

NEW ISSUE

This Official Statement has been prepared by the North Carolina Housing Finance Agency to provide information on the Series 9 Bonds. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Series 9 Bonds, a prospective investor should read this Official Statement in its entirety. Unless indicated, capitalized terms used on this cover page have the meanings given in the Official Statement.

\$65,000,000



North Carolina Housing Finance Agency

\$60,470,000 Home Ownership Revenue Bonds, Series 9-A (AMT)

\$4,530,000 Home Ownership Revenue Bonds, Series 9-B (Non-AMT)

(1998 Trust Agreement)

Dated: November 15, 2000

Due: as shown on inside front cover

<i>Tax Exemption</i>	In the opinion of Bond Counsel and subject to the qualifications described herein, interest on the Series 9 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 pages 41 to 42 herein for additional information including information regarding the application of federal alternative minimum tax provisions to the Series 9 Bonds.
<i>Redemption</i>	The Series 9 Bonds are subject to optional redemption at par, special redemption at par and mandatory tender for purchase or redemption at par as set forth on pages 11 to 22 herein.
<i>Security</i>	The Series 9 Bonds are payable from and secured by a pledge of all Program Obligations, Revenues and Prepayments and certain other assets, on a parity with outstanding Bonds heretofore or hereafter issued under the Trust Agreement. See pages 3 to 9 herein for information regarding security for and sources of payment of the Series 9 Bonds. <i>The Series 9 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 9 Bonds.</i>
<i>Interest Payment Dates</i>	January 1 and July 1, commencing July 1, 2001.
<i>Denominations</i>	\$5,000 or any integral multiple thereof.
<i>Closing/Settlement</i>	December 13, 2000
<i>Bond Counsel</i>	Poyner & Spruill L.L.P., Raleigh, North Carolina
<i>Underwriters' Counsel</i>	LeBoeuf, Lamb, Greene & MacRae, L.L.P., New York, New York
<i>Trustee</i>	First Union National Bank, Charlotte, North Carolina
<i>Book-Entry-Only System</i>	The Depository Trust Company. See pages 9 to 11 herein.

The Series 9 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 and tax exemption of the Series 9 Bonds and certain other matters.

PaineWebber Incorporated

Bank of America, N.A.

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

A.G. Edwards & Sons, Inc.

First Union National Bank

Legg Mason Wood Walker
Incorporated

Morgan Keegan & Company, Inc.
J. Lee Peeler, Division

Robinson-Humphrey

The date of this Official Statement is November 16, 2000

NORTH CAROLINA HOUSING FINANCE AGENCY

\$60,470,000 Home Ownership Revenue Bonds, Series 9-A (AMT)
\$4,530,000 Home Ownership Revenue Bonds, Series 9-B (Non-AMT)

(1998 Trust Agreement)

MATURITY SCHEDULE

Series 9-A Bonds
\$7,135,000 Serial Bonds

<u>Due</u>	<u>Rate</u>	<u>Amount</u>	<u>CUSIP</u>
July 1, 2003	4.75%	\$875,000	65820EM31
July 1, 2004	4.80%	930,000	65820EM49
July 1, 2005	4.85%	980,000	65820EM56
July 1, 2006	4.95%	1,030,000	65820EM64
July 1, 2007	5.00%	1,090,000	65820EM72
July 1, 2012	5.35%	720,000	65820EM80
July 1, 2013	5.45%	1,510,000	65820EM98

Series 9-A Bonds
\$53,335,000 Term Bonds

\$4,825,000	5.60%	Term Bonds maturing July 1, 2016	(Cusip 65820EN22)
7,425,000	5.80%	Term Bonds maturing January 1, 2020	(Cusip 65820EN30)
14,540,000	5.25%	Term Bonds maturing July 1, 2025	(Cusip 65820EN48)
21,545,000	5.875%	Term Bonds maturing July 1, 2031	(Cusip 65820EN55)
5,000,000	5.875%	Term Bonds maturing July 1, 2032	(Cusip 65820EN63)

Series 9-B Bonds
\$4,530,000 Serial Bonds

<u>Due</u>	<u>Rate</u>	<u>Amount</u>	<u>CUSIP</u>
January 1, 2008	4.75%	\$475,000	65820EN71
July 1, 2008	4.75%	465,000	65820EN89
January 1, 2009	4.80%	475,000	65820EN97
July 1, 2009	4.80%	485,000	65820EP20
January 1, 2010	4.85%	495,000	65820EP38
July 1, 2010	4.85%	515,000	65820EP46
January 1, 2011	4.95%	530,000	65820EP53
July 1, 2011	4.95%	540,000	65820EP61
January 1, 2012	5.00%	550,000	65820EP79

(Price of all Bonds 100%)

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

No dealer, broker, salesman or other person has been authorized by the North Carolina Housing Finance Agency or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of the Series 9 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. All quotations from and summaries and explanations of provisions of laws and documents herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this 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, NOR HAVE THEY BEEN REGISTERED UNDER THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES IN RELIANCE ON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF SUCH LAWS. 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 9 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

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OFFICIAL STATEMENT

OF

NORTH CAROLINA HOUSING FINANCE AGENCY

**\$60,470,000 Home Ownership Revenue Bonds, Series 9-A (AMT)
\$4,530,000 Home Ownership Revenue Bonds, Series 9-B (Non-AMT)
(1998 Trust Agreement)**

INTRODUCTION AND PURPOSE

This Official Statement (including the cover page and appendices hereto) has been prepared and is being distributed by the North Carolina Housing Finance Agency (the "Agency") in order to furnish information in connection with the sale of the Agency's Home Ownership Revenue Bonds, Series 9-A (AMT) (1998 Trust Agreement) (the "Series 9-A Bonds") and Home Ownership Revenue Bonds, Series 9-B (Non-AMT) (1998 Trust Agreement) (the "Series 9-B Bonds") (collectively, the "Series 9 Bonds"), being offered hereby in the aggregate principal amounts of \$60,470,000 and \$4,530,000 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 First Union National Bank, as trustee (the "Trustee") and a Ninth Supplemental Trust Agreement, dated as of November 15, 2000, between the Agency and the Trustee (the "Ninth Supplemental Trust Agreement"), authorizing the issuance of the Series 9 Bonds. The Series 9 Bonds will be the ninth series of Bonds issued under the Trust Agreement.

Except for Bonds issued under the Trust Agreement that by the terms thereof are subordinate to the other Bonds issued under the Trust Agreement, all Bonds issued under the Trust Agreement will be equally and ratably secured by the pledges and covenants contained therein. All such bonds that are equally and ratably secured, including the prior series of bonds issued in the respective aggregate principal amounts and on the respective dates as described in "THE PROGRAM - Experience to Date Under Program" herein, and the Series 9 Bonds are herein referred to as the "Bonds." Information descriptive of the Series 9 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 NINTH 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 9 Bonds which are included in or attached to this Official Statement do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entirety by reference to each such document or statute, copies of which are available from the Agency upon request.

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

or rates, sale price or prices and manner of sale thereof must be determined by the State Treasurer and approved by the Local Government Commission (the "Commission") of the State.

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

The Agency will use moneys from the Series 9 Bonds to purchase Program Loans from private Lenders for the purpose of providing financing for single family residential housing for households of low and moderate income in the State. The term "single family residential housing" means housing provided by a permanent loan (not a construction or land development loan) secured by a mortgage on permanent structures containing no more than one dwelling unit, including an individual condominium or townhouse. For a more detailed discussion of the manner in which the Agency intends to apply the proceeds of the Series 9 Bonds, see "SOURCES AND USES OF FUNDS" and "THE PROGRAM - General".

The Ninth Supplemental Trust Agreement provides that the Program Loans purchased with the proceeds of the Series 9 Bonds must be insured or guaranteed by the Federal Housing Administration, the Veterans Administration, the United States Department of Agriculture or a private mortgage insurer or the mortgage loan must meet certain loan-to-value ratios. For a more detailed description of the types of Program Loans the Agency may purchase with the proceeds of the Series 9 Bonds, how such Program Loans must be secured, and certain information regarding the loan insurance or guarantee programs that may be used, see "THE PROGRAM" below. In addition to the other requirements of the Program, the Program Loans must also comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations thereunder (the "Federal Tax Requirements") discussed below under "FEDERAL TAX REQUIREMENTS."

The Agency will purchase Program Loans from mortgage lenders, on a first-come, first-served basis. The Program Loans financed with the proceeds of the Series 9 Bonds will have terms of 30 years. The Agency will purchase Program Loans at rates determined by the Agency from time to time but not greater than permitted by the Federal Tax Requirements. The Program Loans will be purchased by the Agency at 100% of the principal amounts thereof together with accrued interest to the date of purchase. Lenders will not be permitted to charge fees to the seller, but may charge the Borrowers an origination fee.

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

The Series 9 Bonds and the interest thereon are payable solely from the Revenues and other moneys and assets pledged therefor under the Trust Agreement. The Series 9 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 9 BONDS- Debt Service Reserve Fund" and losses on Program Loans are additionally secured by an Insurance Reserve Fund, as more fully described below in "SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 9 BONDS- Insurance Reserve Fund". The Series 9 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 9 Bonds. The Agency has no taxing power.

SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 9 Bonds, together with other available moneys, shall be applied approximately as follows:

Sources of Funds:

Principal Amount of Series 9-A Bonds.....	\$60,470,000
Principal Amount of Series 9-B Bonds.....	4,530,000
Transfer from Revenue Reserve Fund.....	<u>22,350</u>
Total Sources	<u>\$65,022,350</u>

Uses of Funds:

Series 9 Program Account.....	\$62,937,441
Debt Service Reserve Fund.....	1,300,000
Surety Premium.....	22,350
Costs of Issuance.....	160,000
Underwriters' Fee.....	<u>602,559</u>
Total Uses	<u>\$65,022,350</u>

Certain of the proceeds of the Series 9 Bonds will be noted on the books and records of the Agency as exchanged for certain repayments, prepayments and reserve funds that have been set aside to pay at maturity or redeem Agency bonds. Such notation and application of the funds so noted as transferred will constitute a refunding of the bonds to be redeemed for purposes of federal income taxation.

SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 9 BONDS

Pledge Created Under the Trust Agreement

The Series 9 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 "Periodic Withdrawals from Revenue Fund" in Appendix C.

Debt Service Reserve Fund

The Trust Agreement creates a Debt Service Reserve Fund for the additional security of the Bonds issued thereunder. The Trust Agreement provides that each Supplemental Trust Agreement providing for the issuance of Bonds shall specify whether the Bonds authorized thereby will be entitled to the benefit of the Debt Service Reserve Fund and shall specify the portion of the Debt Service Reserve Requirement with respect to such Bonds. The Debt Service Reserve Requirement under the Trust Agreement is the sum of amounts established by each Supplemental Trust Agreement as the portion of such 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 August 31, 2000 there was on deposit in the Debt Service Reserve Fund \$9,517,300.

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 Ninth Supplemental Trust Agreement also provides that the portion of the Debt Service Reserve Requirement in connection with the Series 9 Bonds is the amount as calculated from time to time equal to two percent (2%) of the outstanding principal amount of the Series 9 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. The Debt Service Reserve Requirement in connection with the Series 9 Bonds will be funded from proceeds of the Series 9 Bonds and deposited to the credit of the Proceeds Reserve Account.

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 said Fund in excess of the Debt Service Reserve Requirement due to a decrease in said 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. In connection with the issuance of the Series 1 Bonds, the Agency deposited \$8,454,823 to the credit of the Revenue Reserve Fund. As of August 31, 2000 there was on deposit in the Revenue Reserve Fund \$11,890,000.

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

Under certain circumstances, moneys in the Revenue Reserve Fund (including the initial deposit to the Revenue Reserve Fund in connection with the issuance of the Series 1 Bonds) may be (i) 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, (ii) transferred, at the option of the Agency, to a Special Redemption Account, (iii) used to pay Operating Expenses of the Program, (iv) transferred to the Optional Redemption Account or any Special Redemption Account created by a Supplemental Trust Agreement, (v) used to pay costs of issuance of a new series of bonds or to purchase additional Program Obligations, (vi) used for any other purpose authorized by the Trust Agreement or (vii) transferred to the Agency's General Fund. See the subcaptions "Periodic Withdrawals from Revenue Fund" and "Revenue Reserve Fund" in Appendix C.

Insurance Reserve Fund

The Trust Agreement creates an Insurance Reserve Fund for the additional security of the Bonds issued thereunder. The Trust Agreement provides that each Supplemental Trust Agreement providing for the issuance of Bonds shall specify the Insurance Reserve Requirement with respect to such Bonds and the manner in which such requirement is to be funded. The portion of the Insurance Reserve Requirement for the Series 9 Bonds is a percentage of the principal amount of the Program Loans purchased with the proceeds thereof, the percentage based upon how payment of such Program Loans is guaranteed or insured and determined as follows:

1. if the Program Loan is an FHA Insured Program Loan: .900% of the principal amount thereof;
2. if the Program Loan is a VA Guaranteed Loan: 2.8125% of the principal amount thereof;
3. if the Program Loan is a USDA Guaranteed Program Loan: 2.5875% of the principal amount thereof;

4. if the Program Loan is an PMI Insured Program Loan: 3.3750% of the principal amount thereof;
5. if the Program Loan is not an FHA Insured Program Loan, a VA Guaranteed Program Loan, a USDA Guaranteed Program Loan or a PMI Insured Program Loan: 1.6875% of the principal amount thereof.

As of August 31, 2000 there was on deposit in the Insurance Reserve Fund \$5,615,000.

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

If the amount on deposit in the Insurance Reserve Fund shall be in excess of the Insurance Reserve Requirement, the Trustee shall leave such excess in the Insurance Reserve Fund or, if the Agency directs, in writing, transfer such excess as follows: (i) if the source of such excess is proceeds of the Bonds, the excess shall be transferred to the Special Redemption Account for the Series of Bonds that provided the deposit to the Insurance Reserve Fund and applied as set forth in the Trust Agreement; (ii) if the source of such excess is Revenues transferred from the Revenue Fund or Revenue Reserve Fund, the excess shall be transferred to the Revenue Fund; (iii) if the source of such excess is Agency funds, the excess shall be transferred to the General Fund. For provisions regarding any insufficiency in the Insurance Reserve Fund as a result of these transfers, see "Ambac Assurance Surety Bond" below.

The Trust Agreement also provides that all or any portion of the Insurance Reserve Requirement may be met by cash, Investment Obligations or a Reserve Alternative Instrument, such as a surety bond policy. See Appendix C—"Definitions"). The Agency plans to purchase a surety bond insurance policy (the "Series 9 Surety Bond") from Ambac Assurance Corporation ("Ambac Assurance") to meet the Insurance Reserve Requirement for the Series 9 Bonds.

Ambac Assurance Surety Bond

The Insurance Reserve Requirement for the Series 9 Bonds is equal to an amount of \$745,000. The Trust Agreement authorizes the Issuer to obtain a surety bond in place of funding the Insurance Reserve Requirement with respect to the Series 9 Bonds. Accordingly, application has been made to Ambac Assurance for the issuance of the Series 9 Surety Bond for the purpose of funding a portion of the Insurance Reserve Fund. The premium on the Series 9 Surety Bond is to be fully paid at or prior to the issuance and delivery of the Series 9 Bonds. As long as the Series 9 Surety Bond shall be in full force and effect, the Agency and the Trustee agree to comply with the following provisions:

1. In the event and to the extent that (i) moneys on deposit in the Insurance Reserve Fund are required to be transferred from the Insurance Reserve Fund to the Revenue Fund or to a Special Redemption Account pursuant to the Trust Agreement and (ii) amounts on deposit in and credited to the Insurance Reserve Fund, other than amounts available under a Reserve Alternative Instrument, are insufficient to pay the amount to be paid, then the Trustee shall notify the Agency of the amount of the deficiency. In the event

that the Agency does not, within one business day, transfer funds to the Trustee for deposit to the Insurance Reserve Fund in an amount sufficient to cover the deficiency, then the Trustee shall deliver within one day thereafter to the General Counsel of Ambac Assurance a demand for payment, duly executed by the Trustee certifying that a transfer required to be made from the Insurance Reserve Fund under the Trust Agreement is required and sufficient funds are not available therefor. Pursuant to the terms of the Series 9 Surety Bond, Ambac Assurance is required to make a deposit of funds in an account with the Trustee or its successor, in New York, New York, sufficient for the transfer by the Trustee of amounts which are then due to the Trustee under the Trust Agreement up to but not in excess of the Surety Bond Coverage, as defined in the Series 9 Surety Bond; provided, however, that in the event that the amount on deposit in, or credited to, the Insurance Reserve Fund, in addition to the amount available under the Series 9 Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Series 9 Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.

2. The Trustee shall after submitting to Ambac Assurance the Demand for Payment as provided in 1. above, make available to Ambac Assurance all records relating to the Funds and Accounts maintained under the Trust Agreement.
3. The Trustee shall, upon receipt of moneys received from the draw on the Series 9 Surety Bond, as specified in the Demand for Payment, credit the Insurance Reserve Fund to the extent of moneys received pursuant to such Demand for Payment.

Pursuant to the terms of the Series 9 Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the Series 9 Surety Bond and the Agency is required to reimburse Ambac Assurance for any draws under the Series 9 Surety Bond with interest at a market rate. Upon such reimbursement, the Series 9 Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Series 9 Surety Bond Coverage. The reimbursement obligation of the Agency is subordinate to the Agency's obligations with respect to the Series 9 Bonds.

In the event the amount on deposit, or credited to the Insurance Reserve Fund, exceeds the amount of the Series 9 Surety Bond, any draw on the Series 9 Surety Bond shall be made only after all the funds in the Insurance Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Insurance Reserve Fund, in addition to the amount available under the Series 9 Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond or other such Additional Funding Instrument, draws on the Series 9 Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Ninth Supplemental Trust Agreement provides that following a drawing under the Series 9 Surety Bond, amounts deposited to the Insurance Reserve Fund shall be applied in the following priority: (i) principal and interest on the Series 9 Surety Bond and on any Additional Funding Instrument shall be paid from amounts deposited to the Insurance Reserve Fund pursuant to the Trust Agreement on a *pro rata* basis; and (ii) after all amounts required by (i) are paid in full, amounts necessary to fund the Insurance Reserve Fund to the required level, after taking into account the amounts available under the Series 9 Surety Bond and any Additional Funding Instrument, shall be credited to cover the balance of Insurance Reserve Requirement pursuant to the Trust Agreement.

The Series 9 Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$4,141,000,000 (unaudited) and statutory capital of approximately \$2,556,000,000 (unaudited) as of June 30, 2000. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, Moody's Investors Service and Fitch IBCA, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance makes no representation regarding the Series 9 Bonds or the advisability of investing in the Series 9 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 9 BONDS - Ambac Assurance Surety Bond" and " - Ambac Assurance Corporation."

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's common stock is listed on the NYSE.

Copies of Ambac Assurance's financial statement prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

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

1. The Company's Current Report on Form 8-K dated January 26, 2000 and filed on January 27, 2000;
2. The Company's Current Report on Form 8-K dated March 13, 2000 and filed on March 13, 2000;
3. The Company's Current Report on Form 8-K dated March 21, 2000 and filed on March 22, 2000;
4. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 and filed on March 30, 2000;

5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2000 and filed on May 12, 2000;
6. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2000 and filed on August 11, 2000; and

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

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 Local Government 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 9 Bonds, would be equally and ratably secured by the moneys and assets which are pledged for the payment of all of the Bonds issued under the Trust Agreement and would be entitled to the equal benefit and protection of the provisions, covenants and agreements of the Trust Agreement.

DESCRIPTION OF THE SERIES 9 BONDS

General

The Series 9 Bonds will be dated November 15, 2000 and will bear interest payable on July 1, 2001 and semiannually thereafter on January 1 and July 1, at the rates per annum corresponding to those principal amounts maturing as set forth on the inside front cover page of this Official Statement.

The Series 9 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 below. Purchases of the Series 9 Bonds will be made in the denominations of \$5,000 or any whole multiple thereof.

The Trustee, First Union National Bank, Charlotte, North Carolina, will perform, with respect to the Series 9 Bonds, the fiduciary duties for the Bondholders, 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 9 Bonds upon original issuance and upon subsequent exchange or transfer, the exchange and transfer of the Series 9 Bonds, and the payment of the principal or redemption price of and interest on the Series 9 Bonds subject to the provisions relating to the book-entry-only system, as described below.

Book-Entry-Only System

The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Series 9 Bonds. The ownership of one fully registered Series 9-A and 9-B Bond for each maturity as set forth on the cover page, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. DTC is a limited-purpose trust company organized under 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 securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants", and together with Direct Participants, the "Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Series 9 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 9 Bonds on DTC's records. The ownership interest of each actual purchaser of each 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 purchases, but Beneficial Owners are expected to receive written confirmations providing details of their transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners entered into their transactions. Transfers of ownership interests in the Series 9 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 9 Bonds, except in the event that use of the book-entry system for the Series 9 Bonds is discontinued.

To facilitate subsequent transfers, all Series 9 Bonds deposited by Participants with DTC are registered in the name of DTC's nominee, Cede & Co. The deposit of Series 9 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 9 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 9 Bonds are credited, which may or may not be the Beneficial Owners. The 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.

Principal and interest payments on the Series 9 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payment date. Payments by Direct and Indirect 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 Participants 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 to DTC is the responsibility of the Agency and the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may determine to discontinue providing its services with respect to the Series 9 Bonds at any time by giving notice to the Agency and discharging its responsibilities with respect thereto under applicable law. Under such circumstances (if there is no successor securities depository), the Agency is obligated to deliver the Series 9 Bond certificates as described in the Ninth Supplemental Trust Agreement. The Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the registered owner.

The Agency or the Trustee may determine not to continue the system of book-entry transfers through DTC (or a successor securities depository). In such event, the Series 9 Bond certificates would be provided as described in the Ninth Supplemental Trust Agreement.

In the event that the book-entry-only system is discontinued, the following provisions of the Trust Agreement would be applicable: (i) the principal or redemption prices of the Series 9 Bonds shall be payable upon presentment and surrender of the Series 9 Bonds at the principal corporate trust office of the Trustee, and interest on the Series 9 Bonds shall be payable by the Trustee by check mailed to the registered owner at his address appearing on the registration books of the Agency maintained at the principal corporate trust office of the Trustee; (ii) Series 9 Bonds may be exchanged for an equal aggregate principal amount of Series 9 Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the principal corporate trust office of the Trustee; (iii) the transfer of any Series 9 Bond may be registered on the books maintained by the Trustee for such purpose only upon the surrender thereof to the Trustee with a duly executed assignment in form satisfactory to the Trustee; (iv) for every exchange or registration of transfer of any Series 9 Bond, the Agency or the Trustee may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer; and (v) neither the Agency nor the Trustee shall be required to register the transfer or exchange of any Series 9 Bond during the fifteen (15) days preceding any interest or principal payment date, or register the transfer of or exchange any Series 9 Bond that has been called or is being called for redemption in whole or in part.

Special Redemption

General. The Series 9 Bonds may be redeemed pursuant to an Officer's Certificate in whole or in part on any date at the principal amount thereof plus accrued interest to the date of redemption, (a) by operation of the Series 9 Special Redemption Account from (i) unexpended proceeds of the Series 9 Bonds, (ii) Prepayments of Program Loans financed with the proceeds of the Series 9 Bonds, (iii) excess Revenues transferred from the Revenue Reserve Fund, and (iv) moneys withdrawn from the Proceeds Reserve Account of the Debt Service Reserve Fund in connection with an excess over the Debt Service Reserve Requirement, and (b) from Prepayments of Program Loans financed with proceeds from a Series of Bonds other than the Series 9 Bonds issued under the Trust Agreement ("Cross Call Redemption"), as described below.

Unexpended Proceeds. Moneys from unexpended proceeds of the Series 9 Bonds shall be transferred from the Series 9 Program Account to the Series 9 Special Redemption Account on any date. Unexpended proceeds to be applied to a redemption of Series 9 Bonds shall be applied to redeem the Series 9 Bonds in any manner directed by the Agency taking into account the remaining Program Loans following redemption.

Excess Revenues. Excess Revenues in the Revenue Reserve Fund may, at the option of an Authorized Officer of the Agency, be transferred at any time to a Special Redemption Account to redeem or purchase Bonds of any Series issued under the Trust Agreement selected in any manner directed by the Agency.

Prepayments. Prepayments on Program Loans financed with the proceeds of the Series 9 Bonds shall first be deposited by the Trustee to the Series 9 Special Redemption Account and applied to the redemption or purchase of the Series 9-A Term Bonds due July 1, 2025 (the "Series 9-A 2025 Term Bonds") during the following periods up to the Scheduled Principal Amounts set forth below for each such period:

<u>Redemption Period</u> <u>(Both Dates Inclusive)</u>	<u>Scheduled</u> <u>Principal Amount</u>
December 13, 2000 to July 1, 2001	\$ 15,000
July 2, 2001 to January 1, 2002	245,000
January 2, 2002 to July 1, 2002	600,000
July 2, 2002 to January 1, 2003	960,000
January 2, 2003 to July 1, 2003	1,305,000
July 2, 2003 to January 1, 2004	1,610,000
January 2, 2004 to July 1, 2004	1,700,000
July 2, 2004 to January 1, 2005	1,650,000
January 2, 2005 to July 1, 2005	1,590,000
July 2, 2005 to January 1, 2006	1,530,000
January 2, 2006 to July 1, 2006	1,470,000
July 2, 2006 to January 1, 2007	1,420,000
January 2, 2007 and thereafter	445,000

Prepayments, up to the Scheduled Principal Amount, shall be applied to the redemption or purchase of the Series 9-A 2025 Bonds. The Scheduled Principal Amounts shall be reduced pro rata to the extent that amounts are applied to a special redemption of the Series 9-A 2025 Bonds from unexpended proceeds. If less than the Scheduled Principal Amount is redeemed or purchased in any period, the deficiency shall be added to the Scheduled Principal Amount in the succeeding period. There can be no assurance, however, that Prepayments will be received in the amounts indicated for each period in the preceding table.

Once the amount of Series 9-A 2025 Term Bonds required to be purchased or redeemed during any period as described above is so purchased or redeemed in full, additional Prepayments on Series 9 Program Loans received during such period may be transferred or applied by the Agency as follows: (i) to the Series 9 Program Account, (ii) to redeem Series 9 Bonds, other than the Series 9-A 2025 Term Bonds, pro rata by maturity in proportion to the principal amount of each maturity outstanding, and provided that the Agency may provide for the redemption of such Series 9 Bonds on other than a pro rata basis if the Agency files with the Trustee prior to the date of such redemption, a notice of intent to call such 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 Bonds to be redeemed are selected in the manner

proposed by the Agency or (iii) to effect a Cross Call Redemption, as described below; provided that the Agency must apply certain Prepayments received after the times described under "FEDERAL TAX REQUIREMENTS - Other Requirements - Application of Certain Payments" below to redeem Series 9 Bonds. If such Prepayments are to be applied to a Cross Call Redemption, such redemption or purchase shall be effectuated in accordance with the procedure described below.

Project Weighted Average Life of the Series 9-A 2025 Term Bonds. The following information is provided in order to enable potential investors to evaluate the Series 9-A 2025 Term Bonds which are the subject of special redemption from Prepayments described above.

The weighted average life of identical bonds of the same maturity refers to the average of the length of time that will elapse from the date of issuance of such bonds to the date each installment of principal is paid to the bondholders weighted by the amount of each such installment. The weighted average life of the Series 9-A 2025 Term Bonds will be influenced by, among other things, the rate at which principal payments (including scheduled payments and principal prepayments) are made on the Program Loans financed by the Series 9 Bonds. An investor owning a specific Series 9-A 2025 Term Bond may experience redemption at a rate which varies from the average life of the Series 9-A 2025 Term Bonds.

Prepayments of Program Loans are commonly projected in accordance with a prepayment standard model. The following table, entitled "Projected Weighted Average Lives for the Series 9-A 2025 Term Bonds" assumes, among other things, that (i) the Program Loans prepay at the indicated percentage of The Bond Market Association prepayment experience, (ii) all amounts in the Series 9 Program Account of the Program Fund will be used to purchase Program Loans, (iii) all Program Loans will be financed by February 28, 2002, (iv) all scheduled principal and interest payments on Program Loans and Prepayments thereof are received thirty days after the date on which due and there are no foreclosure losses experienced on such Program Loans, (v) the Series 9-A 2025 Term Bonds are not redeemed pursuant to optional redemption or from unexpended proceeds or Excess Revenues and (vi) the Series 9-A 2025 Term Bonds are not redeemed pursuant to a Cross Call Redemption. Based on such assumptions, some or all of which are unlikely to reflect actual experience, the following table provides certain projected weighted average life information for the Series 9-A 2025 Term Bonds.

**Projected Weighted Average Lives for the Series 9-A 2025 Term Bonds
(in years)**

<u>Prepayment Experience</u>	<u>Series 9-A 2025 Term Bonds Average Life</u>	<u>Prepayment Experience</u>	<u>Series 9-A 2025 Term Bonds Average Life</u>
0%	22.19	75%	4.80
25	11.43	100 and above	4.04
50	6.35		

No assurance can be given that Prepayments of the Program Loans will conform to any level of a particular prepayment projection, schedule or model or that Prepayments will be available to be applied to redemptions of any of the Bonds, including the Series 9-A 2025 Term Bonds. The rates of Prepayments on Program Loans are generally influenced by a variety of economic, geographical, social and other factors, including servicing decisions, changing property values, prevailing interest rates and the time within which Program Loans are originated. In general, if prevailing interest rates fall significantly below the interest rates on the Program Loans

financed by the Series 9 Bonds, such Program Loans may be likely to prepay at higher rates than if prevailing interest rates remain at or above the interest rates on such Program Loans. Conversely, if prevailing interest rates rise above the interest rates on the Program Loans financed by the Series 9 Bonds, the rate of Prepayments might be expected to decrease. The rates of delinquencies and foreclosures on Program Loans will also affect the expected special redemption schedules. The Agency cannot predict the number of Program Loans financed by the Series 9 Bonds that may become delinquent or subject to foreclosure proceedings.

Excess Debt Service Reserve Funds. Moneys in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement may be withdrawn from the Debt Service Reserve Fund, as provided in an Officer's Certificate. If the Trustee is directed to make such withdrawal, the Trustee shall (a) if the withdrawal is from the Proceeds Reserve Account, deposit the amount withdrawn to the Optional Redemption Account or a Special Redemption Account as shall be directed in such Officer's Certificate, or (b) if the amount withdrawn is from the Contribution Reserve Account or the Equity Reserve Account, pay the amount as directed by the Agency, including depositing such amounts to the credit of the Optional Redemption Account or a Special Redemption Account. The Series 9 Bonds to be redeemed shall be selected in any manner directed by the Agency, provided that the Series 9-A 2025 Term Bonds may not be redeemed from such transfers unless redemption of the Series 9-A 2025 Term Bonds is necessary to preserve the exclusion of interest on the Series 9 Bonds from the gross income of the owners thereof for purposes of federal income taxation.

Cross Call Redemption. Certain excess moneys on deposit in the Debt Service Reserve Fund and Prepayments of Program Obligations financed with the proceeds from Series of Bonds other than the Series 9 Bonds may be used to redeem or purchase Series 9 Bonds, provided that the Agency authorizes such use of excess moneys or Prepayments and delivers to the Trustee a Cash Flow Certificate. The Series 9 Bonds to be redeemed shall be selected in any manner directed by the Agency, provided that the Series 9-A 2025 Term Bonds may not be redeemed from such transfers unless redemption of the Series 9-A 2025 Term Bonds is necessary to preserve the exclusion of interest on the Series 9 Bonds from the gross income of the owners thereof for purposes of federal income taxation.

Certain excess moneys on deposit in the Debt Service Reserve Fund and Prepayments of Program Obligations financed with proceeds of the Series 9 Bonds may be used to redeem or purchase Series of Bonds other than the Series 9 Bonds, provided that: (i) the Supplemental Trust Agreement of the Series of Bonds other than the Series 9 Bonds authorizes such use, and (ii) the Agency delivers to the Trustee a Cash Flow Certificate.

Sinking Fund Redemption

The Series 9-A Term Bonds due July 1, 2016, are subject to redemption by lot on January 1, 2014 and each July 1 and January 1 thereafter at the principal amount thereof plus accrued interest to the date of redemption thereof, without premium, from mandatory sinking fund payments that are required to be made in amounts sufficient to redeem on January 1 and July 1 of each year the principal amount of such Bonds specified for each of the dates shown below.

<u>Date</u>	<u>Amount</u>
January 1, 2014	\$ 790,000
July 1, 2014	805,000
January 1, 2015	840,000
July 1, 2015	865,000
January 1, 2016	880,000
July 1, 2016*	645,000

*Final Maturity

The Series 9-A Term Bonds due January 1, 2020, are also subject to redemption by lot on July 1, 2016 and each January 1 and July 1 thereafter at the principal amount thereof plus accrued interest to the date of redemption thereof, without premium, from mandatory sinking fund payments that are required to be made in amounts sufficient to redeem on January 1 and July 1 of each year the principal amount of such Bonds specified for each of the dates shown below.

<u>Date</u>	<u>Amount</u>
July 1, 2016	\$265,000
January 1, 2017	930,000
July 1, 2017	965,000
January 1, 2018	995,000
July 1, 2018	1,025,000
January 1, 2019	1,050,000
July 1, 2019	1,085,000
January 1, 2020*	1,110,000

*Final Maturity

The Series 9-A Term Bonds due July 1, 2025 are also subject to redemption by lot on July 1, 2020 and each January 1 and July 1 thereafter at the principal amount thereof plus accrued interest to the date of redemption thereof, without premium, from mandatory sinking fund payments that are required to be made in amounts sufficient to redeem on January 1 and July 1 of each year the principal amount of such Bonds specified for each of the dates shown below.

<u>Date</u>	<u>Amount</u>
July 1, 2020	\$1,145,000
January 1, 2021	1,180,000
July 1, 2021	1,210,000
January 1, 2022	1,245,000
July 1, 2022	1,280,000
January 1, 2023	1,325,000
July 1, 2023	1,355,000
January 1, 2024	1,390,000
July 1, 2024	1,425,000
January 1, 2025	1,475,000
July 1, 2025*	1,510,000

*Final Maturity

The Series 9-A Term Bonds due July 1, 2031, are also subject to redemption by lot on January 1, 2026 and each July 1 and January 1 thereafter at the principal amount thereof plus accrued interest to the date of redemption thereof, without premium, from mandatory sinking fund payments that are required to be made in amounts sufficient to redeem on January 1 and July 1 of each year the principal amount of such Bonds specified for each of the dates shown below.

<u>Date</u>	<u>Amount</u>
January 1, 2026	\$1,550,000
July 1, 2026	1,600,000
January 1, 2027	1,645,000
July 1, 2027	1,700,000
January 1, 2028	1,750,000
July 1, 2028	1,795,000
January 1, 2029	1,855,000
July 1, 2029	1,910,000
January 1, 2030	1,970,000
July 1, 2030	2,030,000
January 1, 2031	2,085,000
July 1, 2031*	1,655,000

*Final Maturity

The Series 9A Term Bonds due July 1, 2032, are also subject to redemption by lot on July 1, 2031 and each January 1 and July 1 thereafter at the principal amount thereof plus accrued interest to the date of redemption thereof, without premium, from mandatory sinking fund payments that are required to be made in amounts sufficient to redeem on January 1 and July 1 of each year the principal amount of such Bonds specified for each of the dates shown below.

<u>Date</u>	<u>Amount</u>
July 1, 2031	\$ 495,000
January 1, 2032	2,215,000
July 1, 2032*	2,290,000

*Final Maturity

Optional Redemption

The Series 9 Bonds are redeemable at the option of the Agency, in any manner the Agency shall determine, on or after January 1, 2010 in whole or in part, on any date, at the principal amount thereof plus accrued interest to the date of redemption, without premium.

General Provisions as to Purchase or Redemption of Bonds

Any Bonds or portions of 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 Bonds are to be purchased or redeemed; (b) the maturities within such Series from which Bonds are to be purchased or redeemed; (c) the principal amount of Bonds or portion of Bonds within such maturities to be purchased or redeemed; and (d) if any of the 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 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 Bonds then Outstanding. If less than all the Bonds of a single maturity shall be redeemed, the Series 9 Bonds shall be redeemed by lot.

So long as DTC or its nominee is the owner of the Series 9 Bonds, if less than all of the Series 9 Bonds of any one maturity shall be called for redemption, the particular Series 9 Bonds or portions of Series 9 Bonds of such maturity to be redeemed shall be selected by DTC and its DTC Participants in such manner as DTC and its DTC Participants may determine. If a Series 9 Bond is of a denomination in excess of \$5,000, portions of the principal amount in the amount of \$5,000 or any integral multiple thereof may be redeemed.

Notice to Bondholders

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

So long as DTC or its nominee is the owner of the Series 9 Bonds, the Agency and the Trustee will recognize DTC or its nominee as the registered owner of the Series 9 Bonds for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to DTC

Participants and by DTC 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 DTC Participant or otherwise) to notify the beneficial owner so affected shall not affect the validity of the redemption.

Mandatory Tender of Series 9 Bonds

General. A principal amount of Series 9 Bonds as determined by the Agency (but not in excess of the principal amount of unexpended proceeds of the Series 9 Bonds on deposit in the Series 9 Program Account, and except as described below), shall be subject to mandatory tender for purchase on any date (the "Purchase Date") to and including June 1, 2004, subject to the right of owners of Series 9 Bonds to elect to retain their Bonds. On the Purchase Date, the Series 9 Bonds subject to mandatory tender shall either be purchased by the Agency and remarketed at an adjusted interest rate or rates or, if the owner has elected to retain its Bond, exchanged for an equal amount of Series 9 Bonds bearing interest at the adjusted rate or rates.

Determination of Preliminary Adjusted Interest Rates. If at any time during the period subsequent to the issuance of the Series 9 Bonds and within 55 days prior to the Purchase Date, proceeds of the Series 9 Bonds remain on deposit in the Series 9 Program Account and the Agency has determined (evidenced by the filing with the Trustee of an Officer's Certificate) that the rate of interest originally established for the Program Loans to be purchased with the proceeds of the Series 9 Bonds exceeds the maximum rate at which Lenders are able, in the judgment of the Agency, to originate Program Loans to be sold to the Agency, the Agency may provide the Remarketing Agent (which shall be PaineWebber Incorporated, unless otherwise designated by resolution of the Agency) with a schedule of Series 9 Bonds subject to purchase or mandatory tender (the "Tender Bonds") and request the Remarketing Agent to determine, as of a stated date selected by the Agency not less than 5 days nor more than 10 days from the date of request, the interest rates (the "Preliminary Adjusted Rates") at which such Tender Bonds could be remarketed at a price of par plus accrued interest. The aggregate principal amount of Tender Bonds set forth on the schedule cannot exceed the unexpended proceeds of the Series 9 Bonds held in the Series 9 Program Account and the ratio of Tender Bonds maturing on any principal payment date to all Series 9 Bonds maturing on such date shall equal, as nearly as practicable, the ratio of the aggregate principal amount of Tender Bonds to the aggregate principal amount of Series 9 Bonds outstanding. If the yield on the Tender Bonds at the Preliminary Adjusted Rates is at least .50% per annum lower than the yield on the Series 9 Bonds when issued, and the Agency determines (evidenced by the filing with the Trustee of an Officer's Certificate) that (i) Program Loans to be purchased by the Agency with proceeds allocable to Tender Bonds bearing interest at the Preliminary Adjusted Rates can bear a rate of interest which will be less than the prevailing rate of interest on comparable loans available in the State without the assistance of the Agency, and without causing the Series 9 Bonds to become "arbitrage bonds" within the meaning of Section 143 or Section 148 of the Code and (ii) the remarketing or exchange of the Tender Bonds at the Preliminary Adjusted Rates, and the making of Program Loans at the contemplated revised rate will have no material adverse effect on the ability of the Agency to pay when due the principal of and interest on all Bonds issued and outstanding under the Trust Agreement, the Agency may elect by Officer's Certificate filed with the Trustee to call Tender Bonds for mandatory purchase on a date not less than 40 days after the date of such notice. The notice shall identify the Tender Bonds by Series, principal amount and maturity date, determined in accordance with the foregoing pro rata standard. Within each maturity, the Trustee shall select at random the Series 9 Bonds to be designated as Tender Bonds.

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

(A) the principal amount of Tender Bonds owned by such owner and the bond numbers, interest rates and maturity dates thereof;

(B) the Purchase Date;

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

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

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

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

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

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

Final Adjusted Interest Rates; Agency Documentation. Not more than 30 nor less than 15 days prior to the Purchase Date, the Remarketing Agent shall determine and announce to the Trustee, the Local Government Commission and the Agency the Final Adjusted Interest Rates the Tender Bonds of each applicable maturity shall bear as of the Purchase Date. The Final Adjusted Rates shall be the lowest rates which, in the judgment of the Remarketing Agent, as of the date of such determination and under prevailing market conditions, would permit the resale of the Tender Bonds on such date at a price of par plus accrued interest, if any. If the Remarketing Agent shall fail or be unable to set the Final Adjusted

Rates during the period provided, all Tender Bonds shall be subject to mandatory tender for purchase and redemption on the Purchase Date. The Remarketing Agent shall announce the Final Adjusted Rates by telephone to the Trustee, the Local Government Commission and the Agency prior to 4:00 p.m., New York City time, on the date such rates are established, and shall confirm such notice by telex, telecopier or in writing or by wire sent on the same day or by next-day delivery service. Following the date the Final Adjusted Rates are established, but in no event later than the Business Day prior to the Purchase Date, the Agency shall also deliver to the Trustee (i) a supplement to the Arbitrage Certificate for the Series 9 Bonds supporting the conclusion that, subsequent to the Purchase Date and assuming that the Tender Bonds are remarketed or exchanged at the Final Adjusted Rates, the Series 9 Bonds will not be "arbitrage bonds" within the meaning of Sections 143 and 148 of the Code and applicable Regulations, (ii) a Cash Flow Certificate, (iii) evidence satisfactory to the Trustee that the remarketing or exchange of the Tender Bonds at the Final Adjusted Rates will not impair the ratings of the Series 9 Bonds of any national bond rating agencies then maintaining a rating of the Series 9 Bonds; (iv) an opinion of bond counsel to the Agency to the effect that the remarketing or exchange of the Tender Bonds at the Final Adjusted Rates will not adversely affect the exclusion from gross income of the interest payable on the Series 9 Bonds for purposes of federal income taxation; and (v) such additional documentation as the Trustee, the Remarketing Agent or bond counsel may reasonably request in support of the foregoing determinations.

Mandatory Tender and Redemption. If the Remarketing Agent has not established the Final Adjusted Rates within the period set forth above or the Agency has not delivered the documentation required above on or prior to the business day immediately preceding the Purchase Date, the Tender Bonds shall not be exchanged or remarketed on the Purchase Date at the Final Adjusted Rates and the Trustee shall (i) use its best efforts to give immediate notice to all owners of Tender Bonds by telex, facsimile transmission, or next-day delivery service of such failure and the fact that the Tender Bonds will be purchased and redeemed on the Purchase Date; (ii) transfer from the Series 9 Program Account to the Series 9 Special Redemption Account sufficient funds to redeem on the Purchase Date all Tender Bonds at a price equal to the principal amount thereof plus accrued interest; and (iii) proceed to redeem such Tender Bonds in accordance with the provisions of the Trust Agreement and the Ninth Supplemental Trust Agreement.

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

Funds for Purchase; Priority. Subject to the following sentence, any Tender Bond subject to purchase on the Purchase Date shall be purchased on the Purchase Date from moneys transferred from the Series 9 Program Account to the Series 9 Special Redemption Account at a purchase price equal to the principal amount thereof plus accrued interest, if any, thereon to the Purchase Date, and without premium. Any Tender Bonds actually purchased from funds so transferred to the Series 9 Special Redemption Account shall be canceled and shall no longer be Outstanding under the Trust Agreement or Ninth Supplemental Trust Agreement. Notwithstanding the foregoing, there shall not be purchased from such moneys:

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

Purchase from Remarketing Proceeds. In lieu of purchase from moneys held in the Series 9 Special Redemption Account, the purchase price of Tender Bonds subject to purchase on the Purchase Date shall, to the extent available, be paid from the proceeds of purchase of Tender Bonds bearing interest at the Final Adjusted Rates remarketed by the Remarketing Agent to a person or persons designated by the Remarketing Agent (who may but need not be the Remarketing Agent) at the principal amount thereof plus accrued interest, if any. Tender Bonds bearing interest at the Final Adjusted Rates shall be sold to the person or persons designated by the Remarketing Agent if the purchase price in immediately available funds is delivered to the Trustee by 1:00 p.m., New York City time, on the Purchase Date. The Remarketing Agent, acting pursuant to the Remarketing Agreement, shall notify the Trustee in writing no later than the close of business on the fifth (5th) Business Day immediately preceding the Purchase Date of the identity of the purchasers to whom the Tender Bonds bearing interest at the Final Adjusted Rates shall be remarketed as of the Purchase Date, the names in which such Bonds are to be registered and addresses and tax identification numbers of such purchasers and the principal amount, denominations, maturity date or dates and interest rate or rates of the Tender Bonds which shall be so purchased.

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

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

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

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

(2) that such person is the owner of the Tender Bonds to be so exchanged.

THE AGENCY

Organization and Purposes

The Agency was created in 1973 by the Act as a body politic and corporate and as an instrumentality of the State. It is positioned within the Office of Budget, Planning 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 Budget, Planning and Management. Appropriations, if any, from the North Carolina General Assembly to the Agency are credited to the Agency by the Office of Budget, Planning 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 Budget, Planning and Management.

Board of Directors

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

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

<u>Name and Position</u>	<u>Term Expires</u>	<u>Occupation</u>
Lucius S. Jones Chairman	6/30/01	President, United Realty, Wendell

<u>Name and Position</u>	<u>Term Expires</u>	<u>Occupation</u>
John R. Ball	6/30/02	President, Human Resources Associates, Youngsville
Douglas R. Bebber	6/30/01	President, ERA The Property Professionals, Inc. Asheville
Leslie H. Bevacqua	6/30/01	Vice President of Governmental Affairs, N.C. Citizens for Business & Industry, Raleigh
Kevin Brady	6/30/01	Vice President - Correspondent Lending, Chase Manufactured Housing
William C. Fitzgerald	6/30/01	Private Businessman, Laurinburg
Patricia G. Garrett	6/30/01	President, Charlotte-Mecklenburg Housing Partnership, Charlotte
Paul S. Jaber	6/30/01	Private Businessman, Rocky Mount
Booker T. Jones, Sr.	6/30/02	Executive Director, Twin Rivers Opportunities, Inc., Grantsboro
J.W. Oglesby	6/30/01	J.W. Oglesby & Associates, Asheville
Jimmy W. Smith	4/16/02	Owner, Insurance Center, Nashville
William M. Womble, Jr.	6/30/01	Private Businessman, Sanford
Robert J. Yatko	6/30/01	Owner, Wren Homes, Inc., Gastonia

Agency Staff

The Agency currently employs approximately 100 persons. The following persons have been appointed as the principal staff officers of the Agency:

<u>Name and Position</u>	<u>Experience</u>
A. Robert Kucab Executive Director	Executive Director, North Carolina Housing Finance Agency, 1988 to present; Executive Director, Idaho Housing Agency, Boise, ID, 1982-1987; Executive Director, Flint Neighborhood Improvement and Preservation Project, Flint, MI, 1977-1982
James T. Quinn Chief Operating Officer	Director of Rental Programs, North Carolina Housing Finance Agency, 1981-1997; Director of Program Development, Division of Housing, Department of Natural Resources and Community Development, Raleigh, NC, 1979-1981; Consulting Architect, North Carolina Department of Insurance, Raleigh, NC, 1977-1979; Owner/Partner, James Quinn Associates and Quinn-Wiggins Architects, Raleigh, NC, 1967-1977

<u>Name and Position</u>	<u>Experience</u>
Patricia L. Amend Chief Financial Officer	Controller, North Carolina Housing Finance Agency, 1995-1997, Senior Accountant, 1994-1995; Senior Accountant, Deloitte & Touche, LLP, Raleigh, NC, 1992-1994
Sharon K. Drewyor Director of Home Ownership Lending	Manager of Loan Production, North Carolina Housing Finance Agency, 1991-1992, Senior Underwriter, 1990-1991, Quality Control Officer, 1989-1990; Corporate Underwriter, Branch Manager, Loan Originator, Pope Mortgage Company, Raleigh, NC, 1986-1989

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. Patricia L. Amend is the contact person at the Agency for questions regarding the Agency's bond programs. Her telephone number is (919) 877-5717 and her e-mail address is pamend@nchfa.com.

THE PROGRAM

General

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

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

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

All Program Loans to be originated by Lenders for purchase by the Agency with the proceeds of the Series 9 Bonds must be made to households of low and moderate income. The Agency must make a determination that financing of housing for low and moderate income households is not otherwise available, wholly or in part, from private lenders upon reasonably equivalent terms and conditions. The Agency will make the required determination with respect to the Program Loans which will be originated for purchase pursuant to the Program Purchase Agreements. The Program permits Lenders to fund and close fixed rate and step rate Program Loans.

Experience to Date Under Program

On June 21, 2000 the Agency issued \$100,000,000 of Series 8 Bonds under the Trust Agreement to finance the purchase of approximately \$96,907,000 Program Loans. As of September 30, 2000, the Agency had purchased 772 Program Loans with an aggregate balance of \$64,213,000 and had 342 Program Loans reserved with an aggregate balance of \$27,987,000. Program Loans purchased or reserved to date will bear interest at the fixed rate of 7.25%. Program Loans purchased or reserved hereafter may bear a higher or lower interest rate.

The following table summarizes as of August 31, 2000 the origination history of Program Loans purchased by the Agency under the Trust Agreement:

<u>Series</u>	<u>Date of Issue</u>	<u>Bonds Payable (000's)</u>		<u>Program Loans Receivable (000's)</u>			
		<u>Original Principal Amount</u>	<u>Amount Outstanding</u>	<u>Outstanding Principal Balance</u>	<u>Initial Interest Rate(s) on Mortgage*</u> (%)	<u>Type of Mortgage Insurance</u>	<u>Delinquency Rate**</u> (%)
1	6/17/98	\$62,115	\$61,880	\$57,810	6.25	FHA, VA, USDA	2.88
2	12/2/98	35,000	35,000	33,420	5.75 and 6.65	FHA, VA, USDA	1.21
3	3/11/99	65,000	65,000	61,243	5.75 and 6.65	FHA, VA, USDA	1.05
4	5/27/99	50,000	50,000	47,073	5.99	FHA, VA, USDA	0.52
5	8/19/99	55,000	55,000	46,485	6.65	FHA, VA, USDA	1.05
6	12/2/99	45,000	45,000	43,221	6.95	FHA, VA, USDA	0.75
7	4/5/00	65,000	65,000	34,006	6.95 and 7.25	FHA, VA, USDA	0.00

The overall delinquency rate for these seven issues is 1.10% as of August 31, 2000.

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

** Program Loans that are 60/90 days delinquent, as a percentage of the total number of Program Loans in such series outstanding as of August 31, 2000.

Income and Net Asset Limitations

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

<u>Area</u>	<u>Household Income Limits</u>		
	<u>1-Person Family</u>	<u>2-Person Family</u>	<u>3+Person Family</u>
<u>Charlotte Area</u> Cabarrus, Gaston, Lincoln, Mecklenburg, Rowan and Union Counties	\$47,500	\$50,500	\$55,500
<u>Currituck Area</u> Currituck County	\$42,000	\$43,000	\$50,000
<u>Greensboro/Winston-Salem Area</u> Alamance, Davidson, Davie, Forsyth, Guilford, Randolph, Stokes and Yadkin Counties	\$44,500	\$46,500	\$52,500
<u>Hickory Area</u> Alexander, Burke, Caldwell and Catawba Counties	\$40,500	\$42,500	\$48,500
<u>Raleigh-Durham Area</u> Chatham, Durham, Franklin, Johnston, Orange and Wake Counties	\$48,500	\$54,500	\$55,500
<u>Wilmington Area</u> Brunswick and New Hanover Counties	\$40,500	\$42,500	\$48,500
All Other Counties	\$42,000	\$44,000	\$50,000

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 Ninth Supplemental Trust Agreement provides that the Program Loans to be purchased by the Agency with the proceeds of the Series 9 Bonds must be secured by a mortgage on the property financed thereby and that the unpaid principal amount of a Program Loan may not exceed, at the time it is purchased by the Agency, 80% of the Market Value of the property subject to the Mortgage unless it is insured or guaranteed in one of the following ways: (a) if the Program Loan is an FHA Insured Program Loan, a VA Guaranteed Program Loan, or a USDA Guaranteed Program Loan (as each of such terms is defined below), the applicable insurance or guarantee of the agency or instrumentality administering the insurance or guarantee program in an amount equal to the maximum coverage permitted for such Program Loan under the regulations of such agency or instrumentality; or (b) if the Program Loan is a PMI Insured Program Loan (as defined below), a private mortgage insurance policy issued by a qualified insurer in an amount so that the principal amount of the Program Loan is not greater than 80% of the Market Value of the property secured thereby plus the maximum amount payable under such private mortgage insurance policy in the event of a default by the Borrower thereunder.

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 mortgage loans for the purchase of one-to-four family dwelling units. Such mortgage loans must be in conformance with the maximum mortgage loan amount limitations and minimum down payment requirements specified in the Housing Act and regulations promulgated thereunder. In addition, the mortgagor under either of these programs must establish to the satisfaction of FHA that his or her income is adequate to meet the periodic payments required in the mortgage loan.

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

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

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, which, in certain circumstances, may have an interest rate less than that of the insured mortgage. Current regulations under Section 221 provide for settlement of insurance benefits in cash unless the mortgagee requests payment in debentures. The current regulations for Section 203, however, preserve the settlement option in favor of the Secretary. Currently the Secretary is paying claims under Section 203 in cash and has not paid claims in debentures since 1965.

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

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

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

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

On May 19, 2000, the Secretary of Housing and Urban Development announced an initiative called the Fraud Protection Plan. The press release announcing the initiative stated that it would include twelve measures designed to protect homeowners with FHA-insured mortgages from predatory lending practices. The release included the following statement: "Restructure Inflated Mortgages. Once FHA identifies a mortgage based on a fraudulent appraisal, FHA will move to force the lender to write the mortgage down to a level consistent with true market value. If a lender refuses, FHA will intervene directly, cancel the insurance, take possession of the deed, and resell the property with FHA insurance to the family for the fair market price."

The proposed initiative would not have a material impact on the Agency's Program unless FHA attempts to deny existing insurance coverage in restructuring a mortgage. In the Agency's view, FHA has no basis for denying coverage to an insured party unless that party participated in the fraud or misrepresentation. If there are cases where FHA has legal authority to reduce the size of a mortgage as a result of fraud or misrepresentation, any resulting loss should be borne by FHA or the parties actually involved in the fraud or misrepresentation.

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

The guarantee provisions for VA Guaranteed Program Loans are as follows: (a) for home and condominium loans of \$45,000 or less, 50 percent of the loan is guaranteed (for loans with an original principal balance of \$45,000 and not more than \$56,250, the guarantee will not exceed \$22,500); (b) for home and condominium loans of more than \$56,250 but less than or equal to \$144,000, 40 percent of the loan is guaranteed subject to a maximum guarantee of \$36,000; (c) for home and condominium loans of more than \$144,000, 25 percent of the principal amount of the loan is guaranteed subject to a maximum guarantee of \$50,750; and (d) for loans for manufactured homes, 40 percent of the loan is guaranteed (with a maximum guarantee of \$20,000).

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

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

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

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

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

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

The Ninth Supplemental Trust Agreement provides that a "PMI Insured Program Loan" is any Program Loan purchased with the proceeds of the Series 9 Bonds that is insured by a private mortgage insurance company that has been approved by Fannie Mae or Freddie Mac to insure mortgage loans purchased by them.

Uninsured and Non-Guaranteed Loans. In addition to FHA Insured Program Loans, VA Guaranteed Program Loans, USDA Guaranteed Program Loans and PMI Insured Program Loans, the Ninth 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. In addition, the Ninth Supplemental Trust Agreement provides that the PMI Insurance on the PMI Insured Program Loans may be discontinued upon written consent of the Agency. The PMI Insurance may be cancelled if the PMI Insurance has been maintained for one year after closing, the loan balance is equal to or less than 80% of the original sales price or appraised value, whichever is less, the loan is current and the Borrower has a satisfactory payment history.

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

Standard Hazard Insurance

Each mortgagor will be required to 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 will 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. The mortgagor will pay the cost of the standard hazard and casualty insurance policy.

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

Flood insurance will be required to be 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. The mortgagor will pay the cost of flood insurance.

Program Purchase Agreements

The Agency has entered into Program Purchase Agreements with Lenders for the sale to the Agency, on a first-come, first served basis, of Program Loans made to households of low and moderate income and originated by such Lenders. The Lenders are prohibited from imposing any fee or charge, or receiving any remuneration, in excess of the usual and reasonable amounts charged when owner-financing is not provided through the issuance of tax-exempt bonds. The purchase price to be paid by the Agency for each Program Loan purchased with the proceeds of the Series 9 Bonds will be 100% of the outstanding principal amount thereof and the accrued interest thereon.

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

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

The Agency's conditional commitment process, which is initiated by the delivery of a submission package to the Agency, does not begin until after the Lender has processed and approved the application according to applicable loan underwriting criteria and specified Agency guidelines discussed below. The Lender, who must be a qualified originator, must first verify the applicant's income, employment and

assets statements, obtain credit reports to evaluate the applicant's payment record, secure an appraisal of the property by a professional appraiser using an approved appraisal process and form and must obtain the approval of its underwriter prior to delivering a submission package to the Agency for its conditional commitment decision. The Lender must then forward to the Agency complete loan submission packages including the loan application and the required affidavits from the mortgagor and the seller of the residence. When the Agency receives this submission package it will review the application and verify compliance with the various requirements of the Act, Agency policy and regulations, and the Federal Tax Requirements as outlined below. If the Agency determines after such review that the loan is eligible for purchase it will issue a conditional commitment to purchase Program Loans from the Lender who can then schedule the loan for closing. The Agency will begin to process a Program Loan for which it has issued a conditional commitment upon its receipt of an endorsed Program Loan note from the Lender, but will purchase the Program Loan only after it has reviewed, and approved as satisfactory, all mortgage documents that are required to be recorded or that establish that mortgage insurance or guarantee, hazard insurance and title insurance are in place. Further review of the Program Loan application and related certificates to assure continuity of the transaction and compliance with requirements of the Agency and State and federal law will occur prior to purchase as deemed appropriate by the Agency. See "FEDERAL TAX REQUIREMENTS".

In the event Lenders fail to originate and deliver Program Loans in the amount projected by the Agency, the Agency will have unexpended proceeds of the Series 9 Bonds with which it expects to redeem Series 9 Bonds at par. See "DESCRIPTION OF THE SERIES 9 BONDS — Special Redemption".

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

Pursuant to the Program Purchase Agreement, the Agency has agreed to purchase deferred second mortgages to provide closing cost and down payment assistance using acquisition funds available under the federal HOME Investment Partnership Act or other funds available to the Agency for Program Loans. The second mortgages will be approximately \$5,000 in all areas. All borrowers receiving down payment assistance must have incomes no greater than 80% of their county median. The deferred second mortgage will generally become due thirty years from its date; when the mortgaged property is sold or transferred; when a default occurs under the related Program Loan; when the mortgaged property ceases to be the principal residence of the borrower; or when the debt evidenced by the related Program Loan is refinanced.

Servicing Agreements

The Agency and each Agency-approved Servicer have entered into a servicing agreement for the servicing of Program Loans purchased by the Agency. Each Servicing Agreement provides for an annual servicing fee in an amount no more than 3/8 of 1% of the principal balance, computed monthly, of each Program Loan serviced thereunder for which payments of principal and interest have been received by the Servicer and are not delinquent.

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

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

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

FEDERAL TAX REQUIREMENTS

General

The Series 9 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 9 Bond issue could result in interest on the Series 9 Bonds being subject to federal income taxation as of the date of issuance. The Agency, however, has covenanted to comply with all such requirements. In addition, the Federal Tax Requirements provide that certain requirements will be deemed to have been satisfied if certain steps are taken (see "Good Faith Effort" below).

Eligibility Requirements

The new Program Loans to be financed with the proceeds of the Series 9 Bonds must meet the following eligibility requirements:

Residence Requirements. As required by the Program Purchase Agreements and the Federal Tax Requirements, all residences for which owner financing is provided with the proceeds of the Series 9 Bonds must be single family residences located within the State, each of which can reasonably be expected to become the principal residence of the mortgagor within 60 days after the financing is provided. Each mortgagor is required to certify at the closing of the home mortgage loan that he or she intends to make the financed residence his principal residence within 60 days.

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

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

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

Historically, the Agency's acquisition cost limitations have been within the limits derived from the "safe harbor average area purchase prices" published by the U.S. Treasury. In 2000, the Agency commissioned an analysis of the average area purchase prices in the Charlotte and Raleigh-Durham MSA's. The Agency is using the data from that analysis to establish the average area purchase prices in those areas. The Agency will adopt different cost limitations in the future based upon the "safe harbor average area purchase prices" when the U.S. Treasury publishes such figures or compile their own analysis of average area purchases according to IRS regulations and otherwise based on staff recommendations.

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

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

Program Loan Assumption Limitation. To meet the Federal Tax Requirements, each mortgage financed with the proceeds of a bond issue may be assumed only if the residence requirements, absence of prior home ownership, purchase price limitations and the income restrictions are met with respect to the mortgage assumption. The determinations as to compliance with these requirements are to be made as of the date on which the mortgage is being assumed. Accordingly, the Agency must make the required statistical study or otherwise determine (e.g., by reliance on "safe harbor" statistics published by the U.S. Treasury) the relevant average area purchase prices for each statistical area within the State on an annual basis, and must assure compliance with the other applicable Federal Tax Requirements as long as any Series 9 Bonds are outstanding. The Agency has so covenanted in the Ninth Supplemental Trust Agreement and, in order to assure compliance with this requirement, has provided in the Program Purchase Agreement that no Program Loan may be assumed without the written consent of the Agency.

Requirements Related to Arbitrage

In addition to the arbitrage requirements that apply to all tax-exempt bonds under Section 148 of the Code, the Agency must satisfy two additional arbitrage requirements. First, the yield on the Program Loans purchased with the proceeds of the Series 9 Bonds may not be more than 1.125% over the yield on the Series 9 Bonds. The Code and the Treasury regulations thereunder require that all fees, charges and other amounts borne by the mortgagor that are attributable to the Program Loan or the bond issue be taken into account in determining the yield on the Program Loans. Accordingly, in computing the yield on the Program Loans, the Agency takes into account all discount points paid by the seller and origination fees paid by the mortgagor. Since the Lenders are prohibited from charging any other fees and charges in excess of those which would be charged when owner financing is not provided through the use of tax-exempt bonds, the Agency does not have to take such other charges into account in such computation. In addition, the Agency has reserved the right to adjust the yield on the Program Loans should circumstances indicate that such an adjustment is necessary in order to comply with the arbitrage requirements.

The second principal arbitrage requirement obligates the Agency to pay to the United States government amounts earned on non-mortgage investments in excess of the amounts which would have been earned on such investments if invested at a yield equivalent to the yield on the Series 9 Bonds, plus the earnings on such excess.

Other Requirements

Application of Certain Payments. The Federal Tax Requirements provide that all prepayments and repayments (i) received ten years after the date of issuance of the Series 9 Bonds in respect of Program Loans purchased with proceeds attributable to the non-refunding proceeds of the Series 9-A Bonds, and (ii) received ten years after the date of issuance of the bonds refunded by the Series 9 Bonds in respect of Program Loans purchased with proceeds attributable to the refunding proceeds of the Series 9 Bonds (as described under the caption "SOURCES AND USES OF FUNDS" above) be applied to the payment of principal of, or to redeem, Series 9 Bonds no later than the beginning of the second semi-annual period beginning after the date of receipt. Accordingly, the Ninth Supplemental Trust Agreement provides that such amounts (if not less than \$250,000 in aggregate) be applied to the redemption or payment of Series 9 Bonds.

Targeted Area Requirement. In order to comply with the Federal Tax Requirements, the Agency will, for at least one year after owner financing is first made available with respect to new Program Loans purchased with proceeds of the Series 9 Bonds, make available for Program Loans in Targeted Areas within the State an amount equal to 20% of the non-refunding proceeds of the Series 9-A Bonds deposited in the Series 9 Program Account. The Agency's efforts to place Program Loans in Targeted Areas will include advertising that mortgage funds are available for such areas, and may include the Agency's originating such loans directly.

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

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

Good Faith Effort

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

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

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

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

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

Agency Procedures

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

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

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

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

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

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

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

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

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

OTHER AGENCY PROGRAMS

Single Family Programs

In addition to Bonds issued pursuant to the Trust Agreement, the Agency has issued bonds pursuant to 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. Such loans have all either been insured or guaranteed pursuant to federal programs or are the subject of private mortgage insurance.

Bonds issued under the 1980 Resolution and the 1981 Resolution were refunded with proceeds from the Series R, S and T Bonds issued pursuant to the 1985 Resolution and the mortgage loans securing such bonds were transferred to the 1985 Resolution.

The bonds issued under the 1983 Resolution were refunded with the proceeds of the bonds issued under a Bond Resolution adopted by the Agency on November 21, 1995 (the "1995 Resolution") and the mortgage loans then held under the 1983 Resolution were transferred to the 1995 Resolution where they are now held (other than a small amount of such mortgage loans that, pursuant to the plan of finance under the 1995 Resolution, were transferred to the 1985 Resolution, where they are now held).

Single Family Mortgage Loan Portfolio as of August 31, 2000

	<u>Bonds Payable (000's)</u>		<u>Mortgage Loans Receivable (000's)</u>			Delinquency <u>Rate*</u> (%)
	<u>Original Principal Amount</u>	<u>Amount Outstanding</u>	<u>Outstanding Principal Balance</u>	<u>Interest Rate on Mortgage (%)</u>	<u>Type of Mortgage Insurance</u>	
1976 Resolution						
Series A	\$16,160	\$ 5,270	\$ 7,901 ¹	6.00-8.50	FHA/VA/PMI	1.78
Series B	<u>37,325</u>	<u>9,515</u>	<u>10,721¹</u>	6.45-7.75	FHA/VA/PMI	1.84
	53,485	14,785	18,622			
1985 Resolution						
Series A	\$102,302	---	\$ 9,126 ¹	9.95	FHA/PMI	3.11
Series B	100,124	---	8,460 ¹	9.50	FHA/PMI	0.55
Series D	19,980	---	2,990	8.60	FHA	0.00
Series E/F	59,000	---	10,605	8.75/8.25 ²	FHA	1.62
Series J/K	37,900	\$16,795	7,905	8.15/7.90 ²	FHA	1.56
Series L/M	75,000	6,165	15,298	8.38	FHA	0.87
Series N/O	50,000	15,390	13,158	8.15/7.90 ²	FHA	2.96
Series P/Q	57,045	4,205	14,736	8.10	FHA	1.57
Series RST ¹	95,000	46,045	41,276	6.95-13.00	FHA/VA/PMI	1.72
Series U/V	54,815	23,415	20,356	7.40	FNMA/GNMA	---
Series W/X	45,000	26,240	24,295	7.35 6.75-7.35 ³	FHA	3.76
Series Y/Z	40,000	24,760	22,816	7.30/ 6.70-7.30 ³	FHA	4.07
Series AA/BB	60,000	36,345	33,295	7.13/6.75 ³	FHA	3.09
Series CC/DD	31,355	23,225	20,962	6.35/6.55 ³	FHA	3.45
Series EE/FF	23,505	19,015	17,396	7.25/ 6.50-7.25 ³	FHA	4.30
Series GG/HH	30,000	24,510	22,123	7.25/ 6.70-6.95 ³	FHA	4.46
Series II/JJ ⁴	67,530	50,675	45,527	6.75/8.30	FHA/PMI	2.36
Series KK/LL	28,965	24,650	22,199	6.75	FHA	3.16
Series MM/NN	25,000	21,350	19,488	6.75	FHA	1.42

	<u>Bonds Payable (000's)</u>		<u>Mortgage Loans Receivable (000's)</u>			
	<u>Original Principal Amount</u>	<u>Amount Outstanding</u>	<u>Outstanding Principal Balance</u>	<u>Interest Rate on Mortgage (%)</u>	<u>Type of Mortgage Insurance</u>	<u>Delinquency Rate* (%)</u>
Series OO/PP	45,000	39,305	37,514	6.95	FHA	2.66
Series QQ/RR	65,000	58,490	55,062	6.65	FHA	2.90
Series SS/TT	25,000	23,130	21,634	6.45	FHA/USDA	2.64
Series UU/VV	45,000	43,135	39,670	6.15	FHA/USDA	1.16
Series WW ⁵	<u>41,840</u>	<u>40,150</u>	<u>27,314</u>	8.35/ 8.25 ² /8.55	FHA/USDA	2.73
Total 1985	\$1,224,361	\$566,995	\$533,205			
1995 Resolution Series A/B	\$27,955	\$ 7,500	\$ 10,807	9.60-10.35	PMI	2.44
TOTALS	<u>\$1,305,801</u>	<u>\$589,280</u>	<u>\$582,634</u>			

The overall delinquency rate of Mortgage Loans under the 1976 Resolution, the 1985 Resolution and the 1995 Resolution was 1.82%, 2.54% and 2.44%, respectively.

* Mortgage loans that are 60/90 days delinquent, as a percentage of the total number of mortgage loans in such series outstanding as of August 31, 2000.

¹ Prepayments on Mortgage Loans are being recycled to make additional mortgage loans.

² Mortgage rate applicable to Mortgage Loans located in Targeted Areas.

³ Step rate for a portion of the mortgage loans.

⁴ A portion of the proceeds of the Series II/JJ Bonds was used to refund all of the Series C Bonds, and the mortgage loans securing such bonds remain subject to the 1985 Resolution.

⁵ The proceeds of the Series WW Bonds issued on February 17, 1999, were applied to pay and refund all the outstanding Series G and H Bonds and Series I Bonds. The mortgage loans securing the Series G and H Bonds and the Series I Bonds remain subject to the 1985 Resolution.

Note: The Agency may determine from time to time to purchase mortgage loans at rates higher or lower than the initial rates.

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 August 31, 2000, the Agency had approximately \$130,355,000 multifamily revenue bonds outstanding, with a multifamily mortgage loan portfolio of approximately \$124,638,000 of loans securing such bonds. All of the multifamily mortgage loans now owned by the Agency are FHA-insured.

The Agency also administers both the federal and state low-income housing tax credit programs and the rental production program. These funds are available to developers, on a competitive basis, for the development of affordable rental housing in the State. The Agency's goals include supporting the best developments possible given the limited resources available. Therefore, the Agency selects developments serving low-income residents for the longest period of time, at appropriate locations, with strong market

demand, with the healthiest financial structures, the best architectural design and the best quality of building materials and workmanship. The Agency has administered this program since its inception in 1987 and has helped create 1,413 projects comprising 28,038 rental units, allocating \$1,091,602,000 worth of tax credits.

Other Activities

The Agency established a mortgage credit certificate ("MCC") program in July 1987. An MCC permits first-time homebuyers who meet federal limits for family income and acquisition costs, to take 15% or 25% of annual mortgage interest as a federal income tax credit. As of September 30, 2000, the Agency had issued 21,845 certificates under the MCC program totaling \$1,577,099,463 in mortgages.

The Agency is administering State funds to build replacement housing destroyed in 1999 by flooding from Hurricane Floyd. The State legislature appropriated approximately \$45 million to assist homeowners who live outside the 100 year flood plain, do not have flood insurance, are not eligible for the Hazard Mitigation Buyout Program and are ineligible for loans from the Small Business Administration or conventional sources. Assistance will be in the form of forgivable loans made by the State to homeowners up to \$75,000 per household. The legislature also appropriated \$10 million to leverage new rental housing to replace rental units destroyed in the floods. The Agency is administering these two housing programs without receiving administrative compensation from the State.

In September 2000, the Agency issued \$27,175,000 Student Housing Variable Rate Revenue Bonds for the purpose of financing a student housing facility located near the campus of Appalachian State University in Boone, North Carolina. These bonds are secured by the revenues of the student housing facility and by a letter of credit issued by a major bank.

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

TAX EXEMPTION

Certain federal tax requirements must be met subsequent to the initial issuance and delivery of the Series 9 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 Ninth Supplemental Trust Agreement to meet the Federal Tax Requirements. The Agency has also covenanted in the Ninth 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 Ninth Supplemental Trust Agreement are sufficient, if followed, to comply with the Federal Tax Requirements. The Agency has also covenanted, in the Ninth 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 9 Bonds to become included in gross income for federal income tax purposes retroactive from their date of issue.

In the opinion of Poyner & Spruill L.L.P., 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 covenant contained in the Ninth Supplemental Trust Agreement, interest on the Series 9 Bonds is not includable in the gross income of the owners of the Series 9 Bonds for purposes of federal income taxation.

Bond Counsel is of the opinion that interest on the Series 9-A Bonds is treated as a preference item in computing the federal alternative minimum tax imposed by the Code on individuals and the alternative minimum tax imposed by the Code on corporations. Bond Counsel is of the opinion that interest on the Series 9-B Bonds is not treated as a preference item in the calculation of the federal alternative minimum tax of individuals and corporations; however, interest on the Series 9-B Bonds is includable in the adjusted current earnings of corporations for purposes of computing the alternative minimum tax imposed by the Code on corporations.

Bond Counsel is further of the opinion that interest on the Series 9 Bonds is exempt from all income taxes of the State.

Ownership or transfer of, or the accrual or receipt of interest on, the Series 9 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 9 Bonds should consult their tax advisors as to any such possible collateral tax consequences. Except to the extent covered in their legal opinion, Bond Counsel expresses no opinion regarding any such collateral tax consequences.

FINANCIAL STATEMENTS

Appendix A hereto contains the audited financial statements of the Agency as of and for the fiscal year ended June 30, 2000, together with the report thereon by Deloitte & Touche LLP, independent auditors.

LITIGATION

At the time of the delivery of and payment for the Series 9 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 9 Bonds, or in any way contesting or affecting the validity of the Series 9 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 9 Bonds or the existence or powers of the Agency.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Series 9 Bonds are subject to the approving opinion of Poyner & Spruill L.L.P., 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 9 Bonds. Certain legal matters will be passed upon

for the Agency by the Attorney General of the State and for the Underwriters by their counsel, LeBoeuf, Lamb, Greene & MacRae, L.L.P., New York, New York.

LEGAL INVESTMENT

The Act provides that the Series 9 Bonds shall be securities in which all public officers and public bodies of the State and its political subdivisions, and all North Carolina insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase all of the Series 9 Bonds at a price equal to the aggregate principal amount of the Series 9 Bonds. The Underwriters will receive from the Agency a fee of \$602,558.68. The initial public offering prices of the Series 9 Bonds may be changed from time to time by the Underwriters. The Series 9-A Term Bonds maturing July 1, 2032 are expected to be placed with an institutional purchaser.

CONTINUING DISCLOSURE

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, the Agency, pursuant to the provisions of the Ninth Supplemental Trust Agreement, has covenanted (the "Covenant") for the benefit of beneficial owners of the Series 9 Bonds to provide:

- (a) by not later than seven months from the end of each fiscal year of the Agency to each nationally recognized municipal securities information repository ("NRMSIR") and to the state information depository for the State of North Carolina ("SID"), if any, audited financial statements of the Agency for such fiscal year prepared in accordance with Section 159-34 of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute;
- (b) concurrently with the delivery of the audited financial statements referred to in (a) above, to each NRMSIR, and to the SID, if any, the most recent financial and statistical data available to the Agency as of a date not earlier than the end of the preceding fiscal year, regarding Bonds payable, Program Obligations held under the Trust Agreement and Agency experience with Program Obligation delinquencies and Program Obligations in foreclosure, under the Trust Agreement, to the extent such items are not included in the audited financial statements referred to in (a) above;
- (c) in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board, and to the SID, if any, notice of any of the following events with respect to the Series 9 Bonds, if material:
 - (1) principal and interest payment delinquencies;
 - (2) non-payment related defaults;
 - (3) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (4) unscheduled draws on any credit enhancements reflecting financial difficulties;

- (5) substitution of any credit or liquidity providers, or their failure to perform;
 - (6) adverse tax opinions or events affecting the tax-exempt status of the Series 9 Bonds;
 - (7) modification to the rights of the beneficial owners of the Series 9 Bonds;
 - (8) call of any of the Series 9 Bonds for redemption;
 - (9) defeasance of any of the Series 9 Bonds;
 - (10) release, substitution or sale of any property securing repayment of the Series 9 Bonds; or
 - (11) rating changes; and
- (d) in a timely manner, to each NRMSIR and to the SID, if any, notice of a failure of the Agency to provide required annual financial information described in (a) or (b) above on or before the date specified.

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

- (a) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Agency;
- (b) the information to be provided, as modified, would have complied with the requirements of the Rule as of the date of the Official Statement, after taking into account any amendments or interpretations of the Rule, as well as any changes in circumstances; and
- (c) any such modification does not materially impair the interests of the beneficial owners of the Series 9 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 9 Bonds pursuant to the terms of the Trust Agreement at the time of the amendment.

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

The provisions of the Ninth Supplemental Trust Agreement pertaining to continuing disclosure shall terminate upon payment, or provision having been made for payment in a manner consistent with the Rule, in full of the principal and interest with respect to all of the Series 9 Bonds.

In the event of a failure of the Agency to comply with any provision of the Covenant, the Trustee may (and, at the request of the holders of at least 25% aggregate principal amount of Outstanding Series 9 Bonds, shall), or any beneficial owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Agency to comply with the Covenant. However, a default with respect to the Covenant as provided in the Ninth Supplemental Trust Agreement shall not be deemed an Event of Default under the Trust Agreement, and the sole

remedy in the event of any failure of the Agency to comply with the Covenant shall be the actions referred to above.

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

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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 9 Bonds.

NORTH CAROLINA HOUSING FINANCE AGENCY

By /S/ Patricia L. Amend
Patricia L. Amend, Chief Financial Officer

The interest rates, maturities, sale price and manner of sale of the Series 9 Bonds have been determined, with the approval of the North Carolina Housing Finance Agency, by the State Treasurer and Local Government Commission of the State of North Carolina.

By /S/ Robert M. High
Secretary of the Local Government Commission
of North Carolina

Dated: November 16, 2000

APPENDIX A

FINANCIAL STATEMENTS

NORTH CAROLINA HOUSING FINANCE AGENCY

Financial Statements and Independent Auditors' Report
Year Ended June 30, 2000

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**Deloitte
& Touche**

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
North Carolina Housing Finance Agency
Raleigh, North Carolina

We have audited the accompanying statements of financial condition of North Carolina Housing Finance Agency (the "Agency"), a component unit of the State of North Carolina, as of June 30, 2000, and the related statements of revenues, expenses and changes in retained earnings, revenues, expenditures and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of North Carolina Housing Finance Agency as of June 30, 2000, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

August 29, 2000

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENTS OF FINANCIAL CONDITION

JUNE 30, 2000

(in thousands)	<i>Enterprise Funds</i>			Total Enterprise Funds
	Agency Account	Home Ownership Programs	Rental Programs	
ASSETS				
Cash and cash equivalents	\$ 5,759	4,081	1,514	11,354
Investments	13,839	255,113	32,972	301,924
Investments - Securities lending transactions	3,064	1,309	118	4,491
Accrued interest receivable				
on investments	271	2,003	421	2,695
Mortgage loans receivable, net	2,456	898,962	121,981	1,023,399
Accrued interest receivable				
on mortgage loans	131	7,360	920	8,411
Other assets	1,540	1	85	1,626
Interprogram receivable (payable)	136	(8)	-	128
TOTAL ASSETS	<u>27,196</u>	<u>1,168,821</u>	<u>158,011</u>	<u>1,354,028</u>
LIABILITIES AND FUND EQUITY				
Bonds payable, net	-	1,055,212	124,496	1,179,708
Accrued interest payable	-	12,401	195	12,596
Accounts payable	1,257	311	606	2,174
Deferred revenues	4,870	-	-	4,870
Obligations under securities lending transactions	3,064	1,309	118	4,491
Other liabilities	243	881	-	1,124
TOTAL LIABILITIES	<u>9,434</u>	<u>1,070,114</u>	<u>125,415</u>	<u>1,204,963</u>
Fund Equity:				
Retained Earnings:				
Reserved	5,450	98,707	32,596	136,753
Unreserved:				
Designated	12,312	-	-	12,312
Total Retained Earnings	<u>17,762</u>	<u>98,707</u>	<u>32,596</u>	<u>149,065</u>
TOTAL FUND EQUITY	<u>17,762</u>	<u>98,707</u>	<u>32,596</u>	<u>149,065</u>
TOTAL LIABILITIES AND FUND EQUITY \$	<u>27,196</u>	<u>1,168,821</u>	<u>158,011</u>	<u>1,354,028</u>

See Notes to Financial Statements

(in thousands)	<i>Special Revenue Funds</i>		
	Housing Trust Fund	Federal/State Awards Programs	Total Special Revenue Funds
ASSETS			
Cash and cash equivalents	\$ 24,333	12,088	36,421
Investments-Securities lending transactions	14,449	999	15,448
Accrued interest receivable on investments	-	5	5
Mortgage loans receivable	8,317	6,482	14,799
Accrued interest receivable on mortgage loans	16	11	27
Other assets	999	230	1,229
Interprogram receivable (payable)	24	(152)	(128)
TOTAL ASSETS	<u>48,138</u>	<u>19,663</u>	<u>67,801</u>
LIABILITIES AND FUND EQUITY			
Deferred revenue	9,316	7,012	16,328
Obligations under securities lending transactions	14,449	999	15,448
Other liabilities	4	2,972	2,976
TOTAL LIABILITIES	<u>23,769</u>	<u>10,983</u>	<u>34,752</u>
Fund Equity:			
Fund Balances-Reserved	<u>24,369</u>	<u>8,680</u>	<u>33,049</u>
TOTAL FUND EQUITY	<u>24,369</u>	<u>8,680</u>	<u>33,049</u>
TOTAL LIABILITIES AND FUND EQUITY \$	<u>48,138</u>	<u>19,663</u>	<u>67,801</u>

See Notes to Financial Statements

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

YEAR ENDED JUNE 30, 2000

(in thousands)	<i>Enterprise Funds</i>			Total Enterprise Funds
	Agency Account	Home Ownership Programs	Rental Programs	
REVENUES				
Interest on investments	\$ 1,378	12,579	2,395	16,352
Net decrease in fair market value of investments	(610)	(1,161)	(679)	(2,450)
Interest on mortgage loans	236	58,084	11,085	69,405
Program fees	3,186	-	-	3,186
Other revenues	1,208	40	48	1,296
TOTAL REVENUES	5,398	69,542	12,849	87,789
EXPENSES				
Interest on bonds	-	55,341	8,647	63,988
Mortgage servicing fees	-	2,970	129	3,099
General and administrative	6,261	702	70	7,033
Other expenses	585	109	938	1,632
TOTAL EXPENSES	6,846	59,122	9,784	75,752
OPERATING INCOME(LOSS)	(1,448)	10,420	3,065	12,037
Nonoperating revenue	578	-	-	578
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(870)	10,420	3,065	12,615
Extraordinary items	-	(1,047)	(88)	(1,135)
NET INCOME (LOSS)	(870)	9,373	2,977	11,480
Net transfers from (to) programs	163	(163)	-	-
Equity transfer from Special Revenue Funds	110	-	-	110
RETAINED EARNINGS, beginning of period	18,359	89,497	29,619	137,475
RETAINED EARNINGS, end of period \$	17,762	98,707	32,596	149,065

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2000

(in thousands)	<i>Special Revenue Funds</i>		
	Housing Trust Fund	Federal/State Awards Programs	Total Special Revenue Funds
REVENUES			
Interest on investments	\$ 1,443	51	1,494
Net decrease in fair market value of investments	(395)	(196)	(591)
Interest on mortgage loans	160	87	247
Federal awards received		26,728	26,728
Federal awards administration income		1,254	1,254
State grants received		10	10
Program income	790	1,035	1,825
TOTAL REVENUES	<u>1,998</u>	<u>28,969</u>	<u>30,967</u>
EXPENDITURES			
Federal awards and loans	2,429	27,033	29,462
Other awards and loans	2,140	2,102	4,242
General and administrative	20	2,045	2,065
Other expenditures	18	1	19
TOTAL EXPENDITURES	<u>4,607</u>	<u>31,181</u>	<u>35,788</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,609)	(2,212)	(4,821)
State appropriations	9,000	3,300	12,300
Equity transfer to Enterprise Funds	-	(110)	(110)
FUND BALANCES, Reserved			
beginning of period	<u>17,978</u>	<u>7,702</u>	<u>25,680</u>
FUND BALANCES, Reserved			
end of period	<u>\$ 24,369</u>	<u>8,680</u>	<u>33,049</u>

NORTH CAROLINA HOUSING FINANCE AGENCY

STATEMENTS OF CASH FLOWS

YEAR ENDED JUNE 30, 2000

(in thousands)	<i>Enterprise Funds</i>			Total Enterprise Funds
	Agency Account	Home Ownership Programs	Rental Programs	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	\$ (1,448)	10,420	3,065	12,037
Principal received on mortgage loans	308	92,191	2,777	95,276
Purchase of mortgage loans	(222)	(247,630)	-	(247,852)
Adjustments:				
Interest on bonds	-	54,700	8,396	63,096
Interest on investments	(849)	(11,443)	(1,718)	(14,010)
Amortization of deferred financing costs	-	641	251	892
Amortization of mortgage loan discount	(25)	(623)	(49)	(697)
Amortization of loan origination cost	-	(41)	-	(41)
Changes in assets and liabilities:				
Loan loss reserve	186	-	-	186
Accrued interest receivable				
on mortgage loans	(14)	(1,062)	22	(1,054)
Other assets	199	364	249	812
Accounts payable and other liabilities	(370)	(376)	(51)	(797)
Deferred revenues	21	-	-	21
Net cash provided by (used in) operating activities	<u>(2,214)</u>	<u>(102,859)</u>	<u>12,942</u>	<u>(92,131)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Proceeds from bonds	-	265,000	-	265,000
Principal paid on bonds	-	(81,835)	(3,520)	(85,355)
Interest paid on bonds	-	(56,087)	(8,400)	(64,487)
Bond issuance costs paid	-	(3,101)	-	(3,101)
Net transfers from (to) programs	273	(163)	-	110
Net cash provided by (used in) noncapital financing activities	<u>273</u>	<u>123,814</u>	<u>(11,920)</u>	<u>112,167</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Sales, maturities and transfers of investments	801	433,528	32,883	467,212
Purchases and transfers of investments	(1,501)	(471,173)	(35,438)	(508,112)
Interest received on investments	1,360	12,861	2,329	16,550
Net cash provided by (used in) investing activities	<u>660</u>	<u>(24,784)</u>	<u>(226)</u>	<u>(24,350)</u>
NET INCREASE (DECREASE) IN CASH	<u>(1,281)</u>	<u>(3,829)</u>	<u>796</u>	<u>(4,314)</u>
CASH AND CASH EQUIVALENTS, beginning of period	<u>7,040</u>	<u>7,910</u>	<u>718</u>	<u>15,668</u>
CASH AND CASH EQUIVALENTS, end of period \$	<u><u>5,759</u></u>	<u><u>4,081</u></u>	<u><u>1,514</u></u>	<u><u>11,354</u></u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2000

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 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 (Act), the Agency is authorized to issue bonds and other obligations to fulfill its corporate purpose up to a total outstanding amount of \$1.5 billion. The debt obligations of the Agency do not constitute a debt, grant or loan of credit of the State, and the State is not liable for the repayment of such obligations.

Fund Accounting. The Agency's accounts are organized on the basis of funds. Each fund represents a separate accounting entity. Agency resources are allocated to these funds based on legal responsibility, fiscal accountability and management designation.

Enterprise Funds. The enterprise funds account for both the general operations of the Agency and the Agency's bond resolution programs, which are self-supporting and report net income (loss). Enterprise Funds use the accrual basis of accounting.

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

Home Ownership Programs. The funds combined in the Home Ownership Programs were created through various single family bond resolutions and are restricted as to their use. The proceeds of individual bond issues are used to purchase first mortgage loans on single family residential units or to purchase first or second mortgage loans, which provide major improvements to existing single family residential units.

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

Special Revenue Funds. The special revenue funds account for proceeds from state and federal revenue sources that are legally restricted to expenditures for housing for low to moderate-income individuals and report excess (deficiency) of revenues over (under) expenditures. Special Revenue Funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become available and measurable. Expenditures are recognized in the accounting period in which the fund liability is incurred.

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

The purpose of the Housing Trust Fund is to increase the supply of decent, affordable and energy-efficient housing for residents of the State with low and moderate incomes. The General Assembly of the State of North Carolina has appropriated funds; substantially all of which are to be used to make loans and grants under the Housing Trust Fund programs. The Housing Partnership is responsible for developing policy with respect to the operation of programs within the Housing Trust Fund. The Agency provides staff services to the Housing Partnership and administers the Housing Trust Fund programs.

Federal/State Awards Programs. The Agency administers eight federal awards programs. The Section 8 Lower Income Housing Assistance Payment Program and the HOME Investment Partnership Program represent 91% of federal awards program expenditures. The Agency receives a fee for administering these programs. The HOME Investment Partnership Program is matched with funds appropriated by the General Assembly of the State of North Carolina.

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

New Accounting Pronouncement. In June 1999, the GASB issued Statement No. 34 “Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments” (GASB 34). GASB 34 establishes that the basic financial statements and required supplementary information for general purpose governments should consist of management’s discussion and analysis, basic financial statements, and required supplementary information. This statement is not required to be implemented until fiscal year 2001. The Agency has not completed the process of evaluating the impact that will result from adopting GASB 34.

In June 1998, the FASB issued Statement No. 133 “Accounting for Derivative Instruments and Hedging Activities” (FAS 133). This statement establishes accounting and reporting standards for derivative instruments including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities in the statements of financial position and measure those instruments at fair value. This statement is not required to be implemented until fiscal year 2001. The Agency has not completed the process of evaluating the impact that will result from adopting FAS 133.

Cash and Cash Equivalents. Cash and cash equivalents are comprised of cash on hand, amounts on deposit with financial institutions which are insured or are collateralized under provisions of North Carolina laws and regulations, amounts in pooled cash accounts managed by the State Treasurer, and highly liquid investments with original maturities of three months or less. Funds deposited in an investment pool of the State Treasurer are invested in a variety of instruments as authorized by State law.

Investments. Investments are reported at fair value in accordance with GASB Statement 31 “Accounting and Financial Reporting for Certain Investments and External Investment Pools” (GASB 31). The Agency intends to hold all securities to maturity.

Mortgage Loans Receivable. Mortgage loans receivable are carried at cost less unamortized discount plus unamortized direct loan origination costs. The discount on loans and all direct loan origination costs are amortized over the terms of the mortgages using the interest method. Mortgage loans receivable and other long term assets recorded in the special revenue funds are offset by a deferred revenue account.

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

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

Furniture and Equipment. Furniture and equipment (included in Other assets) are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to five years. Furniture and equipment at June 30, 2000 consisted of (in thousands):

Furniture and equipment	\$1,049
Less accumulated depreciation	<u>(656)</u>
Furniture and equipment, net	<u>\$393</u>

Interprogram Receivable (Payable). During the normal course of operations, the Agency has numerous transactions among programs in order to provide services. To the extent that certain transactions among programs have not been settled as of June 30, 2000, these balances are recorded as interprogram receivables or payables.

Fund Equity. As of June 30, 2000, the Agency has designated \$12,312,000 of its unreserved retained earnings for potential home ownership mortgage loan losses, to cover its 2001 operating budget, and to support other agency housing programs.

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

The fund balance of the Housing Trust Fund is reserved in accordance with the policies of the Housing Partnership. The Federal/State Awards Program's fund balance is reserved in accordance with each specific program's requirements.

The Agency implemented GASB 31 on July 1, 1997. The effect of the adoption on the Agency's financial statements for the past three years is as follows:

	June 30 <u>2000</u>	June 30 <u>1999</u>	June 30 <u>1998</u>
<i>Enterprise Funds:</i>			
Increase (Decrease) in Net Income (Loss)	\$ (2,450)	\$ (2,839)	\$ 667
Increase (Decrease) in Retained Earnings	\$ (3,288)	\$ (838)	\$ 2,001
<i>Special Revenue Funds:</i>			
Increase ((Decrease) in Excess (Deficiency) of Revenue over (under) Expenditures	\$ (591)	\$ (313)	\$ 205
Increase (Decrease) in Fund Balance	\$ (591)	-	\$ 313

General and Administrative Expenses. General and administrative expenses have been classified as expenses of the fund to which they relate. To the extent allowed by bond resolutions and federal awards programs, transfers are made from the funds of the bond issue or the federal award program to the Agency to reimburse certain general and administrative expenses of the Agency. In the event the bond resolution or federal awards program does not permit payment of general and administrative expenses of the Agency, expenses are paid from Agency reserve funds.

Nonoperating Revenue. In November 1999, a grant award program was closed and the related assets were transferred from the Federal/State Awards Programs Special Revenue Fund to the Agency Account, an Enterprise Fund. This resulted in a residual equity transfer of \$110,000 and nonoperating revenue of \$578,000 in the Agency Account.

Selected Financial Data by Bond Resolution. Selected financial data as of and for the year ended June 30, 2000, for each of the bond resolutions under the Home Ownership and Rental Programs are as follows (*in thousands*):

<u>Issue</u>	<u>Total Assets</u>	<u>Retained Earnings</u>	<u>Total Revenues</u>	<u>Total Expenses and Extraordinary Items</u>	<u>Net Income</u>
Single Family Mortgage Purchase Bonds (1976 Resolution)	\$ 32,168	\$ 17,658	\$ 1,942	\$ 1,270	\$ 672
Single Family Revenue Bonds (1985 Resolution)	631,883	54,908	47,421	41,561	5,860
Single Family Revenue Bonds (1995 Resolution)	17,011	9,225	1,533	911	622
Home Ownership Revenue Bonds (1998 Trust Agreement)	487,375	16,674	18,560	16,407	2,153
Home Improvement Revenue Bonds (1988 Resolution)	<u>384</u>	<u>242</u>	<u>86</u>	<u>20</u>	<u>66</u>
Total Home Ownership Programs	<u>\$1,168,821</u>	<u>\$ 98,707</u>	<u>\$ 69,542</u>	<u>\$ 60,169</u>	<u>\$ 9,373</u>

<u>Issue</u>	<u>Total Assets</u>	<u>Retained Earnings</u>	<u>Total Revenues</u>	<u>Total Expenses and Extraordinary Items</u>	<u>Net Income</u>
Multifamily Revenue Bonds (1984 Resolution)	\$ 66,290	\$ 17,564	\$ 4,403	\$ 3,587	\$ 816
Multifamily Revenue Refunding Bonds (1992 Resolution)	52,739	9,743	5,162	3,541	1,621
Multifamily Revenue Bonds (1993 Resolution)	7,839	443	514	450	64
Multifamily Revenue Bonds (1994 Resolution)	13,142	2,299	798	621	177
Multifamily Revenue Refunding Bonds (1995 Resolution)	<u>18,001</u>	<u>2,547</u>	<u>1,972</u>	<u>1,673</u>	<u>299</u>
Total Rental Programs	<u>\$ 158,011</u>	<u>\$ 32,596</u>	<u>\$ 12,849</u>	<u>\$ 9,872</u>	<u>\$ 2,977</u>

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

The General Statutes of the State authorize the Agency to invest in (1) direct obligations of, or obligations on which the principal and interest are unconditionally guaranteed by the United States government; (2) obligations issued by an approved agency or corporation wholly-owned by the United States government; (3) 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; (4) duly established investment programs of the State Treasurer; (5) repurchase agreements; and (6) investment agreements with banks and financial institutions which are chartered outside of North Carolina and meet specified rating and collateral requirements of the various bond resolutions.

Cash and Cash Equivalents. As of June 30, 2000, the Agency had deposits in pooled investment accounts of the State Treasurer, with a carrying value of approximately \$43,107,000 and a bank balance of approximately \$44,944,000. Cash on hand at June 30, 2000 amounted to \$13,000.

The Agency also had deposits with both a carrying value and bank balance approximating \$184,000 in a mutual fund held by the North Carolina Cash Management Trust.

The Agency also had deposits with both a carrying value and bank balance approximating \$3,696,000 on deposit with the Agency's fiduciary agent. Such deposits are collateralized with eligible securities held by a third-party custodian.

The Agency also held bank deposits with both a carrying value and bank balance approximating \$775,000. Such deposits are insured up to \$200,000 and the remainder are uninsured and uncollateralized. The funds represent escrow and replacement reserves maintained on behalf of multifamily mortgagors; accordingly, these funds are offset by a liability.

Investments. As of June 30, 2000, the Agency had deposits of \$8,126,000 in official depositories that have established a single escrow account on behalf of all governmental entities (the pooling method). Collateral is maintained with an eligible escrow agent in the name of the State Treasurer, based on the actual current balance of time deposits less the applicable federal depository insurance for each depositor. Responsibility for sufficient collateralization of these excess deposits rests with the financial institutions that have chosen the pooling method. Because of the inability to measure the exact amount of collateral pledged for the Agency under the pooling method, the potential exists for undercollateralization. However, the State Treasurer enforces strict standards for each depository using the pooling method, which minimizes the risk of undercollateralization.

The Agency had \$207,796,000 collateralized repurchase agreements. The collateral is held by a third-party custodian in the Agency's name.

The Agency's investments are categorized to give an indication of the level of risk assumed by the Agency at June 30, 2000. Category 1 includes investments which are insured or registered or for which the securities are held by the Agency or its agent in the Agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Agency's name. Category 3 includes uninsured and unregistered investments for which securities are held by the broker or dealer, or by its trust department or agent, but not in the Agency's name.

<i>(in thousands)</i>	Level of Risk Category			Carrying	Market
	1	2	3	Amount	Value
Categorized:					
U.S. government securities	\$ 65,021	\$ -	\$ -	\$ 65,021	\$ 65,021
Repurchase agreements	207,796	-	-	207,796	207,796
GNMA mortgage-backed certificates	17,779	-	-	17,779	17,459
FNMA mortgage-backed certificates	3,202	-	-	3,202	3,171
Securities lending collateral investment pool	-	-	19,939	19,939	19,939
Total Categorized	<u>\$293,798</u>	<u>\$ -</u>	<u>19,939</u>	<u>313,737</u>	<u>313,386</u>
Not categorized:					
Investment agreements				8,126	8,126
Total Investments				<u>\$ 321,863</u>	<u>\$ 321,512</u>

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

In accordance with the General Bond Resolution for the Single Family Revenue Bonds, 1985 Resolution, Series U and V, bond proceeds were used to purchase fully-modified mortgage-backed pass-through certificates of the Government National Mortgage Association (GNMA) and mortgage-backed pass-through certificates of FannieMae (FNMA) from pools of qualified mortgages originated under the Agency's program guidelines.

Securities Lending Transactions. GASB Statement No. 28 "Accounting and Financial Reporting for Securities Lending Transactions" (GASB 28) established accounting and financial reporting standards for transactions where governmental entities transfer their securities to broker-dealers and other entities (borrowers) in exchange for collateral (which may be cash, securities, or letters of credit), and simultaneously agree to return the collateral in exchange for the original securities in the future. The Agency does not directly engage in securities lending transactions; however, the State Treasurer does. The State Treasurer is authorized to engage in these types of transactions under North Carolina General Statute 147-69.3c. The types of securities loaned include U.S. government securities and corporate bonds and notes, which are held in the pooled investment accounts of the State Treasurer. A securities custodian manages the securities lending program for the State and receives cash as collateral from the borrowers. Collateral is invested in a collateral investment pool and must be maintained at 102 percent of the market value of the original securities lent. This investment in the collateral investment pool is considered to be a highly liquid investment. The State has a custodial credit risk of category 3 related to the transactions and incurred no losses during the year ended June 30, 2000 related to these transactions.

As of June 30, 2000 and during the year then ended, the Agency had deposits in the pooled investment accounts of the State Treasurer. As a result of these securities lending transactions by the State, the Agency must report its' pro-rata share of the effects of these transactions in its financial statements. The State has allocated the assets and liabilities resulting from such transactions among the Agency and other State agencies participating in the pool. The impact on the Agency's financial statements as of June 30, 2000 of the implementation of GASB 28 is the recording of an asset, Investment - Securities lending transactions, with a carrying value across all funds of \$19,939,000 and an offsetting liability in the same amount. The effects of GASB 28 on the Agency's interest on investments and other expenses/expenditures for 2000 were determined by the State to be insignificant and therefore, such amounts have been presented in the financial statements on a net basis.

C. MORTGAGE LOANS RECEIVABLE

Mortgage loans purchased with the proceeds of the various single family and multifamily bond issues have stated interest rates ranging from 5.75% to 13%. Unamortized discounts as of June 30, 2000 total \$6,533,000.

The existing and future mortgage loans which the Agency may purchase under the programs must comply with guidelines established by the Agency, including the requirement that all such mortgage loans be insured by the Federal Housing Administration (FHA), guaranteed by the Veterans Administration, guaranteed by United States Department of Agriculture, Rural Department, or insured under a private mortgage insurance program. As of June 30, 2000, all outstanding mortgage loans purchased with mortgage revenue bond proceeds satisfy this requirement and, accordingly, no allowance for uncollectible mortgage loans is considered necessary.

Mortgage loans made with funds from the Housing Trust Fund, Agency Fund and Federal/State Award Programs have allowances for loan losses of \$447,000, \$219,000 and \$69,000, respectively, as of June 30, 2000.

D. BONDS PAYABLE

Bonds payable as of June 30, 2000, are as follows (*in thousands*):

<u>Issue</u>	<u>Stated Rates (%)</u>	<u>Final Maturity</u>	<u>Principal Amount</u>
Single Family Mortgage Purchase Bonds			
(1976 Resolution)			
Series A	6.80	2008	\$ 5,270
Series B	6.625	2011	<u>9,515</u>
			<u>14,785</u>
Single Family Revenue Bonds			
(1985 Resolution)			
Series J/K	7.15 - 7.60	2022	16,795
Series L/M	7.00 - 7.75	2032	6,250
Series N/O	7.40 - 7.60	2028	15,390
Series P/Q	6.30 - 7.75	2023	4,295
Series R/S/T	6.10 - 7.05	2023	46,565
Series U/V	5.85 - 6.80	2025	23,580
Series W/X	5.45 - 6.70	2026	26,435
Series Y/Z	5.30 - 6.60	2026	24,985
Series AA/BB	5.15 - 6.50	2026	36,710
Series CC/DD	4.60 - 6.20	2027	23,485
Series EE/FF	4.45 - 6.25	2028	19,185
Series GG/HH	4.80 - 6.30	2028	24,725
Series II/JJ	5.10 - 6.45	2028	51,225
Series KK/LL	4.55 - 6.20	2028	24,850
Series MM/NN	5.15 - 5.95	2028	21,530
Series OO/PP	4.60 - 6.25	2028	39,620
Series QQ/RR	4.40 - 5.85	2028	58,980
Series SS/TT	4.30 - 5.70	2028	23,325
Series UU/VV	4.10 - 5.35	2029	43,485
Series WW	6.25	2018	<u>40,730</u>
			<u>572,145</u>
Single Family Revenue Bonds			
(1995 Resolution)			
Series A/B	6.42 - 7.00	2007	7,870
Home Ownership Revenue Bonds			
(1998 Trust Agreement)			
Series 1	4.30 - 5.38	2030	61,060
Series 2	4.20 - 5.25	2030	34,905
Series 3	3.60 - 5.20	2030	64,890
Series 4	3.80 - 5.30	2030	49,745
Series 5	4.15 - 5.63	2030	54,880
Series 6	4.55 - 6.20	2030	45,000
Series 7	4.80 - 6.25	2031	65,000
Series 8	5.25 - 6.40	2031	<u>100,000</u>
			<u>475,480</u>
Home Improvement Revenue Bonds			
(1988 Resolution) Series A			
	7.90	2005	<u>150</u>
Less deferred bond financing costs			<u>(15,218)</u>
Total Home Ownership Programs			<u>\$1,055,212</u>

<u>Issue</u>	<u>Stated Rates (%)</u>	<u>Final Maturity</u>	<u>Principal Amount</u>
Multifamily Revenue Bonds (1984 Resolution)			
Series F/G	6.60 - 8.25	2026	\$ 12,165
Series H/I	5.61 - 7.85	2028	28,730
Series J	4.00 - 5.55	2028	<u>11,480</u>
			<u>52,375</u>
Multifamily Revenue Refunding Bonds (1992 Resolution)			
Series B	3.40 - 6.90	2024	43,270
Multifamily Revenue Bonds (1993 Resolution) Series 1993	5.10 - 5.90	2026	7,435
Multifamily Revenue Bonds (1994 Resolution) Series 1994	4.65 - 5.45	2024	10,995
Multifamily Revenue Bonds (1995 Resolution) Series A/B	4.45 - 5.90	2020	<u>16,395</u>
Less deferred bond financing costs			<u>(5,974)</u>
Total Rental Programs			<u>\$124,496</u>

The Agency is subject to a statutory limitation of \$1,500,000,000 in debt outstanding during any one year.

To the extent provided in the authorizing resolutions, the bonds of each home ownership and rental bond program are collateralized by the investments and mortgage loans receivable of that program and revenues derived therefrom. The bond resolutions further provide for the processing of monies through specifically designated funds and accounts, periodic reporting and the performance of any other of the covenants, conditions, agreements and provisions contained therein.

Maturities. Debt service requirements, including sinking fund requirements on term bonds, subsequent to June 30, 2000 are as follows (*in thousands*):

<u>Fiscal year ending June 30</u>	<u>Home Ownership Programs</u>	<u>Rental Programs</u>	<u>Total</u>
2001	\$ 79,460	\$ 10,504	\$ 89,964
2002	81,923	10,509	92,432
2003	81,826	10,519	92,345
2004	80,913	10,507	91,420
2005	80,005	10,504	90,509
Thereafter	<u>1,785,556</u>	<u>210,849</u>	<u>1,996,405</u>
Total Requirements	2,189,683	263,392	2,453,075
Less Interest	<u>1,119,253</u>	<u>132,922</u>	<u>1,252,175</u>
Principal	<u>\$ 1,070,430</u>	<u>\$ 130,470</u>	<u>\$ 1,200,900</u>

E. OPERATING LEASE

The Agency leases office space with future minimum lease payments of \$451,000 per year from 2001 through 2006, and \$75,000 for year 2007. Total rent expense for all operating leases amounted to \$398,000 for the year ended June 30, 2000.

F. EXTRAORDINARY ITEMS

Bond Redemptions. The bond series resolutions provide for various methods of redemption. Bonds are redeemed at par from prepayments of mortgage loans securing the issues, from unexpended bond proceeds of the issues, or from funds released via the related decreases in the respective debt service reserve requirements. Losses on these bond redemptions represent the write-off of the proportionate amount of unamortized deferred bond issuance costs for the bonds redeemed. Such losses are presented as Extraordinary Items in the financial statements. In addition, various bond issues are redeemable at the option of the Agency for premiums ranging up to 2% during periods from ten to sixteen years after the date of issuance.

On April 25, 1996, the Agency defeased certain multifamily bonds, not optionally redeemable until July 1, 2000, by depositing funds in an irrevocable escrow fund with an escrow agent. All outstanding bonds were called at that date.

For the year ended June 30, 2000, bond redemptions, by resolution, were as follows (*in thousands*):

<u>Issue</u>	<u>Amount Redeemed</u>	<u>Loss Recorded</u>
Single Family Revenue Bonds (1976 Resolution)	\$ 500	\$ (10)
Single Family Revenue Bonds (1985 Resolution)	63,775	(921)
Single Family Revenue Bonds (1995 Resolution)	2,645	(102)
Single Family Revenue Bonds (1998 Resolution)	<u>1,180</u>	<u>(14)</u>
Total Home Ownership Programs	<u>68,100</u>	<u>(1,047)</u>
Multi Family Revenue Bonds (1995 Resolution)	<u>1,310</u>	<u>(88)</u>
Total Rental Programs	<u>1,310</u>	<u>(88)</u>

G. FEDERAL AWARDS

As a designated Public Housing Authority for the Department of Housing and Urban Development's (HUD) Section 8 Lower Income Housing Assistance Payment Program (Section 8 Program), the Agency requisitions Section 8 Program funds and makes disbursements to eligible landlords. For the year ended June 30, 2000, \$17,308,000 which was received by the Agency and disbursed to landlords or families, is included in "Federal Awards and Loans" in the Federal/State Awards Programs special revenue fund.

The Agency is designated as the participating entity under grant agreements with HUD for the HOME Investment Partnership Program (Home Program). The HOME Program provides funding for the purpose of developing affordable housing for persons of low and very low income. For the year ended June 30, 2000, \$9,377,000, which was received and disbursed by the Agency, is included in "Federal Awards and Loans" in the Federal/State Awards Programs special revenue fund.

Included in the Agency account are fees for administering these and other federal programs, which totaled \$2,065,000 for the year ended June 30, 2000. Such amounts are funded from federal sources and program income, and are recorded in general and administrative expenditures in the Federal/State Awards Programs.

H. PENSION PLAN

Plan Description. All permanent full-time employees of the Agency participate in the Teachers' and State Employees' Retirement System of North Carolina (System), a cost-sharing multiple-employer defined benefit pension plan administered by the State. The System provides retirement benefits to plan members and beneficiaries. State statute assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Teacher's and State Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Office of the State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary and the Agency is required to contribute at an actuarially determined rate. The current rate is 8.31% of the annual covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by the North Carolina General Assembly. The Agency's contribution to the System for the year ended June 30, 2000 was \$298,553, equal to the required contributions for the year.

I. POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits, the Agency provides post-employment health care benefits and disability benefits to certain employees in accordance with State statutes. These benefits are provided through plans administered by the State. The Agency makes monthly contributions to the State for these benefits. Health care benefits are provided to long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the System who have at least five years of creditable service under the System. The System pays the full cost of coverage for all retirees enrolled in the State's self-funded Teachers' and State Employees' Comprehensive Major Medical Plan and makes similar contributions for retirees enrolled in one of six State health maintenance organization (HMO) plans. 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 additional cost of HMO coverage and for the entire cost of coverage of their dependents. The health benefit plans are funded by the State on a pay-as-you-go basis.

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

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

For the year ended June 30, 2000, the Agency made contributions to the State disability benefits of \$18,682. This contribution represents 0.52% of covered payroll. The contributions for death benefits and disability benefits cannot be separated between the postemployment benefit amounts and the other employee benefit amounts. Since the benefit payments are made by the various State-administered plans and not by the Agency, the Agency does not determine the number of eligible participants.

J. RISK MANAGEMENT

The Agency's risk management policies provide for participation in the State's risk management programs, as disclosed in the State of North Carolina's Comprehensive Annual Financial Report, with respect to the following types of risk:

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

K. NONCASH TRANSACTIONS

As discussed in note B, the Agency is required to account for securities lending transactions in accordance with GASB 28, which results in an increase in enterprise fund investments and liabilities of \$4,491,000 as of June 30, 2000.

APPENDIX B

LEGAL OPINION

LEGAL OPINION

Upon the delivery of the Series 9 Bonds, Poyner & Spruill L.L.P., Bond Counsel to the Agency, proposes to issue its approving opinion in substantially the following form:

December __, 2000

North Carolina Housing Finance Agency
Raleigh, North Carolina

We have acted as bond counsel to the North Carolina Housing Finance Agency (the "Agency") in connection with the authorization and issuance of \$65,000,000 North Carolina Housing Finance Agency Home Ownership Revenue Bonds, Series 9 (1998 Trust Agreement) (the "Series 9 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 9 Bonds, (iii) executed originals of the Trust Agreement, dated as of May 1, 1998 (the "Trust Agreement") and the Ninth Supplemental Trust Agreement, dated as of November 15, 2000 (the "Ninth Supplemental Trust Agreement") pursuant to which the Series 9 Bonds are issued and (iv) other proofs submitted relative to the issuance and sale of the Series 9 Bonds.

The Series 9 Bonds are dated as of November 15, 2000 and are stated to mature on each July 1 from July 1, 2003 to July 1, 2007, inclusive, each January 1 and July 1 from January 1, 2008 to July 1, 2012, inclusive, July 1, 2013, July 1, 2016, January 1, 2020, July 1, 2025, July 1, 2031 and July 1, 2032. The Series 9 Bonds maturing on each July 1 from July 1, 2003 to July 1, 2007, inclusive, July 1, 2012, July 1, 2013, July 1, 2016, January 1, 2020, July 1, 2025, July 1, 2031 and July 1, 2032 are designated as "Home Ownership Revenue Bonds, Series 9-A (AMT)" (the "Series 9-A Bonds") and the Series 9 Bonds maturing on each January 1 and July 1 from January 1, 2008 to January 1, 2012, inclusive, are designated as "Home Ownership Revenue Bonds, Series 9-B (Non-AMT)" (the "Series 9-B Bonds"). The Series 9-A Bonds and the Series 9-B Bonds are one Series of Bonds under the Trust Agreement.

The Series 9 Bonds are issued for the purposes of providing funds to the Agency, together with other available funds, to (a) purchase Program Loans to finance single family residential housing for households of low and moderate income in North Carolina, (b) make a deposit to the credit of the Debt Service Reserve Fund created under the Trust Agreement in an amount equal to the Series 9 Debt Service Reserve Requirement and (c) pay a portion of the costs of issuance of the Series 9 Bonds.

The Series 9 Bonds are issued under and pursuant to the Trust Agreement and the Ninth Supplemental Trust Agreement. The Agency has heretofore issued eight 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 9 Bonds and any such additional Bonds are herein collectively referred to as the "Bonds".

The Series 9 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 Ninth Supplemental Trust Agreement.

The Series 9 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 9 Bonds in order that interest on the Series 9 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 Ninth 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 9 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 Ninth 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 Ninth Supplemental Trust Agreement.
2. The Agency has duly authorized, executed and delivered the Trust Agreement and the Ninth Supplemental Trust Agreement and such Agreements constitute legal, valid and binding agreements of the Agency, enforceable in accordance with their terms.
3. The Series 9 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 9 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 Ninth Supplemental Trust Agreement and other certificates and documents, interest on the Series 9 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. Interest on the Series 9-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 9-B Bonds is not treated as a preference item in computing the alternative minimum tax imposed by the Code on individuals and corporations; however, such interest is includable in the adjusted current earnings of corporations for purposes of computing the alternative minimum tax imposed by the Code on corporations. Interest on the Series 9 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 9 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 9 Bonds and the enforceability thereof and of the Trust Agreement and Ninth 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 "Poyner & Spruill L.L.P."]

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT
AND THE NINTH SUPPLEMENTAL TRUST AGREEMENT

SUMMARY OF THE TRUST AGREEMENT AND THE SUPPLEMENTAL TRUST AGREEMENTS

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, the any governmental entity or other entity or institution authorized to transact mortgage lending business in the State, including the Agency and any local housing authority.

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

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

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

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

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

(1) Bonds theretofore canceled by the Trustee;

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

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

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

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

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

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

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

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

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

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

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

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

such as “plus” or “minus” of such categories). In the event that a Reserve Alternative Instrument is being delivered to provide all or a portion of a requirement of a Special Debt Service Reserve Account, then the Reserve Alternative Instrument and the requirements of the provider thereof shall meet the requirements set forth in the Supplemental Trust Agreement creating such Special Debt Service Reserve Account. Whenever for any purposes of the Trust Agreement the amounts on deposit in the Funds or Accounts under the Trust Agreement are required to be determined, the amount available to be drawn under any Reserve Alternative Instrument shall be deemed to be cash on deposit in the applicable Fund or Account.

“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.

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

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

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

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

Additional Bonds; Supplemental Trust Agreements

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

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

Funds and Accounts

The Trust Agreement creates the following Funds and Accounts:

- (a) Revenue Fund

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

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

Program Fund.

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

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

- (a) the amount determined by the Agency to be required to make or purchase any Program Obligation;
- (b) costs of issuance;
- (c) interest on such Bonds to the extent set forth in the Supplemental Trust Agreement authorizing such Series of Bonds;
- (d) any obligation or expense heretofore or hereafter incurred or paid by the Agency for any of the items mentioned in clause (b) above; and

(e) to pay, either at maturity or otherwise in accordance with their terms, any notes theretofore issued by the Agency to provide interim financing for any of the purposes for which Bonds may be issued pursuant to the Trust Agreement.

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

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

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

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

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

Pledge

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

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

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

The pledge of the moneys, securities and Funds and Accounts and of the Program Obligations, Revenues, Program Obligation Accrued Interest, Financing Fees and Prepayments is valid and binding

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

Application of Revenues and Other Moneys

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

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

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

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

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

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

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

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

to the Interest Account to pay interest on Bonds on other than a semi-annual basis that would cause the Agency to default in the payment of the principal and Sinking Fund Requirements of, and interest on, any other Series of Bonds;

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

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

Fourth: To the credit of the 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;

Fifth: 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;

Sixth: 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;

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

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

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.

Redemption Fund.

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

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

Debt Service Reserve Fund

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

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

secured by the Debt Service Reserve Fund the Trustee shall transfer from the Debt Service Reserve Fund to the credit of the Bond Service Fund an amount sufficient to make up any such deficiency.

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

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

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

Insurance Reserve Fund

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

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

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

extent the loss is attributable to a deficiency in the loss payment over the principal amount of the Program Loan, the amount of such loss shall be transferred to the Special Redemption Account for the Series of Bonds that financed the purchase of the Program Loan (or that refunded the Bonds that financed such purchase).

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

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

Revenue Reserve Fund

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

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

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

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

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

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

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

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

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

9. The Trustee shall transfer from the Revenue Reserve Fund to the Agency's General Fund the amount specified to the Trustee by the Agency in an Officer's Certificate, at any time if 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 102% of the Outstanding principal amount of Bonds, and, 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.

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.

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 copies of

such reports shall be mailed by the Secretary to all Owners who have sent the Agency a written request for such reports.

Program Covenants

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

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

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

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

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

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

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

Default and Remedies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

second: to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due and payable (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of the Trust Agreement) in the order of their due dates, with interest on the principal amount of such Bonds at the respective rates specified therein from the respective dates upon which such Bonds became due and payable, and, if the amount available shall not be sufficient to pay in full the principal of the Bonds due and payable on any particular date, together with such interest, then principal of the Bonds due and payable on any particular date, together with such interest, then to the payment first of such interest, ratably, according to the amount of such interest due on such date, and then to the payment of such principal, ratably, according to the amount of such principal due

on such date, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds; and

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

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

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

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

Control of Proceedings by the Owners

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

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

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

Concerning the Trustee

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

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

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

Supplemental Trust Agreements

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

(a) to cure any ambiguity or formal defect or omission, to correct or supplement any provision therein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under the Trust Agreement which shall not be inconsistent with the provisions of the Trust Agreement, or

(b) to grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee, including, without limitation, the issuance of bearer Bonds with appurtenant interest coupons, or

(c) to add to the conditions, limitations and restrictions on the issuance of Bonds under the provisions of the Trust Agreement other conditions, limitations and restrictions thereafter to be observed, or

(d) to amend any of the provisions of the Trust Agreement to the extent required to permit compliance by the Agency with the Internal Revenue Code of 1986, as amended, and the regulations in effect thereunder, or

(e) to add to the covenants and agreements of the Agency in the Trust Agreement other covenants and agreements thereafter, to be observed by the Agency or to surrender any right or power herein reserved to or conferred upon the Agency, or

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

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

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

Defeasance

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