the Series 37-A Bonds will be treated as a preference item in computing the federal alternative minimum tax imposed by the Code on individuals and the alternative minimum tax imposed by the Code on corporations, and (ii) interest on the Series 37-B Bonds will not be treated as a preference item in computing the federal alternative minimum tax on individuals and corporations and further will not be included in the adjusted current earnings of corporations for purposes of computing the alternative minimum tax on corporations.

Bond Counsel is further of the opinion that interest on the Series 37 Bonds is exempt from all income taxes of the State.

Original Issue Premium. The Series 37-A Bonds maturing July 1, 2039 (the "Series 37-A Premium Bonds") are being sold at initial offering prices which are in excess of the principal amount payable at maturity. The difference between (a) the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of the Series 37 Premium Bonds is sold and (b) the principal amount payable at maturity of such Series 37 Premium Bonds constitutes original issue premium, which original issue premium is not

deductible for federal income tax purposes. In the case of an owner of a Series 37 Premium Bond, however, the amount of the original issue premium which is treated as having accrued over the term of such Series 37 Premium Bond is reduced from the owner's cost basis of such Series 37 Premium Bond in determining, for federal income tax purposes, the taxable gain or loss upon the sale, redemption or other disposition of such Series 37 Premium Bond (whether upon its sale, redemption or payment at maturity). Owners of Series 37 Premium Bonds should consult their tax advisors with respect to the determination, for federal income tax purposes, of the "adjusted basis" of such Series 37 Premium Bonds upon any sale or disposition and with respect to any state or local tax consequences of owning a Series 37 Premium Bond.

Other Tax Consequences. Ownership or transfer of, or the accrual or receipt of interest on, the Series 37 Bonds may result in collateral federal, State of North Carolina, other state or local tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers who may be eligible for the federal earned income tax credit, and taxpayers subject to franchise, estate, inheritance, gift or capital gains taxes. Prospective purchasers of the Series 37 Bonds should consult their tax advisors as to any such possible collateral tax consequences. Except to the extent covered in their legal opinion, Bond Counsel expresses no opinion regarding any such collateral tax consequences.

The Internal Revenue Service has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Service will commence an audit of the Series 37 Bonds.

Interest paid on tax-exempt obligations, such as the Series 37 Bonds, will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of interest with respect to the Series 37 Bonds from gross income for federal income tax purposes, such reporting requirement causes the payment of interest with respect to the Series 37 Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not "exempt recipients" and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the Service as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or credit against such beneficial owner's federal income tax liability provided the required information is furnished to the Service.

FINANCIAL STATEMENTS

The financial statements of the Agency as of and for the year ended June 30, 2016, included in this Official Statement as Appendix A have been audited by BDO USA, LLP, independent auditors, as stated in their report appearing herein.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("S&P") are expected to assign ratings of "Aa2" and "AA", respectively, to the Series 37-A Bonds and Series 37-B Bonds. Such ratings are not a recommendation to buy, sell or hold securities. Any desired explanation of the significance of such ratings should be obtained from Moody's and S&P, respectively. There is no assurance that a particular rating will remain in effect for any given period of time or that it will not be lowered, suspended or withdrawn entirely if, in the judgment of the rating agency furnishing such rating, circumstances so warrant. Any suspension, downward revision or withdrawal of one or both of such ratings could have an adverse effect on the marketability or the market price of the Series 37 Bonds. The Agency assumes no responsibility to take any actions with regard to possible rating changes.

Due to the ongoing uncertainty regarding the economy of the United States of America (including, without limitation, matters such as the current and future political uncertainty regarding the United States debt limit), obligations, such as the Series 37 Bonds, issued by state and local governments, and instrumentalities thereof, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Series 37-A Bonds and Series 37-B Bonds. When certain automatic spending cuts are imposed on the federal government as a result of actions taken or not taken by the federal government (commonly referred to as a sequester) or when the federal government fails to pass certain spending authorizations prior to certain deadlines, resulting in a cessation of various governmental functions and operations (commonly referred to as a government shutdown), there may not be any immediate direct adverse impact on FHA, VA or the Agency. No assurance can be given, however, that a sequester or a government shutdown that lasts an extended period of time would continue to have no direct adverse impact upon the United States housing industry in general or the Agency in particular.

LITIGATION

At the time of the delivery of and payment for the Series 37 Bonds, the Agency will certify that, to the best of its knowledge, there is no controversy or litigation of any nature at such time pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Series 37 Bonds, or in any way contesting or affecting the validity of the Series 37 Bonds or any proceedings of the Agency taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Series 37 Bonds or the existence or powers of the Agency.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Series 37 Bonds 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 B will be available at the time of delivery of the Series 37 Bonds. Certain legal matters will be passed upon for the Agency by the General Counsel for the Agency and for the Underwriters by their counsel, Bode & Harrell, LLP, Raleigh, North Carolina.

LEGAL INVESTMENT

The Act provides that the Series 37 Bonds shall be securities in which all public officers and public bodies of the State and its political subdivisions, and all North Carolina insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them.

UNDERWRITING

RBC Capital Markets, LLC; Merrill Lynch, Pierce, Fenner & Smith Incorporated; Citigroup Global Markets, Inc.; Raymond James & Associates, Inc.; and Wells Fargo Bank, National Association (together, the "Underwriters"), have jointly and severally agreed, subject to certain conditions, to purchase all of the Series 37-A Bonds and Series 37-B Bonds at a price equal to the aggregate principal amount of the Series 37-A Bonds and Series 37-B Bonds. The Underwriters will receive from the Agency a fee of \$1,338,666.43. The initial public offering prices of the Series 37-A Bonds and Series 37-B Bonds may be changed from time to time by the Underwriters.

Citigroup Global Markets Inc., an underwriter of the Series 37-A Bonds and Series 37-B Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. ("UBSFS"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for their selling efforts with respect to the Series 37-A Bonds and Series 37-B Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), one of the underwriters of the Series 37-A Bonds and Series 37-B Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Series 37-A Bonds and Series 37-B Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 37-A Bonds and Series 37-B Bonds with WFA. WFBNA also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Series 37-A Bonds and Series 37-B Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. In the various course of their various business activities, the underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Agency (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Agency. The underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

QUANTITATIVE CONSULTANT

cfX Incorporated, New York, New York, has served as quantitative consultant (the "Quantitative Consultant") to the Agency with respect to the Series 37 Bonds and, in such capacity, has provided the Agency with cash flow projections and other quantitative analyses reflecting the structure of the Series 37 Bonds and the application of the proceeds thereof to refund the Refunded Bonds.

The Quantitative Consultant will not engage in any underwriting activities with regard to the issuance and sale of the Series 37 Bonds. The Quantitative Consultant is not obligated to undertake and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement and is not obligated to review or ensure compliance with continuing disclosure undertakings. cfX Incorporated has registered with the Securities and Exchange Commission as a municipal advisor.

CONTINUING DISCLOSURE

Pursuant to the Thirty-Seventh Supplemental Trust Agreement, the Agency hereby undertakes, for the benefit of the beneficial owners of the Series 37 Bonds, to provide to the Municipal Securities Rulemaking Board ("MSRB"):

- (a) by not later than seven months from the end of each fiscal year of the Agency, audited financial statements of the Agency 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, or, if such audited financial statements of the Agency are not available by seven months from the end of such fiscal year, unaudited financial statements of the Agency to be replaced subsequently by audited financial statements of the Agency to be delivered within fifteen (15) days after such audited financial statements become available for distribution;

- (b) concurrently with the delivery of the audited financial statements referred to in (a) above, 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 not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the Series 37 Bonds:
 - (1) principal and interest payment delinquencies;
 - (2) non-payment related defaults, if material;
 - (3) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (4) unscheduled draws on any credit enhancements reflecting financial difficulties;
 - (5) substitution of any credit or liquidity providers, or their failure to perform;
 - (6) adverse tax opinions or events affecting the tax-exempt status of the Series 37 Bonds;
 - (7) modification to the rights of the beneficial owners of the Series 37 Bonds;
 - (8) bond calls, other than calls for mandatory sinking fund redemption, if material, and tender offers;
 - (9) defeasance of any of the Series 37 Bonds;
 - (10) release, substitution or sale of any property securing repayment of the Series 37 Bonds;
 - (11) rating changes;
 - (12) bankruptcy, insolvency, receivership or similar event of the Agency; or
 - (13) the consummation of a merger, consolidation or acquisition involving the Agency or the sale of all or substantially all of the assets of the Agency, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (d) in a timely manner, 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 shall provide the documents referred to above to the MSRB in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB.

The Agency may discharge its undertaking described above by transmitting the documents referred to above to any entity and by any method authorized by the U.S. Securities and Exchange Commission.

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 as of the date of the Official Statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and
- (c) any such modification does not materially impair the interests of the beneficial owners of the Series 37 Bonds, as determined by the Trustee or bond counsel to the Agency, or by approving vote of the Owners of a majority in principal amount of the Series 37 Bonds pursuant to the terms of the Trust Agreement at the time of the amendment.

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

The continuing disclosure provisions of the Thirty-Seventh Supplemental Trust Agreement shall terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal and interest with respect to all of the Series 37 Bonds.

In the event of a failure of the Agency to comply with any provision of the covenant set forth above, the Trustee may (and, at the request of the owners of at least 25% aggregate principal amount of Outstanding Series 37 Bonds, shall), or any beneficial owner of the Series 37 Bonds 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 continuing disclosure provisions of the Thirty-Seventh Supplemental Trust Agreement. However, a default with respect to the continuing disclosure provisions of the Thirty-Seventh Supplemental Trust Agreement shall not be deemed an Event of Default under the Trust Agreement, and the remedy in the event of any failure of the Agency to comply with the continuing disclosure provisions of the Thirty-Seventh Supplemental Trust Agreement shall be the actions referred to above.

The Agency has not failed in any material respect to file any information required to be provided by any undertaking previously made by the Agency pursuant to the requirements of the Rule in the last five years.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or holders of any of the Series 37 Bonds.

NORTH CAROLINA HOUSING FINANCE AGENCY

By: /s/ Carrie Freeman
Chief Financial Officer

The interest rates, maturities, sale price and manner of sale of the Series 37 Bonds have been determined, with the approval of the North Carolina Housing Finance Agency and the Local Government Commission of the State of North Carolina.

By: /s/ Gregory Gaskins
Secretary of the Local Government Commission
of North Carolina

Dated: October 20, 2016

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APPENDIX A

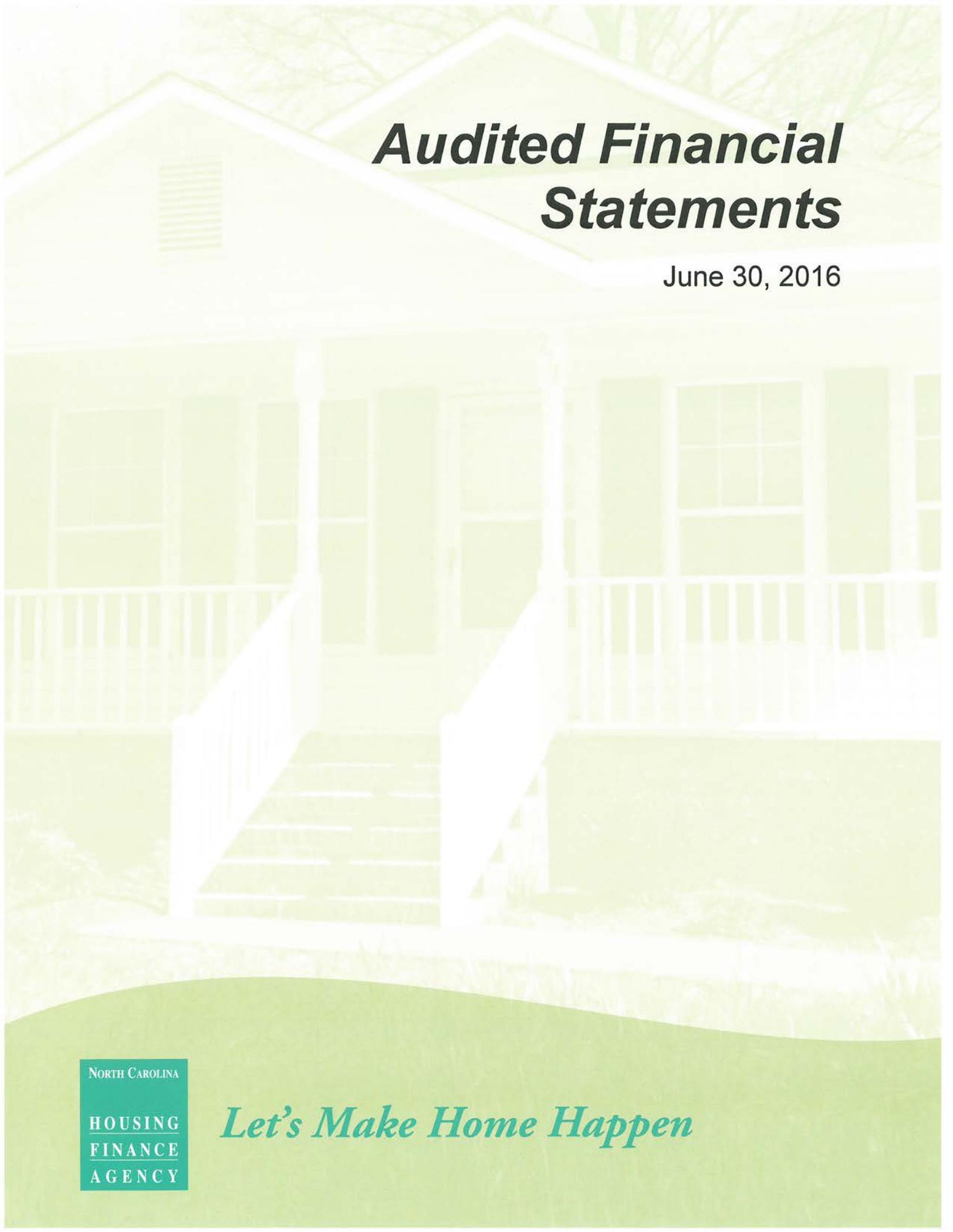
FINANCIAL STATEMENTS

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NORTH CAROLINA HOUSING FINANCE AGENCY

Financial Statements
Year Ended June 30, 2016

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Audited Financial Statements

June 30, 2016

NORTH CAROLINA

HOUSING
FINANCE
AGENCY

Let's Make Home Happen

**NORTH CAROLINA HOUSING FINANCE AGENCY
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

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MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)
June 30, 2016

The management discussion and analysis of the North Carolina Housing Finance Agency's ("Agency") financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2016. The financial statements, accompanying notes, and supplementary information should be read in conjunction with the following discussion.

Overview

The North Carolina Housing Finance Agency was created in 1973 to provide financing for residential housing, both ownership and rental, to North Carolina households with low and moderate incomes. The Agency has issued bonds and sells mortgage-backed securities ("MBS") on the secondary market to finance housing throughout the state of North Carolina. In addition, the Agency administers the United States Department of the Treasury's ("Treasury") Hardest Hit Fund® ("HHF"), the Section 8 Program, the HOME Investment Partnerships Program ("HOME"), Low-Income Housing Tax Credits, the North Carolina Housing Trust Fund and other federal and state programs. These programs provide different types of assistance such as down payment assistance, low-interest mortgage loans, foreclosure prevention mortgage assistance, foreclosure prevention counseling, rent subsidies, 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, 2016, with reference to prior fiscal year's results and activities:

- *Total assets* decreased \$94,788,000, or 6.4%
- *Deferred outflows of resources* increased \$817,000, or 15.9%
- *Total liabilities* decreased \$94,333,000, or 11.8%
- *Deferred inflows of resources* increased \$863,000, or 17.0%
- *Total net position* decreased \$501,000, or 0.1%

Low mortgage rates in fiscal year 2016 encouraged borrowers to refinance, which reduced balances in *Mortgage loans receivable, net* and related accounts. *Other expenses* decreased primarily as a result of decreases in foreclosures due to modest market improvement. The impact of these items is reflected below:

- *Mortgage loans receivable, net* decreased \$119,899,000, or 12.7%
- *Accrued interest receivable on mortgage loans* decreased \$1,253,000, or 17.0%
- *Interest on mortgage loans* decreased \$6,994,000, or 14.0%
- *Mortgage servicing expense* decreased \$385,000, or 13.7%
- *Other expenses* decreased \$1,589,000, or 37.8%

The prepayments from mortgage loans were used to call bonds during fiscal year 2016, resulting in decreases associated with *Bonds payable, net* and related accounts. Interest rates dropped significantly at the end of fiscal year 2016, causing the increase in the *Derivative instrument – interest rate swap* and *Accumulated decrease in fair value of hedging derivative*. These transactions resulted in the following decreases and increases:

- *Bonds payable, net* decreased \$99,515,000, or 13.5%
- *Accrued interest payable* decreased \$2,607,000, or 18.6%
- *Derivative instrument – interest rate swap* increased \$769,000, or 17.5%
- *Accumulated decrease in fair value of hedging derivative* increased \$769,000, or 17.5%
- *Interest on bonds* decreased \$3,337,000, or 11.4%

The Agency experienced increased production with its NC Home Advantage Mortgage ("HomeAd") program in fiscal year 2016, resulting in an increase in *Program income/fees* and *Nonfederal program expense*. The Agency

utilizes its current master servicer for HomeAd loans locked on or after July 15, 2014 while retaining the previous master servicer for all HomeAd loans locked prior to July 15, 2014. Under Agency Programs, the previous master servicer sold the MBS to the Agency, and the Agency resold the MBS to its hedger, resulting in a gain on the sale of the MBS, which is a component of *Other revenues*. Under the 1998 Home Ownership Bond Program, the current master servicer sells the MBS directly to the hedger, resulting in program income for the Agency. When HomeAd operations transitioned from Agency Programs to the 1998 Home Ownership Bond Program with its change in master servicer, *Other revenues* declined by approximately \$2.8 million for Agency Programs while *Program income/fees* for the 1998 Home Ownership Bond Program increased by approximately \$18.7 million.

In addition to the HomeAd program, other material items affected *Program income/fees* and *Other revenues*. *Program income/fees* decreased by approximately \$8 million related to a decrease in the receipt of Tax Credit Assistance Program (“TCAP”) loan repayments and increased by approximately \$2 million due to an increase in HHF repayments. *Other revenues* decreased by approximately \$2.1 million due to a decrease in the Agency’s mortgage loan loss reserve. The impact of these transactions were the primary reasons for the increases or decreases in the following items:

- *Program income/fees* increased by \$13,824,000, or 26.2%, resulting primarily from the following:
 - An increase in HomeAd production
 - A decrease in the receipt of TCAP funds
 - An increase in HHF repayments
- *Other revenues* decreased by \$3,883,000, or 66.6%, resulting primarily from the following:
 - A decrease in gain on sale of investments related to the HomeAd program, related to the transition to a new master servicer
 - A decrease in the mortgage loan loss reserve
- *Nonfederal program expense* increased by \$6,326,000, or 43.3%, primarily related to the increase in the production of HomeAd loans

The HHF program received additional funding in fiscal year 2016, which allowed the Agency to increase its HHF loan production, resulting in the primary reason for the increase in *Unearned revenues*, *Federal program awards received* and *Federal program expense*:

- *Unearned revenues* increased \$5,820,000, or 18.8%
- *Federal program awards received* increased \$12,907,000, or 5.8%
- *Federal program expense* increased \$15,426,000, or 6.9%

The State Tax Credit (“STC”) expired on January 1, 2015, and was replaced by the Workforce Housing Loan Program (“WHLP”), resulting in a decrease to *State receivables* and *State tax credits*. The \$2.5 million increase in the WHLP appropriation was the primary reason for the increase in *State appropriations received*. *State program expense* experienced a net increase of \$1,986,000, which is attributable to an increase of \$10,986,000 in spending on programs and a decrease of approximately \$9 million due to the winding down of the Housing Counseling Capacity Building Program (“HCCBP”).

- *State receivables* decreased \$59,131,000, or 65.7%
- *State appropriations received* increased \$3,377,000, or 18.5%
- *State tax credits* decreased \$58,127,000, or 100.0%
- *State program expense* increased \$1,986,000, or 2.8%

Deferred state grant and *State grants received* increased due to funds received from the North Carolina Department of Health and Human Services (“DHHS”) related to the Transitions to Community Living Initiative, which is awaiting authorization from the State Legislature for disbursement. The impact of these transactions resulted in increases to the following items:

- *Deferred state grant* increased \$2,627,000, or 90.8%
- *State grants received* increased \$4,559,000, or 86.8%

In fiscal year 2015, the Agency implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (“GASB 68”). Under GASB 68, the Agency is allocated its proportionate share of the Teachers’ and State Employees’ Retirement System of North Carolina’s net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. The fiscal year 2016 increases and decreases in the following line items reflect changes in the Agency’s portion of the State’s pension:

- *Deferred outflows for pensions* increased \$48,000, or 6.5%
- *Deferred inflows for pensions* decreased \$1,764,000, or 80.7%

Although the Agency’s investments did not fluctuate materially during the fiscal year, the decrease in interest rates created a substantial increase in *Net increase (decrease) in fair value of investments*. *Accrued interest receivable on investments* and *Interest on investments* increased primarily due to proceeds of \$1.3 million in settlement funds received early July 2016 and accrued in fiscal year 2016. The class action suit resulted from bid-rigging in the sale of municipal derivative transactions by several counterparties for guaranteed investment contracts held from 1992 through 2001. These transactions resulted in the increases in the following accounts:

- *Accrued interest receivable on investments* increased \$1,414,000, or 264.3%
- *Investments* increased \$2,260,000, or 2.5%
- *Interest on investments* increased \$2,517,000, or 56.5%
- *Net increase (decrease) in fair value of investments* increased \$2,468,000, or 1495.8%

Cash and cash equivalents increased \$82,084,000, or 24.4%, primarily due to the increased production associated with the HomeAd program, funds made available for the July 2016 debt service payment, recycled TCAP funds, and additional appropriations and HHF monies received. The net effect of the transactions detailed above along with regular operations of the Agency resulted in a small decrease in *Total Net Position* of \$501,000, or 0.1%. The Agency continues to proactively manage its programs to further its mission of creating affordable housing for low and moderate-income North Carolinians.

Financial Analysis

The following tables summarize the changes in net position between June 30, 2016 and June 30, 2015 (*in thousands*):

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>%</u>
<u>Condensed Statement of Net Position (in thousands)</u>				
Assets*				
Cash and cash equivalents	\$ 419,012	\$ 336,928	\$ 82,084	24.4
Accrued interest receivable on investments	1,949	535	1,414	264.3
Accrued interest receivable on mortgage loans	6,134	7,387	(1,253)	(17.0)
Investments	94,283	92,023	2,260	2.5
Mortgage loans receivable, net	821,975	941,874	(119,899)	(12.7)
State receivables	30,846	89,977	(59,131)	(65.7)
Other assets, net	10,927	11,190	(263)	(2.4)
Total Assets	\$ 1,385,126	\$ 1,479,914	\$ (94,788)	(6.4)
Deferred Outflows of Resources				
Deferred outflows for pensions	\$ 788	\$ 740	\$ 48	6.5
Accumulated decrease in fair value of hedging derivative	5,174	4,405	769	17.5
Total Deferred Outflows of Resources	\$ 5,962	\$ 5,145	\$ 817	15.9

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>%</u>
<u>Condensed Statement of Net Position (in thousands)</u>				
Liabilities*				
Bonds payable, net	\$ 638,902	\$ 738,417	\$ (99,515)	(13.5)
Accrued interest payable	11,388	13,995	(2,607)	(18.6)
Accounts payable	3,816	3,326	490	14.7
Derivative instrument – interest rate swap	5,174	4,405	769	17.5
Unearned revenues	36,804	30,984	5,820	18.8
Other liabilities	6,975	6,265	710	11.3
Total Liabilities	\$ 703,059	\$ 797,392	\$ (94,333)	(11.8)
Deferred Inflows of Resources				
Deferred state grant	\$ 5,520	\$ 2,893	\$ 2,627	90.8
Deferred inflows for pensions	423	2,187	(1,764)	(80.7)
Total Deferred Inflows of Resources	\$ 5,943	\$ 5,080	\$ 863	17.0
Net Position				
Restricted	\$ 664,330	\$ 667,999	\$ (3,669)	(0.5)
Unrestricted	17,756	14,588	3,168	21.7
Total Net Position	\$ 682,086	\$ 682,587	\$ (501)	(0.1)
<u>Condensed Statement of Revenues, Expenses and Changes in Net Position (in thousands)</u>				
Operating Revenues				
Interest on investments	\$ 6,973	\$ 4,456	\$ 2,517	56.5
Net increase (decrease) in fair value of investments	2,303	(165)	2,468	(1495.8)
Interest on mortgage loans	42,885	49,879	(6,994)	(14.0)
Federal program awards received	236,308	223,401	12,907	5.8
Program income/fees	66,663	52,839	13,824	26.2
Other revenues	1,951	5,834	(3,883)	(66.6)
Total Operating Revenues	\$ 357,083	\$ 336,244	\$ 20,839	6.2
Operating Expenses				
Interest on bonds	\$ 26,060	\$ 29,397	\$ (3,337)	(11.4)
Mortgage servicing expense	2,422	2,807	(385)	(13.7)
Federal program expense	239,071	223,645	15,426	6.9
Nonfederal program expense	20,933	14,607	6,326	43.3
General and administrative expense	23,764	23,926	(162)	(0.7)
Other expenses	2,610	4,199	(1,589)	(37.8)
Total Operating Expenses	\$ 314,860	\$ 298,581	\$ 16,279	5.5
Operating Income	\$ 42,223	\$ 37,663	\$ 4,560	12.1
Non-Operating Revenues (Expenses)				
State appropriations received	\$ 21,619	\$ 18,242	\$ 3,377	18.5
State grants received	9,814	5,255	4,559	86.8
State tax credits	-	58,127	(58,127)	(100.0)
State program expense	(74,157)	(72,171)	(1,986)	2.8
Total Non-Operating Revenues (Expenses)	\$ (42,724)	\$ 9,453	\$ (52,177)	(552.0)
Change in Net Position	\$ (501)	\$ 47,116	\$ (47,617)	(101.1)

*For information on current and noncurrent statement of net position items, please see the audited Statement of Net Position in the accompanying financial statements.

New Business

Fiscal year 2016 brought challenges as interest rates remained low and the global markets experienced uncertainty. In spite of these challenges, the Agency's programs continued to support low and moderate-income North Carolinians for their housing needs and provided assistance to North Carolina home owners facing foreclosure.

The Agency's HomeAd program experienced increased production in fiscal year 2016. The popularity of the program was due in part to the introduction of a down payment assistance ("DPA") product funded by the HHF ("HHF DPA"). In September 2015, the Agency introduced the \$15,000 HHF DPA with 0% interest, forgiven over five years at a rate of 20% per year. With \$15 million of HHF funding, the HHF DPA will serve a total of 1,000 borrowers located in five counties: Cabarrus, Cumberland, Guilford, Johnston and Mecklenburg. These counties were selected based on the presence of distressed housing areas relative to performance factors for the state as a whole. These factors included seriously delinquent mortgage loans, negative equity, short sales, real estate owned sales, and foreclosures. The program is aimed at stabilizing distressed neighborhoods that may be at higher risk of foreclosure by encouraging borrowers to purchase homes in one of these five counties. These funds are only available to first-time home buyers, veterans or borrowers purchasing a home within a targeted area. Eligible borrowers must also be within the Mortgage Credit Certificate ("MCC") income and sales price limits, and the home must be existing construction, not new construction. As of June 30, 2016, the majority of these loans had been funded.

All NC Foreclosure Prevention Fund ("NCFPF") programs are funded by HHF; prior to fiscal year 2016, these programs included the Mortgage Payment Program, Second Mortgage Refinance Program, and the Modification Enabling Program. As mentioned above, the \$15,000 HHF DPA program was introduced as a new NCFPF program in fiscal year 2016. In addition to the HHF DPA program, Treasury approved a new NCFPF program at the end of fiscal year 2015 to help home owners who have returned to work at a lower income or home owners living on a fixed income. Initiated in July 2016, the Principal Reduction Recast/Lien Extinguishment Program provides a principal reduction which may be used to reduce a home owner's unaffordable mortgage payment or to extinguish his or her remaining mortgage debt.

The Agency anticipated a wind down of the NCFPF by March 2016, ahead of schedule. Unexpectedly, Congress adopted a budget bill in December 2015 allocating an additional \$2 billion nationwide for the HHF, which was made available in two phases in fiscal year 2016. The first phase allocated \$1 billion based on each state's population and use of the original HHF allocation, for which the Agency was allocated \$78 million. Phase two allocated \$1 billion and was awarded based on applications submitted by the state housing finance agencies for the funds. The Agency was awarded \$145.7 million in phase two, bringing the total of new HHF allocations to \$223.7 million in fiscal year 2016. North Carolina received the fourth largest award among the participating states. Treasury announced that the revised HHF sunset date is December 31, 2020 and all future program income will be retained by the Agency for its use in foreclosure prevention.

For fiscal year 2016, the Agency received the following appropriations from both the federal government and the North Carolina State General Assembly, each of which are discussed in more detail below:

Federal appropriations:

- \$12.37 million HOME Investment Partnership Program ("HOME")

North Carolina State appropriations:

- \$12.50 million Workforce Housing Loan Program ("WHLP")
- \$7.66 million Housing Trust Fund ("HTF")
- \$1.46 million HOME Match

The STC expired in fiscal year 2015 in spite of the Agency's attempts to extend its sunset provision. The STC was replaced by the WHLP, a state program which provides loans up to \$1 million to fund construction or substantial rehabilitation of affordable rental developments, administered in combination with Federal Low-Income Housing Tax Credits. The fiscal year 2016 WHLP appropriation increased \$2.5 million over the \$10 million appropriation in fiscal year 2015.

The HTF appropriation of \$7.66 million represented a 13% increase relative to the fiscal year 2015 appropriation of \$6.78 million. Separate from the State's HTF appropriation, the National Housing Trust Fund

("NHTF") is a federal award that was established in the Housing and Economic Recovery Act of 2008. The goal of the NHTF is to increase affordable housing for extremely and very low-income households, primarily for renters. Funds are allocated to states by a needs-based formula and the cost of construction in each state. The NHTF is capitalized through a fee on new business from Fannie Mae and Freddie Mac ("GSEs"). In 2009, prior to the Agency's receipt of any NHTF amounts, the Federal Housing Finance Agency ("FHFA") suspended these deposits due to the financial condition of the GSEs. In December 2014, the FHFA terminated the suspension, and the GSEs began making deposits starting in fiscal year 2016. In December 2015, the Governor designated the Agency the administrator of North Carolina's NHTF appropriation, but the funds will not be received until fiscal year 2017.

The HOME appropriation of \$12.37 million reflected an approximate \$744,000 increase relative to the \$11.63 million appropriation for fiscal year 2015. Although the HOME appropriation increased in fiscal year 2016, it is substantially lower than the largest appropriation of \$21.6 million that was received for fiscal year 2010. The HOME Match appropriation of \$1.46 million was the same as the HOME Match appropriation in fiscal year 2015.

As of 2012, the State of North Carolina entered into a voluntary settlement with the United States Department of Justice that includes a goal to house 3,000 people with mental illness in their local communities by June 2020. The purpose of this agreement is to ensure that people with mental illness can receive the necessary services and supports to successfully live in the communities of their choice. DHHS is implementing this agreement in conjunction with the Agency and Local Management Entity/Managed Care Organizations in the state. The Agency executed an agreement with DHHS in June 2016 to assume responsibility over the housing administration for the Transitions to Community Living Voucher program and other housing initiatives. Currently, DHHS is using Quadel Consulting Corporation, its current housing administrator through December 31, 2016. The Agency has been actively working in fiscal year 2016 to staff the new initiative and scope out the framework for the processes and systems involved. In fiscal year 2016, the Agency recorded a \$1,094,000 receivable for reimbursement of start-up costs incurred for the project. In support of the project and with funds from DHHS, the Agency has also entered into a contract in fiscal year 2016 with a national nonprofit, the Technical Assistance Collaborative, for the development of a housing plan.

The Agency added the word "Essential" to the name of the Single-Family Rehabilitation Loan Pool program in May 2016. The program is now targeted to a new minimum rehabilitation standard that will focus on essential repairs for health, safety, energy-efficiency, and the life-expectancy of major building systems. The maximum hard cost per unit will be reduced to \$25,000 from \$45,000. Households eligible for assistance must be low or moderate-income, elderly or disabled, or have a child under the age of six in a home with lead-based paint hazards. Veterans have been added as a special needs category.

Debt Administration

The Agency took advantage of the continued low interest rates in fiscal year 2016 by issuing a taxable debt refunding in the 1998 Trust Agreement. Series 36 closed in October 2015 for a total of \$66 million, and it refunded Series 23, 24 and 26 in the 1998 Trust Agreement. Low interest rates made tax-exempt bond financing difficult, so the Agency continued to serve low and moderate-income borrowers using the HomeAd program, which is financed by the sale of MBS on the secondary market. In the absence of originating new mortgage revenue bond loans through its FirstHome program, the Agency allocated available Private Activity Bond Volume Cap towards its MCC program, which can be used in conjunction with the HomeAd program as well as other lender programs for qualifying borrowers.

For Series 16C in the 1998 Trust Agreement, the Agency cancelled \$840,000 of the notional amount of its derivative interest rate swap on January 1, 2016. This optional cancellation is available under the existing swap contract with no swap termination charge. Series 16C is the only remaining variable rate series in the 1998 Trust Agreement with optional cancellations available.

Apart from scheduled debt service payments, the Agency had multiple bond calls in fiscal year 2016 which totaled \$138,825,000. These bond calls included prepayment calls, debt service reserve calls and excess revenue calls.

Programs

For the year ended June 30, 2016, the Agency made cash disbursements of \$268,628,000 in Federal funds for the following programs:

- Comprehensive Housing Counseling
- Carryover Loan Program
- Community Partners Loan Pool
- Hardest Hit Fund Down Payment Assistance
- Modification Enabling Program
- Mortgage Payment Program
- National Foreclosure Mitigation Counseling Program
- Principal Reduction Recast/Lien Extinguishment Program
- Rental Production Program
- Second Mortgage Refinance Program
- Section 8 New Construction
- Section 8 Contract Administration
- Self-Help Loan Pool
- Essential Single-Family Rehabilitation Loan Pool

For the year ended June 30, 2016, the Agency made cash disbursements of \$74,439,000 in State funds for the following programs:

- Community Partners Loan Pool
- Displacement Prevention Partnership
- Housing Counseling Capacity Building Program
- Housing Placement Services
- Housing Services
- Key Program
- Rental Production Program
- Supportive Housing Development Program
- State Tax Credit
- Urgent Repair Program
- Workforce Housing Loan Program

For the year ended June 30, 2016, the Agency made cash disbursements of \$22,052,000 from other funding sources for the following programs:

- Construction Training Partnership Program
- Community Partners Loan Pool
- FirstHome
- Multifamily Rental Assistance
- NC Home Advantage Mortgage
- NC Home Advantage Down Payment Assistance
- State Home Foreclosure Prevention Project
- Urgent Repair Program

For the year ended June 30, 2016, the Agency made awards of \$749,321,000 from miscellaneous sources for the following programs:

- Low-Income Housing Tax Credit Program
- Mortgage Credit Certificate
- NC Home Advantage Mortgage

The Agency's mission is to create affordable housing opportunities for North Carolinians whose needs are not met by the market. The Agency focuses its efforts on providing assistance to borrowers purchasing their home, financing affordable rental housing, and helping home owners who are facing foreclosure or living in substandard housing.

Home Ownership Programs The Agency supported over 6,330 home buyers with disbursements from its Home Ownership Programs in fiscal year 2016.

The HomeAd program offers 30-year mortgages to low and moderate-income home buyers for the purchase of a home. Income and credit score limits apply, and up to 5% of deferred, forgiven HomeAd Down Payment Assistance ("HomeAd DPA") is available to any borrower obtaining a HomeAd mortgage. In fiscal year 2016, a special HHF DPA of \$15,000 was offered with funding made available through the HHF; the HHF DPA was available for eligible borrowers purchasing an existing home in five counties within North Carolina. The mortgage loans are funded with taxable financing through the sale of Government National Mortgage Association and Federal National Mortgage Association insured MBS.

The Agency also helped community-based groups bring home ownership opportunities to lower-income households. The Community Partners Loan Pool offers gap financing as a deferred, interest-free loan that is generally used with a HomeAd or Rural Development Section 502 loan. The Self-Help Loan Pool provides interest-free, amortizing mortgage loans up to \$30,000 for newly-constructed or rehabilitated homes produced in partnership with local Habitat for Humanity affiliates through a model of sweat equity, volunteers and donations. Incentive funding of up to \$6,000 is available to both loan pools when homes are built to certain Advanced Energy standards of energy efficiency with an additional \$1,000 if the affiliate also meets a major Green Building Certification. Home buyers in both pools must have a household income at or below 80% of their county's median income, complete a home buyer education course and receive home ownership counseling.

The MCC program permits qualifying home buyers who meet federal guidelines for family income and acquisition costs to take a federal income tax credit for every year the home buyer occupies the home. The home buyer may take 30% of annual mortgage interest as a tax credit if purchasing existing housing, or 50% if purchasing new construction housing, with a maximum tax credit of \$2,000 per year. The MCC program is also available for qualifying home buyers using the HomeAd program.

Housing Preservation Programs The Agency supported over 1,680 households with disbursements from its Housing Preservation Programs in fiscal year 2016.

The Essential Single-Family Rehabilitation Loan Pool program provides deferred, forgivable loans to home owners through regional agencies, units of local government, and nonprofit organizations for rehabilitation costs addressing essential repairs for health and safety, reasonable energy-efficiency measures, and life expectancy of major building systems. The program assists home owners with elderly, disabled or veteran household members, or homes with lead hazards housing a child under age six.

The Urgent Repair Program provides funds to local governments, regional agencies, and non-profit organizations to correct a specific housing problem that poses an imminent threat to life, safety, or displacement of low-income home owners.

The Displacement Prevention Partnership, which operates in partnership with local offices of the Independent Living Rehabilitation Program within DHHS, provides accessibility modifications to very low-income households that may be displaced due to severe mobility limitations.

The Construction Training Partnership 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.

Foreclosure Prevention Financing Programs The Agency disbursed funds from the NCFPF to over 5,520 households in fiscal year 2016.

The Mortgage Payment Program of the HHF pays mortgage payments and related expenses for home owners who are unemployed, veterans, or those under other temporary financial hardship. Payments are made up to 18 months while home owners look for a job or up to 36 months while they complete job training, with maximum assistance of \$36,000. The assistance is in the form of an interest-free deferred loan which will be forgiven if the home owner continues to live in the home for ten years.

The Second Mortgage Refinance Program of HHF provides assistance to recovered, employed home owners who have an unaffordable second mortgage due to prior unemployment, under-employment, or other program-eligible financial hardship. The assistance is in the form of an interest-free, non-recourse, deferred-payment subordinate loan up to \$50,000.

New in fiscal year 2016, the Principal Reduction Recast/Lien Extinguishment Program provides a principal reduction either to reduce a home owner’s unaffordable mortgage payment or to extinguish his or her remaining debt.

Also new in fiscal year 2016, the HHF DPA program provides down payment assistance in the form of a deferred forgiven loan to encourage home buyers to purchase a home in certain counties to stabilize distressed neighborhoods.

Foreclosure Counseling The Agency funded more than 4,730 foreclosure prevention counseling sessions for households across the state through disbursements to local counseling agencies in fiscal year 2016.

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 United States Department of Housing and Urban Development (“HUD”) approved counseling intermediaries primarily in defined areas of greatest need.

Through the State Home Foreclosure Prevention Project, every home owner facing foreclosure is notified of available counseling services. Fees paid by servicers for each registered home foreclosure are used to pay for housing counseling, legal aid, and administrative costs. Counseling agencies throughout the State provide assistance to home owners and servicers regarding foreclosure alternatives.

The HCCBP received funding from the 2012 National Mortgage Settlement, which was a landmark agreement between state Attorneys General and the five largest mortgage servicers. In fiscal year 2016, the Agency funded 35 organizations with approximately \$600,000 to build human capital, training, technology and marketing capacity of HUD-approved non-profit housing and foreclosure counseling agencies.

Rental Development Programs The Agency supported nearly 5,400 households with disbursements from its Rental Development Programs in fiscal year 2016.

The Agency administers both the Federal Low-Income Housing Tax Credit program and the 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 limited resources available. The Qualified Allocation Plan establishes criteria that include the following for 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.

The STC expired in fiscal year 2015 and was replaced by the WHLP. The WHLP is a state program under which funds are made available as a loan to fund construction or substantial rehabilitation of affordable rental developments, and it is administered in combination with the Federal Low-Income Housing Tax Credit program.

The Rental Production Program provides low cost loans for rental housing, mainly targeting households below 50% of area median income. These Rental Production Program loans are usually gap financing for the projects financed with Federal Low-Income Housing Tax Credits.

The Carryover Loan Program provides funding to acquire land for Low-Income Housing Tax Credit properties, primarily targeting rental developments serving households below 50% of area median income. The loan amount is the lower of 95% of the approved land cost or \$1 million.

Rental Assistance Programs The Agency supported over 24,811 households with disbursements from its Rental Assistance Programs in fiscal year 2016.

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 this program.

The Agency and DHHS partnered to create the Key Program by providing rental assistance for low-income persons with disabilities and those who are homeless. Funding is available to all targeted units produced under the Preservation Loan Program, the Low-Income Housing Tax Credit program, and the Supportive Housing Development Program; however, the Key Program does not provide assistance if rental subsidies are available through another program.

The Agency and DHHS are also working on establishing the Transitions to Community Living Voucher Program, which is discussed in more detail in the “New Business” section and is supported by the Key Program. No disbursements for this program were made in fiscal year 2016.

Supportive Housing Development Program The Agency supported over 200 households with disbursements from its Supportive Housing Development Program in fiscal year 2016. 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 non-profit organizations and units of local government.

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 S. Carrie Freeman, Interim Chief Financial Officer, North Carolina Housing Finance Agency, P.O. Box 28066, Raleigh, North Carolina 27611-8066, (919) 877-5680, scfreeman@nchfa.com, or visit the Agency’s website at www.nchfa.com.

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Independent Auditor's Report

The Board of Directors
North Carolina Housing Finance Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and programs 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, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Housing Finance Agency as of June 30, 2016, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2016 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* in considering the Agency's internal control over financial reporting and compliance.

BDO USA, LLP

September 22, 2016

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF NET POSITION

AS OF JUNE 30, 2016

(in thousands)

ASSETS

Current assets:

Cash and cash equivalents	\$	8,873
Restricted cash and cash equivalents		410,139
Accrued interest receivable on investments		1,949
Mortgage loans receivable		136,318
Accrued interest receivable on mortgage loans		6,134
State receivables		30,846
Other assets		7,286
TOTAL CURRENT ASSETS	\$	601,545

Noncurrent assets:

Investments	\$	3,139
Restricted investments		91,144
Mortgage loans receivable, net		685,657
Other assets, net		3,641
TOTAL NONCURRENT ASSETS	\$	783,581
TOTAL ASSETS	\$	1,385,126

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows for pensions	\$	788
Accumulated decrease in fair value of hedging derivative		5,174
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$	5,962

LIABILITIES

Current liabilities:

Bonds payable	\$	25,795
Accrued interest payable		11,388
Accounts payable		3,816
Unearned revenues		24,925
Other liabilities		615
TOTAL CURRENT LIABILITIES	\$	66,539

Noncurrent liabilities:

Bonds payable, net	\$	613,107
Derivative instrument - interest rate swap		5,174
Unearned revenues		11,879
Other liabilities		6,360
TOTAL NONCURRENT LIABILITIES	\$	636,520
TOTAL LIABILITIES	\$	703,059

DEFERRED INFLOWS OF RESOURCES

Deferred state grant	\$	5,520
Deferred inflows for pensions		423
TOTAL DEFERRED INFLOWS OF RESOURCES	\$	5,943

NET POSITION

Restricted	\$	664,330
Unrestricted		17,756
TOTAL NET POSITION	\$	682,086

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

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2016

(in thousands)

OPERATING REVENUES

Interest on investments	\$	6,973
Net increase in fair value of investments		2,303
Interest on mortgage loans		42,885
Federal program awards received		236,308
Program income/fees		66,663
Other revenues		1,951
TOTAL OPERATING REVENUES	\$	357,083

OPERATING EXPENSES

Interest on bonds	\$	26,060
Mortgage servicing expense		2,422
Federal program expense		239,071
Nonfederal program expense		20,933
General and administrative expense		23,764
Other expenses		2,610
TOTAL OPERATING EXPENSES	\$	314,860

OPERATING INCOME

\$ 42,223

NON-OPERATING REVENUES (EXPENSES)

State appropriations received	\$	21,619
State grants received		9,814
State program expense		(74,157)
TOTAL NON-OPERATING REVENUES (EXPENSES)	\$	(42,724)

CHANGE IN NET POSITION

\$ (501)

TOTAL NET POSITION - BEGINNING

\$ 682,587

TOTAL NET POSITION - ENDING

\$ 682,086

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

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016

(in thousands)

Cash flows from operating activities:	
Interest on mortgage loans	\$ 44,019
Principal payments on mortgage loans	136,588
Purchase of mortgage loans	(15,973)
Federal program awards received	240,279
Federal program expense	(238,971)
Nonfederal program expense	(20,933)
Federal grant administration income	14,559
Program income/fees	52,651
Other expenses	(30,791)
Other revenues	4,202
Net cash provided by operating activities	\$ 185,630
Cash flows from non-capital financing activities:	
Issuance of bonds	\$ 66,000
Principal repayments on bonds	(165,600)
Interest paid	(27,887)
Bond issuance costs paid	(695)
State appropriations received	21,619
State grants received	19,224
State tax credits	51,842
State program expense	(73,651)
Net cash used in non-capital financing activities	\$ (109,148)
Cash flows from investing activities:	
Proceeds from sales or maturities of investments	\$ 4,487
Purchase of investments	(4,444)
Earnings on investments	5,559
Net cash provided by investing activities	\$ 5,602
Net increase in cash	\$ 82,084
Cash and cash equivalents at beginning of year	336,928
Cash and cash equivalents at end of year	\$ 419,012
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 42,223
Adjustments to reconcile operating income to net cash provided by operating activities:	
Interest on investments	(6,973)
Increase in fair value of investments	(2,303)
Interest on bonds	26,060
Change in assets and liabilities:	
Decrease in mortgage loans receivable	119,899
Decrease in accrued interest receivable on mortgage loans	1,253
Decrease in other assets	3,201
Decrease in accounts payable and other liabilities	(3,550)
Increase in unearned revenues	5,820
Total adjustments	\$ 143,407
Net cash provided by operating activities	\$ 185,630

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

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016

A. AUTHORIZING LEGISLATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Authorizing Legislation The North Carolina Housing Finance Agency (“Agency”) is a public agency and component unit of the State of North Carolina (“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 (“GAAP”) as applicable to governments. The Governmental Accounting Standards Board (“GASB”) establishes standards of financial accounting and reporting for state and local government entities.

Measurement Focus and Basis of Accounting The accompanying 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. The Agency’s primary programs are summarized below:

Agency Programs Direct administrative and operational activities, including operating expenses of various programs, are recorded in Agency Programs.

The North Carolina General Assembly (“General Assembly”) provides state tax credits to the Agency for use in developing housing credit properties. The Agency received \$51,842,000 in state tax credits during fiscal year 2016. Under this program, the state tax credit project will receive the credit in the form of a loan or direct refund. The State Tax Credit (“STC”) expired on January 1, 2015. The General Assembly replaced the STC with the Workforce Housing Loan Program. See “Housing Trust Fund Programs” below.

In 2008, the State authorized the formation of the State Home Foreclosure Prevention Project (“SHFPP”) in response to the foreclosure crisis. State statute requires all parties who wish to initiate a foreclosure against a home in North Carolina to remit a \$75 fee to the Agency. The fees collected are used to counsel and/or provide legal assistance to home owners who are at risk of foreclosure. Any excess funds are allocated to the North Carolina Housing Trust Fund (“Housing Trust Fund”) annually. SHFPP transferred \$182,000 to the Housing Trust Fund for fiscal year 2016. Funds in the amount of \$2,500,000 were received and recorded as *Program income/fees* under Agency Programs. Expenses of \$1,581,000 related to SHFPP are reflected in *Nonfederal program expense* during fiscal year 2016.

Housing Trust Fund Programs The North Carolina Housing Trust and Oil Overcharge Act created the 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 Housing Partnership is responsible for developing policy for 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. The Agency received State appropriations in the amount of \$20,160,000 for the year ended June 30, 2016. Of this amount, \$7,660,000 is a recurring appropriation that is used to make loans and grants under the Housing Trust Fund Programs. The remaining \$12,500,000 nonrecurring appropriation is the Workforce Housing Loan Program. These appropriations are reported in *Non-Operating Revenues (Expenses)* in the accompanying financial statements.

The General Assembly appropriated \$2,893,000 from the North Carolina Department of Health and Human Services (“DHHS”) for the Community Living Housing Fund to provide permanent community-based housing in integrated settings appropriate for individuals with disabilities in support of the Transitions to Community Living Initiative. These appropriations are reported in *State grants received*. Additional funds for the Community Living Housing Fund in the amount of \$5,520,000 were received and recorded as *Deferred state grant* in *Deferred Inflows of Resources*. These funds will only be available for disbursement upon appropriation by the General Assembly.

Federal and State Programs The Agency administers eight federal programs. Of the Agency’s federal programs, the Section 8 Programs, the Hardest Hit Fund® (“HHF”), and the HOME Investment Partnerships Program (“HOME Program”) represent 57%, 31%, and 9%, respectively. The Agency receives a fee for administering these programs. The HOME Program is matched with funds appropriated by the General Assembly; the amount of matching funds received during the fiscal year was \$1,459,000.

The State of North Carolina was awarded \$338 million from the National Mortgage Settlement. In fiscal year 2013, the Agency signed a Memorandum of Understanding with the North Carolina Department of Justice to oversee \$30,590,000 of these funds. These funds are used to help build the capacity of housing counseling agencies in the state as well as to provide funding for legal services. In fiscal year 2016, the Agency received \$572,000 in residual funds, which is reported as part of *State grants received*. As of June 30, 2016, \$312,000 is reflected in *State program expense*.

In fiscal year 2016, the Agency accrued \$1,094,000 to fund start-up costs related to the housing administration for the Transitions to Community Living Voucher Program and other housing outcomes. These funds are recorded as *State receivables*.

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

The operations for the NC Home Advantage Mortgage Program (“HomeAd”) are reflected in the 1998 Home Ownership Bond Program. In fiscal year 2016, the 1998 Home Ownership Bond Program recorded program income of \$31,256,000 related to HomeAd which is included as part of *Program income/fees*. Deferred forgiven down payment assistance loans totaling \$13,933,000 and lender compensation totaling \$4,234,000 related to the HomeAd program are reflected as a part of *Nonfederal program expense*. Recording fees of \$94,000 are reflected in *General and administrative expense*, representing a new expense of the HomeAd program related to a \$65 recording fee paid to lenders to cover the cost of recording the down payment assistance loan.

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 accompanying Statement

of Net Position are for the Agency's debt service payments, bond calls, and for funding home ownership under the Agency's different programs.

Investments *Investments* are reported at fair value in accordance with GASB Section 150, *Investments* ("GASB 150"), except for certain mortgage backed securities ("MBS").

Mortgage loans receivable, net *Mortgage loans receivable, net* are carried at cost less a loan loss reserve. 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 STC into a refundable credit providing funds that can be efficiently invested directly in housing credit properties through the Agency. The Agency recorded a \$29,752,000 receivable for state tax credits for the fiscal year ended June 30, 2016, representing the remaining 2014 outstanding award. The Agency received state tax credits of \$51,842,000 from the General Assembly for the 2013 outstanding awards (second installment) and the 2014 awards (first installment). These funds are used to provide loans to housing credit properties. The STC expired on January 1, 2015.

The Agency has a \$1,094,000 receivable from DHHS for activities related to the Transitions to Community Living Initiative as of June 30, 2016.

Other assets, net Fixed assets, net of accumulated depreciation, in the amount of \$3,641,000 are included in *Other assets, net* in the accompanying financial statements. Assets of \$5,000 or greater are capitalized and depreciated over a five-year economic useful life using the straight-line method. *Other assets* (current) for Federal and State Programs of \$2,031,000 includes the HOME Program, Section 8 contract administration, HHF advanced expenses and National Foreclosure Mitigation Counseling ("NFMC") rounds eight and nine program close-outs. *Other assets* (current) in the amount of \$4,917,000 are reflected in the Home Ownership Bond Programs and include mortgage payments collected by servicers that will be remitted to the Agency in fiscal year 2017.

Bond premium Bond premium represents the difference in the amount received upon the sale of the bonds versus the par value of the bonds and is included as a part of *Bonds payable, net* in the accompanying financial statements. The premiums relate to the planned amortization class ("PAC") bonds sold in conjunction with many series in the 1998 and 2009 Trust Agreements. The bond premium is amortized using the effective interest rate method over the life of the related PAC bonds and is adjusted accordingly for any bond calls that occur during the year. The amortization of the bond premium is included as a component of *Interest on bonds* in the accompanying financial statements.

Unearned revenues *Unearned 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 *Unearned revenues* is funding from the Treasury for the HHF. The funds are used to assist home owners 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. If certain transactions among programs have not been settled as of June 30, 2016, these balances are recorded as *Interprogram receivable (payable)*. These interprogram transactions are eliminated in the accompanying financial statements.

Deferred Outflows/Inflows of Resources In addition to assets, the Statement of Net Position includes a separate section for *Deferred Outflows of Resources*. This section of the financial statements

represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Agency has two items that meet this criterion in fiscal year 2016: contributions made to the pension plan and an accumulated decrease in fair value of hedging derivative instruments. In addition to liabilities, the Statement of Net Position includes a separate section for *Deferred Inflows of Resources*. This section of the financial statements represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Agency has two items that meet the criterion: deferred state grant revenue and deferrals of pension expense that result from the implementation of GASB No. 68, *Accounting and Financial Reporting for Pensions* (“GASB 68”).

Net Position *Net Position* is reported as restricted when constraints placed on it are externally imposed by creditors, grantors, laws or regulations, or by law through constitutional provisions.

The Agency’s Board of Directors approves an operating budget annually that is funded with revenues generated by administrative fees earned on federal programs, interest income earned on investments, earnings from the HomeAd, repayment of program funds, and reserves from trust agreements. All of these revenue sources are earmarked to cover operating expenses. The decision to use restricted or unrestricted receipts to fund a payment is transaction-based.

As of June 30, 2016, the Agency had \$17,756,000 of unrestricted net position. The Agency intends to use net position 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 position of the Home Ownership Bond Programs is restricted pursuant to the Agency’s agreements with its bondholders as determined in each trust agreement. The Agency has restricted these funds in amounts sufficient to meet required debt service and operating expenses as defined by each trust agreement.

Net position of the Housing Trust Fund is restricted in accordance with the policies of the Housing Partnership. The Federal and State Programs’ net position is restricted in accordance with each specific program’s requirements.

The Agency implemented GASB 150, which requires the Agency to report investments at fair market value. The effect of the adoption on the Agency’s financial statements for the years ended June 30, 2016 and 2015 are as follows (*in thousands*):

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Increase/(Decrease) in Operating Income	\$ 2,303	\$ (165)
Increase/(Decrease) in Net Position	\$ 1,560	\$ (743)

Operating Revenues and Expenses Historically, one of the Agency’s main functions has been to borrow funds in the bond market and to use those funds to make home ownership 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 borrowers. 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 and the sale of MBS associated with the HomeAd Program.

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*.

General and administrative expense *General and administrative expense* is classified by the related program. To the extent allowed by the trust agreements 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. If the Home Ownership Bond Programs or

Federal and State Programs do not permit payment of general and administrative expenses, expenses are paid from Agency reserve funds. Certain indirect costs are allocated to Federal and State Programs based on an independently prepared cost allocation plan. These costs are allocated based 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 GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period (e.g., loan loss reserve). Actual results could differ from those estimates.

B. CASH, CASH EQUIVALENTS, INVESTMENTS, FAIR VALUE MEASUREMENTS AND SECURITIES LENDING TRANSACTIONS

Cash and cash equivalents As of June 30, 2016, the Agency had deposits in pooled investment accounts of the State Treasurer with a carrying value of approximately \$188,374,000, and a bank balance of approximately \$188,874,000. The State Treasurer investment account has the characteristics of a demand deposit account in that the Agency may deposit and withdraw cash at any time without prior notice or penalty. Included in the investment accounts of the State Treasurer is \$3,528,000 of 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 statement of net position.

The Agency had deposits with a carrying value of \$230,636,000 and a bank balance approximating \$230,750,000 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 \$2,000.

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. At June 30, 2016, the Agency was not exposed to any material custodial credit risk.

Investments The Agency's investments include repurchase agreements, government securities (Federal Farm Credit Bank securities, Federal Home Loan Bank securities, Federal Home Loan Mortgage Corporation securities) and MBS insured by the Federal National Mortgage Association ("FNMA") and the Government National Mortgage Association ("GNMA").

Repurchase agreements are collateralized by obligations of the US 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% of the principal and accrued interest on the invested funds daily. The Agency invests in repurchase agreements for mostly long-term investments. On June 30, 2016, approximately \$2,123,000 was invested in such long-term agreements having maturity dates ranging from July 1, 2032 to January 1, 2035 at a rate of 4.01%.

For the Agency's HomeAd program, mortgages are made by the lenders, purchased by the Agency's master servicer and securitized into GNMA and FNMA MBS. The Agency's master servicer sells the security to the Agency's third-party hedger. Because the MBS are sold directly by the master servicer to the third-party hedger, there is no balance of MBS reflected on the Statement of Net Position as of June 30, 2016 related to the Agency's HomeAd program.

At June 30, 2016, the Agency held the following investments with the listed maturities at annual rates ranging from 1.25% to 6.90%. Ratings are displayed with Moody's Investors Service ("Moody's") rating listed first and Standard & Poor's ("S&P") rating listed second (*in thousands*):

Investments	Carrying Amount	Investment Maturities (<i>In Years</i>)			More Than 10
		Less Than 1	1 – 5	6 – 10	
GNMA MBS					
Rated Aaa/AA+	\$ 808	\$ -	\$ -	\$ 808	\$ -
FNMA MBS					
Rated Aaa/AA+	143	-	-	143	-
Repurchase Agreements					
Rated A2/AA	2,123	-	-	-	2,123
Government Securities					
Rated Aaa/AA+	<u>91,209</u>	<u>-</u>	<u>54,279</u>	<u>35,028</u>	<u>1,902</u>
Total Categorized	<u>\$94,283</u>	<u>\$ -</u>	<u>\$54,279</u>	<u>\$35,979</u>	<u>\$4,025</u>

Interest rate risk Interest rate risk is the risk that changes in 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 US Government; (ii) obligations issued by an approved agency or corporation wholly-owned by the US 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 trust agreements. MBS are securitized by FNMA (fair value - \$143,000, rated Aaa/AA+) and by GNMA (fair value - \$808,000, rated Aaa/AA+). GNMA is a direct obligation of the US Government. Repurchase agreements are fully collateralized by obligations issued by the US Government or its agencies. The government securities are comprised of Federal Farm Credit Bank, Federal Home Loan Bank and Federal Home Loan Mortgage Corporation securities which are direct obligations of the Treasury (rated Aaa/AA+). The government securities have a fair value of \$91,209,000.

Concentration of credit risk The Agency has a historical 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. However, all but one investment agreement have been terminated through bond refundings and investment agreement terminations due to the low interest rate environment. The investments consist of repurchase agreements and obligations of the US Government which represent 2% and 97%, respectively, of the Agency's total investments.

Investments in any one issuer that represent 5% or more of total investments as of June 30, 2016 are as follows (*in thousands*):

<u>Investment Issuer</u>	<u>Amount</u>
Federal Home Loan Bank	\$65,984
Federal Farm Credit Bank	18,014
Federal Home Loan Mortgage Corporation	7,210

Custodial credit risk Custodial credit risk occurs when 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 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.

Bond proceeds were used to purchase GNMA and FNMA MBS from pools of qualified mortgages originated under the Agency's FirstHome program guidelines. The securities are based on cash flows from underlying mortgages and are not considered derivatives. These MBS are not related to the HomeAd Program, which are not purchased with bond proceeds.

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. The Agency is not at risk for foreign currency risk.

Fair value measurements The Agency implemented GASB Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"), for the year ended June 30, 2016. To the extent available, the Agency's investments are recorded at fair value, which are within the fair value hierarchy established by GAAP. GASB 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets (or liabilities) in active markets that a government can access at the measurement date.
- Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset (or liability), either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

The Agency has the following recurring fair value measurements as of June 30, 2016 (*in thousands*):

Investment Type	Fair Value	Input Level	Description
Short Term Investment Fund ("STIF")	\$280,508	Level 2	The ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year-end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the State's custodian.
Government Securities	\$91,209	Level 2	Valuation of the underlying assets is performed using the policies and procedures established by the Agency's custodian.
Derivative Instrument - Interest Rate Swap	\$5,174	Level 2	The fair value was estimated by a consulting firm using the zero coupon method.

Securities lending transactions GASB Section 160, *Investments—Security Lending* ("GASB 160"), establishes 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 is authorized to engage in these types of transactions under North Carolina General Statute 147-69.3e. The types of securities include 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. 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.

Throughout fiscal year 2016, the Agency had deposits in the pooled investment accounts of the State Treasurer. The risk associated with these transactions will be recorded by the State in its fiduciary funds. No allocation will be made to the Agency; therefore, the accompanying financial statements do not reflect the risk associated with securities lending transactions in accordance with GASB 160.

C. MORTGAGE LOANS RECEIVABLE

Mortgage loans purchased with the proceeds of the various single-family bond issuances have stated interest rates ranging from 3% to 10.35%.

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 US Department of Agriculture, Rural Development, insured under a private mortgage insurance program, or have a loan-to-value ratio equal to or less than 80%. As of June 30, 2016, 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 \$1,462,000 as of June 30, 2016.

Mortgage loans made with funds from the Agency Programs, Housing Trust Fund Programs, and Federal and State Programs have allowances for loan losses of \$5,000, \$77,000 and \$75,000, respectively, as of June 30, 2016.

For the Home Ownership Bond Programs, the Agency has collateralized \$708,784,000 in mortgage loans receivable and \$176,304,000 in debt service, insurance, and revenue reserves to repay \$637,190,000 single-family bonds payable at June 30, 2016. Proceeds from the bonds issued were used to finance housing throughout the State. The bonds are payable through July 2041 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, 2016 is \$903,736,000 (see "Maturities" under Note D). For the current fiscal year, debt service payments, bond calls and related interest payments totaling \$193,487,000 were made for the Home Ownership Bond Programs. Principal and interest payments received on mortgage loans for the Home Ownership Bond Programs were \$163,371,000 in fiscal year 2016.

D. BONDS PAYABLE

Bonds payable activity for the year ended June 30, 2016 was as follows (*in thousands*):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Bonds payable				
Home Ownership	\$ 736,790	\$ 66,000	\$ (165,600)	\$ 637,190
Bond premium	1,627	631	(546)	1,712
Total Bonds payable, net	\$ 738,417	\$ 66,631	\$ (166,146)	\$ 638,902

Bonds payable as of June 30, 2016 are as follows (*in thousands*):

<u>Issue</u>	<u>Stated Rates (%)</u>	<u>Final Maturity</u>	<u>Principal Amount</u>
Home Ownership Revenue Bonds			
(1998 Housing Revenue Bonds Trust Agreement)			
Series 15	Variable	7/1/2032	\$ 4,525
Series 16	Variable	7/1/2032	9,005
Series 17	Variable - 5.000	7/1/2034	12,350
Series 18	Variable - 4.450	1/1/2035	5,985
Series 22 CE	4.500 - 5.250	1/1/2039	33,375
Series 25	4.400 - 4.900	7/1/2037	19,680
Series 27 A	5.000 - 6.000	1/1/2038	6,905
Series 28	3.800 - 4.800	1/1/2039	24,465
Series 29	4.250 - 5.500	7/1/2038	32,510
Series 30	3.950 - 5.500	7/1/2039	24,280
Series 31	3.750 - 5.500	7/1/2038	26,445
Series 32	4.00	1/1/2030	67,485
Series 33	1.717 - 4.319	1/1/2034	73,435
Series 34	1.022 - 4.002	7/1/2035	44,185
Series 35	0.938 - 3.986	7/1/2032	41,325
Series 36	0.890 - 3.907	1/1/2033	65,855
			<u>\$ 491,810</u>

<u>Issue</u>	<u>Stated Rates (%)</u>	<u>Final Maturity</u>	<u>Principal Amount</u>
Home Ownership Revenue Bonds (2009 Housing Revenue Bonds Trust Agreement)			
Series A-1 and Series 1	2.000 - 4.500	7/1/2041	\$ 62,550
Series A-2 and Series 2	2.000 - 4.250	7/1/2041	82,830
			<u>\$ 145,380</u>
Total Bonds Outstanding			<u>\$ 637,190</u>
Plus Bond Premium			<u>\$ 1,712</u>
Home Ownership Bond Programs			<u>\$ 638,902</u>

See Note E, "Derivative Instrument - Interest Rate Swap," for variable rate interest calculation methodology.

Maturities Debt service requirements, including sinking fund requirements on term bonds, subsequent to June 30, 2016, are as follows (*in thousands*):

Bonds Outstanding without Interest Rate Swaps

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 24,850	\$ 22,539
2018	25,065	21,836
2019	25,725	21,057
2020	26,180	20,204
2021	27,115	19,286
2022-2026	147,995	80,037
2027-2031	149,320	49,392
2032-2036	105,450	24,525
2037-2041	70,600	6,217
2042	3,390	46
Total Requirements	<u>\$ 605,690</u>	<u>\$ 265,139</u>

Bonds Outstanding with Interest Rate Swaps

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 945	\$ 129
2018	1,115	124
2019	1,080	120
2020	1,055	115
2021	1,020	111
2022-2026	7,585	484
2027-2031	11,930	275
2032-2035	6,770	49
Total Requirements	<u>\$ 31,500</u>	<u>\$ 1,407</u>

Total Bonds Outstanding

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 25,795	\$ 22,668
2018	26,180	21,960
2019	26,805	21,177
2020	27,235	20,319
2021	28,135	19,397
2022-2026	155,580	80,521
2027-2031	161,250	49,667
2032-2036	112,220	24,574
2037-2041	70,600	6,217
2042	3,390	46
Total Requirements	\$ 637,190	\$ 266,546

Bond redemptions The bond trust agreements 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, from excess revenues, or from funds released via the related decreases in the respective debt service reserve requirements.

For the year ended June 30, 2016, scheduled and unscheduled bond redemptions were as follows (*in thousands*):

<u>Issue</u>	<u>Amount Redeemed</u>
Housing Revenue Bonds (1998 Trust Agreement)	\$ 152,215
Housing Revenue Bonds (2009 Trust Agreement)	13,385
Total Home Ownership Bond Programs	\$ 165,600

Special facilities (Conduits) The Agency issued Multifamily Housing Revenue Bonds which are not presented in the 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, 2016 for special facilities are as follows (*in thousands*):

<u>Issue</u>	<u>Bond Type</u>	<u>Bonds Outstanding</u>
2002 Resolution* (Series D)	Multifamily Housing Revenue Bonds	\$ 2,095
2014 Resolution** (Series A)	Multifamily Housing Revenue Bonds	11,481
Total		\$ 13,576

*This is a Section 501(c)3 entity and did not require volume cap when the bonds were issued.

**The 2014 Resolution (Series A) has a maturity date of October 1, 2016.

E. DERIVATIVE INSTRUMENT - INTEREST RATE SWAP

Summary Information During the reporting period from July 1, 2015, to June 30, 2016, the Agency did not execute or terminate any derivative contracts with the exception of the exercise of certain cancellation options described in "Market Access Risk." The Agency has four pay-fixed, interest rate swap agreements

with three 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, 2016 Liability	Classification	Net Increase in Fair Value
Series 15C	Pay-Fixed Interest Rate Swap	\$6,030	Hedging Derivative	\$(925)	Deferred Outflows of Resources	\$175
Series 16C	Pay-Fixed Interest Rate Swap	\$9,760	Hedging Derivative	\$(1,319)	Deferred Outflows of Resources	\$71
Series 17C	Pay-Fixed Interest Rate Swap	\$12,305	Hedging Derivative	\$(2,090)	Deferred Outflows of Resources	\$329
Series 18C	Pay-Fixed Interest Rate Swap	\$5,665	Hedging Derivative	\$(840)	Deferred Outflows of Resources	\$194

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 Trust Agreement as a means to manage the future cash flow impact associated with the hedged debt. The intention of the swaps 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, 2016 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
\$6,030	UBS AG	A1/A+	5/8/2003	7/1/2032	3.445%	63%L** + 0.30%
\$9,760*	Bank of America, N.A.	A1/A	9/16/2003	7/1/2032	3.810%	63%L** + 0.30%
\$12,305	Bank of America, N.A.	A1/A	12/11/2003	7/1/2032	3.725%	63%L** + 0.30%
\$5,665	Goldman Sachs Mitsui Marine	Aa2/AA-	4/20/2004	1/1/2035	3.251%	63%L** + 0.30%

* The swap contract contains optionality that allows the Agency the right to change the notional to better match the principal schedule on the bonds.

** 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 \$5,174,000 as of June 30, 2016, which are reported as a liability in *Derivative instrument – interest rate swap*. 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. Additional information regarding the reporting of fair value in accordance with GASB 72 is included in Note B, "Cash, Cash Equivalents, Investments, Fair Value Measurements and Security Lending Transactions."

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 0.41% for all four series as of June 30, 2016.

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 37.31 basis points for all four variable rate series 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 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, 2016 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 US 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 liquidity agreement with TD Bank, N.A. which was extended in May 2014 and will not expire until May 2017. The cancellation feature associated with the Series 15C swap was fully exercised on July 1, 2013, and the remaining swap on Series 15C has no cancellation option. The cancellation features associated with the Series 18C swap was fully exercised on January 1, 2015 with no further cancellation options. The swap for Series 17C does not have any optional cancellation features.

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, 2016, 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	0.1338	0.5069	0.3731	3.1%	3.1% – 3.8%	PASS
Series 16C	0.1338	0.5069	0.3731	3.4%	3.4% – 4.2%	PASS
Series 17C	0.1338	0.5069	0.3731	3.4%	3.4% – 4.1%	PASS
Series 18C	0.1338	0.5069	0.3731	2.9%	2.9% – 3.6%	PASS

Swap payments and associated debt As rates vary, variable-rate bond interest payments and net swap payments will differ between the fixed rate paid to the counterparty and the variable rate paid to the Agency. Using rates as of June 30, 2016, debt service requirements of the variable-rate debt and net swap payments are as follows (*in thousands*):

Fiscal Year Ending June 30	Variable-Rate Bond		Interest Rate	Total Interest
	Principal	Interest	Swap, Net	
2017	\$ 945	\$ 129	\$ 953	\$ 1,082
2018	1,115	124	920	1,044
2019	1,080	120	885	1,005
2020	1,055	115	852	967
2021	1,020	111	820	931
2022-2026	7,585	484	3,567	4,051
2027-2031	11,930	275	2,006	2,281
2032-2035	6,770	49	349	398
Total	\$31,500	\$1,407	\$10,352	\$11,759

F. NONCURRENT LIABILITIES

Noncurrent liabilities for the year ended June 30, 2016 were as follows (*in thousands*):

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds payable					
Bonds payable, net	\$736,790	\$ 66,000	\$(165,600)	\$637,190	\$ 25,795
Bond premium	1,627	631	(546)	1,712	-
Derivative instrument – interest rate swap	4,405	769	-	5,174	-
Accounts payable	69	-	(69)	-	-
Unearned revenues	30,984	108,689	(102,869)	36,804	24,925
Other liabilities					
Arbitrage rebate payable	914	-	(506)	408	408
Compensated absences	1,241	123	(235)	1,129	202
Deposits payable	3,504	1,848	(1,817)	3,535	5
Net pension liability*	606	1,297	-	1,903	-
	\$780,140	\$179,357	\$(271,642)	\$687,855	\$ 51,335

*Additional information regarding the net pension liability is included in Note I, "Pension Plan."

G. OPERATING LEASE

The Agency leases office space with future minimum lease payments for fiscal year 2017 in the amount of \$555,000 and three months in fiscal year 2018 in the amount of \$129,000. Rent expenses for all operating leases totaled \$631,000 for the year ended June 30, 2016. The Agency's lease for the main office will expire September 2017.

H. FEDERAL AWARDS

As a designated Public Housing Authority for the HUD Section 8 Programs, the Agency requisitions Section 8 Program funds and makes disbursements to eligible landlords. For the year ended June 30, 2016, \$148,908,000 was received by the Agency and disbursed to property owners and is included in *Federal program awards received* and *Federal program expense* in 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, 2016, \$23,040,000 was received and disbursed by the Agency and is included in *Federal program awards received*, *Federal program expense* and *Mortgage loans receivable, net* in Federal and State Programs, depending upon the terms of the transaction.

The Agency was selected as a participating entity under a grant agreement with Treasury passed through NeighborWorks® for the NFMC grant, which provides funding for counseling home owners at risk of foreclosure. For the year ended June 30, 2016, \$1,425,000 was received and disbursed by the Agency and is included in *Federal program awards received* and *Federal program expense* in Federal and State Programs.

The Agency received repayments of mortgage loans that were funded under the Tax Credit Assistance Program. These repayments provide funding for the Carryover Loan Program. For the year ended June 30, 2016, \$6,738,000 was disbursed and is included as a part of *Mortgage loans receivable, net* in the Federal and State Programs.

The Agency was selected as a participating entity under a grant agreement with Treasury for the HHF, which provides funding for homeowners facing foreclosure and stabilizes neighborhoods with poorly

performing housing indicators. For the year ended June 30, 2016, \$73,409,000 was received by the Agency and is included in *Federal program awards received* in Federal and State Programs. In fiscal year 2016, \$73,956,000 was disbursed by the Agency and is included in *Federal program expense*. Also included in that amount is \$547,000 of program income received from lien satisfactions.

The Agency was awarded Comprehensive Housing Counseling Program funds through HUD's Office of Housing Counseling. The program provides counseling to home owners at risk of foreclosure. For the year ended June 30, 2016, \$565,000 was disbursed by the Agency and is included in *Federal program awards received* and *Federal program expense* in Federal and State Programs.

The Agency earned fees of \$15,650,000 for administering these and other federal programs for the year ended June 30, 2016. Of these fees, \$3,490,000 was paid to Quadel Consulting Corporation for the Section 8 Program Contract Administration, and \$2,695,000 was paid to counseling agencies for providing HHF counseling services which is reported in *General and administrative expense*.

Federal awards are subject to audit 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 ("TSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State. TSERS provides retirement benefits to plan members and beneficiaries. State statute assigns the authority to establish and amend benefit provisions to the General Assembly. TSERS 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 TSERS. The report may be obtained from the website for the North Carolina Office of State Controller using the following link: <http://www.osc.nc.gov/financial/index.html>.

Benefits provided TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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 fiscal year 2016 rate is 9.15% of the annual covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by the 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, 2016, 2015, and 2014 (*in thousands*):

	2016	2015	2014
Retirement Contribution	\$722	\$710	\$668
Percentage of Covered Payroll	9.15%	9.15%	8.69%

Net pension liability At June 30, 2016, the Agency reported a liability of \$1,903,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2015 and at June 30, 2014, the Agency's proportion was 0.05164% and 0.05166%, respectively.

Deferred inflows of resources and deferred outflows of resources related to pensions For the year ended June 30, 2016, the Agency recognized pension expense of \$206,000. At June 30, 2016, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (*in thousands*):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between actual and expected experience	\$ -	\$ 217
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	206
Change in proportion and differences between Agency's contributions and proportionate share of contributions	66	-
Contributions subsequent to the measurement date	722	-
Total	<u><u>\$ 788</u></u>	<u><u>\$ 423</u></u>

Deferred Outflows of Resources of \$722,000 related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows (*in thousands*):

Year ending June 30:	
2017	\$ (228)
2018	(228)
2019	(221)
2020	320
Total	<u><u>\$ (357)</u></u>

Actuarial assumptions The total pension liability was determined by an actuarial valuation performed as of December 31, 2014. The total pension liability was calculated through the use of update procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2015. The

update procedures incorporated the actuarial assumptions used in the valuation. The entry age normal actuarial cost method was utilized. Inflation is assumed to be 3%, and salary increases range from 4.25% to 9.10% which includes 3.5% inflation and productivity factor. The long-term expected rate of return on pension plan investments used in the determination of the total pension liability is 7.25% and is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and studies that cover significant portions of the US population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (“COLA”) amounts are not considered to be substantively automatic and are not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies’ return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	100.0%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset liability and investment policy study for the North Carolina Retirement Systems, including TSERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount rate The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate The following presents the Agency’s proportionate share of the net pension liability calculated using the discount rate of 7.25%, as

well as what the Agency's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage-point higher (8.25%) than the current rate (*in thousands*):

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Agency's proportionate share of the net pension liability (asset)	\$ 5,728	\$ 1,903	\$ (1,343)

Pension plan fiduciary net position Detailed information about the pension plan's fiduciary net position is available in the separately issued CAFR for the State of North Carolina.

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 ("Disability Income Plan") and retirees who have at least five years of creditable service with TSERS. TSERS 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 TSERS membership service. For employees hired on or after October 1, 2006, TSERS will pay the full cost of coverage for retirees with 20 or more years of service, TSERS 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. 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 with TSERS 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 TSERS. 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 TSERS, the benefits payable from the Disability Income Plan cease, and the employee will commence retirement under TSERS.

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, 2016, 2015, and 2014 (*in thousands*):

	2016	2015	2014
Health Care Benefit	\$442	\$426	\$415
Disability Benefit	32	32	34
Death Benefit	13	12	12
Percentage of Covered Payroll			
Health Care Benefit	5.60%	5.49%	5.40%
Disability Benefit	0.41%	0.41%	0.44%
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 CAFR:

- 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 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, 2016 for this segment is as follows (*in thousands*):

<u>STATEMENT OF NET POSITION</u>	<u>Home Ownership</u>
ASSETS	
Current assets:	
Restricted cash and cash equivalents	\$ 188,174
Accrued interest receivable on investments	1,872
Mortgage loans receivable	121,796
Accrued interest receivable on mortgage loans	6,022
Other assets	4,917
Interprogram receivable	7,134
TOTAL CURRENT ASSETS	<u>\$ 329,915</u>
Noncurrent assets:	
Restricted investments	\$ 82,801
Mortgage loans receivable, net	585,526
TOTAL NONCURRENT ASSETS	<u>\$ 668,327</u>
TOTAL ASSETS	<u>\$ 998,242</u>
DEFERRED OUTFLOWS OF RESOURCES	
Accumulated decrease in fair value of hedging derivative	\$ 5,174
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 5,174</u>
LIABILITIES	
Current liabilities:	
Bonds payable	\$ 25,795
Accrued interest payable	11,388
Accounts payable	1,478
Other liabilities	408
TOTAL CURRENT LIABILITIES	<u>\$ 39,069</u>
Noncurrent liabilities:	
Bonds payable, net	\$ 613,107
Derivative instrument - interest rate swap	5,174
TOTAL NONCURRENT LIABILITIES	<u>\$ 618,281</u>
TOTAL LIABILITIES	<u>\$ 657,350</u>
NET POSITION	
Restricted	\$ 346,066
TOTAL NET POSITION	<u>\$ 346,066</u>

<u>STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</u>	Home Ownership
OPERATING REVENUES	
Interest on investments	\$ 5,261
Net increase in fair value of investments	2,250
Interest on mortgage loans	41,146
Program income/fees	31,256
Other revenues	875
TOTAL OPERATING REVENUES	\$ 80,788
OPERATING EXPENSES	
Interest on bonds	\$ 26,060
Mortgage servicing expense	2,421
Nonfederal program expense	18,167
General and administrative expense	745
Other expenses	1,958
TOTAL OPERATING EXPENSES	\$ 49,351
OPERATING INCOME	\$ 31,437
NON-OPERATING EXPENSES	
Transfers in	\$ 2,323
TOTAL NON-OPERATING EXPENSES	\$ 2,323
CHANGE IN NET POSITION	\$ 33,760
TOTAL NET POSITION - BEGINNING	\$ 312,306
TOTAL NET POSITION - ENDING	\$ 346,066
 <u>STATEMENT OF CASH FLOWS</u>	
Net cash provided by operating activities	\$ 166,963
Net cash used in non-capital financing activities	(125,859)
Net cash provided by investing activities	3,914
Net increase in cash	\$ 45,018
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	143,156
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 188,174

North Carolina Housing Finance Agency

Supplementary Information



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Independent Auditor's Report on Supplementary Information

Our audits of the financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BDO USA, LLP

September 22, 2016

NORTH CAROLINA HOUSING FINANCE AGENCY
COMBINING STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

(in thousands)	AGENCY PROGRAMS		GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS		Total
		Housing Trust Fund	Federal and State Programs		1998	2009	
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 8,873	-	-	-	-	-	\$ 8,873
Restricted cash and cash equivalents	56,268	58,566	107,131	170,164	18,010		410,139
Accrued interest receivable on investments	38	39	-	1,829	43		1,949
Mortgage loans receivable	536	1,778	12,208	105,436	16,360		136,318
Accrued interest receivable on mortgage loans	3	16	93	5,191	831		6,134
State receivables	29,752	-	1,094	-	-		30,846
Other assets	306	32	2,031	4,220	697		7,286
Interprogram (payable) receivable	(2,598)	169	(4,705)	6,764	370		-
TOTAL CURRENT ASSETS	\$ 93,178	60,600	117,852	293,604	36,311		\$ 601,545
Noncurrent assets:							
Investments	\$ 3,139	-	-	-	-		\$ 3,139
Restricted investments	8,343	-	-	74,292	8,509		91,144
Mortgage loans receivable, net	2,352	15,737	82,042	466,299	119,227		685,657
Other assets, net	3,641	-	-	-	-		3,641
TOTAL NONCURRENT ASSETS	\$ 17,475	15,737	82,042	540,591	127,736		\$ 783,581
TOTAL ASSETS	\$ 110,653	76,337	199,894	834,195	164,047		\$ 1,385,126
DEFERRED OUTFLOWS OF RESOURCES							
Deferred outflows for pensions	\$ 788	-	-	-	-		\$ 788
Accumulated decrease in fair value of hedging derivative	-	-	-	5,174	-		5,174
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 788	-	-	5,174	-		\$ 5,962
LIABILITIES							
Current liabilities:							
Bonds payable	\$ -	-	-	22,300	3,495		\$ 25,795
Accrued interest payable	-	-	-	9,117	2,271		11,388
Accounts payable	333	167	1,838	1,207	271		3,816
Unearned revenues	1,722	-	23,203	-	-		24,925
Other liabilities	204	-	3	408	-		615
TOTAL CURRENT LIABILITIES	\$ 2,259	167	25,044	33,032	6,037		\$ 66,539
Noncurrent liabilities:							
Bonds payable, net	\$ -	-	-	470,644	142,463		\$ 613,107
Derivative instrument - interest rate swap	-	-	-	5,174	-		5,174
Unearned revenues	11,879	-	-	-	-		11,879
Other liabilities	6,360	-	-	-	-		6,360
TOTAL NONCURRENT LIABILITIES	\$ 18,239	-	-	475,818	142,463		\$ 636,520
TOTAL LIABILITIES	\$ 20,498	167	25,044	508,850	148,500		\$ 703,059
DEFERRED INFLOWS OF RESOURCES							
Deferred state grant	\$ -	5,520	-	-	-		\$ 5,520
Deferred inflows for pensions	423	-	-	-	-		423
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 423	5,520	-	-	-		\$ 5,943
NET POSITION							
Restricted	\$ 72,764	70,650	174,850	330,519	15,547		\$ 664,330
Unrestricted	17,756	-	-	-	-		17,756
TOTAL NET POSITION	\$ 90,520	70,650	174,850	330,519	15,547		\$ 682,086

NORTH CAROLINA HOUSING FINANCE AGENCY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2016

(in thousands)	AGENCY PROGRAMS		GRANT PROGRAMS		HOME OWNERSHIP BOND PROGRAMS		Total
		Housing Trust Fund	Federal and State Programs		1998	2009	
OPERATING REVENUES							
Interest on investments	\$ 826	365	521	5,022	239	\$ 6,973	
Net increase in fair value of investments	53	-	-	1,992	258	2,303	
Interest on mortgage loans	49	551	1,139	35,641	5,505	42,885	
Federal program awards received	-	-	236,308	-	-	236,308	
Program income/fees	11,195	1,496	22,716	31,256	-	66,663	
Other revenues	1	586	489	848	27	1,951	
TOTAL OPERATING REVENUES	\$ 12,124	2,998	261,173	74,759	6,029	\$ 357,083	
OPERATING EXPENSES							
Interest on bonds	\$ -	-	-	21,521	4,539	\$ 26,060	
Mortgage servicing expense	1	-	-	1,912	509	2,422	
Federal program expense	-	-	239,071	-	-	239,071	
Nonfederal program expense	2,766	-	-	18,167	-	20,933	
General and administrative expense	16,833	-	6,186	707	38	23,764	
Other expenses	3	-	649	1,877	81	2,610	
TOTAL OPERATING EXPENSES	\$ 19,603	-	245,906	44,184	5,167	\$ 314,860	
OPERATING (LOSS) INCOME	\$ (7,479)	2,998	15,267	30,575	862	\$ 42,223	
NON-OPERATING REVENUES (EXPENSES)							
Transfers in (out)	\$ 16,270	106	(18,699)	2,323	-	\$ -	
State appropriations received	-	20,160	1,459	-	-	21,619	
State grants received	-	2,893	6,921	-	-	9,814	
State program expense	(50,771)	(14,266)	(9,120)	-	-	(74,157)	
TOTAL NON-OPERATING REVENUES (EXPENSES)	\$ (34,501)	8,893	(19,439)	2,323	-	\$ (42,724)	
CHANGE IN NET POSITION	\$ (41,980)	11,891	(4,172)	32,898	862	\$ (501)	
TOTAL NET POSITION - BEGINNING	\$ 132,500	58,759	179,022	297,621	14,685	\$ 682,587	
TOTAL NET POSITION - ENDING	\$ 90,520	70,650	174,850	330,519	15,547	\$ 682,086	

NORTH CAROLINA HOUSING FINANCE AGENCY
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

(in thousands)	AGENCY PROGRAMS			HOME OWNERSHIP BOND PROGRAMS		Total
		GRANT PROGRAMS Housing Trust Fund	PROGRAMS Federal and State Programs	1998	2009	
Cash flows from operating activities:						
Interest on mortgage loans	\$ 49	547	1,146	36,730	5,547	\$ 44,019
Principal payments on mortgage loans	369	1,462	13,663	104,227	16,867	136,588
Purchase of mortgage loans	-	(190)	(15,562)	(221)	-	(15,973)
Federal program awards received	-	-	240,279	-	-	240,279
Federal program expense	-	-	(238,971)	-	-	(238,971)
Nonfederal program expense	(2,766)	-	-	(18,167)	-	(20,933)
Federal grant administration income	-	-	14,559	-	-	14,559
Program income/fees	11,742	1,496	8,157	31,256	-	52,651
Other expenses	(14,301)	167	(11,959)	(4,300)	(398)	(30,791)
Other revenues	904	7,876	-	(4,392)	(186)	4,202
Net cash (used in) provided by operating activities	\$ (4,003)	11,358	11,312	145,133	21,830	\$ 185,630
Cash flows from non-capital financing activities:						
Issuance of bonds	\$ -	-	-	66,000	-	\$ 66,000
Principal repayments on bonds	-	-	-	(152,215)	(13,385)	(165,600)
Interest paid	-	-	-	(23,000)	(4,887)	(27,887)
Bond issuance costs paid	-	-	-	(695)	-	(695)
Net transfers	16,270	106	(18,699)	2,323	-	-
State appropriations received	-	20,160	1,459	-	-	21,619
State grants received	-	5,520	13,704	-	-	19,224
State tax credits	51,842	-	-	-	-	51,842
State program expense	(50,265)	(14,266)	(9,120)	-	-	(73,651)
Net cash provided by (used in) non-capital financing activities	\$ 17,847	11,520	(12,656)	(107,587)	(18,272)	\$ (109,148)
Cash flows from investing activities:						
Proceeds from sales or maturities of investments	\$ -	-	-	4,487	-	\$ 4,487
Purchase of investments	-	-	-	(4,444)	-	(4,444)
Earnings on investments	825	342	521	3,632	239	5,559
Net cash provided by investing activities	\$ 825	342	521	3,675	239	\$ 5,602
Net increase (decrease) in cash	\$ 14,669	23,220	(823)	41,221	3,797	\$ 82,084
Cash and cash equivalents at beginning of year	50,472	35,346	107,954	128,943	14,213	336,928
Cash and cash equivalents at end of year	\$ 65,141	58,566	107,131	170,164	18,010	\$ 419,012
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:						
Operating (loss) income	\$ (7,479)	2,998	15,267	30,575	862	\$ 42,223
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:						
Interest on investments	(826)	(365)	(521)	(5,022)	(239)	(6,973)
Increase in fair value of investments	(53)	-	-	(1,992)	(258)	(2,303)
Interest on bonds	-	-	-	21,521	4,539	26,060
Change in assets and liabilities:						
Decrease (increase) in mortgage loans receivable	372	686	(1,976)	103,959	16,858	119,899
(Increase) decrease in interest receivable on mortgage loans	-	(4)	7	1,206	44	1,253
Decrease (increase) in other assets	1,297	7,876	(1,251)	(4,533)	(188)	3,201
Increase (decrease) in accounts payable and other liabilities	2,088	167	(5,436)	(581)	212	(3,550)
Increase in unearned revenues	598	-	5,222	-	-	5,820
Total adjustments	\$ 3,476	8,360	(3,955)	114,558	20,968	\$ 143,407
Net cash (used in) provided by operating activities	\$ (4,003)	11,358	11,312	145,133	21,830	\$ 185,630



Our Mission is to create affordable housing opportunities for North Carolinians whose needs are not met by the market

Our Vision is to lead the nation in creating sustainable housing opportunities that people can afford.

Our Values : We Care, We Act, We Lead

North Carolina Housing Finance Agency
3508 Bush Street
Raleigh, NC 27609-7509

919-877-5700
www.nchfa.com

APPENDIX B

FORM OF APPROVING OPINION OF BOND COUNSEL
WITH RESPECT TO SERIES 37 BONDS

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APPENDIX B

LEGAL OPINION

Upon the delivery of the Series 37 Bonds, Womble Carlyle Sandridge & Rice, LLP, Bond Counsel to the Agency, proposes to issue its approving opinion in substantially the following form:

November __, 2016

North Carolina Housing Finance Agency
Raleigh, North Carolina

We have acted as bond counsel to the North Carolina Housing Finance Agency (the "Agency") in connection with the authorization and issuance of \$216,745,000 North Carolina Housing Finance Agency Home Ownership Revenue Bonds, Series 37 (1998 Trust Agreement) (the "Series 37 Bonds"). We have examined (i) the Constitution and laws of the State of North Carolina, including Chapter 122A of the General Statutes of North Carolina, as amended (the "Act"), (ii) certified copies of the proceedings of the Agency authorizing the issuance, sale and delivery of the Series 37 Bonds, (iii) executed originals of the Trust Agreement, dated as of May 1, 1998 (the "Trust Agreement") and the Thirty-Seventh Supplemental Trust Agreement, dated as of November 1, 2016 (the "Thirty-Seventh Supplemental Trust Agreement") pursuant to which the Series 37 Bonds are issued and (iv) other proofs submitted relative to the issuance and sale of the Series 37 Bonds.

The Series 37 Bonds are dated as of their date of delivery. Certain of the Series 37 Bonds are designated in the Thirty-Seventh Supplemental Trust Agreement as "Home Ownership Revenue Refunding Bonds, Series 37-A (AMT)" (the "Series 37-A Bonds"), certain of the Series 37 Bonds are designated in the Thirty-Seventh Supplemental Trust Agreement "Home Ownership Revenue Bonds, Series 37-B (Non-AMT)" (the "Series 37-B Bonds") and certain of the Series 37 Bonds are designated in the Thirty-Seventh Supplemental Trust Agreement "Home Ownership Variable Rate Revenue Bonds, Series 37-C (Non-AMT)" (the "Series 37-C Bonds"). The Series 37-A Bonds, the Series 37-B Bonds and the Series 37-C Bonds are one Series of Bonds under the Trust Agreement.

The Series 37 Bonds are issued for the purposes of providing funds to the Agency, together with other available funds, to refund certain Bonds previously issued under the Trust Agreement and to purchase Program Securities securitizing mortgage loans made to low and moderate income persons for single family residential housing in North Carolina.

The Series 37 Bonds are issued under and pursuant to the Trust Agreement and the Thirty-Seventh Supplemental Trust Agreement. The Agency has heretofore issued thirty-six series of Bonds under the Trust Agreement (the "Existing Bonds"). The Trust Agreement also provides for the issuance, from time to time, under the conditions, limitations and restrictions therein set forth, of additional Bonds. The Existing Bonds, the Series 37 Bonds and any such additional Bonds are herein collectively referred to as the "Bonds."

The Series 37 Bonds are subject to redemption prior to their maturity at the times, in the manner and upon the terms set forth in the Trust Agreement and the Thirty-Seventh Supplemental Trust Agreement.

The Series 37 Bonds are subject to the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder, that must be met subsequent to the issuance and delivery of the Series 37 Bonds in order that interest on the Series 37 Bonds be excluded, on and after the date of such issuance and delivery, from the gross income of the owners thereof for federal income tax purposes under the Code. The Agency has established procedures to meet the requirements of the Code. The Agency has also covenanted in the Thirty-Seventh Supplemental Trust Agreement to comply with the requirements of the Code, and in particular Sections 143 and 148 of the Code. Our opinion in paragraph 6 below with respect to the

treatment of interest on the Series 37 Bonds for purposes of federal income taxation is rendered on the assumption that the Agency will carry out its procedures and comply with the aforementioned covenant contained in the Thirty-Seventh Supplemental Trust Agreement.

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

1. The Agency has been duly created as a body politic and corporate constituting a public agency and instrumentality of the State of North Carolina with good, right and lawful authority to carry out the program of purchasing the Program Loans and to perform its obligations under the terms and conditions of the Trust Agreement and the Thirty-Seventh Supplemental Trust Agreement.
2. The Agency has duly authorized, executed and delivered the Trust Agreement and the Thirty-Seventh Supplemental Trust Agreement and such Agreements constitute legal, valid and binding agreements of the Agency, enforceable in accordance with their terms.
3. The Series 37 Bonds are valid and binding special obligations of the Agency secured by a valid pledge in the manner and to the extent set forth in the Trust Agreement, enforceable in accordance with their terms.
4. The Trust Agreement creates the valid and binding pledge it purports to create of the Program Obligations, Revenues and Prepayments (as such terms are defined in the Trust Agreement), and all moneys, securities and Funds and Accounts held or set aside pursuant to the Trust Agreement, to secure the payment of the Bonds in accordance with the terms thereof, subject to the provisions of the Trust Agreement permitting the disposition, use and payment thereof for or to the purposes and on the terms and conditions of the Trust Agreement. Such pledge shall become effective with respect to the assets and revenues so pledged immediately upon the receipt thereof by the Agency in the manner provided in the Trust Agreement.
5. The Series 37 Bonds do not constitute a debt, liability or obligation of the State of North Carolina or of any political subdivision thereof or a pledge of the faith and credit of the State or of any such political subdivision, but are payable solely from the revenues and assets of the Agency pledged therefor.
6. Assuming that the Agency will carry out the procedures mentioned above and comply with the covenants with respect to the Code contained in the Thirty-Seventh Supplemental Trust Agreement and other certificates and documents, interest on the Series 37 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. Interest on the Series 37-A Bonds is treated as a preference item in computing the alternative minimum tax imposed by the Code on individuals and the alternative minimum tax imposed by the Code on corporations. Interest on the Series 37-B Bonds and Series 37-C Bonds is not treated as a preference item in computing the alternative minimum tax imposed by the Code on individuals and corporations, and furthermore is not includable in the adjusted current earnings of corporations for purposes of computing the alternative minimum tax imposed by the Code on corporations. Interest on the Series 37 Bonds is exempt from all income taxes of the State of North Carolina. The Code and other laws of taxation, including the laws of taxation of the State of North Carolina, of other states, and of local jurisdictions, may contain other provisions that could result in tax consequences, upon which we render no opinion, as a result of the ownership or transfer of the Series 37 Bonds or the inclusion in certain computations of interest that is excluded from gross income for purposes of federal and North Carolina income taxation.

The rights of the owners of the Series 37 Bonds and the enforceability thereof and of the Trust Agreement and Thirty-Seventh Supplemental Trust Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore and hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

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

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT
AND THE THIRTY-SEVENTH SUPPLEMENTAL TRUST AGREEMENT

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SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT AND THE THIRTY-SEVENTH SUPPLEMENTAL TRUST AGREEMENT

Definitions

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

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

“Borrower” means the borrower under a Program Loan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Investment Obligations” means

(1) Government Obligations,

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

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

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

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

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

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

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

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

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

"Officer's Certificate" means a certificate signed by an Authorized Officer, including certificates signed by an "electronic signature" of such Authorized Officer.

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

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

(1) Bonds theretofore canceled by the Trustee;

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

providing sufficient moneys to pay, with such other moneys so deposited with the Trustee, the principal and redemption premium of and the interest on such Bonds being paid or redeemed; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Sinking Fund Calculation Period” means the period of time set forth in the Supplemental Trust Agreement authorizing the issuance of Term Bonds during which the Agency is to deposit from the Revenue

Fund to the credit of the Sinking Fund Account an established amount to be applied to the purchase or redemption of such Term Bonds in accordance with a Sinking Fund Requirement for such period also established in such Supplemental Trust Agreement.

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

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

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

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

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

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

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

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

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

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

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

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

Additional Bonds; Supplemental Trust Agreements

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

any deposit to the credit of the Debt Service Reserve Fund, the Insurance Reserve Fund or a Special Debt Service Reserve Account required in connection with the issuance of such Series of Bonds.

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

Funds and Accounts

The Trust Agreement and certain of the Supplemental Trust Agreements create the following Funds and Accounts:

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

A Supplemental Trust Agreement may provide for the creation of a Special Debt Service Reserve Account for the Bonds authorized by such Supplemental Trust Agreement and for the deposit of moneys to and withdrawal of moneys from such Account.

Any Supplemental Trust Agreement may establish such additional Funds and Accounts as shall be deemed necessary or desirable in order to effectuate the transactions contemplated by the Trust Agreement. The Thirty-Seventh Supplemental Trust Agreement creates such a special fund designated the "Series 37 Principal/Special Redemption Account," which is more fully discussed below.

Program Fund.

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

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

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

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

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

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

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

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

Pledge

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

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

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

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

Application of Revenues and Other Moneys

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

Except as described below, all Revenues shall be deposited by the Trustee to the credit of the Revenue Fund.

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

Notwithstanding the foregoing, the Thirty-Seventh Supplemental Trust Agreement provides that the Agency shall direct the Trustee to deposit principal payments on the Series 37 Program Obligations, whether constituting scheduled principal payments or Prepayments, to the Series 37 Principal/Special Redemption Account, to be applied as provided in the Thirty-Seventh Supplemental Trust Agreement as described in the Official Statement under the caption “SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 37 BONDS—Series 37 Principal/Special Redemption Account and Disposition of Certain Funds.”

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

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

Except as described above with respect to the Thirty-Seventh Supplemental Trust Agreement, in the event the Trustee or Agency receives a single payment all or any part of which constitutes Revenues, Prepayments, Program Obligation Accrued Interest or Financing Fees, the Trustee or Agency, as the case may be, shall segregate such payment into Revenues, Prepayments, or Program Obligation Accrued Interest and Financing Fees prior to making the deposits provided for above.

Except as described below with respect to the amounts deposited to the Series 37 Principal/Special Redemption Account, the Trustee, as of the last business day of each month, shall withdraw from the Revenue Fund and deposit to the credit of the following several Funds or Accounts, but as to each Fund or Account only within the limitation hereinbelow indicated with respect thereto and only after maximum payment within such limitation into every such Fund or Account previously mentioned in the following tabulation:

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

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

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

Fourth: To the credit of the Reserve Fund Surety Bond Reimbursement Fund the amount, if any, necessary to make payments to the issuers of the Reserve Fund Surety Bonds to

reimburse such issuers for payments with respect to the Reserve Fund Surety Bonds in accordance with the terms of the agreements between the Agency and such issuers in connection therewith;

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

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

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

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

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

Notwithstanding the foregoing, pursuant to the Thirty-Seventh Supplemental Trust Agreement, Revenues will not be transferred from the Revenue Fund to the Series 37 Principal/Special Redemption Account to pay principal with respect to the Series 37 Bonds.

A Supplemental Trust Agreement may provide for the deposit of Revenues to a Fund or Account created thereunder or for another application of Revenues prior to the deposit of remaining Revenues to the credit of the Debt Service Reserve Fund, a Special Debt Service Reserve Account, the Insurance Reserve Fund or the Revenue Reserve Fund; provided however, that the Supplemental Trust Agreement providing for such change in the application of Revenues shall not be effective without the prior written consent of any Swap Provider that is adversely affected by such change.

Interest Account and Principal Account.

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

Sinking Fund Account.

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

Series 37 Principal/Special Redemption Account

Notwithstanding the foregoing, pursuant to the Thirty-Seventh Supplemental Trust Agreement, payments of principal of the Series 37 Bonds, whether on account of a scheduled maturity or redemption, shall be paid from the Series 37 Principal/Special Redemption Account and not from the Principal Account or the Sinking Fund Account. Amounts not required to pay principal of the Series 37 Bonds shall be applied as provided in the Thirty-Seventh Supplemental Trust Agreement as described in the Official Statement under the caption “SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 37 BONDS—Series 37 Principal/Special Redemption Account and Disposition of Certain Funds.”

Reserve Fund Surety Bond Reimbursement Fund

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

Swap Agreement Payment Fund

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

Redemption Fund.

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

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

Debt Service Reserve Fund

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

If at any time the moneys held for the credit of the Bond Service Fund, including moneys transferred from the Revenue Reserve Fund as described below under the heading "Revenue Reserve Fund" and any amounts transferred under Funds and Accounts created under any Supplemental Trust Agreement to the extent required to be transferred to the Bond Service Fund or an Account thereof, shall be insufficient to pay when due the interest, principal and Sinking Fund Requirements of the Bonds secured by the Debt Service Reserve Fund the Trustee shall transfer from the Debt Service Reserve Fund to the credit of the Bond Service Fund an amount sufficient to make up any such deficiency.

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

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

Agency, including depositing such amounts to the credit of the Optional Redemption Account or a Special Redemption Account.

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

Insurance Reserve Fund

The Insurance Reserve Requirement with respect to each Series of Bonds, if any, is to be set forth in the Supplemental Trust Agreement authorizing the issuance of such Bonds. To date, the Insurance Reserve Requirement for each Series of Bonds, has been a percentage of the Program Loans to be financed with the proceeds of the Bonds, with the percentage based upon whether the Program Loan is an FHA Insured Program Loan, a VA Guaranteed Program Loan, a USDA Guaranteed Program Loan, a PMI Insured Program Loan or a Program Loan that does not require insurance or a guaranty. There is no Insurance Reserve Requirement with respect to the Series 37 Bonds and the provisions of the Trust Agreement regarding the Insurance Reserve Fund do not apply to the Program Obligations deposited to the Series 37 Program Account.

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

Money deposited in the Insurance Reserve Fund shall be used for the purpose of paying the portion of any loss with respect to a Program Loan in default that is not paid from any public or private insuring or guaranteeing agency. To the extent any amounts in the Insurance Reserve Fund are required to be applied to the payment of Bonds, the Agency is not required to replenish such amounts.

Revenue Reserve Fund

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

1. If at any time the moneys held to the credit of the Bond Service Fund shall be insufficient to pay when due the interest, principal or the Sinking Fund Requirements of any Bonds, the Trustee shall transfer from the Revenue Reserve Fund to the credit of the Bond Service Fund an amount sufficient to make up any such deficiency.
2. The Trustee shall transfer from the Revenue Reserve Fund such amount as shall be necessary to be paid from time to time to the United States of America or to the borrowers under the Program Obligations in order for the Agency to comply with the applicable covenants made by the Agency regarding the exclusion of interest on the Bonds from federal income taxation.
3. The Trustee shall transfer from the Revenue Reserve Fund to the credit of the applicable Special Redemption Account, whenever Prepayments are received with respect to any defaulted Program Loan, the amount, if any, by which the portion of such Prepayments to be deposited in such Special Redemption Account, representing the payment of principal on such Program Loan, is less than the amount by which the principal balance of the defaulted Program Loan has been reduced as a result of the receipt of such Prepayments, as determined in an Officer's Certificate filed with the Trustee.
4. The Trustee shall transfer from the Revenue Reserve Fund to the Agency any amount certified in an Officer's Certificate filed with the Trustee as necessary for the payment of real estate taxes, insurance, foreclosure fees, including appraisal and legal fees, and similar expenses incurred by the Agency in connection with the acquisition of any property secured by a mortgage on behalf of the Agency or expenses for repairs, rehabilitation, improvements, maintenance, renting or sale and similar expenses incurred by the Agency in connection with such property.

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

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

7. The Trustee shall transfer from the Revenue Reserve Fund the amount specified to the Trustee by the Agency in an Officer's Certificate for the purpose of paying Program Expenses if, as shown by an Officer's Certificate filed with the Trustee, the Agency has purchased and owns Program Obligations with scheduled payments of principal and interest such that the Revenues and Prepayments, if any, estimated by the Agency in good faith to be received from such Program Obligations, together with any other moneys estimated in good faith to be available for the payments hereinafter mentioned, including, without limitation, investment income on the Funds and Accounts available for such payments and the moneys held for the credit of the Debt Service Reserve Fund and any Special Debt Service Reserve Account, shall be sufficient to pay when due (i) the Program Expenses and (ii) the principal of, Sinking Fund Requirements on account of, and interest on the Bonds.

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

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

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

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

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

Funds on deposit in the Revenue Reserve Fund shall be used for the purposes described in items (i) and (ii) above without regard to the priorities for expenditure of funds set forth above; provided, however, that if

funds are required for the purpose described in item 1. above (relating to transfers from the Revenue Reserve Fund to pay principal and interest on Bonds), then the funds shall be used for that purpose before the uses described in items (i) and (ii) above.

1974 Appropriation Reserve Fund

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

If at any time the moneys held to the credit of the Bond Service Fund shall be insufficient to pay when due the principal and Sinking Fund Requirements of, and interest on, the Bonds, and if the amounts transferred to the credit of the Bond Service Fund from the Debt Service Reserve Fund and the Revenue Reserve Fund are insufficient to make up the deficiency, the Trustee shall transfer from the 1974 Appropriation Reserve Fund to the credit of the Bond Service Fund an amount sufficient to make up the deficiency.

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

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

Investment of Money

Money held for the credit of each Fund and Account shall, as nearly as may be practicable, be continuously invested and reinvested by the Trustee, at the direction of the Agency, in Investment Obligations. The Investment Obligations may be purchased by the Trustee through its own investment division or other bank facilities established for such purpose.

Encumbrances

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

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

The Agency may at any time issue indebtedness secured by a lien, pledge or other security interest in the Program Obligations, Revenues, Prepayments and Funds and Accounts pledged under the Trust Agreement

if such indebtedness constitutes Subordinated Indebtedness. The Agency shall not incur such Subordinated Indebtedness unless:

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

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

Records and Accounts

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

Program Covenants

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

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

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

The Agency will not cause money to be withdrawn from the Debt Service Reserve Fund unless an Authorized Officer shall determine in an Officer's Certificate which shall be filed with the Trustee at the time of such withdrawal that such amounts being so withdrawn are not likely to be needed while any Bonds are Outstanding under the provisions of the Trust Agreement for paying the principal of, Sinking Fund Requirements on account of, and interest on Bonds secured by the Debt Service Reserve Fund.

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

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

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

Default and Remedies

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

- (a) payment of the principal or Redemption Price of any of the Bonds is not made when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or
- (b) payment of any installment of interest on any of the Bonds is not made when the same shall become due and payable; or
- (c) the total amount deposited in the Sinking Fund Account in any applicable period set forth in a Supplemental Trust Agreement shall be less than the Sinking Fund Requirements for such period; or
- (d) final judgment for the payment of money is rendered against the Agency and any such judgment is not discharged within sixty (60) days from the entry thereof or an appeal is not taken therefrom or from the order, decree or process upon which or pursuant to which such judgment was granted or entered, in such manner as to stay the execution of or levy under such judgment, order, decree or process or the enforcement thereof; or
- (e) an order or decree is entered, with the consent or acquiescence of the Agency, appointing a receiver or receivers of any Revenues, Prepayments, or other money or assets, including the Program Obligations pledged under the provisions of the Trust Agreement, or if such order or decree, having been entered without the consent or acquiescence of the Agency, is not vacated, discharged or stayed on appeal within ninety (90) days after the entry thereof; or

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

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

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

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

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

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

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

first: to the payment to the persons entitled thereto of all installments of interest then due and payable in the order in which such payments became due and payable and,

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

second: to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due and payable (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of the Trust Agreement) in the order of their due dates, with interest on the principal amount of such Bonds at the respective rates specified therein from the respective dates upon which such Bonds became due and payable, and, if the amount available shall not be sufficient to pay in full the principal of the Bonds due and payable on any particular date, together with such interest, then principal of the Bonds due and payable on any particular date, together with such interest, then to the payment first of such interest, ratably, according to the amount of such interest due on such date, and then to the payment of such principal, ratably, according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds; and

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

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

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

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

Control of Proceedings by the Owners

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

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

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

Concerning the Trustee

The Trustee shall be under no obligation to institute any suit, or to take any remedial proceeding under the Trust Agreement, or to enter any appearance or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of the trusts hereby created or in the enforcement of any rights and powers under the Trust Agreement, until it shall be indemnified to its reasonable satisfaction against any and all costs and expenses, outlays and counsel fees and other reasonable disbursements, and against all liability.

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

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

Supplemental Trust Agreements

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

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

(f) to make any other change to the provisions of the Trust Agreement that do not materially impair the security of the Owners.

The Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding may consent to and approve the adoption by the Board of such other supplemental trust agreements as shall be deemed necessary or desirable by the Agency for the purpose of modifying, altering, amending, adding to, repealing or rescinding in any particular any of the terms or provisions contained in the Trust Agreement or in any supplemental indenture; provided, however, that nothing herein contained shall permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bond, (b) a reduction in the principal amount or Redemption Price of any Bond, any Sinking Fund Requirement on account of the Bonds or the rate of interest on any Bond, (c) the creation of a lien upon or a pledge of the Program Obligations, Revenues, Prepayments and other money and assets pledged other than the lien and pledge created by the Trust Agreement, (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture without the consent of the Owners of all Bonds Outstanding under the Trust Agreement.

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

See the discussion in the Official Statement under the caption “AMENDMENT OF TRUST AGREEMENT” regarding the Agency’s plan to amend the Trust Agreement to provide that payments on all Program Obligations will be handled in a manner consistent with the handling of the payments on Program Obligations deposited to the Series 37 Program Account to the payment of the Series 37 Bonds. By their purchase of the Series 37 Bonds, the owners thereof shall be deemed to have consented to such an amendment.

Defeasance

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

APPENDIX D

BOOK-ENTRY-ONLY SYSTEM

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BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 37 Bonds. The Series 37 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 37 Bond certificate will be issued for each maturity of the Series 37 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 37 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 37 Bonds on DTC's records. The ownership interest of each actual GSEs of each Series 37 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 37 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 37 Bonds, except in the event that use of the book-entry system for the Series 37 Bonds is discontinued.

To facilitate subsequent transfers, all Series 37 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 37 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 37 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 37 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 37 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 37 Bonds, such as redemptions,

tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Series 37 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 37 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 37 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Agency as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 37 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 37 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Agency or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Agency or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Agency and the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 37 Bonds at any time by giving reasonable notice to the Agency or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 37 Bonds are required to be printed and delivered.

The Agency may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 37 Bonds will be printed and delivered to DTC.

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

APPENDIX E

SUMMARY OF GNMA CERTIFICATE, FNMA CERTIFICATE AND FREDDIE MAC CERTIFICATE PROGRAM

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SUMMARY OF GNMA CERTIFICATE, FNMA CERTIFICATE AND FREDDIE MAC CERTIFICATE PROGRAM

GNMA and the GNMA Certificates

The summary and explanation of the Government National Mortgage Association ("*GNMA*" or "Ginnie Mae"), GNMA's mortgage-backed securities program and the other documents referred to herein do not purport to be complete. Reference is made to the *Ginnie Mae Mortgage-Backed Securities Guide* (HUD Handbook 5500.3) (the "GNMA Guide") and to said documents for full and complete statements of their provisions. At the time of printing this Official Statement, the GNMA Guide and general information regarding GNMA can be accessed at <http://www.ginniemae.gov>. The Agency makes no representation regarding the content, accuracy or availability of the GNMA Guide or any information provided at such web site. Such web site is not part of this Official Statement. Further, the procedures and fees described below and in the GNMA Guide are those currently in effect and are subject to change at any time by GNMA.

GNMA is a wholly-owned corporate instrumentality of the United States within the Department of Housing and Urban Development ("HUD"), with its principal office in Washington, D.C. GNMA's powers are prescribed generally by Title III of the National Housing Act, as amended (12 U.S.C. § 1716 *et seq.*).

GNMA is authorized by Section 306(g) of the National Housing Act to guarantee the timely payment of the principal of and interest on securities ("GNMA Certificates") that represent undivided ownership interests in pools of mortgage loans that are: (i) insured by the Federal Housing Administration ("FHA") under the National Housing Act of 1934, as amended; (ii) guaranteed by the Department of Veterans Affairs under the Servicemen's Readjustment Act of 1944, as amended; (iii) guaranteed by the Rural Housing Service ("RHS") of the U.S. Department of Agriculture pursuant to Section 502 of Title V of the Housing Act of 1949, as amended; or (iv) guaranteed by the Secretary of HUD under Section 184 of the Housing and Community Development Act of 1992, as amended and administered by the Office of Public and Indian Housing ("PIH"). The GNMA Certificates are issued by approved servicers and not by GNMA. GNMA guarantees the timely payment of principal of and interest on the GNMA Certificates.

Section 306(g) of the National Housing Act further provides that "the full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection." An opinion, dated December 12, 1969, of an Assistant Attorney General of the United States, states that such guaranties under Section 306(g) of mortgage-backed securities (which are set forth in "GNMA Guaranty Agreements") are authorized to be made by GNMA and "would constitute general obligations of the United States backed by its full faith and credit."

In its corporate capacity under Section 306(d) of Title III of the Housing Act, GNMA may issue its general obligations to the U.S. Department of the Treasury ("Treasury") in an amount outstanding at any one time sufficient to enable GNMA, with no limitations as to amount, to perform its obligations under its guaranty of the timely payment of the principal of and interest on the GNMA Certificate. Treasury is authorized to purchase any obligations so issued by GNMA and has indicated in a letter dated February 13, 1970, from the Secretary of Treasury to the Secretary of HUD that Treasury will make loans to GNMA, if needed, to implement GNMA's guaranty. GNMA has covenanted to borrow from Treasury any amounts necessary to enable GNMA to honor its guaranty of the GNMA Certificates.

GNMA administers two guarantee programs – the "Ginnie Mae I MBS Program" and the "Ginnie Mae II MBS Program." The principal differences between the two programs relate to the interest rate structure of the mortgages backing the GNMA Certificates and the means by which principal and interest payments are made. These differences are not expected to affect adversely the availability of Revenues to pay principal of and interest on the Series 37 Bonds. While the Agency may permit Mortgage Lenders to issue GNMA Certificates under either GNMA program, proceeds of the Series 37 Bonds are expected to be used to purchase GNMA Certificates under the Ginnie Mae I MBS Program.

To issue GNMA Certificates, the Master Servicer must apply for and receive GNMA's commitment to guarantee mortgage-backed securities ("commitment authority"). The Master Servicer is obligated to pay

GNMA commitment fees. GNMA's commitment authority permits the Master Servicer to issue GNMA Certificates up to an approved dollar amount. Commitment authority expires in one year for single-family pools.

Each GNMA Certificate is to be backed by a separate mortgage pool consisting of qualified mortgages in a minimum aggregate amount of \$25,000. Under the Ginnie Mae I MBS Program, the Master Servicer will be required to pay to the Trustee, as the holder of the GNMA Certificates issued by the Master Servicer, the regular monthly installments of principal and interest on the Mortgage Loans that back those GNMA Certificates (less the Master Servicer's servicing fee, which includes a GNMA guaranty fee). Under the Ginnie Mae II MBS Program, the Master Servicer will be required to pay such amounts to the Paying and Transfer Agent for the Ginnie Mae II MBS Program (the "CPTA"), and the CPTA will be required to pay to the Trustee, as the holder of the GNMA Certificate, the regular monthly installments of principal and interest on the Mortgage Loans backing such GNMA Certificate.

Payment of interest and principal on each GNMA Certificate is required to be made in monthly installments by the 15th day of each month under the Ginnie Mae I MBS Program and by the 20th day of each month under the Ginnie Mae II MBS Program, commencing the month following the date of issue of the GNMA Certificate. In addition, each payment is required to include prepayments on Mortgage Loans underlying the GNMA Certificate that were received during the preceding calendar month.

Mortgage Loans underlying a particular GNMA Certificate issued pursuant to the Ginnie Mae I MBS Program must have the same annual interest rate. The annual Pass-Through Rate on each GNMA Certificate under the Ginnie Mae I MBS Program is 0.5% less than the annual interest rate on the Mortgage Loans included in the Mortgage pool backing that GNMA Certificate. Each Mortgage Loan in a Ginnie Mae II pool issued on or after July 1, 2003, must have a fixed interest rate that is at least 0.25% (but not more than 0.75%) higher than the interest rate on the related GNMA Certificate.

The Master Servicer is required to pay a monthly guaranty fee to GNMA for each GNMA Certificate for which the Master Servicer is the issuer of record. GNMA's monthly guaranty fee is computed based on the aggregate principal balance of the guaranteed securities outstanding at the beginning of the monthly reporting period. The monthly rate used to compute the fee is 0.06% (which may be reduced under GNMA's Targeted Lending Initiative) divided by 12. Under the GNMA program, the Master Servicer is responsible for servicing each pooled Mortgage Loans and is entitled to a servicing fee for each such loan. The servicing fee is based on and payable only from the interest portion of each monthly installment of principal and interest actually collected by the Master Servicer on the Mortgage Loan. The fee is equal to the difference between the interest rate on the Mortgage Loan and the interest rate on the GNMA Certificate for which it serves as collateral, computed on the same principal amount and for the same period as the interest portion of the installment. With respect to Ginnie Mae II MBS pools issued on and after July 1, 2003, the Master Servicer must ensure that the minimum servicing fee is at least 0.19% (which fee may be increased under GNMA's Targeted Lending Initiative).

It is expected that interest and principal payments on the Mortgage Loans received by the Master Servicer will be the source of payments on the GNMA Certificates. If those payments are less than what is due, the Master Servicer will be obligated to advance its own funds to ensure timely payment of all amounts coming due on the GNMA Certificates. GNMA guarantees such timely payment in the event of the failure of the Master Servicer to pay an amount equal to the scheduled payment (whether or not made by the Mortgagors). If the Master Servicer defaults on its obligations as an issuer of the GNMA Certificates (including loan servicing and certificate payment obligations), GNMA has the right to extinguish the Master Servicer's interest in the Mortgage Loans underlying such GNMA Certificates, in which case such Mortgage Loans will become the absolute property of GNMA (subject only to the unsatisfied rights of the Trustee, as holder of the GNMA Certificates).

FNMA and the FNMA Certificates

The summary and explanation of the Federal National Mortgage Association ("FNMA" or "Fannie Mae"), Fannie Mae's mortgage-backed securities program and the other documents referred to herein do not

purport to be complete. Reference is made to said documents for full and complete statements of their provisions. Said documents and the MBS Program are subject to change at any time by Fannie Mae. At the time of printing this Official Statement, general information regarding Fannie Mae (including, but not limited to, its financial condition and the status of its conservatorship) can be accessed at <http://www.fanniemae.com>. The Agency makes no representations regarding the content or accuracy of the information provided at such web site, and such web site is not part of this Official Statement.

In accordance with the Federal Housing Finance Regulatory Reform Act of 2008 (the "Regulatory Reform Act"), the Federal Housing Finance Agency (the "FHFA") was named as the conservator of Fannie Mae on September 6, 2008. The Agency cannot predict the long-term consequences of the conservatorship of the Fannie Mae and the corresponding impacts, if any, on the Agency and the Fannie Mae Certificates ("FNMA Certificates") held under the Indenture. On March 31, 2003, Fannie Mae registered its common stock with the Securities and Exchange Commission ("SEC"). As a result of this action, Fannie Mae is required to file periodic financial disclosures with the SEC under the Securities Exchange Act of 1934, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, together with any required exhibits. These reports and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. The SEC currently maintains a web site (<http://www.sec.gov>) that contains reports, proxy statements and other information that Fannie Mae has filed with the SEC. The Agency makes no representations regarding the content, accuracy or availability of any such reports or information filed by Fannie Mae with the SEC, any information provided at the SEC's web site, or how long Fannie Mae will continue to file reports with the SEC. The SEC's web site is not part of this Official Statement.

Fannie Mae is a federally-chartered, private stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act (the "Charter Act," 12 U.S.C. § 1716 *et seq.*). Fannie Mae was originally established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market. It was transformed into a stockholder-owned, privately managed corporation in 1968. The Secretary of HUD exercises general regulatory power over Fannie Mae.

Fannie Mae operates in the secondary mortgage market by purchasing mortgages and mortgage-related securities, including Fannie Mae mortgage-related securities, from primary market institutions, such as commercial banks, savings and loan associations, mortgage companies, securities dealers and other investors. Fannie Mae provides additional liquidity in the secondary mortgage market by issuing and guaranteeing mortgage-related securities. Fannie Mae also offers fee-based services to its customers, such as issuing and administering a variety of mortgage related securities, providing credit enhancements and offering technology products to aid in originating and underwriting mortgage loans.

Fannie Mae operates various mortgage-backed securities programs pursuant to which Fannie Mae issues securities backed by pools of mortgage loan. The FNMA Certificates described in this Official Statement represent beneficial ownership interests in pools of Mortgage Loans held in trust by Fannie Mae for the benefit of the Trustee, as holder of the FNMA Certificates. The FNMA Certificates are issued by Fannie Mae pursuant to a trust indenture and supplements thereto (generally for certificates issued before June 1, 2007) or a trust agreement and supplements thereto (generally for certificates issued since June 1, 2007).

Information regarding the FNMA Certificates is contained in a prospectus (each, a "Single-Family MBS Prospectus") and a prospectus supplement. Each Single-Family MBS Prospectus contains general information about pools issued during its effective period including, but not limited to, the nature of the guaranty, yield considerations, and the mortgage purchase programs. Each prospectus supplement includes information about the pooled Mortgage Loans backing a particular issue of FNMA Certificates and about the certificates themselves. Copies of Single Family MBS Prospectuses and prospectus supplements are available at Fannie Mae's offices located at 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016. At the time of printing this Official Statement, these documents can be accessed at <http://www.fanniemae.com>. The Agency makes no representation regarding the content, accuracy or availability of any such prospectus or supplement thereto, or any information provided at such web site. Fannie Mae's web site is not part of this Official Statement.

Payments on a FNMA Certificate are required to be made to the Trustee on the 25th day of each month (beginning with the month following the month such FNMA Certificate is issued), or if such 25th day is not a

Business Day, on the first business day next succeeding such 25th day. With respect to each FNMA Certificate, Fannie Mae generally is required to distribute to the Trustee an amount equal to the total of (1) the principal due on the Mortgage Loans in the related pool underlying such FNMA Certificate during the period beginning on the second day of the month before the month of such distribution and ending on the first day of such month of distribution (each, a "due period"), (2) the stated principal balance of any Mortgage Loan that was prepaid in full during the month preceding the month of such distribution (including as prepaid for this purpose any Mortgage Loans repurchased by Fannie Mae because of Fannie Mae's election to repurchase the Mortgage Loan after it is delinquent, in whole or in part, with respect to four consecutive monthly installments (or eight consecutive biweekly installments) of principal and interest or because of Fannie Mae's election to repurchase such Mortgage Loan under certain other circumstances as permitted by Fannie Mae's trust indenture or trust agreement), (3) the amount of any partial prepayment of a Mortgage Loan received in the month preceding the month of distribution, and (4) one month's interest, at the fixed pass-through rate, on the principal balance of the FNMA Certificate immediately prior to the distribution date.

Fannie Mae guarantees to holders of the FNMA Certificates, on each distribution date, an amount equal to the borrowers' scheduled principal payments for the related due period, whether or not received, plus an amount equal to one month's interest on the FNMA Certificates at the fixed pass-through rate stated in the prospectus supplement for such certificates. In addition, Fannie Mae guarantees the full and final payment of the unpaid principal balance of the FNMA Certificates on the distribution date in the month of the maturity date specified in the prospectus supplement for the FNMA Certificates. Fannie Mae's guaranty covers any interest shortfalls on the FNMA Certificates arising from reductions in the interest rate of a Mortgage Loan due to application of the Soldiers' and Sailors' Civil Relief Act of 1940, as amended, and similar state laws.

Neither the FNMA Certificates nor payments of principal and interest thereon are guaranteed by the United States government. The FNMA Certificates do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae. Fannie Mae alone is responsible for making payments on its guaranty.

If Fannie Mae was unable to perform its guaranty obligations, the Trustee would receive only the payments that borrowers actually made and any other recoveries on the Mortgage Loans in the pool from sources such as insurance, condemnation and foreclosure proceeds. If that were to happen, delinquencies and defaults on the Mortgage Loans would directly affect the amount of principal and interest that the Trustee would receive each month.

Fannie Mae establishes eligibility criteria and policies for the mortgage loans it purchases, for the sellers from whom it purchases loans, and for the servicers who service Fannie Mae's mortgage loans. Fannie Mae's eligibility criteria and policies are set forth in Fannie Mae's Selling and Servicing Guides (the "Fannie Mae Guides") and updates and amendments to such guides. Fannie Mae amends its Fannie Mae Guides and its eligibility criteria and policies from time to time.

The Charter Act requires that Fannie Mae establish maximum original principal balance dollar limitations for the conventional loans that it purchases. These limitations (referred to as conforming loan limits) typically are adjusted annually. For loans delivered during 2016, Fannie Mae's conforming loan limit for conventional loans secured by first liens on single-unit residences in the State of North Carolina is \$417,000 in all counties other than Camden, Pasquotank, and Perquimans (in which the limit is \$625,500), Currituck, and Gates (in which the limit is \$458,850), and Hyde (in which the limit is \$483,000). Fannie Mae's conforming loan limit for mortgage loans secured by subordinate liens on single-unit residences is 50% of the amount for first lien loans. In addition, the aggregate original principal balance of all the mortgage loans owned by Fannie Mae that are secured by the same residence cannot exceed the amount of the first lien conforming loan limit. The maximum loan-to-value ratio for FHA-insured and VA-guaranteed mortgage loans Fannie Mae purchases is the maximum established by the FHA or VA for the particular program under which the mortgage was insured or guaranteed. The maximum loan-to-value ratio for HUD guaranteed "Section 184" mortgage loans and RHS guaranteed mortgage loans Fannie Mae purchases is 100%. The Charter Act requires that Fannie Mae obtain credit enhancement whenever it purchases a conventional mortgage loan secured by a single-family residence with a loan-to-value ratio over 80%. The credit enhancement may take several forms, including mortgage insurance issued by an insurer acceptable to Fannie Mae covering the amount in excess of 80%, repurchase

arrangements with the seller of the mortgage loans, and seller-retained participation interests. Fannie Mae may impose credit enhancement requirements that are more restrictive than those of the Charter Act.

Fannie Mae is responsible for servicing and administering the mortgage loans it purchases. Fannie Mae may contract with other entities to perform those functions under Fannie Mae's supervision and on Fannie Mae's behalf. The entity with whom Fannie Mae contracts may be the seller that sold the loans to Fannie Mae. Duties generally performed by the servicer include general loan servicing responsibilities, collection and remittance of payments on the mortgage loans, administration of mortgage escrow accounts, collection of insurance claims and foreclosure, if necessary. Fannie Mae remains responsible to certificate holders for all the servicing and administrative functions related to the mortgage loans, even if it hires a servicer. Servicers are required to meet the eligibility standards and performance obligations in the Fannie Mae Guides. Fannie Mae may remove any servicer at any time Fannie Mae considers its removal to be in the certificate holders' best interest.

Freddie Mac and the Freddie Mac Certificates

The following summary of the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac"), the Freddie Mac Guarantor Program, the Freddie Mac Certificates and Freddie Mac's mortgage purchase and servicing standards does not purport to be complete and is qualified in its entirety by reference to Freddie Mac's current Mortgage Participation Certificates Offering Circular, any applicable Offering Circular and Pool Supplements, Freddie Mac's current Mortgage Participation Certificates Agreement, as amended, Freddie Mac's Information Statement, any Information Statement Supplements and any other documents made available by Freddie Mac. Copies of these documents can be obtained from Freddie Mac at 8200 Jones Branch Drive, McLean, Virginia 22102. At the time of printing this Official Statement, the documents mentioned above and general information regarding Freddie Mac (including, but not limited to, its financial condition and the status of its conservatorship) can be accessed at <http://www.freddiemac.com>. However, the Commission makes no representation regarding the content, accuracy or availability of any such document or any information provided at such web site. Such web site is not part of this Official Statement.

On July 18, 2008, Freddie Mac voluntarily registered its common stock with the SEC, thereby subjecting Freddie Mac to reporting requirements applicable to registered securities. In addition, pursuant to the Senior Preferred Stock Purchase Agreement between the Treasury and Freddie Mac, Freddie Mac is required to provide the Treasury with annual reports on Form 10-K, quarterly reports on Form IO-Q, and current reports on Form 8-K. These reports and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. The SEC currently maintains a web site (<http://www.sec.gov>) that contains reports, proxy statements and other information that Freddie Mac has filed with the SEC. The Commission makes no representations regarding the content, accuracy or availability of any such reports or information filed by Freddie Mac with the SEC, any information provided at on the SEC's web site, or how long Freddie Mac will continue to file reports with the SEC. The SEC's web site is not part of this Official Statement.

In accordance with the Regulatory Reform Act, the FHFA was named as the conservator of Freddie Mac on September 6, 2008. The Commission cannot predict the long-term consequences of the conservatorship of the Freddie Mac and the corresponding impacts, if any, on the Commission and the Freddie Mac Certificates held under the Indenture.

Freddie Mac is a shareholder-owned, government-sponsored enterprise chartered on July 24, 1970, pursuant to the Federal Home Loan Mortgage Corporation Act (Title III of the Emergency Home Finance Act of 1970, as amended (12 U.S.C. §§ 1451-1459) (the "Freddie Mac Act").

Freddie Mac purchases and guarantees a variety of single-family mortgages. Most of these mortgages are conventional mortgages that are not guaranteed or insured by the United States or any of its agencies or instrumentalities. However, Freddie Mac purchases some mortgages that are fully insured by the Federal Housing Administration ("FHA") or guaranteed, in part, by the Department of Veterans Affairs ("VA") (collectively, "*FHA/VA* mortgages"). Freddie Mac operates a program in which purchases and pools single-family mortgages for the purpose of issuing mortgage participation certificates (including any Freddie Mac

Certificates that may be purchased by the Trustee). These mortgage participation certificates represent beneficial ownership interests in pools of mortgages that Freddie Mac has purchased.

Freddie Mac is required to pay principal to the holders of its fixed-rate mortgage participation certificates on the 15th of each month (or, if the 15th is not a business day, the next business day), beginning in the month after the certificate is issued (each, a "Payment Date"). The principal balance of the mortgage pool underlying the certificate may differ from the aggregate principal balance of the underlying mortgages due to delays or errors in processing mortgage information, such as a servicer's failure to file an accurate or timely report of its collections of principal or its having filed a report that cannot be processed. Freddie Mac is required to account for any differences as soon as practicable.

The aggregate principal payment in any month on a fixed-rate mortgage participation certificate reflects: (i) the scheduled principal payments due on the mortgages in the related mortgage pool for the monthly reporting period ending in the current month; (ii) prepayments on the related mortgages as reported by servicers for the monthly reporting period ending in the previous month; and (iii) any adjustments necessary to reconcile the principal balance of the mortgage pool with the aggregate balance of the related mortgages reported to Freddie Mac by servicers. Freddie Mac is required to calculate the scheduled principal due on the related mortgages based upon the actual principal balance, interest rate and remaining term to maturity of each mortgage in the mortgage pool. Its calculation of scheduled principal may not reflect actual payments on the mortgages. Interest will accrue on each Freddie Mac during the calendar month preceding the month of the Payment Date at the interest rate specified for the mortgage participation certificate. The interest rate is set at the time of issuance and does not change. Interest accrues on the principal amount of a certificate as determined by its "pool factor" for the month preceding the month of the Payment Date.

Freddie Mac guarantees to each holder of each mortgage participation certificate (i) the timely payment of interest at the applicable interest rate for the certificate; (ii) the timely payment of scheduled principal on the underlying mortgages; and (iii) the full and final payment of principal on the underlying mortgages by the Payment Date that falls in the latest month in which Freddie Mac reduces the related "pool factor" to zero.

The obligations of Freddie Mac under its guarantees of mortgage participation certificates are obligations of Freddie Mac only. Such certificates, including the interest thereon, are not guaranteed by the United States and do not constitute debts or obligations of the United States or any agency or instrumentality of the United States other than Freddie Mac. If Freddie Mac were unable to satisfy its obligations under its guarantees, distributions on the mortgage participation certificate would consist solely of payment and other recoveries on the related mortgage. Accordingly, delinquencies and defaults on the mortgages would affect distributions on the certificates.

The Freddie Mac Act limits the maximum original principal amount of single-family mortgages that Freddie Mac may purchase. These limits are referred to as "conforming loan limits." For loans delivered during 2016, Fannie Mae's conforming loan limit for conventional loans secured by first liens on single-unit residences in the State of North Carolina is \$417,000 in all counties other than Camden, Pasquotank, and Perquimans (in which the limit is \$625,500), Currituck, and Gates (in which the limit is \$458,850), and Hyde (in which the limit is \$483,000). The conforming loan limit for second-lien mortgages is 50 percent of the limit for first-lien mortgages on one-family dwellings. When Freddie Mac purchases both the first-lien and second-lien mortgage on the same property, the Freddie Mac Act provides that the total amount Freddie Mac may purchase may not exceed the applicable conforming loan limit.

The Freddie Mac Act also prohibits Freddie Mac from purchasing first-lien conventional single-family mortgages if the outstanding principal balance at the time of purchase exceeds 80 percent of the value of the real property securing the mortgage unless Freddie Mac have a level of credit protection (such as mortgage insurance from an approved mortgage insurer, a seller's agreement to repurchase or replace any mortgage that has defaulted) or the retention of at least a 10 percent participation interest in the mortgages by the seller. This requirement does not apply to FHA/VA mortgages.

The single-family mortgages purchased and guaranteed by Freddie Mac generally are subject to the credit, appraisal, underwriting and other purchase policies and guidelines set forth in Freddie Mac's *Single-Family Seller/Servicer Guide*. Freddie Mac may modify these guidelines or grant waivers for certain mortgages that it purchases. Freddie Mac services or supervises the servicing of the mortgages it purchases. In performing its servicing responsibilities, Freddie Mac may employ servicing agents or independent contractors. Each such servicer generally is required to perform all activities concerning the calculation, collection and processing of mortgage payments and related borrower inquiries, as well as all mortgage administrative responsibilities, including claims collection, workouts, foreclosures and reports. Servicers service mortgages, either directly or through approved subservicers, and receive fees for their services. Freddie Mac monitors a servicer's performance through periodic and special reports and inspections to ensure it complies with its obligations.

The interest rates of the mortgages in a mortgage pool underlying a fixed-rate mortgage participation certificate are within a range from (i) the certificate interest rate plus any minimum required servicing fee through (ii) 2.5% above the certificate interest rate. Subject to certain adjustments, Freddie Mac will retain from monthly interest payments on each mortgage a management and guarantee fee, which equals any interest received by Freddie Mac from the servicer over the amount of interest payable to holders of the certificate.

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APPENDIX F

SUMMARY OF THE SERIES 37 PROGRAM ACCOUNT AND PROGRAM LOANS

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SUMMARY OF THE SERIES 37 PROGRAM ACCOUNT AND PROGRAM LOANS

As described in the Official Statement, in connection with the issuance of the Series 37 Bonds, the Program Loans financed with the proceeds of the Refunded Bonds will be transferred to the Series 37 Program Account. In addition, although the Agency plans to use Series 37 Bond proceeds deposited to the Series 37 Program Account to purchase only Program Securities, the Thirty-Seventh Supplemental Trust Agreement permits (under the conditions described in the Official Statement) the use of Series 37 Bond proceeds and certain Prepayments of Series 37 Program Obligations, to purchase new Program Loans.

This Appendix F describes the provisions of the Trust Agreement and the Thirty-Seventh Supplemental Trust Agreement regarding the requirements for existing and any new Program Loans and the insurance or guaranty programs associated therewith.

The Series 37 Program Account and Program Loan Requirements

Each Program Loan deposited to the credit of the Series 37 Program Account shall be secured by a Mortgage on the property financed thereby. The unpaid principal amount of a new Program Loan purchased with amounts in the Series 37 Program Account shall not exceed, at the time of the purchase thereof by the Agency, 80% of the Market Value of the property subject to the Mortgage unless the Program Loan is insured or guaranteed in one of the following ways:

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

Each private mortgage insurance policy described in (2) above shall be issued by a private mortgage insurance company approved by FNMA or Freddie Mac to insure mortgage loans purchased by them. The Agency shall not purchase a Program Loan insured by a private mortgage insurance company if the purchase of a Program Loan insured by such insurer would have an adverse effect on the ratings then in effect on the Series 37 Bonds.

The Agency shall require that the existing insurance or guarantee of Program Loans deposited to the Series 37 Program Account, and the insurance or guarantee required for new Program Loans shall remain in effect for so long as the Program Loan is held under the Trust Agreement and insurance or guaranty coverage is available with respect to such Program Loan under the insurance or guaranty program or policy with respect to such Program Loans. The insurance policy or guaranty may be cancelled or permitted to terminate as required by applicable law.

Insurance and Guarantee Programs

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

The Thirty-Seventh Supplemental Trust Agreement provides that the Series 37 Program Loans must be secured by a mortgage on the property financed thereby and must be, except for Series 37 DPA Loans, insured

or guaranteed in one of the following ways: (a) if the Program Loan is an FHA Insured Program Loan, a VA Guaranteed Program Loan, or a USDA Guaranteed Program Loan (as each of such terms is defined below), the applicable insurance or guarantee of the agency or instrumentality administering the insurance or guarantee program in an amount equal to the maximum coverage permitted for such Program Loan under the regulations of such agency or instrumentality; or (b) if the Program Loan is a FNMA or Freddie Mac Conventional Private Mortgage Insured Program Loan, unless the Market Value of the property subject to the Mortgage is greater than 80% of the principal amount of the Series 37 Program Loan, a private mortgage insurance policy issued by a qualified insurer in an amount so that the principal amount of the Program Loan is not greater than 80% of the Market Value of the property secured thereby plus the maximum amount payable under such private mortgage insurance policy in the event of a default by the Borrower thereunder.

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

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

Under the provisions of Section 184 of the Housing and Community Development Act of 1992, as amended ("Section 184"), HUD has the authority to guarantee loans for the construction, acquisition, rehabilitation, or refinancing of 1- to 4-family homes to be owned by Native Americans (as defined in Section 184) on eligible land (as defined in Section 184). Loans guaranteed under Section 184 must bear a fixed rate of interest and be in a principal amount not in excess of 97.75% of the appraised value of the property, excluding closing costs (98.75% if the appraised value is \$50,000 or less), but in no event in excess of 150% of the FHA loan limit for the area. The HUD guarantee under Section 184 is 100% of unpaid principal and interest plus reasonable fees and expenses for loans processed through foreclosure by the holder of the guarantee certificate of 100% of unpaid principal and interest for loans assigned to HUD without foreclosure.

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

Under the terms of either of the foregoing FHA insurance programs, a failure to make a mortgage payment (or to perform any other obligation under the mortgage), if continued for thirty (30) days, constitutes a default which would entitle the mortgagee to claim insurance benefits. The Housing Act gives authority to the Secretary of HUD (the "Secretary") to settle claims for insurance benefits under mortgages insured under Sections 203 and 221 either in cash or debentures.

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

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

To obtain title to and possession of the property under foreclosure, the Agency will pursue its rights under the power of sale contained in the mortgage subject to the constraints of applicable state law and HUD. HUD requires that absent the consent of the mortgagor, at least three full monthly installments be due and unpaid under the mortgage before the mortgagee may initiate any action leading to foreclosure of the mortgage. HUD also requires a face-to-face conference between the mortgagee and the mortgagor in an effort to cure the delinquency without foreclosure. These requirements do not apply where the mortgagor has voluntarily abandoned the mortgaged property or the property has been vacant for over 60 days, or the mortgagor has indicated in writing that he or she has no intention of fulfilling his or her obligations under the mortgage, in which case the mortgagee may immediately initiate foreclosure proceedings (subject to applicable state law notice provisions).

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

The guarantee provisions for VA Guaranteed Program Loans are as follows: (a) for home and condominium loans of \$45,000 or less, 50 percent of the loan is guaranteed (for loans with an original principal balance of \$45,000 and not more than \$56,250, the guarantee will not exceed \$22,500); (b) for home and condominium loans of more than \$56,250 but less than or equal to \$144,000, 40 percent of the loan is guaranteed subject to a maximum guarantee of \$36,000; (c) for home and condominium loans of more than \$144,000, 25 percent of the principal amount of the loan is guaranteed, up to a maximum loan amount of \$417,000; and (d) for loans for manufactured homes, 40 percent of the loan is guaranteed (with a maximum guarantee of \$20,000) (modular homes are treated in the same manner as traditional homes). The Agency does not allow purchases of manufactured homes that are not permanently affixed and are not considered real property.

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

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

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

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

Loss includes only (1) principal and interest evidenced by the note; (2) any loan subsidy due and owing; and (3) any principal and interest indebtedness on USDA approved protective advances for protection and preservation of collateral. Interest is covered by the guarantee to the date of the final loss settlement when the lender conducts liquidation of collateral in an expeditious manner. Net proceeds received from liquidation of the collateral will be used in calculating the amount of loss sustained. If the lender acquires the collateral, the net proceeds from collateral for calculating loss shall be determined by the USDA as follows: (i) the USDA will have the collateral appraised at its current market value as of the date of acquisition by the lender, then (ii) deduct from such appraised value an estimate of liquidation costs which will include an allowance for the estimated time the property will be held by the lender. The USDA will pay its claim based on an appraisal after foreclosure has occurred rather than upon the sale of the property.

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

The Thirty-Seventh Supplemental Trust Agreement provides that a "Private Mortgage Insured Program Loan" is any Program Loan purchased with the proceeds of the Series 37 Bonds that is insured by a private mortgage insurance company that has been approved by FNMA or Freddie Mac to insure mortgage loans purchased by them. The federal Homeowners Protection Act of 1998 requires the automatic termination of private mortgage insurance for any mortgage loan incurred after July 1999 if payments are current on the loan and the loan to value ratio is 78% or less. In addition, borrowers who are current on their mortgage loan payments are entitled to termination of private mortgage insurance requirements upon request if the loan to value ratio is 80% or less. For purpose of determining the loan to value ratio, the value of the subject property is the lesser of the contract sales price and the appraised value at the time the mortgage loan is made. The Agency will not require (and cannot require) borrowers to maintain private mortgage insurance after the borrower is entitled to termination of the private mortgage insurance in accordance with federal law.

The Thirty-Seventh Supplemental Trust Agreement provides that at the option of the Agency, the insurance policy on a Private Mortgage Insured Program Loan may be cancelled or permitted to terminate as required by applicable law. Some providers of private mortgage insurance, including some providers set forth in the table above under the heading "THE PROGRAM—Experience to Date Under the Program" (such table setting forth information regarding the insurance and guarantee programs for the Program Loans held by the Agency under the Trust Agreement), have experienced financial difficulties in recent years. Some providers have experienced withdrawals or declines in their credit ratings, some have entered into arrangements for formal supervision by state regulators under which they are not making full and timely payments on claims in accordance with their initial mortgage insurance policies. The Agency makes no representation regarding the financial condition of any of the entities that have issued policies of Private Mortgage Insured Program Loans under the Trust Agreement. Information regarding specific private mortgage insurance companies should be obtained from the respective company.

Uninsured and Non-Guaranteed Loans. In addition to FHA Insured Program Loans, VA Guaranteed Program Loans, USDA Guaranteed Program Loans and Private Mortgage Insured Program Loans, the Thirty-Seventh Supplemental Trust Agreement provides that the Agency may purchase any other Program Loan so long as, at the time of purchase of the Program Loan by the Agency, the unpaid principal amount of the Program Loan does not exceed 80% of the Market Value of the property that is subject to the Mortgage securing such Program Loan, except or in conjunction with a Series 37 DPA Loan.

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

Standard Hazard Insurance

Each mortgagor is required to obtain and maintain for the mortgaged property a standard hazard and casualty insurance policy in an amount which is not less than (i) the maximum insurable value of the mortgaged property or (ii) the unpaid principal amount of the Program Loan. The standard hazard and casualty insurance policy is required to be written by an insurance company qualified to do business in the State and having a

current general policyholder's rating in Alfred M. Best's Insurance Reports of B and a financial size category of Class III or better.

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

Flood insurance is required to be obtained and maintained by mortgagors whose mortgaged property is in an area designated by HUD as having special flood hazards and for which flood insurance is available under the National Flood Insurance Program. The limit of flood insurance must be the lowest of (i) the unpaid principal balance of the Program Loan, (ii) the full insurable value of the mortgaged property, and (iii) the maximum amount of flood insurance available.

Servicing Agreements

For the Program Loans associated with the FirstHome Mortgage program, the Agency and each Agency-approved Servicer (the "FirstHome Servicer") have entered into a servicing agreement for the servicing of Program Loans purchased by the Agency (the "FirstHome Servicing Agreements"). Each FirstHome Servicing Agreement provides for an annual servicing fee in an amount no more than $3/8^{\text{th}}$ of 1% of the principal balance, computed monthly, of each non-delinquent Program Loan serviced thereunder for which payments of principal and interest have been received by the FirstHome Servicer.

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

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

The FirstHome Servicing Agreements will require FirstHome Servicers to maintain hazard and casualty insurance on each of the mortgaged premises in an amount sufficient to ensure that the Agency will not become a co-insurer under the terms and conditions of the applicable policy or policies. The FirstHome Servicer must also comply, as to each Program Loan, with all rules and requirements of the Agency and the applicable rules and requirements of the insurance or guarantee program with respect to Program Loans, and must at all times keep such insurance in full force and effect. See "Standard Hazard Insurance" above. In addition, each

FirstHome Servicer must maintain blanket bond coverage as customarily used in the mortgage banking industry, including among other provisions, fidelity coverage and insurance against losses resulting from the errors and omissions of the FirstHome Servicer.

APPENDIX G

**PROJECTED PERCENTAGES OF INITIAL PRINCIPAL BALANCE OUTSTANDING
AND PROJECTED WEIGHTED AVERAGE LIVES OF THE SERIES 37 PAC BONDS**

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APPENDIX G

PROJECTED PERCENTAGES OF INITIAL PRINCIPAL BALANCE OUTSTANDING AND PROJECTED WEIGHTED AVERAGE LIVES OF THE SERIES 37 PAC BONDS

Set forth in the table below are projected percentages of initial principal balance outstanding and projected weighted average lives for the Series 37 PAC Bonds under various prepayment speeds. “Projected percentages of initial principal balance outstanding” refers to the principal balance of a security that will be outstanding on a specified date expressed as a percentage of the initial principal amount of such security. The “projected weighted average life” of a security refers to the average amount of time, measured here in years, that is projected to elapse from the date of delivery of such security to the date of projected payment to the investor of each dollar paid to reduce the principal of such security (assuming no losses). The projected weighted average life of a security is determined by (a) multiplying each projected reduction, if any, of the outstanding amount of such security by the number of years from the date of delivery of such security to the related redemption date or maturity date, (b) adding the results and (c) dividing the sum by the initial outstanding amount of such security. The calculation of the projected weighted average life of the Series 37 PAC Bonds set forth below requires the making of certain hypothetical assumptions. See "REDEMPTION OF SERIES 37 BONDS – Projected Weighted Average Lives of the Series 37 PAC Bonds" in the Official Statement.

Projected Percentages of Initial Principal Balance Outstanding and Weighted Average Lives of \$69,920,000 Series 37 PAC Bonds Due July 1, 2039

Payment Date	Prepayment Assumption									
	0 PSA	25 PSA	50 PSA	75 PSA	100 PSA	150 PSA	200 PSA	300 PSA	400 PSA	500 PSA
Initial Percentage	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
January 1, 2017	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
January 1, 2018	100.0%	97.2%	94.3%	91.3%	88.6%	88.6%	88.6%	88.6%	88.6%	88.6%
January 1, 2019	100.0%	93.7%	87.1%	80.6%	74.4%	74.4%	74.4%	74.4%	74.4%	74.4%
January 1, 2020	100.0%	89.5%	78.7%	68.3%	58.3%	58.3%	58.3%	58.3%	58.3%	58.3%
January 1, 2021	100.0%	85.3%	70.7%	56.6%	43.2%	43.2%	43.2%	43.2%	43.2%	43.2%
January 1, 2022	100.0%	81.6%	63.5%	46.3%	30.2%	30.2%	30.2%	30.2%	30.2%	27.4%
January 1, 2023	100.0%	78.3%	57.2%	37.5%	19.2%	19.2%	19.2%	19.2%	19.2%	4.4%
January 1, 2024	100.0%	75.4%	51.8%	30.1%	10.2%	10.2%	10.2%	10.2%	9.4%	0.0%
January 1, 2025	100.0%	73.0%	47.3%	24.1%	3.2%	3.2%	3.2%	3.2%	0.0%	0.0%
January 1, 2026	100.0%	71.0%	43.8%	19.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
January 1, 2027	100.0%	70.2%	42.4%	17.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
January 1, 2028	100.0%	70.2%	42.4%	17.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
January 1, 2029	100.0%	70.2%	42.4%	17.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
January 1, 2030	100.0%	70.2%	42.4%	17.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
January 1, 2031	100.0%	70.2%	42.4%	17.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
January 1, 2032	92.1%	62.8%	35.7%	11.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
January 1, 2033	75.5%	47.7%	22.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
January 1, 2034	58.2%	32.5%	8.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
January 1, 2035	42.7%	19.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
January 1, 2036	27.3%	5.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
January 1, 2037	11.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
January 1, 2038	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
January 1, 2039	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
First Payment or Redemption Date	1/1/2032	7/1/2017	7/1/2017	7/1/2017	7/1/2017	7/1/2017	7/1/2017	7/1/2017	7/1/2017	7/1/2017
Last Payment or Redemption Date	1/1/2038	7/1/2036	1/1/2035	1/1/2033	1/1/2026	1/1/2026	1/1/2026	1/1/2026	1/1/2025	7/1/2023
Weighted Average Life										
Optional Call Not Exercised	18.0	13.5	9.6	6.4	4.1	4.1	4.1	4.1	4.1	3.8
Optional Call at 01/01/2026 Exercised	9.1	7.8	6.5	5.3	4.1	4.1	4.1	4.1	4.1	3.8