NEW ISSUE
BOOK ENTRY ONLY

In the opinion of Hawkins, Delafield & Wood, as Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Offered Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), except that no opinion is expressed as to such exclusion of interest on any Offered Bond for any period during which such Bond is held by a person who is a "substantial user" of the facilities financed with the Bond proceeds or a "related person", both within the meaning of Section 147(a) of the Code. In addition, interest on the Offered Bonds is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and interest on the Bonds is included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel, under existing law, the Offered Bonds, their transfer, the interest payable thereon, and any income derived therefrom, including any profit realized on the sale or exchange thereof, is exempt from taxation of every kind and nature whatsoever by the State of Maryland, except that no opinion is expressed with respect to any exemption from Maryland franchise taxes or estate or inheritance taxes. See "Tax Matters" herein.

$47,630,000
COMMUNITY DEVELOPMENT ADMINISTRATION
MARYLAND DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
Housing Revenue Bonds
Series 2001 B

Dated: October 1, 2001 **Due:** July 1, as shown on inside cover page

The Series 2001 B Bonds (the "Offered Bonds") are issuable only as fully registered bonds and initially will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York, which will act as securities depository for the Offered Bonds. Purchases of the Offered Bonds will be in book entry form only, in principal amounts of $5,000, or any integral multiple thereof. Interest on the Offered Bonds is payable semiannually on January 1 and July 1 of each year, commencing January 1, 2002, by Allfirst Bank, Baltimore, Maryland, Trustee and Registrar, to DTC. DTC will remit such payments to participating financial organizations for subsequent disbursement to beneficial owners of the Offered Bonds. Additional information is contained under the caption "The Offered Bonds" herein.

The Offered Bonds are subject to redemption prior to maturity at the times, under the conditions and at the prices set forth under the caption "THE OFFERED BONDS" herein.

The Offered Bonds are special obligations of the Administration, an agency in the Division of Development Finance of the Department of Housing and Community Development, a principal department in the government of the State of Maryland, payable solely from the Revenues and property of the Administration pledged therefor under the Bond Resolution. The Administration has no taxing power. The Offered Bonds do not constitute a debt of the State of Maryland, any political subdivision thereof, the Administration or the Department, or a pledge of the faith, credit or taxing power of the State, any such political subdivision, the Administration or the Department.

The Offered Bonds are offered for delivery when, as and if issued, subject to the opinion of Hawkins, Delafield & Wood, Washington, D.C., Bond Counsel, as to the validity of the Offered Bonds and the excludability from gross income of interest thereon for federal income tax purposes. Certain legal matters will be passed upon for the Administration by an Assistant Attorney General of the State of Maryland as Counsel to the Department. Certain legal matters will be passed upon for the Underwriters by Hunton & Williams, Washington, D.C. and the Law Offices of Joseph C. Reid, P.A., Baltimore, Maryland. It is expected that the Offered Bonds will be available for delivery to DTC in New York, New York on or about October 18, 2001.

Legg Mason Wood Walker
Incorporated

Bear, Stearns & Co. Inc. **Ferris, Baker Watts** **UBS PaineWebber Inc.**
Incorporated

The Chapman Company **Lehman Brothers** **Loop Capital Markets, L.L.C.**

Merrill Lynch & Co. **Salomon Smith Barney**

October 4, 2001

MATURITY SCHEDULE

$47,630,000 Series 2001 B Bonds

$5,185,000 Serial Bonds

Maturity (July 1)	Amount	Interest Rate	Maturity (July 1)	Amount	Interest Rate
2004	$250,000	3.15%	2008	$655,000	4.10%
2005	830,000	3.35	2009	660,000	4.25
2006	745,000	3.60	2010	690,000	4.40
2007	635,000	3.85	2011	720,000	4.50

$ 3,575,000 5.10% Term Bonds due July 1, 2016
$ 3,750,000 5.25% Term Bonds due July 1, 2021
$11,185,000 5.35% Term Bonds due July 1, 2031 (Not Reoffered)
$23,935,000 5.45% Term Bonds due July 1, 2043 (Not Reoffered)

Price of All Bonds: 100%

(Accrued Interest To Be Added)

No dealer, broker, salesman or other person has been authorized by the Administration or by the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, 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 an offer to buy nor shall there be any sale of the Offered Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale prior to the registration or qualification under the securities laws of any such jurisdiction. The Underwriters have advised the Administration that they have satisfied their responsibilities under the federal securities laws with respect to this Official Statement, but do not guarantee its accuracy or completeness. 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 Administration since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE OFFERED BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT
of the
Community Development Administration
Maryland Department of Housing and Community Development

Relating to
$47,630,000
Housing Revenue Bonds
Series 2001 B

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and Appendices hereto, is to set forth information in connection with the sale by the Community Development Administration (the "Administration"), an agency in the Division of Development Finance of the Department of Housing and Community Development (the "Department"), a principal department of the government of the State of Maryland (the "State"), of its Housing Revenue Bonds, Series 2001 B (the "Series 2001 B Bonds" or "Offered Bonds").

Authorization

The Administration is authorized to issue the Offered Bonds pursuant to Sections 2-201 through 2-208 of Article 83B of the Annotated Code of Maryland, as amended (the "Act") and a Resolution Providing for the Issuance of Housing Revenue Bonds adopted by the Administration as of November 1, 1996 (the "Bond Resolution"). Allfirst Bank, Baltimore, Maryland, is the trustee (the "Trustee"). The Series 2001 B Bonds are issued pursuant to the Bond Resolution as supplemented by a Series Resolution Providing for the Issuance and Sale of Housing Revenue Bonds, Series 2001 B to be adopted by the Administration as of October 1, 2001 (the "Series 2001 B Resolution"). The Bond Resolution and the Series 2001 B Resolution are collectively referred to as the "Resolutions".

Prior Bond Issues Under Bond Resolution

The Offered Bonds are the thirteenth Series of Housing Revenue Bonds issued by the Administration pursuant to the Bond Resolution. Bonds having a principal amount of $238,195,000 were outstanding under the Bond Resolution as of July 1, 2001. The Bonds were issued to finance 54 mortgage loans for 52 multi-family residential rental facilities containing approximately 7,023 units, in addition to group housing facilities and single family residences. The prior Series of Bonds and the Offered Bonds, together with any additional bonds issued under the Bond Resolution and secured on a parity basis, are referred to collectively as the "Bonds". The Bond Resolution provides for the issuance of additional Bonds which will be on a parity with the Offered Bonds and will be equally and ratably secured under the Bond Resolution. The Bond Resolution also allows the issuance of Subordinate Bonds which will not be on a parity with the Bonds. No Subordinate Bonds are outstanding under the Bond Resolution.

Use of Proceeds of Offered Bonds

The Bond Resolution authorizes the Administration to issue Bonds to provide funds to finance or refinance loans, to refund Bonds or any other bonds, notes or other obligations, whether or not the Administration is the issuer thereof, to pay any Development cost (including, without limitation, capitalized interest and Bond issuance costs), for the funding of reserves, or for achieving any other of the Administration's purposes. Loans financed under the Bond Resolution, including, without limitation, the loans described under the heading "*The Offered Bonds"* below and in APPENDIX D - "DESCRIPTION OF LOANS AND DEVELOPMENTS" to this Official Statement, are referred to at various times as either the "Loans" or the "Loan" as appropriate. The Loans finance various types of housing developments, including, without limitation, multi-family residential rental facilities, single family residences and group living facilities (collectively, the "Developments") within the State which promote sound community development and provide housing for occupancy, in substantial part, by persons or families of limited incomes. The Loans must also meet the requirements set forth in the Resolutions as more fully described under "SECURITY FOR THE BONDS - Loans".

The Offered Bonds. The Resolutions authorize the issuance of the Offered Bonds to provide funds to finance five Loans in the aggregate principal amount of $47,630,000. All of the Developments financed with the proceeds of the Offered Bonds are expected to have Credit Enhancement in the form of fully modified mortgage-backed securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association ("GNMA"). Additional information about each of these Developments to be financed with the proceeds of the Offered Bonds is set forth in APPENDIX D - "DESCRIPTION OF LOANS AND DEVELOPMENTS".

Security and Sources of Payment

Security for the Bonds. The Bonds (other than Subordinate Bonds) are equally and ratably secured by a pledge of and lien on: (1) proceeds of the sale of Bonds (other than proceeds deposited in trust for the retirement of bonds), (2) the Loans made or purchased from Bond proceeds, (3) revenues from Loans (primarily payments of principal and interest on Loans), (4) Prepayments, Recovery Payments and Acquired Development Receipts, and (5) all moneys, investments and other assets held in Funds and Accounts established by or pursuant to the Bond Resolution and the earnings thereon. The Administration may direct the release of amounts from such Funds and Accounts free and clear of such pledge and security interest after satisfying the then current requirements for all Funds and Accounts and certain other conditions as provided in the Resolutions. See "SECURITY FOR THE BONDS".

Loans. The Bond Resolution does *not* require that Loans be credit enhanced. Credit Enhancement of the Loans is described in Appendices D and F. The Bond Resolution does *not* require that a Loan be secured by a mortgage. If a Loan is secured by a mortgage, the mortgage lien need *not* be a first lien. See "SECURITY FOR THE BONDS - Loans".

A portion of the Loans are insured by the Maryland Housing Fund ("MHF"), a mortgage insurance fund which is an agency in the Division of Credit Assurance of the Department. In early 1997, MHF ceased issuing new insurance commitments (except for pool insurance on single family mortgage loans subject to FHA primary insurance), in part as a result of concerns expressed by Moody's Investors Service during 1996 and 1997. MHF expects to continue to honor existing insurance commitments. For more information relating to the financial statements of MHF, see "SECURITY FOR THE BONDS - Credit Enhancement of Rental Housing Loans - MHF Multi-Family Mortgage Insurance", APPENDIX F - "MORTGAGE INSURANCE AND CREDIT ENHANCEMENT - THE MHF INSURANCE PROGRAM - Certain Actions of Moody's Investors Service and Response by the Department" and APPENDIX J - "FINANCIAL STATEMENTS OF THE MARYLAND HOUSING FUND."

Debt Service Reserve Fund. Moneys in the Debt Service Reserve Fund are available to pay principal of and interest on the Bonds in the event funds in the Revenue Fund are insufficient for such purpose. The Debt Service Reserve Requirement, as of any date of calculation, is the aggregate of the amounts specified as the Debt Service Reserve Requirement for each Series of Bonds in the applicable Series Resolution. As of June 30, 2001, the available balance in the Debt Service Reserve Fund was $6,789,405, of which $930,430 was cash equivalents. The fair value of investments was $5,858,975 of which

$5,544,606 was the book value of investments and $314,369 was the increase in fair value. See "SECURITY FOR THE BONDS - Debt Service Reserve Fund" below. The balance on deposit in the Debt Service Reserve Fund satisfies the current Debt Service Reserve Requirement. No deposit will be made to the Debt Service Reserve Fund in connection with the issuance of the Offered Bonds.

Limited Obligation of Administration

The Bonds are special obligations of the Administration payable solely from the Revenues and property of the Administration pledged therefor under the Bond Resolution. The Administration has no taxing power. The Bonds do not constitute a debt of the State, any political subdivision thereof, the Administration or the Department, or a pledge of the faith, credit or taxing power of the State, any such political subdivision, the Administration or the Department.

General Information Relating to Offered Bonds

The Offered Bonds will be dated October 1, 2001. The Offered Bonds will mature in the years and amounts and will bear interest from October 1, 2001 at such rates, payable semiannually by the Trustee, on January 1 and July 1 of each year, commencing January 1, 2002, all as set forth on the inside cover page of this Official Statement. If any such dates are not business days, then payments will be made on the next business day. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The Offered Bonds will be issuable only as fully registered bonds in the denominations of $5,000, or any integral multiple thereof. The Offered Bonds may be transferred or exchanged for Offered Bonds of like maturity in any authorized denominations at the offices of the Trustee.

Redemption

The Offered Bonds are subject to redemption prior to maturity. The Offered Bonds are subject to special redemption in whole or in part without premium at any time from (i) Recovery Payments from Loans financed from any Series of Bonds, (ii) excess Revenues, (iii) a reduction in reserve requirements, (iv) proceeds of the Offered Bonds not used to finance Loans or refund outstanding bonds, or (v) proceeds received upon the maturity of the construction loan certificates constituting Guaranteed Securities issued for any of the Developments being financed with the proceeds of the Offered Bonds, if either [A] permanent Guaranteed Securities are not issued by certain deadlines, or [B] the amount of the permanent Guaranteed Securities delivered to the Trustee following completion of construction is less than the amount of the construction loan certificates or the principal amount of the Loan expected to be financed with proceeds of the Offered Bonds for such Development. The Offered Bonds are subject to optional redemption on or after July 1, 2011. The Term Bonds are subject to mandatory sinking fund redemption. See "THE OFFERED BONDS - Redemption Provisions" for specific information relating to redemption of the Offered Bonds.

In the event of an early Loan Prepayment resulting from a Recovery Payment, the Bonds of any Series, including the Offered Bonds, may be subject to special redemption at par. The Administration cannot predict if and when Bonds will be called for redemption due to prepayment.

Secondary Market Disclosure

The Administration has agreed to provide to each nationally recognized municipal securities information repository ("NRMSIR") and to the appropriate state information depository ("SID"), if any, for the State of Maryland, within 120 days of the end of each fiscal year, certain annual financial information and operating data. The Administration also has agreed to provide, in a timely manner, to (i) each NRMSIR or to the Municipal Securities Rulemaking Board, and (ii) the SID, if any, notice of the occurrence of certain events with respect to any of the Offered Bonds, if material. See "SECONDARY MARKET DISCLOSURE" for a more detailed discussion of the information the Administration has agreed to provide and any limitations on such agreement.

Additional Information

Certain capitalized terms used herein are defined in APPENDIX A - "DEFINITIONS". Capitalized terms not otherwise defined herein are used as defined in the Resolutions.

Brief descriptions of the Offered Bonds and the security for the Offered Bonds are included in this Official Statement. Descriptions of the Department and the Administration, the Administration's program of financing Loans under the Bond Resolution (the "Program"), the Loans and the Developments can be found in Appendices B, C and D, respectively. APPENDIX E contains a description of the outstanding indebtedness of the Administration. APPENDIX F summarizes certain mortgage insurance and security guaranty programs of the Federal Housing Administration ("FHA"), the Federal Home Loan Mortgage Corporation ("FHLMC"), GNMA and the MHF, while APPENDIX G summarizes certain federal housing subsidy programs. Certain provisions of the Bond Resolution are summarized in APPENDIX H. The financial statements of the Program and MHF, and the proposed form of the opinion of Bond Counsel, are included in Appendices I, J and K, respectively.

This Introduction is only a brief description of the matters described herein. Prospective purchasers of the Offered Bonds should read the entire Official Statement, including the appendices thereto, in order to make an informed investment decision. **The appendices to and footnotes in this Official Statement constitute a part of this Official Statement and contain information which any potential investor should read in conjunction with the other parts of this Official Statement in order to make an informed investment decision**. This Official Statement speaks only as of its date and the information contained herein is subject to change.

All references herein to the Resolutions and other documents and agreements are qualified in their entirety by reference to such Resolutions, documents and agreements, and references herein to the Offered Bonds are qualified in their entirety by reference to the form thereof included in the Resolutions, documents and agreements, copies of which are available for inspection at the offices of the Administration located at 100 Community Place, Crownsville, Maryland 21032. Inquiries for documents or concerning this Official Statement should be directed to Anne P. Konrad, Director, Finance, at 410-514-7326 or Konrad@dhcd.state.md.us.

THE OFFERED BONDS

General Description

The Offered Bonds will be dated as shown on the cover of this Official Statement. The Offered Bonds will be issuable only as fully registered bonds in book-entry form in the denominations of $5,000, or any integral multiple thereof. The Offered Bonds initially will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Offered Bonds. The Offered Bonds will mature in the years and amounts set forth on the inside cover page of this Official Statement and will bear interest from October 1, 2001, payable semiannually on January 1 and July 1 of each year, commencing January 1, 2002, by the Trustee. If any such dates are not business days, then payments will be made on the next business day. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Application of Offered Bond Proceeds

The proceeds of the sale of the Offered Bonds (exclusive of accrued interest, which will be deposited in the Revenue Fund) will be applied to finance five Loans in the aggregate principal amount of $47,630,000. See "INTRODUCTION – Use of Proceeds of Offered Bonds." An Underwriters' Fee in the amount of $406,054.33 and costs of issuance will be paid from funds provided by the Borrowers and other funds of the Administration.

Redemption Provisions

Sinking Fund Redemption. The Offered Bonds maturing on July 1, 2016, are subject to mandatory redemption in part by lot on January 1, 2012, and on each January 1 and July 1 thereafter to and including July 1, 2016, at the principal amount thereof, plus accrued interest thereon, if any, to the date of such redemption, on the dates and in the principal amounts as follows:

Year (January 1)	Principal Amount	Year (July 1)	Principal Amount
2012	$380,000	2012	$385,000
2013	395,000	2013	400,000
2014	415,000	2014	365,000
2015	300,000	2015	305,000
2016	315,000	2016	315,000†

†Final Maturity

The Offered Bonds maturing on July 1, 2021, are subject to mandatory redemption in part by lot on January 1, 2017, and on each January 1 and July 1 thereafter to and including July 1, 2021, at the principal amount thereof, plus accrued interest thereon, if any, to the date of such redemption, on the dates and in the principal amounts as follows:

Year (January 1)	Principal Amount	Year (July 1)	Principal Amount
2017	$340,000	2017	$340,000
2018	345,000	2018	355,000
2019	370,000	2019	375,000
2020	395,000	2020	400,000
2021	410,000	2021	420,000†

†Final Maturity

The Offered Bonds maturing on July 1, 2031, are subject to mandatory redemption in part by lot on January 1, 2022, and on each January 1 and July 1 thereafter to and including July 1, 2031, at the principal amount thereof, plus accrued interest thereon, if any, to the date of such redemption, on the dates and in the principal amounts as follows:

Year (January 1)	Principal Amount	Year (July 1)	Principal Amount
2022	$430,000	2022	$440,000
2023	455,000	2023	465,000
2024	475,000	2024	495,000
2025	510,000	2025	515,000
2026	530,000	2026	550,000
2027	560,000	2027	570,000
2028	595,000	2028	610,000
2029	625,000	2029	635,000
2030	655,000	2030	670,000
2031	690,000	2031	710,000†

†Final Maturity

The Offered Bonds maturing on July 1, 2043, are subject to mandatory redemption in part by lot on January 1, 2032, and on each January 1 and July 1 thereafter to and including July 1, 2043, at the principal amount thereof, plus accrued interest thereon, if any, to the date of such redemption, on the dates and in the principal amounts as follows:

Year (January 1)	Principal Amount	Year (July 1)	Principal Amount
2032	$730,000	2032	$755,000
2033	765,000	2033	790,000
2034	815,000	2034	830,000
2035	860,000	2035	885,000
2036	915,000	2036	925,000
2037	960,000	2037	985,000
2038	1,010,000	2038	1,035,000
2039	1,065,000	2039	1,095,000
2040	1,125,000	2040	1,160,000
2041	1,185,000	2041	1,220,000
2042	1,255,000	2042	1,285,000
2043	1,335,000	2043	950,000†

†Final Maturity

Reduction of Sinking Fund Installments. If Offered Bonds that are subject to sinking fund redemption are purchased by the Administration or redeemed (except pursuant to a Sinking Fund Installment), the Administration shall determine which Sinking Fund Installments are to be reduced and the amount of any such reduction, provided that the aggregate of such reductions shall equal the aggregate principal amount of Offered Bonds so purchased or redeemed.

Special Redemption. The Offered Bonds are subject to special redemption without premium at the principal amount thereof, plus accrued interest thereon, at the option of the Administration, in whole or in part, at any time, from:

(1) Recovery Payments relating to Loans financed from any Series of Bonds, including, but not limited to, voluntary prepayments, condemnation proceeds, mortgage insurance payments, hazard insurance proceeds, foreclosure proceeds, prepayments of Guaranteed Securities resulting from HUD's override of prepayment restrictions in an FHA insured mortgage in accordance with HUD's policies and procedures, and payments accepted by the Administration in order to refinance Developments which are in default or would have been in default but for the forbearance of the Administration,

(2) amounts on deposit in the Revenue Fund in excess of accrued Debt Service on all outstanding Bonds and any account funding requirements as of the date of transfer,

(3) amounts resulting from any reduction in the Debt Service Reserve Fund,

(4) proceeds of the Offered Bonds not used to finance Loans, and

(5) proceeds received upon the maturity of the construction loan certificates constituting Guaranteed Securities issued for any of the five Developments being financed with the proceeds of the Offered Bonds, if either [A] permanent Guaranteed Securities are not issued by certain deadlines, or [B] the amount of the permanent Guaranteed Securities delivered to the Trustee following completion of construction and final endorsement for mortgage insurance is less than the amount of the construction loan certificates or the principal amount of the Loan expected to be financed with proceeds of the Offered Bonds for such Development.

As a result of such special redemption provisions, the Administration can give no assurance that a particular Offered Bond will not be redeemed prior to maturity.

Additional Special Redemption Considerations.

Transferred Loans and Group Home Loans. Many of the Loans that are pledged to secure the payment of the Bonds are loans that were initially financed with proceeds of bonds issued under earlier resolutions of the Administration that no longer have outstanding bonds. Those Loans, referred to as Transferred Loans, were acquired with the proceeds of the Administration's Series 1996 A Bonds and are currently subject to prepayment at the option of their respective Borrowers at any time without payment of any premium. In addition, Group Home Loans financed with the proceeds of the Series 1996 B Bonds are subject to prepayment at any time without penalty or premium. See "SECURITY FOR THE BONDS – Single Family and Group Home Loans."

Section 8. In the event the Administration receives an insurance claim payment in connection with the restructuring of a Loan for a Development receiving Section 8 assistance, Bonds may be redeemed. See also additional information relating to recent developments affecting the Section 8 program under the heading "Section 8 Program – *Expiring HAP Contracts and Recent Developments" in* APPENDIX G. The Administration cannot accurately predict when special redemption of Offered Bonds may occur in the future due to potential Prepayments of such Loans. For detailed information regarding all of the Loans, including the Transferred Loans and the Group Home Loans, see APPENDIX D - "DESCRIPTION OF LOANS AND DEVELOPMENTS".

Guaranteed Securities. Special redemption of the Offered Bonds in whole at par may occur upon maturity of construction loan certificates constituting Guaranteed Securities in the event no permanent loan certificate is issued, or such redemption may occur in part at par if the principal balance of the permanent Guaranteed Certificates delivered to the Trustee following completion of construction and final endorsement for mortgage insurance is less than the amount of the construction loan certificates or the principal amount of the Loan for the Developments expected to be made with proceeds of the Offered

Bonds. Either such event may occur as a result of failure of HUD to finally endorse such Loans for FHA insurance following completion of construction or if such endorsement is for an amount less than the principal amount of Offered Bonds issued with respect to such Developments. For an explanation of the procedures relating to issuance of Guaranteed Securities, either as construction loan certificates or permanent loan certificates, see APPENDIX F - "MORTGAGE INSURANCE AND CREDIT ENHANCEMENT - THE GNMA GUARANTY PROGRAM."

Optional Redemption. The Offered Bonds maturing on and after July 1, 2012 are subject to redemption, at the option of the Administration, in whole or in part, at any time on and after July 1, 2011, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest thereon to the date of redemption. In addition, the Offered Bonds are subject to special redemption as described above under the caption *"Special Redemption,"* including from voluntary prepayments of any Loan.

General Provisions. Any Bonds to be purchased or redeemed, except by a Sinking Fund Installment, will be purchased or redeemed only upon receipt by the Trustee of a certificate signed by an Authorized Officer which sets forth the following:

(1) the Series of Bonds to be purchased or redeemed;

(2) the maturities within such Series from which Bonds are to be purchased or redeemed;

(3) the principal amount and maximum price of Bonds within such maturities to be purchased or redeemed; and

(4) if any of the Bonds to be purchased or redeemed are Term Bonds, the years in which the applicable Sinking Fund Installments are to be reduced.

Notice of redemption is to be given not less than 30 days before the date fixed for redemption, as provided in the Series Resolution. Failure to give any such notice, however, will not affect the validity of any proceedings for redemption of other Bonds of such Series.

If fewer than all of the Bonds of a Series having the same maturity are called for redemption, the particular Bonds or portions of Bonds to be redeemed are to be selected by the Trustee by lot or in such random manner of selection as the Trustee shall determine. All Bonds called for redemption will cease to accrue interest on the specified redemption date and shall no longer be considered Outstanding under the Bond Resolution, provided that funds sufficient for the redemption of those Bonds are deposited with the Trustee. Upon presentation and surrender of Bonds called for redemption at the place or places of payment, together with a written instrument of transfer duly executed by the owner thereof or by the owner's attorney duly authorized in writing, such Bonds are to be paid and redeemed.

Purchase of Bonds. The Administration may purchase or cause to be purchased any Bonds of any particular Series or maturity in lieu of redemption of such Bonds or for any other purpose pursuant to written instructions given by the Administration to the Trustee, provided that, if the purchase price of any Bonds exceeds the then applicable Redemption Price and accrued interest to the date of purchase, such written instructions shall be accompanied by a Cash Flow Certificate which takes into account any redemption or cancellation of Bonds so purchased. Such purchases shall be made in such manner as directed by the Administration. The Administration may from time to time in its discretion invite tenders for sale of Bonds to the Administration or a person designated by the Administration, either by public offer or private invitation, at such prices or bidding procedures as may be determined by the Administration. Such tender invitations may be made in lieu of redemption of Bonds or for any other purpose.

DTC and Book Entry

At the time of delivery of the Offered Bonds, DTC will act as securities depository for the Offered Bonds. The ownership of one fully registered bond for each maturity of the Offered Bonds in the aggregate principal amount of each such maturity initially will be registered in the name of Cede & Co., as nominee for DTC. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds (either directly or through custodians) securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement of securities transactions among Participants, such as transfers and pledges, in deposited securities through electronic computerized book entry changes in 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 Direct Participants, 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 banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

To facilitate subsequent transfers, all Offered Bonds deposited by Direct Participants with DTC or its custodian are registered in the name of DTC's nominee, Cede & Co. The deposit of the Offered 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 Offered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Offered Bonds are credited, which may or may not be the Beneficial Owners. Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The Trustee will make payments of principal of, redemption premium, if any, and interest on the Offered Bonds to Cede & Co., as registered owner of the Offered Bonds. DTC's current practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Administration 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 Cede & Co. is the responsibility of the Administration and the Trustee, disbursement of principal, premium (if any) and interest to Direct Participants is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners entitled thereto is the responsibility of Direct and Indirect Participants. DTC, the Trustee and the Administration are not responsible for and make no representations concerning the manner of, or any charges that may be associated with, payments by Direct Participants or Indirect Participants to Beneficial Owners.

The Trustee and the Administration, so long as a book entry system is used for the Offered Bonds, will send any notice of redemption or other notices only to DTC or its nominee as the registered owner of the Offered Bonds. Any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a Direct Participant, an Indirect Participant or otherwise) to notify the Beneficial Owner of any such notice and its content or effect will not affect the validity of the redemption of any of the Offered Bonds called for redemption or of any other action premised on such notice.

Redemption of portions of any maturity of the Offered Bonds by the Administration will reduce the outstanding principal amounts of such maturity held by DTC or its custodian. In the event of a redemption of less than the entire outstanding maturity of any of the Offered Bonds, DTC's current practice is to determine by lot the amount of the interest of each Direct Participant in the Offered Bonds to be redeemed, and the Direct Participants and Indirect Participants will implement a redemption of the appropriate Offered Bonds for the Beneficial Owners. Selection of any of the Offered Bonds to be redeemed will not be governed by the Resolution and will not be conducted by the Administration or the Trustee.

Neither DTC nor Cede & Co. will consent or vote with respect to the Offered Bonds. Under its usual procedures, DTC mails an omnibus proxy to the Administration as soon as possible after the record date for any consent or vote. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Offered Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Neither the Administration nor the Trustee will have any responsibility or obligation to Direct Participants or the persons for whom Direct Participants act as nominees with respect to the payments or the providing of notice to Direct Participants, Indirect Participants or Beneficial Owners or the selection of portions of the Offered Bonds for redemption. The information contained in this section concerning DTC and DTC's book-entry system has been obtained from DTC. The Administration and the Trustee make no representation concerning the accuracy of the description herein of the operations of DTC, Direct Participants or Indirect Participants, but have no information that the description is inaccurate.

The Administration and the Trustee cannot give any assurances that DTC will distribute payments of principal of, redemption premium, if any, and interest on the Offered Bonds paid to DTC or its nominee, as the registered owner, or any redemption or other notices, to the Direct Participants or that they will do so on a timely basis, that Direct Participants or Indirect Participants will distribute to Beneficial Owners any payments or notices received by them or do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement.

The Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed for every transfer and exchange of any of the Offered Bonds.

According to DTC, the foregoing information with respect to DTC has been provided to the Industry for informational purposes only and is not intended to serve as a representation, warranty, or contract modification of any kind.

Discontinuance of Book Entry Registration. DTC (or a successor securities depository) may discontinue providing its service with respect to the Offered Bonds at any time by giving notice to the Administration or the Trustee. Under such circumstances, in the event a successor securities depository is not obtained, certificates for the Offered Bonds are required to be printed and delivered. In addition, the Administration, in its sole discretion and without the consent of any other person, may not use or may terminate the services of DTC (or a successor securities depository). Under such circumstances, the Offered Bonds will be delivered as provided in the Resolutions, and registered in accordance with the instructions of the purchasers, and the following requirements of the Resolutions will apply. Interest on the Offered Bonds will be payable: (a) by check or draft mailed by the Trustee to the registered owner thereof, or (b) upon the request of a registered owner of any Offered Bonds having a principal amount of $1,000,000 or more, by wire transfer from the Trustee to the registered owner thereof. The principal of and redemption premium, if any, on the Offered Bonds are payable at the principal office of the Trustee, or its successor, upon presentation of any Offered Bonds on or after the date of maturity or redemption. Each exchange or transfer of any Offered Bonds may require the payment by the registered owner of any tax, fee or other charge imposed by law and a reasonable transfer fee of the Trustee.

SECURITY FOR THE BONDS

Provisions of the Bond Resolution

Pursuant to the Bond Resolution, the security for the Bonds is a pledge of and lien on:

(1) proceeds of the sale of Bonds (other than proceeds deposited in trust for the retirement of Outstanding Bonds),

(2) Loans made, purchased or otherwise financed from such proceeds,

(3) Revenues (primarily payments of principal and interest on Loans),

(4) Recovery Payments (which include Prepayments) and Acquired Development Receipts,

(5) all money, investments and other assets held in the funds and accounts established by or pursuant to the Bond Resolution and the earnings thereon, except for any money, investments, assets or income held in any fund or account created by a Series Resolution or a Supplemental Resolution which provides that such fund or account shall not be subject to the lien of the Bond Resolution, and

(6) any and all other property of every description and nature from time to time hereafter by delivery or by writing of any kind conveyed, pledged, assigned or transferred to the Trustee as and for additional security under the Bond Resolution by the Administration or by anyone on its behalf or with its written consent.

The pledge and security interest are subject to: (i) the power of the Administration to direct the withdrawal of amounts from such funds and accounts free and clear of such pledge and security interest upon the conditions provided in the Resolutions, (ii) other specific limitations set forth in the Bond Resolution, and (iii) with respect to one or more Series of Bonds, the power of the Administration to grant a lien on the same property and rights (or any portion thereof) on a parity with or subordinate to the lien granted to the Trustee for the benefit of the owners of the Bonds (provided, however, any funds, assets or other property pledged to or for the benefit of the Credit Enhancer or Credit Facility Provider shall be available to the Credit Enhancer or Credit Facility Provider only after it has made payment under the Credit Enhancement or Credit Facility, as appropriate) and to exclude all moneys deposited into any fund or account with respect thereto from the pledge to the Trustee securing payment of the Bonds or to limit such pledge. Moneys necessary to pay arbitrage rebate, if any, to the United States are administered outside of, and are not subject to the lien of, the Bond Resolution. For a description of the provisions of the Bond Resolution for releasing of moneys or other assets from the lien of the Bond Resolution, see "SECURITY FOR THE BONDS - Cash Flow Statements and Certificates."

The pledge made and security interests granted by the Bond Resolution and the covenants and agreements therein set forth are for the equal benefit, protection and security of holders of all Bonds, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any Bond over any other except as expressly provided or permitted herein. Subordinate Bonds need not be of equal rank with other Bonds and shall be entitled to the preferences and priorities provided in the Series Resolution authorizing the issuance of Subordinate Bonds. See "SECURITY FOR THE BONDS - Additional Bonds; Subordinate Bonds."

The Bonds are special obligations of the Administration payable solely from the Revenues and property of the Administration pledged therefor under the Bond Resolution. The Administration has no taxing power. The Bonds do not constitute a debt of the State, any political subdivision thereof, the Administration or the Department, or a pledge of the faith, credit or taxing power of the State, any such political subdivision, the Administration or the Department.

Loans

All Loans financed or expected to be financed with the proceeds of prior Series of Bonds are described in APPENDIX D - "DESCRIPTION OF LOANS AND DEVELOPMENTS".

Each of the existing Loans is secured by Credit Enhancement. However, the Bond Resolution does *not* require that a Loan financed in the future be secured by Credit Enhancement. Credit Enhancement, if any, of all or a portion of a Loan will be provided in accordance with the provisions therefor set forth in the Series Resolution authorizing a particular Series of Bonds. Credit Enhancement of Loans includes (but is not limited to) any credit enhancement, insurance, guaranty, risk-sharing arrangement or any other form of credit support for a Loan (or any portion thereof) as provided in any Series Resolution or Supplemental Resolution.

Each of the existing Loans is secured by a first lien mortgage. However, the Bond Resolution does *not* require that a Loan financed in the future be secured by a Mortgage constituting a mortgage lien on a Development, or that the lien of any mortgage be a first lien. If the Loan is secured by a Mortgage, the obligor under the Loan (the "Borrower") must furnish a title insurance policy insuring the mortgage lien. The Administration or the Trustee shall receive evidence that the Development is insured against loss from fire, casualty and other hazards. Any of the above Loan requirements may be varied pursuant to Credit Enhancement of such Loan or, if the Loan is not Credit Enhanced, as required or permitted by the Administration.

Pursuant to the Bond Resolution, the Administration may, in its discretion: (i) sell any Loan not in default, (ii) release any Loan from the lien of the Bond Resolution, or (iii) materially modify, amend or alter any security for, or any terms or provisions, of any Loan or Mortgage, provided in each instance the Administration has filed with the Trustee a Cash Flow Certificate taking such sale, release, cancellation, modification, amendment or alteration into account.

Generally, the ability of the Administration to pay debt service on the Bonds depends upon the receipt of sufficient Revenues, principally comprising principal and interest payments on Loans, and earnings on investment of moneys in funds and accounts under the Bond Resolution. The Debt Service Reserve Fund has been established to provide for the payment of debt service on the Bonds if Revenues for that purpose are at any time insufficient. If, however, one or more Borrowers fail to satisfy their respective obligations under the Program and the proceeds of Credit Enhancement or mortgage insurance, if any, are insufficient to pay such obligations, sufficient moneys may not be available to pay principal of and interest on the Bonds. The failure of a Borrower to make timely payment on its Loan or the occurrence of any other event of default with respect to a Loan does not constitute a default with respect to any other Loan. Similarly, the occurrence of an Event of Default under the Bond Resolution does not, of itself, constitute an event of default with respect to any Loan. Under such circumstances, neither the Administration nor the Trustee has the right to accelerate payment of any Loan not in default or to realize upon the security for such Loan.

Credit Enhancement of Rental Housing Loans

As of June 30, 2001, the Loans financing rental housing Developments ("Rental Housing Loans") were insured or credit enhanced as follows:

Insurer or Guarantor	Number of Loans	Number of Units	% of Total Units Insured	Outstanding Loan Amount [4]	% of Total Outstanding Loan Amount
FHA	6	1,055	15.02%	$ 27,143,804	12.74%
RISK SHARE[1]	2	260	3.70	8,315,832	3.91
FHLMC[2]	9	1,112	15.83	24,526,648	11.52
MHF	26	2,361	33.62	47,756,187	22.43
GNMA[5]	11	2,235	31.82	105,184,569	49.40
TOTAL[3]	54	7,023	100.00%	$212,927,040	100.00%

1 Two outstanding loans with a current outstanding principal balance of $8,315,832 financed the Bolton House Development. Those two loans are insured under the FHA Risk-Sharing Program. Upon payment of a claim by FHA, the Administration would be responsible for reimbursement to FHA of up to 50% of such claim. The Administration will receive a payment from MHF on the amount of any payment made to FHA.

2 Loans insured by MHF and reinsured by FHLMC. See "FHLMC Reinsurance Agreement" below.

3 Percentages may not total 100% due to rounding.

4 The "Outstanding Loan Amount" for these projects represents Bond proceeds disbursed as of June 30, 2001.

5 On July 12, 2001, the Administration financed two Loans backed by GNMA Securities in the amount of $29,645,000 containing 375 units, which are not included in the table.

Pursuant to the Bond Resolution, the Administration may, in its discretion, materially modify, amend, alter, cancel or release Credit Enhancement of any Loan, provided the Administration has filed with the Trustee a Cash Flow Certificate taking such modification, amendment, alteration, cancellation or release into account and a certificate of an Authorized Officer to the effect that any such modification, amendment, alteration, cancellation or release will not adversely affect the rating on the Bonds as in effect immediately before the date of such certification.

FHA Mortgage Insurance. Certain of the Loans are insured under a multi-family mortgage insurance program administered by HUD, acting through FHA, as established pursuant to Sections 221(d)(3), 221(d)(4) and 223(f) of Title II of the National Housing Act and the regulations thereunder (the "FHA Loans"). The Administration, as an FHA-approved mortgagee for the FHA Loans, is eligible to receive FHA insurance benefits in the event of a default under the FHA Loans. A mortgagee is entitled to receive the benefits of the mortgage insurance after the mortgagor has defaulted and such default (as defined in the FHA regulations) has continued for a period of thirty (30) days subject to certain requirements. FHA insurance benefits received in the event of any claim under the FHA insurance contract will be subject to certain deductions. In particular, the Administration is entitled to settlement of an FHA insurance claim in an amount equal to 99% of the amount of the principal balance of the defaulted FHA Loan outstanding as of the date of default, after adjustment for certain expenses and for deposits or assets held by the Administration for the benefit of the related Development and not assigned to FHA. Since interest is paid one month in arrears in FHA mortgage transactions, the mortgagee will not, in the event of a claim for insurance benefits, be reimbursed for interest which had accrued in the month preceding the date of default and which was due and payable on such date. In addition, processing claims for FHA insurance benefits involves certain time delays. Deductions in addition to those described above, processing delays and the procedures which must be followed in filing and perfecting a claim for FHA insurance benefits are described in APPENDIX F under the caption "THE FHA INSURANCE PROGRAM."

Risk-Sharing Program. The Risk-Sharing Program is administered by HUD, acting through FHA, pursuant to Section 542(c) of the Housing and Community Development Act of 1992 (the "Risk Sharing Act") and applicable HUD Regulations found at 24 C.F.R. Part 266. The Risk Sharing Act authorizes the Secretary of HUD ("HUD Secretary") to enter into risk-sharing agreements with qualified state or local housing finance agencies ("HFAs") to enable HFAs to underwrite and process loans for which HUD, acting through FHA, will provide full mortgage insurance for eligible developments. Under this program, FHA endorses mortgages on qualified multi-family projects for insurance. HUD delegates to the HFA certain loan underwriting, loan management and property disposition functions. Upon default of an insured loan, FHA is required to make an initial payment in the amount of the unpaid principal and interest due to the date of claim. The HFA is required to reimburse HUD an agreed percentage of any loss resulting upon disposition of the property (but in any event within five years, subject to extension in the discretion of HUD).

The Administration has received designation as both a Level I and a Level II participant in the Risk-Sharing Program with an initial allocation of 475 affordable multifamily housing units eligible for insurance. As a Level I participant, the Administration will assume 50% or more of the liability for any losses incurred by HUD upon payment under its insurance following disposition of the property, the exact percentage being determined separately with respect to each project. As a Level II participant, the Administration will assume (i) 25% of the liability for such losses with respect to projects having a loan to value or loan to replacement cost ratio greater than or equal to 75%, or (ii) 10% of such liability with respect to projects having a loan to value or loan to replacement cost ratio less than 75%.

The Administration currently expects that its participation in the Risk-Sharing Program will be limited to loans which have existing MHF insurance and are being refinanced in a manner so as to reduce the dollar amount of MHF's insurance exposure with respect to such loans. In such cases, MHF is expected to reimburse the Administration for the Administration's share of any loss. To date, the Administration has financed three loans under the Risk-Sharing Program, which were refinanced as part of default refundings of previously MHF insured mortgage loans financed by the Administration.

The Risk-Sharing Program regulations require that the Administration establish a dedicated account at a financial institution acceptable to HUD in the initial amount of $500,000. This account, with a current balance of $607,455, has been established by setting aside $607,455 in the Administration's

General Bond Reserve Fund for such purpose. HUD may make withdrawals from this account for the purpose of meeting the Administration's obligations under the program and its risk sharing agreement with HUD. At the closing of any mortgage loan insured under this program, the Administration is required to deposit and maintain in the dedicated account an amount equal to one percent of the unpaid principal of such loan, up to and including $50,000,000, three-quarters of one percent of the unpaid principal of such loan in excess of $50,000,000 but less than $150,000,000, and one-half of one percent of the unpaid principal of such loan in excess of $150,000,000.

FHA Insurance under the Risk-Sharing Program with respect to any mortgage loan may be terminated upon the occurrence of certain events, including the following: (1) the corresponding mortgage is paid in full; (2) the HFA acquires mortgaged property and notifies the FHA Commissioner that it will not file an insurance claim; (3) a party other than the HFA acquires property at a foreclosure sale; (4) the HFA notifies the FHA Commissioner of a voluntary termination; (5) the HFA or its successors commit fraud or make a material misrepresentation to the FHA Commissioner with respect to certain information; (6) the receipt by the FHA Commissioner of an application for final claims settlement by the HFA; or (7) the HFA acquires the mortgaged property and fails to make an initial claim. See Appendix F – "MORTGAGE INSURANCE AND CREDIT ENHANCEMENT – FHA Risk-Sharing Program."

MHF Multi-Family Mortgage Insurance. Certain of the Loans are insured by MHF, an agency of the Department, pursuant to State law (the "MHF Loans"). MHF has ceased issuing new insurance commitments (except for pool insurance of certain single family loans), in part as a result of concerns expressed by Moody's Investors Service ("Moody's") during 1996 and 1997. MHF expects to continue to honor existing insurance commitments. For more information relating to the financial statements of MHF, see APPENDIX F – "MORTGAGE INSURANCE AND CREDIT ENHANCEMENT – THE MHF INSURANCE PROGRAM" and APPENDIX J – "FINANCIAL STATEMENTS OF THE MARYLAND HOUSING FUND".

The Administration, as an MHF approved mortgagee for the MHF Loans, is eligible to receive MHF insurance benefits in the event of a default under the MHF Loans. The standard coverage for public agency mortgagees, such as the Administration, is up to 100% of the loan amount. When a public agency of the State is mortgagee, it may upon default and with MHF's consent assign the mortgage and its rights thereunder to MHF, which shall pay the appropriate claim amount upon recordation of the assignment and upon the assignment to MHF of all claims of the mortgagee against the mortgagor. After the mortgagor has been in default for six months, either MHF or the mortgagee, without the other's consent, may require the assignment of the mortgage to MHF. In certain cases, however, it has been the practice of MHF to defer payment of claims to the Administration pending resolution of defaults. MHF, upon such assignment, has all rights of the mortgagee to pursue the mortgagor for any deficiency, loss, or periodic payments. In those instances where the mortgagee is a public agency, if the mortgage is not assigned to MHF upon the default, MHF is obligated to make such periodic payments as are due under the terms of the insured mortgage with the exception of late charges and mortgage insurance premiums. Such periodic payments continue from default until the default is cured or the loan is foreclosed upon or assigned to MHF. See APPENDIX F – "MORTGAGE INSURANCE AND CREDIT ENHANCEMENT – THE MHF INSURANCE PROGRAM – MULTI-FAMILY INFORMATION – Certain Additional Expected Multi-Family Claims."

The financial statements of MHF are contained in APPENDIX J. The financial statements of MHF are reported on a consolidated basis combining results of operations for MHF's Multi-Family, Single Family, Revitalization and Home and Energy Mortgage Insurance Programs. An insurance claim under MHF's Multi-Family Program is payable only from the Multi-Family Reserve, MHF operating funds and certain unallocated reserves, and not from any other funds, assets or reserves of MHF as may be identified in the financial statements.

FHLMC Reinsurance Agreement. On December 28, 1994, MHF, the Department and the Administration entered into a Reinsurance Agreement with the Federal Home Loan Mortgage Corporation ("FHLMC"), a corporation chartered by Congress under the laws of the United States, for the purpose of ceding to and fully reinsuring with FHLMC the mortgage insurance obligations of MHF for certain multi-family loans insured by MHF. Under the Reinsurance Agreement, FHLMC has agreed to fully reinsure, without any contingent liability for MHF, 17 loans insured by MHF, nine of which are under this Resolution. For additional information about the FHLMC Reinsurance Agreement, see "MULTI-FAMILY INFORMATION – FHLMC Reinsurance Agreement" in APPENDIX F.

GNMA Mortgage-Backed Securities. As of June 30, 2001, eleven Loans financed with the proceeds of prior Series of Bonds have Credit Enhancement in the form of fully modified pass through mortgage-backed securities guaranteed as to payment of principal and interest by GNMA. In addition, the Series 2001 A Bonds issued on July 12, 2001, financed two Loans with such credit enhancement. Each of the five Loans expected to be financed with the proceeds of the Offered Bonds is also expected to have such credit enhancement. GNMA is a wholly-owned corporate instrumentality of the United States within HUD with its principal office in Washington, D.C. A security guaranteed by GNMA (a "Guaranteed Security") is a "fully modified pass through" mortgage-backed security which requires monthly payments by an FHA-approved lender, as the issuer of the Guaranteed Security (the "Lender"), to the registered holder of the Guaranteed Security of principal of and interest on such Guaranteed Security when due, whether or not the Lender receives payments on the mortgage note underlying such Guaranteed Security, plus any prepayments of principal of the mortgage note received by the Lender. GNMA guarantees timely payment of principal of and interest on Guaranteed Securities. Section 306(g) of Title III of the National Housing Act provides that "the full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection."

See APPENDIX D – "DESCRIPTION OF LOANS AND DEVELOPMENTS" for a description of the Credit Enhancement applicable to each Loan. See APPENDIX F for additional information concerning mortgage insurance and credit enhancement. **Neither MHF, FHA, GNMA, FHLMC, nor any other Credit Enhancer insures or guarantees the Bonds. The assets of MHF, FHA, GNMA, FHLMC, or other Credit Enhancers are not available to the Administration or the Trustee to satisfy obligations to the holders of the Bonds. The obligations of MHF, FHA, GNMA, FHLMC, and other Credit Enhancers are limited to the payment of mortgage insurance claims, credit enhancement or guaranties as described herein.**

Housing Subsidy Payments for Rental Housing Developments

As of June 30, 2001, the multi-family rental housing Developments financed by Rental Housing Loans ("Rental Housing Developments") received federal housing subsidy payments under the Section 8 and Section 236 programs as follows:

Housing Subsidy Program	Number of Developments	Number of Units	Number of Subsidized Units	Percent of Subsidized Units	Outstanding Loan Amount	Percent of Total Outstanding Loan Amount
Section 8 [1,2]	29	3,279	2,672	81.49%	$75,219,368	35.33%
Section 236	5	895	895	100.00	22,738,732	10.68
Unsubsidized	18	2,849	0	0.00	114,968,940	53.99
Total[3]	52	7,023	3,567	50.79%	$212,927,040	100.00%

1 Six Developments have Section 8 contracts which expire before maturity of their related Rental Housing Loan. Five of such Developments, having an outstanding Loan balance of $19,735,125, are financed with FHA insured Loans. The other Development, having an outstanding Loan balance of $384,336, is financed with an MHF insured Loan.

2 Four Developments, having an outstanding Loan balance of $18,386,665, have Section 8 contracts covering less than 100% of the units in each respective Development. All but one of such Developments are financed with FHA insured Loans. The other Development is financed with an MHF insured Loan.

3 Percentages may not total 100% due to rounding.

Section 8 Program. Under the Section 8 housing assistance payments program, housing assistance payments are disbursed by the Administration, as HUD's agent, through payment of a "Contract Rent" for each assisted dwelling unit. The Contract Rent is generally limited by the "fair market rents" established by HUD and published in the Federal Register and by the rents of unassisted units of similar age, design, location and amenities. The Contract Rent for the assisted dwelling units in each development is adjusted by HUD annually pursuant to an adjustment factor established by HUD. The subsidy contracts usually provide for the payment of the Section 8 subsidy for an initial term automatically renewable for additional terms of not more than five years each; however, some contracts are for terms that expire before maturity of the Loan for the related Development. **There is no assurance that a Housing Assistance Payment Contract ("HAP Contract") will be renewed upon its expiration or that HUD will extend the term of any Section 8 subsidy for the term of or in amounts sufficient to pay the related Loan.** Payments received under the subsidy contracts constitute a primary source of revenues for many of the Developments receiving such assistance. Therefore, the termination of, or the reduction of payments under, a subsidy contract may have a material adverse impact on the ability of the related Development to generate revenues sufficient to pay the principal of and interest on a Loan. Additional information about the Section 8 program and recent legislation regarding renewals of HAP Contracts appears in APPENDIX G - "FEDERAL HOUSING SUBSIDY PROGRAMS - Section 8 Program."

Section 236 Program. Pursuant to Section 236(b) of the National Housing Act, the HUD Secretary has entered into Section 236 contracts for certain Developments (the "Section 236 Developments") to make periodic interest reduction payments to the Administration on behalf of the mortgagors of the Section 236 Developments which were designed for occupancy by persons and families of low income. HUD's interest reduction subsidy payment share is in an amount equal to the difference between the monthly payment for principal, interest and a mortgage insurance premium which a mortgagor is obligated to pay under its Loan and the monthly payment for principal and interest which a mortgagor would be obligated to pay if its Loan were to bear interest at the rate of *one per centum* (1%) *per annum*. HUD is obligated to make payments under a Section 236 contract and may not terminate or reduce such payments except under certain circumstances, including, but not limited to, certain foreclosure actions instituted by the Administration. The funds for payment of interest reduction payments under the Section

236 contracts have been appropriated by Congress but are subject to rescission by legislation. Additional information about the Section 236 program appears in APPENDIX G - "FEDERAL HOUSING SUBSIDY PROGRAMS - Section 236 Program."

Single Family and Group Home Loans

In addition to the Rental Housing Loans described above, the Administration acquired or financed Loans with the proceeds of prior Series of Bonds for the following single family residences and various group housing facilities for special needs populations, including developmentally disabled individuals ("Group Homes"):

Type of Development	Number of Loans	Number of Units [1]	Type of Credit Enhancement	No. of Loans Credit Enhanced	Percent of Total Units Credit Enhanced	Outstanding Loan Amount as of 6/30/01
Single Family	35	35	MHF	35	100%	$ 899,320
Group Homes	21	50	MHF	21	100%	1,827,869
Total	56	85		56	100%	$2,727,189

1 In the case of single family residences, "units" refers to number of residences; in the case of Group Homes, "units" refers to number of individuals served.

Pursuant to the Bond Resolution, the Administration may, in its discretion, cancel or release the Credit Enhancement of any Loan, provided the Administration has filed with the Trustee a Cash Flow Certificate taking such cancellation or release into account and a certificate of an Authorized Officer to the effect that any such cancellation or release will not adversely affect the rating on the Bonds as in effect immediately before the date of such certification.

Single Family Residences. The single family residences originally were financed with mortgage loans ("Single Family Loans") funded from the proceeds of bonds issued by the Administration in 1977. The Single Family Loans financed single family residences in the late 1970's within the Counties of Anne Arundel, Howard, Montgomery and Prince George's. Each Single Family Loan is secured by a first lien mortgage and insured by MHF. The MHF insurance provides coverage for up to 100% of outstanding principal amount of each Single Family Loan. Any MHF mortgage insurance claims related to such Single Family Loans are payable only from MHF's Multi-Family Reserve, MHF operating funds and certain unallocated reserves. Each Single Family Loan is subject to prepayment at any time, without premium, by its respective Borrower.

Group Homes. The Group Homes were financed with Group Home Loans funded from the proceeds of the Series 1996 B Bonds. Group Home Loans are originated pursuant to the Administration's Special Housing Opportunities Program. Pursuant to such program, the Administration makes Loans to non-profit organizations or governmental entities to finance acquisition, rehabilitation, new construction or refinancing of Group Homes to house special needs populations, including developmentally and mentally disabled individuals. The sponsor of each Group Home must have a contract for governmental subsidies and at least two years of prior experience managing and operating similar facilities. Group Homes are located in single family communities and are single family residences modified for group housing purposes and usually limited to occupancy by no more than three to four persons. Each Group Home Loan is secured by a first lien mortgage and insured by MHF. The MHF insurance provides coverage for up to 100% of the outstanding principal amount of each Group Home Loan. Any MHF mortgage insurance claims related to such Group Home Loans are payable only from MHF's Multi-Family Reserves, MHF operating funds and certain unallocated reserves. Each Group Home Loan is subject to prepayment at any time, without premium, by its respective Borrower. Additional information about the group housing program appears in APPENDIX C - "THE PROGRAM - Description of Types of Loans Under the Program - *Group Home Loans*." See APPENDIX F for information about the MHF Multi-Family Insurance Program.

See APPENDIX D - "DESCRIPTION OF LOANS AND DEVELOPMENTS" for a description of mortgage insurance, Credit Enhancement and housing subsidies applicable to each Development. See APPENDIX F - "MORTGAGE INSURANCE AND CREDIT ENHANCEMENT" for detailed information about mortgage insurance and Credit Enhancement. See APPENDIX G - "FEDERAL HOUSING SUBSIDY PROGRAMS" for detailed information about federal housing subsidy programs.

Debt Service Reserve Fund

The Debt Service Reserve Requirement, as of any date of calculation, is the aggregate of the amounts specified as the Debt Service Reserve Requirement for each Series of Bonds in the applicable Series Resolution. As of June 30, 2001, the available balance in the Debt Service Reserve Fund was $6,789,405, of which $930,430 was cash equivalents. The fair value of investments was $5,858,975 of which $5,544,606 was the book value of investments and $314,369 was the increase in fair value. The balance on deposit in the Debt Service Reserve Fund satisfies the current Debt Service Reserve Requirement of $5,565,000. No deposit will be made to the Debt Service Reserve Fund in connection with the issuance of the Offered Bonds.

If moneys in the Revenue Fund are insufficient to provide for the payment when due of any Principal Installment, interest on the Bonds or any Sinking Fund Installment, the Trustee shall withdraw from the Debt Service Reserve Fund and pay into the Revenue Fund the amount of the deficiency then remaining. If any such withdrawal results in the balance in the Debt Service Reserve Fund falling below the amount of the Debt Service Reserve Requirement, any such deficiency shall be replenished from amounts available in the Revenue Fund following payment of Principal Installments, Sinking Fund Installments, redemption premium (if any) and interest on the Bonds. The failure of the Administration to maintain the Debt Service Reserve Requirement will not, in and of itself, constitute an Event of Default under the Bond Resolution.

The Trustee may, at the direction of an Authorized Officer, withdraw any amount in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement, and any amount anticipated to be withdrawn in connection with the purchase or redemption of Bonds, and credit such amount to the Revenue Fund. The Debt Service Reserve Requirement may be reduced upon receipt by the Trustee of a Cash Flow Certificate taking into account such reduction and a certificate from an Authorized Officer to the effect that such reduction, in and of itself, will not cause or result in a reduction of the rating or ratings on the Bonds in effect immediately before such reduction. The Debt Service Reserve Fund and the Debt Service Reserve Requirement may be funded with moneys or Cash Equivalents, in accordance with the requirements of the Bond Resolution and any Supplemental Resolution, or as determined to be deposited therein by the Administration. If, pursuant to a Supplemental Resolution, amounts obtained under a Credit Facility or Credit Enhancement are to be used to pay the Principal Installments of and interest on Bonds, then amounts in the Debt Service Reserve Fund which would otherwise have been used for such purposes may be applied to reimburse the Credit Facility Provider or Credit Enhancer for the amounts so obtained, all in accordance with such Supplemental Resolution.

Cash Flow Statements and Certificates

The Administration is required to file with the Trustee a current Cash Flow Statement whenever any Series of Bonds is issued, unless such filing is not required by a Rating Agency.

The Administration is required to file with the Trustee a current Cash Flow Certificate:

(i) upon purchase or redemption of Bonds of a Series in a manner other than [a] as contemplated in the most recent Cash Flow Statement filed by the Administration with the Trustee, or [b] on a basis whereby the Bonds of each maturity of such Series are purchased or redeemed in the proportion that the amount Outstanding of such maturity bears to the total amount of all Outstanding Bonds of such Series, with respect to purchases or redemptions to be made from Recovery Payments;

(ii) prior to withdrawing moneys from the Revenue Fund for payment to the Administration free and clear of the pledge and lien of the Bond Resolution, in an amount in excess of the amounts determined to be available for such purpose in the most recent Cash Flow Statement filed with the Trustee;

(iii) prior to selling Loans not in default;

(iv) prior to [a] the initial financing of a Loan whose terms are materially inconsistent with the most recent Cash Flow Statement, or [b] subsequently materially modifying, amending or altering the terms or provisions of any Loan or releasing, altering or modifying materially the security therefor (including, without limitation, Credit Enhancement, if any);

(v) except as provided in Section 6.07(c) of the Bond Resolution (summarized in APPENDIX H), prior to the releasing of any Loan from the pledge and lien of the Bond Resolution at less than the amount specified in Section 6.06 of the Bond Resolution (summarized in APPENDIX H) for Prepayment of such Loan;

(vi) prior to the application of a Recovery Payment to any use other than the purchase or redemption of Bonds;

(vii) prior to the purchase of Bonds at a price in excess of the then applicable Redemption Price plus accrued interest to the date of purchase; or

(viii) prior to effecting any reduction in the Debt Service Reserve Requirement.

A Cash Flow Statement shall consist of a certification and calculation made by or for the Administration and signed by an Authorized Officer giving effect to the action proposed to be taken and demonstrating that:

(i) the Revenues derived with respect to each Loan, together with any other payments on such Loans,

(ii) interest and other income estimated by the Administration to be derived from the investment or deposit of money available for payment of the Bonds in any fund or account created by or pursuant to the Bond Resolution (which estimate shall be based upon the investments or deposits in any fund or account at the rate of return thereon or, in the case of future investments or investments or deposits expected to be made at the time of such certificate, at an assumed rate or reinvestment rate reasonably determined by the Administration compounded no more frequently than monthly),

(iii) any fees charged by the Administration and any other available revenues, and

(iv) any other moneys or funds pledged to the payment of the Bonds,

will be sufficient, in the judgment of an Authorized Officer of the Administration, to pay the principal of and interest on all Outstanding Bonds described in the calculation in the current and in each succeeding Bond Year. A Cash Flow Statement shall include all Outstanding Bonds, together with one or more Series of Bonds to be issued by the Administration, all as may be required by the Bond Resolution, and may exclude any or all Subordinate Bonds. To the extent specified in a Supplemental Resolution, a fund or account established in said Supplemental Resolution shall not be taken into account when preparing a Cash Flow Statement.

In addition, the Cash Flow Statement shall demonstrate that: (1) the amount of moneys and Permitted Investments held in the Bond Proceeds Fund, the Redemption Fund, the Revenue Fund and the Debt Service Reserve Fund (valued at their cost to the Administration, as adjusted by amortization of the discount or premium paid upon purchase of such obligations ratably to their respective maturities), together with accrued but unpaid interest thereon, (2) the outstanding principal balance of Loans, together with accrued but unpaid interest thereon, and (3) any other assets, valued at their realizable value, pledged for the payment of the Bonds, will equal or exceed the aggregate principal amount of and accrued but unpaid interest on Outstanding Bonds; provided that in the event a Series Resolution specifies that, for purposes of the requirements of this paragraph, the Loans financed by such Series of Bonds shall be valued at other than their outstanding principal balance, then, with respect to such Loans, such other value shall be used in the calculations required by this paragraph.

A Cash Flow Certificate shall consist of a statement of an Authorized Officer of the Administration to the effect of one of the following: (1) the proposed action is consistent with the assumptions set forth in the most recent Cash Flow Statement; or (2) after giving effect to the proposed action, in the current and each succeeding Bond Year in which Bonds are scheduled to be Outstanding, the amounts described in clauses [i] through [iv] above will be sufficient, in the judgment of an Authorized Officer of the Administration, to pay the principal of and interest on all Outstanding Bonds described in the calculation, except that to the extent specified in a Supplemental Resolution, a fund or account established in said Supplemental Resolution shall not be taken into account in connection with such Cash Flow Certificate; or (3) the proposed action will not in and of itself materially adversely affect the amounts described in clauses [i] through [iv] above, except with respect to such funds or accounts which may be specified in such Supplemental Resolution to not be taken into account in connection with such Cash Flow Certificate. The Administration, at its option, may file a Cash Flow Statement in lieu of a Cash Flow Certificate in any instance when it is required to file a Cash Flow Certificate. See APPENDIX H - "SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION - Cash Flow Statements and Certificates."

Cash Flow Statements and Cash Flow Certificates are prepared based upon certain assumptions of and information available to the Administration at the time such a statement or certificate is prepared. Such assumptions and information are subject to change which may materially affect the conclusions expressed in the statement or certificate. Accordingly, Bondholders should be aware that the existence of a Cash Flow Statement or Cash Flow Certificate does not assure that the conclusions expressed therein will accurately reflect future revenues or events. See APPENDIX A - "DEFINITIONS" and APPENDIX H - "SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION - Cash Flow Statements and Certificates."

Investment of Funds

Pending application to the purposes of each fund or account, moneys held in the various funds and accounts under the Bond Resolution will be invested in Permitted Investments. As of June 30, 2001[1] amounts held in the Bond Proceeds Fund were invested as follows:

Bond Series	Balance	Investment	Maturity
Series 1999 A	$ 1,158,253	Short-Term Treasury Fund[2]	N/A
Series 1999 B	$ 1,475,405	Repurchase Agreement[3]	8/15/03
Series 1999 D	$ 3,872,924	Repurchase Agreement[3]	8/15/03
Series 2000 A	$17,048,123	Repurchase Agreement[3]	1/29/04

1 The Bond Proceeds Fund of Series 2001 A, issued on July 12, 2001, was invested in a Repurchase Agreement which matures on October 31, 2005.
2 Short-Term Fund held by the Trustee and invested exclusively in U.S. Treasury Securities.
3 Flexible repurchase agreement, secured with collateral constituting Permitted Investments and valued at not less than 102% of the amount invested by the Administration.

Funds held in the Revenue Fund and the Debt Service Reserve Fund are invested in Permitted Investments. In general, it is the Administration's policy to invest such monies in U.S. Treasury securities, investment contracts collateralized by Permitted Investments, accounts with financial institutions, and securities of other institutions created by the U.S. Government. As of March 31, 2001 all moneys in the Debt Service Reserve Fund were invested in Treasury Bonds and a money market government account.

Any Permitted Investments described in subparagraphs (4), (5) and (8) of the definition of "Permitted Investments," i.e., U.S. dollar denominated deposit accounts, federal funds and banker's acceptances, commercial paper and investment agreements, as set forth and more fully described in APPENDIX A to this Official Statement, purchased by the Trustee must, as of the date of such purchase, be rated by any Rating Agency then rating the Bonds in a long-term rating category at least equal to the long-term rating of the Bonds (other than Subordinate Bonds) and a short term rating in the highest short-term rating category (unless the Permitted Investment has a remaining term of less than one year, in which case it need only have a short term rating in the highest short term rating category); provided, however, that the Trustee may purchase Permitted Investments that do not meet the requirements set forth in this paragraph, so long as the purchase of such Permitted Investments does not, as of the date of such purchase, in and of itself, result in a reduction or withdrawal of the then existing rating assigned to the Bonds (other than Subordinate Bonds) by any Rating Agency then rating the Bonds. If the rating of any Permitted Investment purchased by the Trustee changes adversely subsequent to the date of purchase, the Trustee is not required to sell such Permitted Investment. If a Rating Agency were to downgrade or withdraw the rating on any Permitted Investment previously purchased by the Trustee, the rating on the Bonds could be negatively affected. See "RATINGS."

Credit Facilities

Under the Bond Resolution, payment of the principal or redemption or purchase price of and interest on each Series of Bonds issued thereunder may be, but is not required to be, secured by a Credit Facility. In connection with obtaining any such credit or liquidity facility, the Administration may under the Bond Resolution pledge to the provider thereof its interests in the Loans and the accounts created under the Bond Resolution and applicable Series Resolution relating to such Loans. The Offered Bonds will not have the benefit of any Credit Facility.

A Credit Facility may be: (i) an unconditional and irrevocable letter of credit in form and drawn on a bank or banks acceptable to the Administration (which bank or banks must be rated by any Rating Agency in a category at least equal to the rating category of the Bonds (other than Subordinate Bonds) or "A-l+" or "P-1", as applicable, if the Credit Facility has a remaining term at the time it is provided not exceeding one year); provided that such letter of credit may be provided by a bank or banks whose rating is lower than that set forth above, so long as the providing of such letter of credit does not, as of the date it is provided, in and of itself, result in a reduction or withdrawal of the then existing rating assigned to the Bonds (other than Subordinate Bonds) by any of the Rating Agencies, (ii) cash, (iii) a certified or bank check, (iv) Permitted Investments, or (v) any other credit facility similar to the above in purpose and effect, including, but not limited to, a guaranty, standby loan or purchase commitment, insurance policy, surety bond or financial security bond or any combination thereof, which, in any case secures all or a portion of one or more Series of Bonds.

General Bond Reserve Fund

As an additional source of funds for the payment of principal of and interest on the bonds and notes issued or to be issued by the Administration, including the Offered Bonds, the Administration has established the General Bond Reserve Fund (the "General Bond Reserve Fund") pursuant to an Indenture of Trust by and between the Administration and Allfirst Bank, Baltimore, Maryland, as successor trustee, dated as of June 29, 1984, as supplemented. Amounts on deposit in the General Bond Reserve Fund, to the extent available, may be used to pay the principal of and interest on bonds and notes of the Administration in the event that revenues and assets specifically pledged to such bonds and notes are not sufficient for the payment of principal of and interest on such notes or bonds. In addition, the Administration uses moneys in the General Bond Reserve Fund to cover costs of operation of the Administration.

Balances. During fiscal year 1997, the Administration adopted the provisions of GASB 31, a new accounting standard adopted by the Government Accounting Standards Board. GASB 31 requires the financial statements of the Administration to reflect investments at fair value. Accordingly, the balance of the General Bond Reserve Fund as reported at June 30, 2001, includes investments at fair value. As of June 30, 2001, the available balance in the General Bond Reserve Fund was $39,749,674, of which $8,346,127 was cash equivalents. The fair value of investments was $31,403,547, of which $30,702,390 was the book value of investments and $701,157 was the increase in fair value of the investments. The Administration may withdraw funds within the General Bond Reserve Fund, or may pledge such funds to specific obligations, at any time for any purposes under the Act.

On May 19, 1997, the Director of the Administration adopted a determination, approved by the Secretary, stating the Administration's intent to use funds from the General Bond Reserve Fund to compensate for any deficiency in funds available to meet the Administration's obligations to the holders of its Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) if MHF becomes unable to or otherwise fails to pay a claim due to the Administration (the "Determination"). The Determination states that it is the policy of the Administration to maintain a total amount of cash, Investment Obligations and loans under the Administration's special housing opportunities program for financing Group Homes (the "Available Balance") in the General Bond Reserve Fund, as of July 1 of each year, of not less than $20,000,000.

The Determination also provides that the Administration shall provide Moody's with written notice: (i) if, as of July 1 of any year, the Available Balance in the General Bond Reserve Fund falls below $20,000,000, such notice to be given no later than July 31 for unaudited amounts, and no later than October 1, for audited amounts; and (ii) of any event pursuant to which the Administration places or causes to be placed any lien or restriction upon all of any part of the funds held in the General Bond Reserve Fund (other than liens established in connection with the payment of principal of or interest on any of the Administration's bonds from the General Bond Reserve Fund).

Special Restrictions. The Administration has restricted the following amounts in the General Bond Reserve Fund for the following purposes:

(1) approximately $626,000 in order to provide a reserve fund for mortgage insurance for single family program mortgage loans,

(2) $607,455 as required for participation in the HUD Risk-Sharing Program, and

(3) $2,500,000 as additional security for the Administration's Multi-Family Housing Revenue Bonds (Insured Mortgage Loans).

The amount restricted pursuant to clause (3) is required to be transferred to, and subjected to the lien of, the 1982 Resolution upon the occurrence of either of the following events: (i) the amount of loans insured by the MHF payable from its Multi-Family Reserve exceeds ten times an amount equal to the Multi-Family Reserve minus $1,000,000 (for an explanation of the MHF Multi-Family Reserve, see APPENDIX F - "MORTGAGE INSURANCE AND CREDIT ENHANCEMENT - THE MHF INSURANCE PROGRAM – MULTI-FAMILY INFORMATION - Multi-Family Insurance in Force and Available Reserves"); or (ii) the ratio of assets to liabilities falls below 101% under the Bond Resolution, the 1982 Resolution or the general bond certificate for the Administration's Single Family Program Bonds. The requirements of clause (3) may be reduced or deleted if such reduction or deletion will not adversely affect the ratings then in effect on the Bonds

Unless a default has occurred with respect to payment of any principal (or, if applicable, any redemption premium) of the Bonds or other bonds issued by the Administration, the Administration may, subject to any limitations set forth in the preceding paragraph, withdraw amounts in the General Bond Reserve Fund or may pledge amounts in the General Bond Reserve Fund to specific obligations at any time for any purposes under the Act. Upon the occurrence of an event of default with respect to any bonds secured by the General Bond Reserve Fund, the trustee for the defaulted bonds may file a claim against the General Bond Reserve Fund in an amount equal to the amount in default, and upon filing such a claim will have a lien on the General Bond Reserve Fund in the amount of such claim. In the event of multiple defaults, claims against the General Bond Reserve Fund are given priority based upon time of receipt by the General Bond Reserve Fund trustee. There can be no assurance that moneys will be available in the General Bond Reserve Fund for the payment of principal of or interest on the Bonds. The Trustee is also the trustee for the General Bond Reserve Fund.

Additional Bonds; Subordinate Bonds

The Bond Resolution permits the issuance of additional Bonds for one or more of the following purposes: (1) to finance or refinance Qualified Loans (including, without limitation, Qualified Loans in default); (2) to refund any or all Outstanding Bonds or any other bonds, notes or other obligations; (3) to pay any "Development Cost" as such term is defined in the Act and any other cost, including, without limitation, costs of issuance, discount, insurance or credit enhancement premiums or fees, fees and expenses of counsel, financial advisors and other professional advisors and consultants, all as permitted by the Act; (4) to fund reserves; or (5) to achieve any of the Administration's purposes. Prior to the issuance of any Series of additional Bonds, the Administration will file with the Trustee: (i) a Cash Flow Statement, and (ii) either [a] if the additional Bonds are not Subordinate Bonds, confirmation that the rating on such Series of Bonds shall not be lower than the rating on the Bonds in effect immediately prior to the issuance of such Series of Bonds, or [b] if the additional Bonds are Subordinate Bonds, confirmation that the issuance of such Series of Subordinate Bonds will not, in and of itself, result in a downgrade of the rating on any outstanding Series of Bonds which are not Subordinate Bonds in effect immediately prior to the issuance of such Series of Subordinate Bonds, unless a more restrictive requirement is established under any Series Resolution. The Offered Bonds and any additional Bonds issued under the Bond Resolution (except for Subordinate Bonds) will be on a parity and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Bond Resolution.

The Administration may issue Bonds to be secured by the Bond Resolution on a subordinated basis. Payment of the principal or redemption price of and interest on, and the purchase price of, each Series of Subordinate Bonds, may be secured by the pledge of funds and accounts under the Bond Resolution to the extent specified in the Series Resolution, subordinate, however, to the pledge securing the Bonds which were not issued as Subordinate Bonds, and upon such terms and conditions set forth in the Series Resolution authorizing such Subordinate Bonds. A Series of Subordinate Bonds may be payable from Revenues derived under the Bond Resolution, but only after payment of all other amounts payable from Revenues with respect to the Bonds which are not Subordinate Bonds and with respect to any Subordinate Bonds having a higher priority to payment from such Revenues. No Subordinate Bonds are outstanding under the Bond Resolution.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins, Delafield & Wood, as Bond Counsel, under existing statues and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Offered Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), except that no opinion is expressed as to such exclusion of interest on any Offered Bond for any period during which such Bond is held by a person who is a "substantial user" of the facilities financed with the Bond proceeds or a "related person," both within the meaning of Section 147(a) of the Code. In addition, interest on the Offered Bonds is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Administration and Borrowers in connection with the Offered Bonds, and Bond Counsel has assumed compliance by the Administration and Borrowers with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Offered Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, the Offered Bonds, their transfer, the interest payable thereon, and any income derived therefrom, including any profit realized on the sale or exchange thereof, is exempt from taxation of every kind and nature whatsoever by the State of Maryland, except that no opinion is expressed with respect to any exemption from Maryland franchise taxes or estate or inheritance taxes.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Offered Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state and local tax law.

Certain Parity Resolution Aspects

Each Series of Bonds issued under the Bond Resolution with the intention that the interest paid thereon will be excludable from gross income for Federal income tax purposes ("Tax-Exempt Bonds"), including the Offered Bonds, must satisfy the applicable requirements of the Code or the Internal Revenue Code of 1954, as amended (the "1954 Code"). The specific requirements will vary depending upon the date of issuance of the Bonds or of the original bonds that are refunded, directly or indirectly, in a series by applicable Bonds. The Administration also is authorized to issue and may in the future issue pursuant to the Bond Resolution one or more Series of Bonds the interest on which is intended to be includable in gross income for Federal income tax purposes ("Taxable Bonds"). The applicable Series Resolution for any issue of Taxable Bonds will provide that proceeds from any Series of Tax-Exempt Bonds will not be used to redeem any Taxable Bonds if the redemption would cause interest on any Series of Tax-Exempt Bonds to be includable in gross income for Federal income tax purposes.

In general, Tax-Exempt Bonds originally issued for new money purposes after the general effective date of the Code of August 16, 1986 are fully subject to the applicable requirements of the Code, including the more restrictive low income set-aside requirements under the Code. In general, certain Tax-Exempt Bonds issued before such general effective date and certain current refundings of such Tax-Exempt Bonds remain subject to certain different and typically less restrictive low income set-aside requirements under the 1954 Code. The Offered Bonds are fully subject to the applicable low income set-aside requirements of the Code. This section includes brief summaries of certain low income set-aside requirements applicable to the Offered Bonds under the Code and also to certain requirements applicable to other Bonds issued under the Bond Resolution under the Code or the 1954 Code.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met after the issuance and delivery of the Bonds in order to assure that the interest on the Bonds will be and will remain excluded from gross income for Federal income tax purposes. These requirements include, but are not limited to, requirements relating to use and expenditure of proceeds, low income occupancy targeting, yield and other restrictions on investments of proceeds, and the arbitrage rebate requirement that certain excess earnings on investments of gross proceeds of the Bonds be rebated to the Federal Government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, regardless of the date on which such noncompliance occurs or is discovered. The Administration has covenanted in the Resolutions that it shall do and perform all acts necessary or desirable to assure that interest on the Bonds will be and will remain excluded from gross income for Federal income tax purposes. The Administration will deliver its Tax Certificate concurrently with the issuance of the Offered Bonds which will contain provisions relating to compliance with the requirements of the Code. The Administration also has or will require Borrowers to make certain covenants in the Loan program documents relating to compliance with the requirements of the Code. No assurance can be given, however, that in the event of a breach of any such covenant, the remedies available to the Administration or the owners of the Bonds can be enforced judicially in a manner to assure compliance with the Code and therefore to prevent the loss of the exclusion from gross income of the interest on the Bonds for Federal income tax purposes. Furthermore, for any Loan financed with a Series of Bonds which is insured by the Federal Housing Administration ("FHA"), such Federal tax compliance covenants will be subordinate to the rights of FHA under the Loan documents and the enforcement of such covenants will be subject to FHA approval. Because of these FHA restrictions, enforcement remedies available to the Administration or any other mortgagee may be inadequate to prevent the loss of tax exemption of interest on such a Series of Bonds for Federal income tax purposes.

Low income Set-aside Requirements under the Code

The Offered Bonds are subject to the low income set-aside and other requirements for qualified residential rental projects under the Code which are described briefly in this subsection. The Code requires that at least 95 percent of the net proceeds of exempt facility bonds under Section 142(a)(7) (after reduction for amounts applied to fund a reasonably required reserve fund) be used to provide "qualified residential rental projects." The Code defines a residential rental project as a project containing units with separate and complete facilities for living, sleeping, eating, cooking, and sanitation that are available to the general public and are to be used on other than a transient basis. Section 142(d) of the Code requires that either (i) at least 20% of the completed units in a project to be financed with the proceeds of the Bonds be continuously occupied during the "qualified project period" by individuals and families whose annual adjusted income does not exceed 50% of the area median income (with adjustments for family size), or (ii) at least 40% of the completed units in a project to be financed with the proceeds of the Bonds be continuously occupied during the qualified project period by individuals and families whose annual adjusted income does not exceed 60% of the area median income (with adjustments for family size). The Administration will make elections on the applicable low income set-aside requirements with respect to the Developments expected to be financed with the proceeds of the Offered Bonds prior to the issuance date thereof. In addition, all of the units in the Developments must be rented or available for rental on a continuous basis throughout the applicable qualified project period. The Code defines the "qualified project period" as the period beginning on the first day upon which 10% of the units in a project are occupied and ending on the latest of (i) the date that is 15 years after the date upon which 50% of the units in such project are first occupied, (ii) the first day on which no tax-exempt private activity bonds issued with respect to the applicable Development remain outstanding, or (iii) the date upon which any assistance provided under Section 8 of the United States Housing Act of 1937, as amended, terminates. A Development generally will meet the continuing low income set aside requirement so long as a tenant's income does not increase to more than 140% of the applicable income limitation. Generally, upon an increase of a tenant's income over 140% of the applicable income limitation, the next available unit of comparable or smaller size in the applicable Development must be rented to a tenant whose income does not exceed the applicable income limitation. The Code requires annual certifications to be made to the Secretary of the Treasury regarding compliance with the applicable income limitations.

Low income Set-aside Requirements under the 1954 Code

Certain Bonds under the Bond Resolution (not including the Offered Bonds), that were issued originally before August 16, 1986 or that represent refundings, directly or indirectly, in a series of bonds originally issued before such date that meet certain transition rules to the Tax Reform Act of 1986 are subject to the low income set-aside and other requirements for qualified projects for residential rental property under Section 103(b)(4)(A) of the 1954 Code which are described briefly in this subsection. Section 103(b)(4)(A) of the 1954 Code generally defines a qualified project for residential rental property as a project in which at least at least 20% of the units in the applicable project (15% for certain targeted area projects located in qualified census tracts or in areas of chronic economic distress) are to be occupied at all times during the "qualified project period" by individuals whose incomes, determined in a manner consistent with Section 8 of the 1937 Housing Act, at the time of initial occupancy, do not exceed 80% of the median income for the area. In addition, all of the units of such Development must be rented or available for rental on a continuous basis throughout the applicable qualified project period or for so long as any Bonds that financed the project remain outstanding, whichever is longer. For Bonds or other obligations issued after April 24, 1979 and before September 4, 1982, the 1954 Code defines the "qualified project period" to mean a period of 20 years commencing on the later of the date that the project becomes available for occupancy or the date of issuance of the Bonds or other obligations. For Bonds or other obligations issued after September 3, 1982 and before the effective date of the Code, the 1954 Code defines the "qualified project period" to mean the period beginning on the first day upon which 10% of the units in a project are occupied and ending on the latest of (i) the date that is 10 years after the date upon which 50% of the units in such project are first occupied, (ii) the date that is derived by adding to the date of initial occupancy of any unit in the project a period of time equal to one-half of the sum of the total number of days which comprise the term of the applicable Bonds that financed the project and the period of time that any prior bonds that were part of a series of refundings that were ultimately refunded by the applicable Bonds remained outstanding, or (iii) the date upon which any assistance provided under Section 8 of the United States Housing Act of 1937, as amended, terminates.

Certain Requirements for Qualified 501(c)(3) Bonds for Group Homes

Certain Bonds were issued under the Bond Resolution as qualified 501(c)(3) bonds under Section 145 of the Code. In order to comply with the requirements under Section 145 of the Code relating to Group Homes financed with the proceeds of such Bonds, the Administration required that a Mortgagor covenant, among other things, that it would maintain its status as a 501(c)(3) organization and use the property acquired with the proceeds of such Series of Bonds in one of the following alternative qualified ways: (i) new construction or first use; (ii) substantial rehabilitation within a period of 24 months; (iii) satisfy the low income set-aside and other requirements for qualified residential rental projects within the meaning of Sections 145(d)(2)(B) and 142(d) of the Code; or (iv) otherwise use the property in a manner to ensure that it fails to constitute residential rental property within the meaning of Section 145(d) of the 1986 Code. Some Developments expected to be financed with proceeds of any Series of Bonds under the Administration's Group Housing Program are not expected to qualify as "residential rental projects" within the meaning of Section 145(d) of the 1986 Code and would not be subject to the restrictions applicable to "qualified residential rental projects." In the future, however, the Administration may finance Developments with proceeds of Tax-Exempt Bonds which are qualified 501(c)(3) bonds under Section 145 based on satisfaction of the low income set-aside requirements for "qualified residential rental projects" under Section 142(d) of the Code. If the owner of a Development is a 501(c)(3) organization and the Development is used in the trade or business of a person who is not a 501(c)(3) organization or a governmental unit, the owner will realize unrelated trade or business income and will lose the interest deduction on the borrowing for the period the Development is so used.

Other Set-aside Requirements or Absence Thereof

In addition to the above described set-aside requirements, Developments financed with the proceeds of Bonds also may be subject to income, occupancy and other like restrictions under the Program or other State financing programs. See APPENDIX C - "THE PROGRAM - Income Limits."

In addition, certain Bonds may finance Developments for governmental units, for 501(c)(3) organizations, or for other projects that may qualify for financing with Tax-Exempt Bonds without the requirement to impose any particular low income set-aside requirements.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Offered Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of an Offered Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Offered Bonds.

Prospective owners of the Offered Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S Corporations and certain foreign corporations), financial institutions, property and casualty insurance and life insurance companies, individual recipients of Social Security or railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes.

Possible Government Action

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. In addition, the Internal Revenue Service has established an expanded audit program for tax-exempt bonds. There can be no assurance that legislation enacted or proposed or an audit initiated by the Internal Revenue Service involving either the Offered Bonds or other tax-exempt bonds will not have an adverse effect on the tax-exempt status or market price of the Offered Bonds. There can be no assurance that legislation enacted or proposed after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status or market price of the Offered Bonds.

FINANCIAL STATEMENTS OF THE PROGRAM

The financial statements for the fiscal years ending June 30, 2001 and June 30, 2000 of the Housing Revenue Bonds Program Fund of the Administration included in APPENDIX I to this Official Statement have been audited by Arthur Andersen, LLP, independent public accountants, as indicated in their reports with respect thereto and are included herein in reliance upon the authority of such firm as an expert in giving such report. As indicated in the report of the auditors, such financial statements have been prepared in accordance with generally accepted accounting principles and audited in accordance with generally accepted auditing standards. Under the terms of the Bond Resolution, the Administration may withdraw moneys and assets from the Bond Resolution at any time subject to certain limitations. See "SECURITY FOR THE BONDS - Cash Flow Statements and Certificates."

For information about the financial statements of the Maryland Housing Fund, see Appendices F and J.

LITIGATION

There is no pending litigation of any nature restraining or enjoining or seeking to restrain or enjoin the issuance, sale or delivery of any of the Offered Bonds or in any way contesting or affecting the validity of any of the Offered Bonds, the Bond Resolution or other proceedings of the Secretary of Housing and Community Development taken with respect to the authorization, issuance or sale of any of the Offered Bonds, or the pledge or application of any moneys under the Bond Resolution, or the existence or powers of the Administration.

LEGAL MATTERS

The authorization, issuance and delivery of the Offered Bonds are subject to receipt of the opinion of Hawkins, Delafield & Wood, Bond Counsel, which will be in substantially the form set forth in APPENDIX K. Certain legal matters pertaining to the Administration will be passed upon by an Assistant Attorney General of the State as Counsel to the Department. Certain legal matters will be passed upon for the Underwriters by their counsel, Hunton & Williams, Washington, D.C. and the Law Offices of Joseph C. Reid, P.A., Baltimore, Maryland.

LEGALITY FOR INVESTMENT

Under the Act, the Bonds are securities in which all public officers and public units of the State and its political subdivisions and all State banks, trust companies, savings and loan associations, investment companies, and others carrying on a banking business, all insurance companies, insurance associations, and others carrying on an insurance business, all State personal representatives, guardians, trustees, and other fiduciaries and all other persons, may legally and properly invest funds, including capital in their control or belonging to them. The Bonds are securities which properly and legally may be deposited with and received by any State or municipal officer or any unit or political subdivision of the State for any purpose for which the deposit of bonds or other obligations of the State is authorized by law.

UNDERWRITING

The Offered Bonds maturing on or before July 1, 2021 (the "Underwritten Bonds") are being purchased on a negotiated basis by Legg Mason Wood Walker, Incorporated, Bear, Stearns & Co. Inc., Ferris, Baker Watts Incorporated, UBS PaineWebber Inc., The Chapman Company, Lehman Brothers, Loop Capital Markets, L.L.C., Merrill Lynch & Co. and Salomon Smith Barney (the "Underwriters"). The Underwriters have agreed to purchase the Underwritten Bonds at a price equal to the principal amount thereof, plus accrued interest. The Offered Bonds maturing July 1, 2031 and July 1, 2043 (the "Placed Bonds") are being directly placed with an institutional investor. The Underwriters will receive a fee of $406,054.33 relating to their purchase of the Underwritten Bonds and the placement of the Placed Bonds. The Purchase Contract with respect to the Underwritten Bonds provides that the Underwriters will purchase all but not less than all of the Underwritten Bonds. The Underwriters' and the institutional investor's respective obligations to make such purchases are subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. The initial public offering prices of the Underwritten Bonds may be changed, from time to time, by the Underwriters. The Underwriters may offer and sell any of the Underwritten Bonds to certain dealers (including dealers depositing such Underwritten Bonds into investment trusts) and certain dealer banks and banks acting as agents at prices lower than the public offering prices stated on the inside cover page hereof.

FINANCIAL ADVISOR

Caine Mitter & Associates Incorporated, in association with Columbia Equity Financial Corp. (collectively, the "Financial Advisor"), has served as financial advisor to the Administration in connection with the sale of the Offered Bonds.

RATING

Moody's Investors Service ("Moody's") has assigned its bond rating of "Aa2" to the Offered Bonds. Explanations of the significance of such rating may be obtained from Moody's at 99 Church Street, New York, New York 10007. The Administration has not applied for any other rating in respect of any of the Offered Bonds. Moody's may have been provided with information regarding the Administration and its financial condition and operations which is not included in this Official Statement. There is no assurance that such rating, once assigned, will continue for any period of time or that such rating will not be revised, reduced or withdrawn. The Administration has not agreed to maintain such rating, to notify the owners of the Bonds of any proposed or threatened change or withdrawal of such rating (other than actual material rating changes within the scope of the Administration's secondary market disclosure undertaking described below) or to oppose any proposed or threatened change or withdrawal of such rating. Any reduction or withdrawal of such rating would have an adverse effect upon the market price of the Bonds.

SECONDARY MARKET DISCLOSURE

The Administration has agreed, in accordance with the provisions of Rule 15c2-12 (the "Rule"), adopted by the Securities and Exchange Commission (the "Commission") under the Securities and Exchange Act of 1934, to provide to each NRMSIR and to the appropriate SID, if any, for the State of Maryland, in each case as designated by the Commission in accordance with the Rule, within 120 days of the end of each fiscal year, the following annual financial information and operating data:

1. a copy of the annual financial statements of its Housing Revenue Bonds Program Fund and of MHF prepared in accordance with generally accepted accounting principles and audited by a certified public accountant; and

2. an update of the information in the Official Statement contained in:

(i) the charts which are located under the headings "SECURITY FOR THE BONDS - Credit Enhancement of Rental Housing Loans", "Housing Subsidy Payments for Rental Housing Developments", and "Single Family and Group Home Loans",

(ii) the balances in the Debt Service Reserve Fund and General Bond Reserve Fund,

(iii) APPENDIX C - "THE PROGRAM", the chart describing geographical distribution of Loans under the subheading "Factors Affecting the Loans",

(iv) APPENDIX D - "DESCRIPTION OF LOANS AND DEVELOPMENTS",

(v) APPENDIX E - "OUTSTANDING INDEBTEDNESS OF THE ADMINISTRATION", and

(vi) if more than 20% of the aggregate outstanding principal amount of Loans is insured by the MHF, APPENDIX F – THE MHF INSURANCE PROGRAM – MULTI-FAMILY INFORMATION" under the subheadings “Multi-Family Insurance in Force and Available Reserves”, “Multi-Family Claims Experience” and “Certain Additional Expected Multi-Family Claims”.

The Administration has reserved the right to modify from time to time the specific types of information provided and the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the Administration; provided that the Administration has agreed that any such modification will be done in a manner consistent with the Rule. The Administration may, at its option, satisfy this obligation by providing an official statement for one or more Series of Bonds or by specific reference, in accordance with the Rule, to, one or more official statements provided previously.

The Administration also has agreed to provide, in a timely manner, to (i) each NRMSIR or to the Municipal Securities Rulemaking Board (“MSRB”) and (ii) the SID, if any, notice of the occurrence of any of the following events with respect to any of the Offered 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 credit enhancements, if any, reflecting financial difficulties,

5. substitution of credit or liquidity providers, if any, or their failure to perform,

6. adverse tax opinions or events affecting the tax-exempt status of any of the Offered Bonds,

7. modifications to rights of Bondholders,

8. bond calls,

9. defeasances,

10. release, substitution, or sale of property securing repayment of any of the Offered Bonds, or

11. rating changes.

In a timely manner, the Administration will give to each NRMSIR or to the MSRB, and to the SID, if any, notice of any failure by the Administration to provide any information described in the first two paragraphs under this heading on or before the dates specified therein.

The Administration has reserved the right to terminate its obligation to provide financial information and notices of material events, as described above, as to any Series of Bonds or the owners thereof if and when the Administration no longer remains an obligated person with respect to such Series of Bonds within the meaning of the Rule.

The Administration has agreed that its undertaking pursuant to the Rule described herein is intended to be for the benefit of any holder or beneficial owner of any of the Offered Bonds. Such holder’s and beneficial owner’s right to enforce the provisions of this undertaking is limited to a right to obtain specific enforcement of the Administration’s obligations with respect thereto. The undertaking further provides that the venue for any legal proceeding to enforce the undertaking shall be in a court within the State.

Any failure by the Administration to comply with the provisions of its undertaking will not be an event of default with respect to the Bonds under the Bond Resolution or under any Series Resolution.

The provisions of the undertaking with respect to the Rule described above may be amended, without the consent of the holders or any beneficial owners of any of the Offered Bonds, to the extent required or permitted by any amendment to the Rule becoming effective after the date hereof.

MISCELLANEOUS

Summaries and Descriptions in Official Statement

The summaries and explanation of, or references to, the Act, the program documents, the Resolutions and the Offered Bonds included in this Official Statement do not purport to be comprehensive or definitive; such summaries, references and descriptions are qualified in their entirety by reference to each such document, copies of which are on file at the office of the Administration. The descriptions of the MHF and mortgage insurance and credit enhancement programs do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the applicable statutes and regulations.

Selection and Compensation of Professionals

The Administration selects its independent auditor through a competitive process in accordance with State procurement law. Compensation of the auditor is not contingent on the sale of the Offered Bonds. The Financial Advisor is selected by the Administration periodically through a process of solicitation of proposals. Compensation of the Financial Advisor is not contingent on the sale of the Offered Bonds. Bond Counsel was selected by the Office of the Attorney General of the State through a process of review of responses to a request for proposals. Compensation of Bond Counsel is not contingent on the sale of the Offered Bonds. The Underwriters are selected by the Administration periodically through a process of solicitation of proposals. Compensation of the Underwriters and their counsel is contingent on the sale and delivery of the Offered Bonds.

* * * * *

This Official Statement is not to be construed as a contract or agreement between the Administration and the owners of any of the Offered Bonds.

The execution and delivery of this Official Statement and the incorporation of the Appendices hereto by the Administration have been duly authorized by the Secretary of Housing and Community Development.

COMMUNITY DEVELOPMENT ADMINISTRATION
MARYLAND DEPARTMENT OF HOUSING AND
COMMUNITY DEVELOPMENT

By: /s/
Harry D. Sewell
Director of the Community Development
Administration and Authorized Officer

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APPENDIX A

DEFINITIONS

Certain of the terms used in this Official Statement are defined in the Bond Resolution. Certain terms are defined elsewhere in this Official Statement. In addition, the following terms have the following respective meanings in this Official Statement, unless a different meaning clearly appears from the context:

"Accountant's Report" means an opinion signed by any nationally recognized certified public accountant or firm of certified public accountants (who may be the accountant or firm that regularly audits the books and accounts of the Administration) from time to time selected by the Administration.

"Accreted Amount" means, as of any Interest Payment Date, with respect to Capital Appreciation Bonds and Deferred Income and Appreciation Bonds, such amounts as are set forth in the Series Resolution authorizing such Capital Appreciation Bonds and/or Deferred Income and Appreciation Bonds. "Accreted Amount" means, as of any date other than an Interest Payment Date, the sum of (a) the Accreted Amount on the preceding Interest Payment Date and (b) the product of: (x) a fraction, the numerator of which is the number of days having elapsed from the preceding Interest Payment Date and the denominator of which is the number of days from such preceding Interest Payment Date to the next succeeding Interest Payment Date, and (y) the difference between the Accreted Amounts for such Interest Payment Dates.

"Acquired Development" means a Development constructed, owned, operated or administered by reason of the Administration's obtaining possession thereof when the Mortgage with respect thereto is in default under its terms.

"Acquired Development Expense Requirement" means such amount of money as may, from time to time, by resolution of the Administration, with the approval of the Secretary, be determined to be necessary for the payment or as a reserve for the payment of any costs and expenses incurred in connection with the operation or ownership of an Acquired Development.

"Acquired Development Expenses" means any and all costs and expenses incurred in connection with the operation or ownership of an Acquired Development as the Administration determines from time to time to be necessary and appropriate in carrying out the rights and duties of the Administration under the Bond Resolution with respect to an Acquired Development.

"Acquired Development Receipts" means all money received by the Administration in connection with its acquisition, ownership or operation of an Acquired Development.

"Authorized Officer" means the Secretary, the Deputy Secretary of Housing and Community Development, the Director, the Deputy Executive Director for Bond Finance, any Director of any program or division of the Administration or any other person duly authorized by the Secretary to perform such act or discharge such duty.

"Bond Counsel" means nationally recognized bond counsel who is either currently under contract to provide such services to the Administration or is acceptable to the Administration and the Trustee.

"Bond Year" means the year which begins on January 2 of any year during which Bonds are outstanding and ends on January 1 of the next succeeding year.

"Borrower" means the obligor under a Loan, which may include the Administration.

"Capital Appreciation Bonds" means any non-current interest paying Bonds as designated in the applicable Supplemental Resolution.

"Cash Equivalent" means a letter of credit, insurance policy, surety, guaranty or other security arrangement (each as provided for in a Series Resolution or a Supplemental Resolution), provided by an institution which has received a rating of its claims paying ability from each Rating Agency at least equal to the then existing rating on the Bonds (other than Subordinate Bonds) or whose unsecured long-term debt securities are rated in a category at least equal to the then existing long-term rating on the Bonds (other than Subordinate Bonds) and the highest short-term rating category by each Rating Agency; provided that a Cash Equivalent may be provided by an institution which has received a rating of its claims paying ability which is lower than that set forth above or whose unsecured long-term (or short-term) debt securities are rated lower than that set forth above, so long as the providing of such Cash Equivalent does not, as of the date it is provided, in and of itself, result in the reduction or withdrawal of the then existing rating assigned to the Bonds (other than Subordinate Bonds) by each Rating Agency.

"Cost of Issuance" means all items of expense payable or reimbursable directly or indirectly by the Administration and related to the authorization, sale and issuance of Bonds and the making, purchasing and otherwise financing of Loans.

"Credit Enhancement" means any credit enhancement, insurance, guaranty, risk-sharing arrangement or any other form of credit support for a Loan (or any portion thereof) as provided in any Series Resolution or Supplemental Resolution.

"Credit Enhancer" means the issuer or provider of any Credit Enhancement, which term includes, without limitation: (a) the Maryland Housing Fund, an agency of the Department in the Division of Credit Assurance; (b) any agency or instrumentality of the United States of America guaranteeing, insuring or providing credit enhancement for (including without limitation HUD, the Federal Housing Administration of HUD, and its successors and assigns, the Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation); (c) any bank, financial institution, government chartered corporation or other person; or (d) any agency, instrumentality or department of the State.

"Credit Facility" means (i) an unconditional and irrevocable letter of credit (or confirmation of a letter of credit) in form and drawn on a bank or banks acceptable to the Administration, (ii) cash, (iii) a certified or bank check, (iv) Permitted Investments, or (v) any other credit facility similar to the above in purpose and effect, including, but not limited to, a guaranty, standby loan or purchase commitment, insurance policy, surety bond or financial security bond or any combination thereof, which, in any case secures all or a portion of one or more Series of Bonds.

"Credit Facility Provider" means the issuer of or obligor under a Credit Facility.

"Debt Service" means, with respect to any particular Bond Year, an amount equal to the sum of (i) all interest payable on Outstanding Bonds during such Bond Year, plus (ii) any Principal Installments and Sinking Fund Installments of such Bonds during such Bond Year.

“Debt Service Reserve Requirement” means, as of any date of calculation, the aggregate of the amounts specified as the Debt Service Reserve Requirement for each Series of Bonds in the applicable Series Resolution; provided that: (i) a Series Resolution may provide that the Debt Service Reserve Requirement for the Series of Bonds authorized thereunder may be funded, in whole or in part, through Cash Equivalents, and such method of funding shall be deemed to satisfy all provisions of the Bond Resolution with respect to the Debt Service Reserve Requirement, and (ii) a Series Resolution or Supplemental Resolution may provide for a reduction in the Debt Service Reserve Requirement, either as to a Series of Bonds or on an aggregate basis, provided that such reduction will not, in and of itself, result in a reduction of the rating of the Bonds as in effect immediately before any such reduction in the Debt Service Reserve Requirement and a Cash Flow Certificate taking such reduction into account is filed with the Trustee.

“Deferred Income and Appreciation Bonds” means any non-current interest paying Bonds which, on a specified date, convert to current interest paying Bonds, as designated in the applicable Series Resolution.

“Escrow Payment” means any payment made to obtain or maintain mortgage insurance and fire and other hazard insurance, including payments for any federal, state, local or private program intended to assist in providing Loans, and any payments required to be made with respect to Mortgages for taxes or other governmental charges or other similar charges to a Borrower customarily required to be escrowed, and payments or charges constituting construction or operating contingency, performance or completion or replacement reserves required pursuant to the applicable Loan.

“Federal Obligations” means direct general obligations of, or obligations the payment of the principal and interest of which are unconditionally guaranteed by, the United States of America, including obligations issued or held in book entry form on the books of the Department of Treasury of the United States of America.

“Fiscal Year” means the period of twelve calendar months commencing on July 1 in any calendar year and ending on June 30 in the following calendar year or such other period of twelve calendar months as determined by the Administration.

“Group Home Loans” means Loans made to non-profit organizations to finance group housing facilities for special needs populations, including developmentally disabled individuals.

“Insurance Agreement” means the Amended and Restated Insurance Agreement, dated August 30, 1988, between MHF and the Administration.

“Interest Requirement” means, as of any particular date of computation, the sum of the unpaid interest then past due, if any, plus the interest to become due on all Outstanding Bonds on the next Interest Payment Date (if such computation is made on an Interest Payment Date for one or more Series of Bonds before the interest then due on such Interest Payment Date is paid, such Interest Payment Date shall be treated as the next Interest Payment Date for such Series).

“Investment Obligations” shall mean any of the following which at the time are legal investments under the laws of the State for moneys held hereunder which are then proposed to be invested therein:

(1) direct general obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America;

(2) bonds, debentures, notes or other evidences of indebtedness issued by any of the following: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Home Loan Banks; Export-

Import Bank of the United States; Federal Land Banks; Federal National Mortgage Association; Government National Mortgage Association; Federal Financing Bank; Small Business Administration; or any other agency or instrumentality of the United States of America (created by an Act of Congress) substantially similar to the foregoing in its legal relationship to the United States of America;

(3) public housing bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America, and temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(4) interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any financial institution (including the Trustee or any other Fiduciary) provided that (i) such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation, the proceeds of which insurance are timely available, or (ii) such financial institution has combined capital and surplus of at least $10,000,000 and such deposits, certificates and other arrangements are fully secured by obligations described in clauses (1) through (3), inclusive, of this definition, or a combination thereof, or (iii) such financial institution has combined capital and surplus of at least $25,000,000;

(5) interest-bearing notes issued by a bank holding company having combined capital and surplus of at least $500,000,000 whose senior debt is rated in one of the two highest rating categories of Moody's Investors Service, Inc. or Standard & Poor's Corporation;

(6) contracts for the purchase and sale of obligations described in clauses (1) through (5) of this definition, provided that if the parties with which such contracts are made are not members of the Federal Reserve System or if such parties (including members of the Federal Reserve System) are not required to set aside and otherwise identify, obligations described in clauses (1) through (5) above to such contracts as security or reserve therefor in an amount at least equal to 100% of the face value of each such contract, such obligations shall be delivered to and held by a fiduciary during the term of such contracts; and

(7) any other investment now or hereafter a legal investment for funds of the Administration under the laws of the State.

"Loan" means: (1) a loan, made or purchased or otherwise financed by the Administration and evidenced by a promissory note, (2) a portion of, or participation in, a loan made or purchased or otherwise financed by the Administration and evidenced by a promissory note, provided, to the extent required by the Act, that such portion or participation is secured by a lien at least equal in priority to the lien securing any other portion of or participation in the loan made or purchased or otherwise financed from sources other than the proceeds of Bonds, but need not be identical as to interest rate, time or rate of amortization or otherwise, and provided further, that any such portion or participation shall be governed by an agreement between the participants which gives the Administration authority to deal with the Loan as if it were owned solely by the Administration, or (3) a security, certificate or other evidence of ownership of an interest in a loan purchased or otherwise financed by the Administration, which may (but is not required to) be subject to Credit Enhancement. A Loan may or may not be secured by a Mortgage, to the extent permitted by the Act.

"Mortgage" means a mortgage deed, deed of trust or other instrument securing a Loan.

"1982 Resolution" means the Administration's Resolution Providing for the Issuance of Multi-Family Housing Revenue Bonds (Insured Mortgage Loans), originally adopted as of May 1, 1982, and amended and restated as of January 1, 1994.

"Operating Expenses" means the Administration's operating expenses and all other expenses of carrying out and administering its powers, duties and functions under the Program and the Bond Resolution, and shall include, without limiting the generality of the foregoing: (1) salaries, supplies, utilities, moving, labor, materials, office rent, maintenance, furnishings, equipment; (2) machinery, insurance premiums, legal, accounting, management, consulting, banking and trust services and expenses; (3) Costs of Issuance not paid from proceeds of Bonds; and (4) payments for pension, retirement, health, hospitalization and other benefits.

"Outstanding" or "Bonds Outstanding" means all Bonds which have been delivered under the Bond Resolution, except:

(a) Bonds surrendered to the Trustee for cancellation after purchase in the open market or because of payment at or redemption prior to maturity;

(b) Bonds (or portions thereof) for the payment or redemption of which cash, Federal Obligations, Pre-Refunded Municipal Obligations or any combination thereof shall have been theretofore deposited with the Trustee (whether upon or prior to the maturity or redemption date of any such Bonds); provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Trustee shall have been filed with the Trustee; and

(c) Bonds in lieu of which other Bonds have been transferred, exchanged, executed, authenticated and delivered, unless proof satisfactory to the Trustee is presented that such bond is held by a bona fide holder in due course.

"Permitted Investments" means any of the following investments which at the time are legal investments for moneys of the Administration which are then proposed to be invested therein, subject to the terms of the applicable Series Resolution:

(1) Federal Obligations;

(2) Bonds, debentures, notes or other evidences of indebtedness issued by any federal agency, instrumentality or public corporation the obligations of which represent or are guaranteed by the full faith and credit of the United States of America, including (without limitation): Farmers Home Administration, General Services Administration, U.S. Maritime Administration, Small Business Administration, Government National Mortgage Association, and U.S. Department of Housing & Urban Development;

(3) Bonds, notes or other evidences of indebtedness having a rating at least equal to the Rating Agency's existing rating on the Bonds (other than Subordinate Bonds) or the comparable rating of any other nationally recognized rating agency issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or any similar entity;

(4) U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date

of purchase at least equal to the Rating Agency's existing rating on the Bonds (other than Subordinate Bonds) or the comparable rating of any other nationally recognized rating agency and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(5) Commercial paper which is rated at the time of purchase at least equal to the Rating Agency's existing rating on the Bonds (other than Subordinate Bonds) or the comparable rating of any other nationally recognized rating agency and which matures not more than 270 days after the date of purchase;

(6) Investments in a money market fund having a rating at least equal to the Rating Agency's highest possible rating category or the comparable rating of any other nationally recognized rating agency;

(7) Pre-Refunded Municipal Obligations having a rating at least equal to the Rating Agency's highest possible rating category or the comparable rating of any other nationally recognized rating agency which will not adversely affect the rating on the Bonds then in effect;

(8) Investment agreements with any financial institution or other entity with debt rated at least equal to the Rating Agency's existing rating on the Bonds (other than Subordinate Bonds) or the comparable rating of any other nationally recognized rating agency which will not adversely affect the rating on the Bonds then in effect;

(9) Contracts for the purchase and sale of obligations described in clauses (1) through (7) of this definition, provided that: (i) if the parties with which such contracts are made are not members of the Federal Reserve System or if such parties (including members of the Federal Reserve System) are not required to set aside and otherwise identify obligations described in clauses (1) through (7) above to such contracts as security or reserve therefor, such obligations shall be delivered to and held by a fiduciary during the term of such contracts, (ii) such obligations shall be continuously maintained at a market value at least equal to 100% of the face value of each such contract, and (iii) the provider of such contract will not adversely affect the rating on the Bonds then in effect;

(10) Investments in any mutual fund the portfolio of which is limited to Permitted Investments, including any proprietary mutual fund of the Trustee for which the Trustee or an affiliate is investment advisor or provides other services to such mutual fund and receives reasonable compensation for such services (and if such mutual fund consists solely of Federal Obligations, then such fund shall constitute "Federal Obligations" for the purposes of the Bond Resolution); and

(11) Any investments authorized in a Series Resolution authorizing the issuance of Bonds.

For purposes of this definition, "institution" means an individual, partnership, corporation, trust or unincorporated organization, or a government or agency, instrumentality, program, account, fund, political subdivision or corporation of a government. Any reference in this definition to the highest rating of short-term obligations shall be without regard to any refinement or gradation such as "+" or"-".

The definition of Permitted Investments may be amended and additional obligations or investments included pursuant to a Supplemental Resolution or a Series Resolution, provided such amendments will not in and of themselves cause a reduction in the rating of the Bonds as in effect immediately before such amendment.

"Prepayment" means any money received from a payment of principal on a Loan in excess of the scheduled payments of principal then due or from the sale, assignment or other disposition of a Loan.

"Pre-Refunded Municipal Obligations" means any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (A) which are rated, based on the escrow, in the highest rating category of any nationally recognized rating agency; or (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Federal Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which fund is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate.

"Principal" or "principal" means: (i) as such term references the principal amount of any Capital Appreciation Bonds or Deferred Income and Appreciation Bonds, the Accreted Amount thereof (the excess of the stated maturity amount of a Capital Appreciation Bond or Deferred Income and Appreciation Bond above the Accreted Amount thereof being deemed unearned interest on such Bond), except as used in the Bond Resolution or the Series Resolution in connection with the authorization and issuance of Bonds and in the order of priority of payments on Bonds after default, in which cases the term "principal" shall mean the initial principal amount of a Capital Appreciation Bond or Deferred Income and Appreciation Bond, and the difference between the Accreted Amount of such Capital Appreciation Bond or Deferred Income and Appreciation Bond and the initial principal amount thereof shall be deemed to be interest, and (ii) as such term references the principal amount of any other Bond, the principal amount at maturity of such Bond.

"Principal Installment" means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with the Bond Resolution of Sinking Fund Installments payable before such future date plus (ii) the unsatisfied balance of any Sinking Fund Installments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such future date upon the redemption of such Bonds by application of such Sinking Fund Installments in a principal amount equal to said unsatisfied balance.

"Rating Agency" means any nationally recognized rating agency then rating the Bonds at the request of the Administration.

"Recovery Payment" means any money representing principal of a Loan and any premium or penalty with respect thereto received or recovered by the Administration, in excess of any expenses necessarily incurred by the Administration in collection thereof, from (i) the sale or other disposition of a Development, (ii) Prepayments, (iii) condemnation of a Development or part thereof, to the extent not needed to improve or repair the Development, (iv) other proceedings taken in the event of default by the Borrower, (v) the sale or other disposition of a Loan and Mortgage in default for the purpose of realizing on the mortgagee's interest therein, (vi) to the extent not needed to improve or repair the Development, hazard insurance, or (vii) the payment of principal of a Loan by a Credit Enhancer as a result of any of the events described in the preceding clauses (ii) through (vi) with respect to a Loan subject to Credit Enhancement.

"Redemption Price" means, with respect to any Bonds, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof.

"Refunding Bonds" means any bonds issued by the Administration to refund one or more Series of Bonds or any portion thereof. Bonds issued for the purpose of refunding bonds, notes or other obligations, whether issued by the Administration or any other person, under any authorizing or issuing document, resolution, certificate or indenture other than the Bond Resolution are not Refunding Bonds under the Bond Resolution.

"Revenues" means all payments, proceeds, rents, charges and other cash income derived by or for the account of the Administration from or related to the Program, including, without limitation, the payments of principal of and interest on Loans (whether paid by or on behalf of the Borrower), including the payments of principal of and interest on Loans subject to Credit Enhancement, and investment income from all funds and accounts subject to the lien of the Bond Resolution, but not including Recovery Payments, Escrow Payments, Service Charges or Acquired Development Receipts, and not including any fees received by the Administration for its own account pursuant to annual contribution contracts between the Administration and HUD, if any, with respect to Developments financed by Loans, or financing, commitment or similar fees or charges of the Administration at or prior to the time of making, purchasing or otherwise financing a Loan. Any arbitrage rebate payable to the United States are not Revenues and are not subject to the lien of the Bond Resolution.

"Review Committee" means the Department's Housing Finance Review Committee established by the Act. Further information about the Review Committee is set forth in APPENDIX B – "THE DEPARTMENT AND THE ADMINISTRATION – General Information".

"Servicer" means the Administration or any other public or private institution (including the Trustee) with which the Administration shall execute a contractual agreement for the servicing of a Loan, including the collection and deposit of payments and proper application of Escrow Payments.

"Sinking Fund Installment" means any amount of money required by or pursuant to a Series Resolution to be paid on a specified date by the Administration toward the retirement of any particular Term Bonds before maturity.

"Transferred Loans" means the Loans acquired with the proceeds of the Series 1996 A Bonds.

APPENDIX B

THE DEPARTMENT AND THE ADMINISTRATION

General Information

The Administration was created in 1970 as a division of the Department of Economic and Community Development to meet the shortage of adequate, safe and sanitary housing in the State, particularly for persons or families of limited incomes. Chapter 311 of the Acts of Maryland 1987, effective July 1, 1987, abolished the Department of Economic and Community Development, created the Department and assigned the Administration as an agency in the Division of Development Finance of the Department.

The Secretary of Housing and Community Development (the "Secretary") is the head of the Department and is appointed by the Governor with the advice and consent of the Senate. The Department consists of six divisions: the Division of Development Finance, the Division of Credit Assurance, the Division of Finance and Administration, the Division of Neighborhood Revitalization, the Division of Historical and Cultural Programs and the Division of Information Technology. A chart showing the organization of the Department, its divisions, the Administration and the MHF is included at the end of this Appendix.

The Division of Development Finance is the lending and bond issuing division of the Department, originating loans under the Department's various lending programs and providing underwriting services for loans to the Department and its other divisions and agencies. The Administration is an agency within the Division of Development Finance.

The Secretary, with the approval of the Governor, appoints the Director of the Administration, and the Director of the Administration, with the approval of the Secretary, appoints the Deputy Executive Directors of the Administration and the other senior staff members of the Administration. The Act establishes a Housing Finance Review Committee (the "Review Committee") which has the responsibility to review and to give recommendations to the Secretary regarding loans or categories of loans and the investment and project financing policies of the Administration. The Review Committee consists of seven members appointed by the Governor, including three members of the public and three members of the Department and one member of the Executive Branch not employed by the Department. When urgent action is required, the Secretary may approve a specific loan request without receiving the recommendation of the Review Committee.

The Division of Credit Assurance, the insuring division of the Department, provides certain asset management, monitoring and workout related services to the Department and its divisions and agencies, including the Administration. MHF is an agency of the Department assigned to the Division of Credit Assurance. Certain additional information about MHF is set forth in APPENDIX F - "MORTGAGE INSURANCE AND CREDIT ENHANCEMENT - THE MHF INSURANCE PROGRAM".

The Division of Finance and Administration under the direction of the Chief Financial Officer of the Department provides budget, accounting, auditing and administrative services to the Department. In addition, the Administration has a finance office which handles finance and accounting for lending and bond activities and insurance activities, under the direction of the Chief Financial Officer of the Department who reports to the Director of the Administration with respect to its financial functions. MHF's finance function is a part of the Division of Finance and Administration under the direction of the Chief Finance Officer who reports to the Director of MHF with respect to its financial functions.

The Division of Information Technology develops and maintains information systems and trains Departmental staff in the use of computer resources.

The Department has established a Revenue Bond Advisory Board (the "Board"). The Board provides independent advice and expertise to the Department with respect to issuance of revenue bonds, including the Bonds. The Board consists of seven members appointed by the Secretary, including the Deputy Secretary (who chairs the Board), one other representative of the Department, two representatives of other agencies of State government (one from an agency which issues revenue bonds), one representative of the State Treasurer's Office, and two members of the public. The Board reviews and makes recommendations to the Secretary with respect to each issuance of bonds. The Secretary has the final authority to approve each issuance after receipt of the Board's recommendation. When urgent action is required, the Secretary may approve an issuance of bonds without action by the Board or may vary the terms of the Board's recommendation. In addition, the Board advises the Department on procedures for issuing bonds and on selection and performance of financial advisors, underwriters, and accountants.

The Administration pays all costs and expenses of operating its programs from earnings received from its programs financed by the Bond Resolution and other bond indentures of the Administration in excess of the amounts required to pay principal of and interest on its bonds and notes.

The office of the Administration is located at 100 Community Place, Crownsville, Maryland 21032. Inquiries for documents or concerning this Official Statement should be directed to Anne P. Konrad, Director, Finance, at 410-514-7326 or Konrad@dhcd.state.md.us.

Principal Executive Officers

Certain principal executive officers of the Department and the Administration are briefly described below.

Raymond A. Skinner was appointed by the Governor as Secretary of the Department effective December 17, 1998. From January, 1995 until his appointment as Secretary, Mr. Skinner served as Deputy Secretary of the Department. From January, 1991, until his appointment as Deputy Secretary, Mr. Skinner served as the Director of the Department of Housing and Community Development of Prince George's County, Maryland, and as Executive Secretary to the Board of Commissioners of the Housing Authority of Prince George's County. Previously, he was the Executive Director of the District of Columbia Office of Business and Economic Development. In all, Mr. Skinner has over 25 years of experience in housing and community development, having held positions with the Department of Housing and Urban Development, the City of Philadelphia, Pennsylvania, and the City of Baltimore, Maryland. He holds a Bachelor of Science degree from the Pennsylvania State University and a Master of City Planning degree from the University of Pennsylvania.

Margaret Wolf was appointed by the Secretary, with the approval of the Governor, as Deputy Secretary of the Department effective December 30, 1998. From 1989 until her appointment as Deputy Secretary, Ms. Wolf served as City Administrator for the City of Hyattsville, Maryland. Between 1973 and 1984, Ms. Wolf was General Manager of the Applied Institute for Manpower Management and Manager of Grants and Subcontracts for the Baltimore Metropolitan Manpower Consortium. Ms. Wolf holds a Bachelor's Degree in Business Administration from the University of Maryland.

Stephen D. Silver was appointed on January 15, 1994 by the Secretary as the Chief Financial Officer of the Department, the Administration and the Maryland Housing Fund. Prior to his appointment as Chief Financial Officer, Mr. Silver served in various financial capacities with the Department including as Director of the Department's Division of Finance and Administration (in which capacity he served until

1997), Director of Accounting for the Division of Finance and Administration, and as Director of Finance for the MHF. Prior to joining the Department, Mr. Silver worked briefly with a public accounting firm in Baltimore, Maryland. Mr. Silver is a Certified Public Accountant, was granted a B.S. degree in accounting from Towson University in 1980 and received his M.B.A. degree from the University of Baltimore in 1991.

Harry D. Sewell was appointed by the Secretary, with the approval of the Governor, as Assistant Secretary of the Department responsible for the Administration and as Director of the Administration effective November 15, 2000. Prior to his appointment, Mr. Sewell served as founder and president of a real estate management, development and consulting firm created to meet challenges to producing and maintaining affordable housing posed by public housing and welfare reforms. He has also served as interim executive director of the Wilmington Housing Authority, Wilmington, Delaware; director of the Department of Real Estate and Housing for the City of Wilmington, Delaware; and Deputy Secretary for Administration for the Pennsylvania Department of Public Welfare. Mr. Sewell holds a B.A. degree in Labor Management Relations from Pennsylvania State University.

Fran D. Makle was appointed as Deputy Director of the Administration, effective November 15, 2000. Ms. Makle has been with the Administration since August, 1979. From 1992 until November, 2000, Ms. Makle served as Director of Homeownership Programs. From December, 1989 until February, 1992, she served as Deputy Director of Special Loan Programs, and prior to that, she was a multi-family underwriter for the Rental Housing Programs. Before joining the Administration, she served for four years as Housing Counselor for Charles County, Maryland. In 1999, she completed a seven month executive leadership program with the National Forum for Black Public Administrators. Ms. Makle received her certification in Housing Finance Development from the University of Maryland School of Public Affairs, and studied Business and Public Administration at Charles County Community College.

Roy A. Westlund was appointed Deputy Director of the Administration responsible for finance, effective as of January, 1996. For the previous seven years, he served as the Administration's Director of Finance. Mr. Westlund has been active in the field of housing finance since 1980, including serving as Manager of Financial Operations for the Wisconsin Housing and Economic Development Authority. Mr. Westlund is a Certified Public Accountant and holds a B.B.A. degree from the University of Wisconsin, Madison.

Senior Staff of the Administration

Senior staff members of the Administration are as follows:

Name	Position
Anne P. Konrad	Director, Finance
Vacant	Director, Single Family Programs
Peter Engel	Director, Multi-Family Programs
Eileen Hagan	Director, Special Loan Programs
Phillip Katzung	Director, Rental Service Programs
Ronald G. Callison	Director, Operations

As of June 30, 2001, the staff of the Administration consists of approximately 121 positions and an additional 17 vacancies, including more than 107 professional and technical staff members with responsibilities in the fields of finance, mortgage loan underwriting, architectural review, construction inspection, rental services and administration. Of the entire staff, 31 are involved in Housing Development Programs in a professional or technical capacity. Certain information relating to the senior staff who have primary responsibilities for finance and housing development programs is briefly described below.

Anne P. Konrad, Director, Finance, has been with the Department since March, 1993. She was the Senior Multi-Family Underwriter with MHF until her appointment as Director of Finance for the Administration in July, 1996. Prior to joining the Department, she was a Legislative Auditor for the State of Maryland for three years and worked for public accounting firms for eight years. Ms. Konrad is a Certified Public Accountant.

Peter Engel was appointed Director, Multifamily Programs in August, 1996. For the previous five years, Mr. Engel served as an Assistant Attorney General in the Maryland Office of the Attorney General, where he provided advice in connection with the Department's multi-family housing programs. Prior to his service with the State, Mr. Engel was an attorney in private practice. Mr. Engel holds a J.D. degree from the Harvard Law School, and a B.S. degree from the Johns Hopkins University.

Eileen Hagan, Director, Special Loan Programs, has been with the Department since May, 1987, previously serving as Low Income Housing Tax Credit Coordinator. Prior to joining the Department, Ms. Hagan was with the Pennsylvania Department of Community Affairs and the Pittsburgh Housing Authority. Ms. Hagan holds a B.A. in Urban Studies from Chatham College and has done graduate work in Public Administration.

Phillip Katzung, Director, Rental Service Programs has been with the Administration since January, 1987. Prior to joining the Administration, Mr. Katzung had over 25 years of experience administering housing, neighborhood renewal and community development programs for various local housing agencies, including 14 years managing the Metropolitan Council Housing and Redevelopment Authority of the Twin Cities, Minnesota.

Ronald G. Callison, Director, Operations, has been with the Department since January, 1996. Prior to joining the Administration in June, 2000, he served for four years as budget/personnel liaison for the Division of Finance and Administration. Mr. Callison has 20 years of administrative experience in the not-for-profit sector and holds a Master's degree from Catholic University.

Other Housing Programs of the Department

In addition to the Program which is financed with the proceeds of the Bonds (see APPENDIX C –"THE PROGRAM"), the staff of the Administration is also responsible for a broad range of housing and other programs operated by the Department. Proceeds of Bonds and other funds held under the Bond Resolution are not used to support the Department's other programs. Revenues generated by such other programs are not subject to the lien of the Bond Resolution or available to pay principal of or interest on the Bonds. However, the executive officers of the Department and the Administration and certain senior staff members who are responsible for the Program also are responsible for the Department's other programs; therefore, under certain circumstances these other programs may compete with the Program for administrative and policy priority.

Homeownership Programs. The Administration, through the issuance of Single Family Program Bonds and Residential Revenue Bonds, currently provides reduced-interest mortgage loans to eligible homebuyers. Under this program, the Administration purchases loans originated by private lending institutions and makes loans directly for the purchase of newly constructed, substantially rehabilitated or existing homes.

The Administration's homeownership staff also operates single family homeownership programs which are funded with State appropriations. These programs, which may or may not be funded at varying levels from year to year, provide low interest mortgages to low-income home buyers, refinance existing loans for homeowners under hardship circumstances, assist low-income homeowners who suffer temporary involuntary loss of income to avoid mortgage default through deferred loans, provide reverse equity mortgages for elderly homeowners and provide settlement expense loans for low and moderate income homebuyers.

Rental Housing Programs. The Department has a number of finance programs which support the production and preservation of affordable rental housing, including the following:

The Administration has financed 78 loans for 73 developments (excluding Group Homes) containing approximately 9,072 rental units (excluding individuals served by Group Homes) with the proceeds of its Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) issued during the years 1982 through 1998. The Administration has also financed 98 loans for Group Homes serving approximately 273 individuals with the proceeds of such bonds. Loans financed under this program are not pledged to and do not constitute security for payment of the Bonds.

The Rental Housing Fund consists of rental housing finance programs funded with State appropriations which provide low-interest mortgages, interest rate write-downs and operating subsidies to increase the supply of new rental housing and upgrade and to maintain and rehabilitate existing rental housing for the elderly and low income families.

The Partnership Rental Housing Program provides funding from State appropriations and general obligation bonds to local governments, or entities in which they have an ownership interest, to assist in financing the construction and rehabilitation of low income housing. The local governments provide the land and own and manage the properties. The properties are intended to remain low income housing in perpetuity, and the State moneys are required to be repaid only if the local governments no longer enforce the low income requirements.

Special Loan Programs. The Special Loan Fund programs, which are funded with State appropriations, provide rehabilitation loans for installation of indoor plumbing, abatement of asbestos and radon gas, reduction of lead paint, and creation of accessory shared and sheltered housing for low and moderate income households. These programs also provide loans to nonprofit organizations and individuals to purchase or construct group housing for low-income persons with special needs.

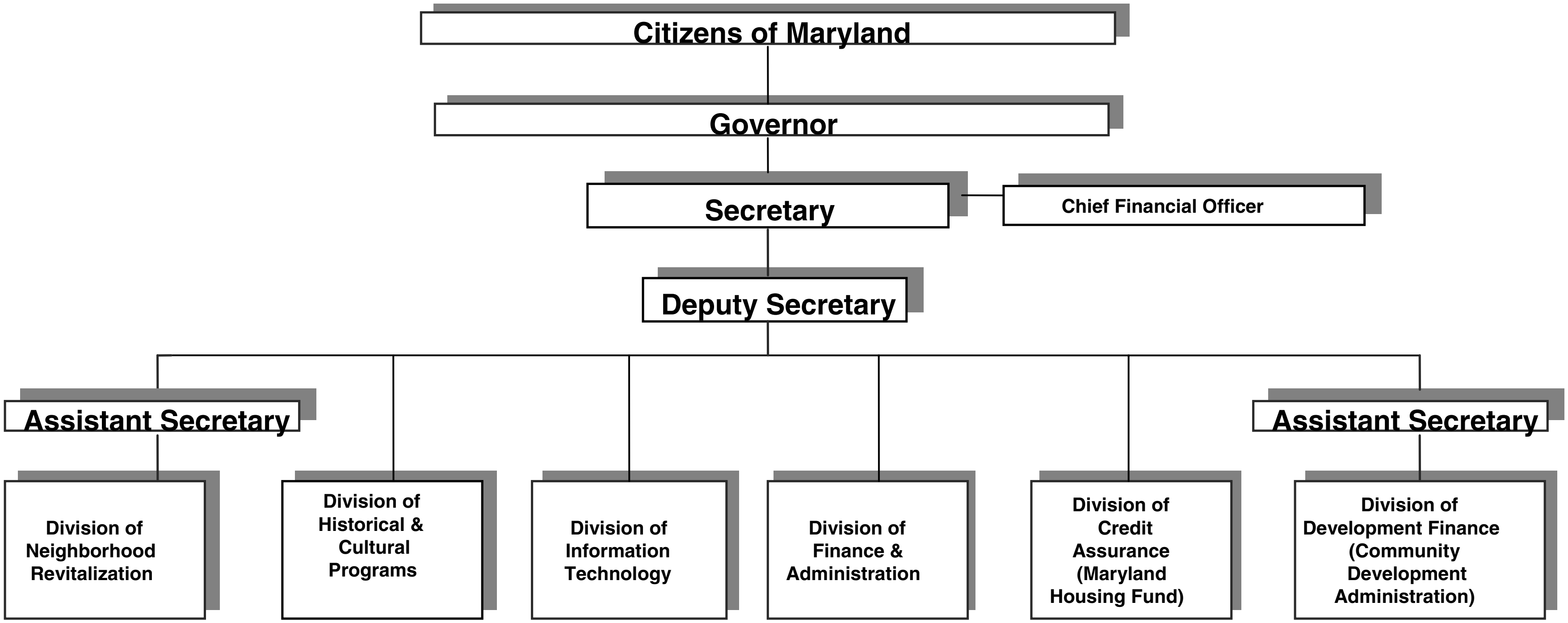
Rental Service Programs. Rental Service Programs include the Rental Assistance Programs and the Project-Based Section 8 Contract Administration. Under the Rental Assistance Programs, the Administration administers the rental subsidies provided under Section 8 of the United States Housing Act of 1937, as amended, in 29 subdivisions of the State. The housing subsidy staff also administers a Rental Allowance Program, which is funded with State appropriations. The program is administered through local governments, and provides fixed monthly rental assistance payments up to twelve months, subject to extension by the Secretary, to lower income households that cannot be served by federal or other state programs and are either homeless or have critical and emergency housing needs. In addition, the Department responded to a Request for Proposals from the United States Department of Housing and Urban Development ("HUD"), and was selected by HUD as the Contract Administrator for Project-Based Section 8 Housing Assistance Payment ("HAP") Contracts for the State of Maryland. As Contract Administrator, the Department monitors and enforces compliance of each property owner with the terms of the HAP Contracts and HUD regulations and requirements.

Infrastructure Financing Programs

Between 1988 and June 30, 2001, the Administration has issued 17 series of bonds (five of which have either been fully refunded or defeased) for the purpose of financing loans to various local governments within the State under the Administration's Infrastructure Financing Program. The Infrastructure Financing Program was created to provide an additional, accessible and uncomplicated mechanism to finance the essential physical elements that constitute the basis of the public service system operated and maintained by local governments. Of the twelve series of bonds outstanding, all are insured. These infrastructure loans and the assets and revenues held under these bond and series resolutions are not subject to the lien of the Bond Resolution and are not available to pay principal of or interest on the Bonds.

Department of Housing and Community Development

Organizational Chart



This chart omits subdivisions below the divisional level except for the Maryland Housing Fund and the Community Development Administration. It also omits certain boards and commissions associated with the Department.

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APPENDIX C

THE PROGRAM

Since 1974, the Administration has financed loans for the purpose of providing construction and permanent financing of rental housing developments for persons or families of limited incomes. The financing of rental housing pursuant to the Bond Resolution is the current primary activity of the Program. Other than certain of the Transferred Loans described in Table D-3 of APPENDIX D – "DESCRIPTION OF LOANS AND DEVELOPMENTS", the Program does not currently include the financing of single family residences. Other programs of the Administration not financed pursuant to the Bond Resolution are described under APPENDIX B – "THE DEPARTMENT AND THE ADMINISTRATION – Other Housing Programs of the Department."

Loan To Be Acquired with Proceeds of Offered Bonds

The proceeds of the Series 2001 B Bonds will be used to finance five Loans. See in the Official Statement, "INTRODUCTION – Use of Proceeds of Offered Bonds."

Additional information about the Developments to be financed with the proceeds of the Series 2001 B Bonds is set forth in APPENDIX D, TABLE D-1- "LOANS EXPECTED TO BE FINANCED WITH THE PROCEEDS OF THE OFFERED BONDS."

Existing Portfolio

Under the Bond Resolution, as of June 30, 2001 the Administration had outstanding (1) 54 permanent Loans, for 52 Rental Housing Developments (excluding Group Home Loans and Single Family Loans) which had a total outstanding principal balance of $212,927,040 (2) 21 Group Home Loans having an outstanding principal balance of $1,827,869 and (3) 35 Single Family Loans having an outstanding principal balance of $899,320. In addition, the Administration issued Housing Revenue Bonds, Series 2001 A ("Series 2001 A Bonds") on July 12, 2001, in the amount of $29,645,000, which financed two outstanding Loans.

APPENDIX D sets forth information on each of the Developments currently financed or intended to be financed with the proceeds of Bonds (including the Offered Bonds). See "Description of types of Loans Under the program – *Group Home Loans*" herein for a description of the Group Homes financing program. APPENDIX F – "MORTGAGE INSURANCE AND CREDIT ENHANCEMENT – THE MHF INSURANCE PROGRAM" sets forth information about the MHF and the loans insured by the MHF which are in default. One of the loans made under the Program was in arrears or in payment default as of June 30, 2001. See APPENDIX D, Table D-4.

The Administration may issue additional Bonds from time to time to finance additional Loans.

Description of Types of Loans Under the Program

Rental Housing. Under its rental housing program, the Administration has made Loans or purchased Guaranteed Securities (1) to provide financing for acquisition, rehabilitation, or construction of rental housing Developments, and (2) to provide permanent financing of rental housing Developments.

Group Housing Facilities. Under its special housing opportunities program, not currently active, the Administration made Loans to non-profit organizations qualified under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or to governmental entities. Group Home Loans financed acquisition, rehabilitation, new construction or refinancing of group housing facilities to house special needs populations, including developmentally and mentally disabled individuals. The sponsor of each group housing facility must have had a contract for governmental subsidies, and must have had at least two years prior experience managing and operating similar facilities. As is the case with many contracts with the State, a sponsor's contract for governmental subsidies generally has a term of one year, and there can be no assurance that a sponsor's contract will be renewed.

Occupancy of these Group Homes varies from 2 to 12 individuals, with average occupancy of approximately three to four individuals. Most Group Homes are located in single family residences modified for group housing purposes.

Loan Underwriting and Processing

The Loans for the Francis Scott Key, Glen Creek, Great Hope, Spring Ridge and Windsor Valley III Developments, expected to be made with the proceeds of the Offered Bonds, will be underwritten, processed and closed in accordance with the procedures governing FHA insured Loans and Guaranteed Securities. The Administration performs a limited independent review.

Loan Provisions

The Bond Resolution requires that each Loan shall conform to the following terms, conditions, provisions and limitations, except to the extent, if any, that a variance therefrom is either pursuant to Credit Enhancement of such Loan or, if the Loan is not Credit Enhanced, required or permitted by the Administration:

Code Requirements. If the Loan is to be funded with the proceeds of Tax-Exempt Bonds, the proceeds of the Loan must be expended solely for payment of costs of a Development, subject, as applicable, to the requirements of Section 103(b)(4)(A) of the 1954 Code, Sections 142(d) or 145 of the 1986 Code, or any other provision of the Code.

Mortgage Lien. If the Loan is secured by a Mortgage, the Mortgage and complementary financing statements, if required by the Administration or any Credit Enhancer, shall be executed, recorded and filed in accordance with law, so as to create and constitute a valid mortgage lien on the real property and improvements constituting the Development for which the Loan is made. Such real property and improvements may be held either as a fee simple or a leasehold interest. **The Bond Resolution does not require that each Loan be secured by a Mortgage.**

Title Insurance. The Administration, or the Trustee if the Administration is the Borrower, shall be furnished a mortgagee's title insurance policy acceptable to the Administration insuring that the Mortgage is a lien on the Development financed by the Loan (which lien may be subject to prior liens), subject to liens for taxes and assessments and such other liens, encumbrances, reservations and imperfections of title as, in the judgment of the Administration, do not materially impair the use or value of the premises or as to which appropriate steps, in the judgment of the Administration, have been taken to secure the interest of the Administration or the Trustee. **The Bond Resolution does not require that the lien of each Loan secured by a Mortgage be a first or prior lien superior to any other mortgage or other liens.**

Insurance Coverage. The Administration, or the Trustee if the Administration is the Borrower, shall receive evidence that the Development is insured against loss from fire, casualty and other hazards as the Administration may require.

Credit Enhancement. All or a portion of the Loan may be (but is not required to be) credit enhanced in accordance with the provisions therefor set forth in the Series Resolution authorizing a particular Series of Bonds. **The Bond Resolution does not require that each Loan be secured by Credit Enhancement.**

Loan Terms. The Loan shall be in an amount, bear interest at a rate, and amortize over such term, all as provided for such Loan in the most recent Cash Flow Statement (which terms may not be varied by the Administration unless such variance is in accordance with the requirements or assumptions for such Loan as set forth in the most recent Cash Flow Statement).

Prepayment. The Administration may, but is not required to, include in each Loan (other than Group Home Loans) a provision prohibiting the Borrower from prepaying a Loan for a period at least equal to the period during which the Series of Bonds financing such Loan are not subject to optional redemption without the consent of the Administration and the mortgage insurer or Credit Enhancer of the Loan. **Under certain circumstances involving defaulted Loans, FHA may direct the prepayment of the defaulted Loan in order to avoid a mortgage insurance claim.** See APPENDIX H - "SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION."

The Transferred Loans acquired with the proceeds of the Series 1996 A Bonds and the Group Home Loans are subject to prepayment at the option of their respective Borrowers at any time and, if so prepaid, the Bonds may be subject to special redemption at any time at the principal amount thereof without penalty or premium.

Developments may have subordinate financing from other programs of the Administration, the federal government or other public or private lenders.

Reserve Fund for Replacements. Under the regulatory agreements for the Rental Housing Loans, each Borrower must deposit a specified monthly amount into a reserve for replacements to fund improvements or repairs to the Development. The Administration's current policy provides that the minimum annual amount to be deposited into reserve for replacements will be $250 per unit for new construction and substantial rehabilitation projects and $300 per unit for moderate rehabilitation projects plus any additional amount required by an engineer's report. The amount required to be deposited into reserve for replacements may be more or less than the amount specified above, as agreed to by the Borrower, the Administration, and MHF or FHA. These policies and procedures may not be applicable to the Rental Housing Loans which are Transferred Loans. For FHA Loans, the minimum annual amount to be deposited in the reserve for replacements for new construction projects is 6/10 of 1% of the construction costs and for substantial rehabilitation projects 4/10 of 1% of the mortgage amount.

Asset Management

Asset management for Developments is provided to the Administration by the Asset Management division of the Division of Credit Assurance ("Asset Management").

With respect to each Development, Asset Management:

(1) conducts a pre-occupancy review and conference with each owner to establish reporting requirements and procedures;

(2) performs an annual physical inspection and on-site management review, including verification of compliance with income restrictions concerning tenants;

(3) annually reviews audited financial statements and escrow levels;

(4) reviews operating statements for each Development on a monthly or quarterly basis;

(5) monitors the status of letters of credit, guarantees, and reserves, including reserves for replacement;

(6) reviews and acts upon requests for rent increases, changes in developer return on equity, and disbursements from reserves;

(7) analyzes delinquencies and creates and implements corrective action plans; and

(8) makes recommendations to the Secretary and implements Departmental decisions on disposition, workout or foreclosure plans.

Asset Management maintains an advisory watch list in order to identify Developments facing potential financial difficulties at an early stage. Regular meetings are held with management of each Development on the advisory watch list in order to develop and implement corrective action.

Income Limits

Department Policy. During the term of a Loan or Guaranteed Security, the Act requires that at least 51% of the units in a Development be occupied or held available for occupancy by persons or families of limited incomes. The Secretary establishes income limits from time to time by written determination after taking into consideration factors including (1) the amount of total income of such families available for housing needs, (2) the size of the family, (3) the cost and condition of housing facilities available, (4) the ability of such families to compete successfully in the normal private housing market, and (5) standards and definitions established for pertinent federal housing programs. Units restricted pursuant to federal law (as described below) count towards meeting the restrictions imposed by the Secretary pursuant to the Act. The difference between the percentage of federally restricted units and the percentage restricted under the Act (51%) are restricted to the State's income limits set forth in the Secretary's determination (for example, if 20% of the units are federally restricted, then 31% of the units are subject to the state limits). The current Secretary's determination establishes the following income limits (subject to certain exceptions): (1) for one person, 68% of the greater of area or statewide median income for four person households as established by HUD and (2) for two or more persons, 85% of the greater of area or statewide median income for four person households as established by HUD. The maximum income limits under this determination for one person households currently range from $58,208 in the Washington, D.C. metropolitan statistical area, to $49,028 for Cecil County, $48,076 for St. Mary's County and $47,192 in all other areas of the state; and for two or more person-households from $72,760 in the Washington, D.C. metropolitan statistical area, to $61,285 in Cecil County, $60,095 for St. Mary's County and $58,990 in all other areas of the state. HUD promulgates revised median income figures from time to time; it is anticipated that the limits described might be modified when HUD announces revised figures.

The Transferred Loans were originated under the Department's income limits in existence at the time such Loans were originally financed.

Federal Tax Law. In addition to the requirements of the Act and the occupancy requirements of the preceding paragraph, all Developments containing rental housing units financed or expected to be financed with the proceeds of Bonds the interest on which is intended to be excludable from gross income for federal income tax purposes (except two Developments which were in the development stage on April

24, 1979, and group housing facilities) are required to meet certain requirements set forth in Section 142(d)(1) of the 1986 Code, or Section 103(b)(4)(A) of the 1954 Code, as applicable. Group housing facilities are required to comply with the requirements of Section 145 of the 1986 Code. These requirements are more fully described in the Official Statement under "TAX EXEMPTION AND RELATED CONSIDERATIONS". Developments financed with the proceeds of Bonds are also subject to income, occupancy and other like restrictions under the Program, other State financing programs and in connection with the allowance of tax credits under Section 42 of the 1986 Code.

Certain Developments financed with the proceeds of Bonds receive subsidy payments under Section 8, and thus are subject to income limit restrictions which may be in addition to those required by the Act, the 1986 Code or the 1954 Code. Certain of the Section 8 contracts for subsidy payments are renewable at five year intervals from their date of execution by HUD at the option of the Borrower. Developments receiving subsidy payments under Section 8 are identified in APPENDIX D. More detailed information on the Section 8 Program can be found in APPENDIX G – "SECTION 8 PROGRAM".

Factors Affecting the Mortgage Loans

Any mortgage financing has certain inherent risks.

Insurance by MHF. A substantial portion of the Loans are insured by MHF. In early 1997, MHF ceased issuing new insurance commitments (except for pool insurance on single family mortgage loans subject to FHA primary insurance), in part as a result of concerns expressed by Moody's Investors Service during 1996 and 1997. MHF expects to continue to honor existing insurance commitments. For more information relating to the financial statements of MHF, see APPENDIX F – "MORTGAGE INSURANCE AND CREDIT ENHANCEMENT – THE MHF INSURANCE PROGRAM" and APPENDIX J – "FINANCIAL STATEMENTS OF THE MARYLAND HOUSING FUND."

Assumptions. In estimating the amounts of moneys available to pay principal of and interest on the Bonds, a number of assumptions were made, including the assumptions that (1) payments of principal of and interest on the Mortgage Loans and Guaranteed Securities will be available on a timely basis, (2) no significant Prepayments or Recovery Payments of Loans and Guaranteed Securities will be made from casualty insurance or condemnation proceeds or otherwise, which result in the Administration's having to redeem Bonds, since such proceeds may not be sufficient to pay the principal amount of Bonds allocable to such Loans and Guaranteed Securities, (3) working capital and construction completion assurances will be adequate, (4) cost overruns, if any, will be adequately financed with contingency allowances, if any, established for such purpose or with other moneys of the Borrowers or the Administration including, if necessary, the proceeds of additional Bonds, and (5) the Developments financed with the proceeds of the Bonds will be completed and rented substantially in accordance with their respective construction and rent-up schedules and will achieve the projected rent levels. No assurance can be given that actual receipts will correspond with estimated revenues.

General Factors. The ability of the Borrowers to make the required payments on the Loans is affected by a variety of factors, including (1) the achievement and maintenance of a sufficient level of occupancy, (2) sound management of the Developments, (3) timely receipt of Section 8 housing assistance payments (see "*Rent Subsidies"* under this heading) or governmental subsidies for Developments receiving such payments, (4) for group housing facilities, the continuation of annual subsidies, (5) increases in rents to cover increases in operating expenses, including taxes, utility rates and maintenance costs and changes in applicable laws and governmental regulations, and (6) for Developments containing rental units which are not all the subject of subsidy payments under Section 8, the ability to charge sufficient rents on the unrestricted units so that the rents on the restricted units will be at a level which is affordable by persons and families of limited income as established by the Secretary (including persons and families of the applicable incomes as required by Section 142(d)(1) of the 1986 Code or Section 103(b)(4)(A) of the 1954 Code, as applicable, or as further limited by the Secretary).

Certain Developments containing rental housing units which were expected to operate at a loss during the initial years following rent-up were required to establish escrows and to pledge certain funds to be received in the future which may have included a portion of the proceeds of the syndication of the equity interest in such Developments. The Administration relied upon the receipt of pledged funds in determining the feasibility of such Developments. Although the Administration conducted its own feasibility studies for Developments financed with Loans insured by MHF, the Administration substantially relied upon FHA for the determination of the feasibility of the Developments financed with Loans insured by FHA, including the acceptability of the sites and recognition of specific market needs.

No Cross Default Provisions. If one or more Borrowers fail to make timely payment on their respective Loans, sufficient moneys may not be available to pay principal of and interest on the Bonds. The failure of a Borrower to make timely payment on its Loan or the occurrence of an event of default with respect to a Loan does not constitute a default with respect to any other Loan. Similarly, the occurrence of an Event of Default under the Bond Resolution does not, of itself, constitute an event of default with respect to any Loan. Under such circumstances, neither the Administration nor the Trustee have the right to demand payment of or to accelerate payment of any Loan not in default.

Rent Subsidies. The ability of the Administration to pay the principal of and interest on the Bonds is dependent in part upon the timely receipt of Section 8 housing assistance payments for Developments entitled to such payments and governmental subsidies for group housing facilities. If (1) operating costs increase substantially where HUD has not permitted corresponding increases in rent levels or Section 8 housing assistance payments on a timely basis, (2) tenants are unable to pay increased tenant rental charges which are approved by HUD, (3) substantial reductions occur in occupancy, or (4) there is a reduction, loss or termination of Section 8 housing assistance payments or governmental subsidies, there may be a likelihood of a default in one or more of the Loans, assignment of such Loans to FHA or MHF, and redemption of a portion of the Bonds.

In addition, the term of a Loan may exceed the maximum term of the contract for payments under Section 8. If at the end of the term of the contract for payments under Section 8 (or HUD does not extend the term of such contract) the owner is unable to lease units in the Development at rentals which produce revenues equivalent to those which would have been received if the term of the contract had been extended, there may be insufficient revenues to pay the principal of and interest on a Loan, causing a default, assignment to FHA or MHF and the redemption of a portion of the Bonds. Additional factors relating to the Section 8 Program are described in APPENDIX G. **See also additional information relating to recent developments affecting the Section 8 Program under the heading "The Section 8 Projects – *Expiring HAP Contracts and Recent Developments*" in APPENDIX G.**

NonRecourse Loans. Generally, Loans are made without recourse to the Borrower or its partners. The Administration may require personal guaranties from the partners or other principals of the Borrower in connection with any construction work to be performed on a Development. Following successful completion of such work, however, neither the Borrower nor its partners is personally liable for payments on the note evidencing the Loan. Therefore, the Administration's recourse is limited to its lien on the Development.

Exercise of Legal Remedies. The ability of the Administration, the Department or any mortgage insurer or Credit Enhancer to enforce its rights or exercise its remedies upon default under a Loan is dependent upon regulatory and judicial actions which may be subject to discretion and delay. Under existing law and judicial decisions (including laws relating to bankruptcy), the remedies provided for under the Loan documents may not be readily available or may be limited. The Administration's interest, however, is protected to the extent of the available Credit Enhancement.

Environmental Factors. Currently, the Administration requires a "Phase I" environmental survey for Developments financed with the proceeds of Loans (except for Group Home Loans) in order to determine whether hazardous or toxic wastes exist on the property where a Development will be located. Because the practice of obtaining Phase I environmental surveys as a condition to financing did not become industry practice until recently, many Loans lack such surveys. In the event of a default under a Loan, it is the practice of the Administration to undertake such a survey prior to taking possession of a defaulted Development. If problems are identified, the Administration may decline to take possession of a defaulted Development due to potential costs to remedy or correct any identified problems, which costs can be significant. Furthermore, it is uncertain whether a mortgage insurer would pay a claim under such circumstances. In the Administration's experience, the most common environmental problems with Developments involve the presence of lead based paint and asbestos.

Geographic Factors. Loans financed under the Program are located throughout the State. The city or county in which each Development is located is described in APPENDIX D. The ability of a Development to generate sufficient rents to make Loan payments is dependent, in part, on both local and statewide economic conditions, including employment levels of local industries and businesses. In addition, the ability of a Development to generate rents sufficient to pay debt service will be affected by general rent levels for similar competing developments, location of the Development, competing multi-family rental developments, amenities offered by the Development as compared with competing developments, and the need for routine or extraordinary repairs and maintenance of the Development. The continued feasibility of each Development may depend in part upon its neighborhood. Adverse changes may occur from time to time in neighborhoods, and if such changes occur, the occupancy level of affected Developments may be reduced.

The following table sets forth as of June 30, 2001, for each county of the State and Baltimore City, the number of Rental Housing Developments, units within such Rental Housing Developments, and, on an aggregate basis, the outstanding principal balance of Loans. This table excludes Single Family Loans and Group Home Loans.

Distribution of Rental Housing Developments as of June 30, 2001

County	Number of Developments	Number of Units	Units as % Total	Current Loan Amount	% of Current Loan Amount
Allegany County	1	110	1.6%	$2,091,519	1.0%
Anne Arundel County	1	72	1.0%	1,414,337	0.7%
Baltimore City	9	1,199	17.1%	29,470,189	13.8%
Baltimore County	2	359	5.1%	14,196,021	6.7%
Calvert County	2	99	1.4%	1,677,507	0.8%
Caroline County	3	120	1.7%	2,306,523	1.1%
Carroll County	3	197	2.8%	4,889,154	2.3%
Charles County	1	152	2.2%	3,916,911	1.8%
Dorchester County	1	122	1.7%	2,109,015	1.0%
Frederick County	1	131	1.9%	2,508,740	1.2%
Harford County	2	170	2.4%	3,501,328	1.6%
Howard County	3	358	5.1%	8,375,974	3.9%
Montgomery County	8	1,717	24.4%	63,362,560	29.8%
Prince George's County	9	1,745	24.8%	64,800,505	30.4%
St. Mary's County	1	110	1.6%	792,958	0.4%
Washington County	2	189	2.7%	3,884,755	1.8%
Wicomico County	1	151	2.2%	3,052,993	1.4%
Worcester County	2	22	0.3%	576,051	0.3%
Total[1]	52	7,023	100%	$212,927,040	100%

[1] Percentages may not total 100% due to rounding.

APPENDIX D

DESCRIPTION OF LOANS AND DEVELOPMENTS

Table D-1, Loans Expected to be Financed with the Proceeds of the Offered Bonds:

Name	Location	Owner	No. of Units	Subsidy	Credit Enhancement	Term of Permanent Mortgage Loan (Months)	Interest Rate	Mortgage Loan Amount	Date or Expected Date of Completion	Date of Mortgage Loan Closing
Windsor Valley III Apartments	Harford County		283	Sec. 236	GNMA	480	5.83%	$ 12,870,000	12/02	10/17
Great Hope Apartments	Montgomery County		104	Sec. 236	GNMA	480	5.82%	$5,970,000	10/02	10/17
Spring Ridge Apartments	Frederick County		144	None	GNMA	480	5.88%	$12,686,200	11/02	10/17
Glen Creek Apartments	Cecil County		160	None	GNMA	480	5.88%	$11,516,200	01/03	10/17
Francis Scott Key Apartments	Frederick County		46	None	GNMA	480	5.86%	$4,587,600	04/03	10/17

Table D-2, Rental Housing Developments Financed with the Proceeds of the Bonds:

Name	Location	Owner	Subsidy	No. Units [12]	No. of Units Subsidized	Total Subsidy Term [1]	Credit Enhancement	Original Loan Term (Months)	Remaining Loan Term (Months)	Interest Rate [19]	Original Loan Balance	Scheduled Loan Balance [2]	Loan Balance (w/ Arrearages) [2]	RFR Balance [2]	Occupancy [3]	Inspection Rating [4]	Bond Series
Name	Location	Owner	Subidized	Units	Sub-Units	Sub-Term	Credit	Orig-Term	Remaining	Rate	OrigBal	SchBal	LoanBal	RFR	Occupancy	Inspection	Bond Series
Alexander House	Washington County	Homeowners Foundation Fund of Washington County	Section 8	95	94	40	FHLMC	480	222	7.730%	$2,736,511	2,179,000	2,179,000	1,215,357	95%	Above Average	1996A
Baldwin Manor	Harford County	Baldwin Manor Inc.	Section 8	104	104	40	FHLMC	480	231	8.490%	2,808,500	2,337,832	2,337,832	154,059	97%	Satisfactory	1996A
Bethel Gardens [11],[14]	Washington County	The Bethel Corporation	Section 236	94	94	40	MHF	480	192	7.850%	2,259,719	1,705,755	1,705,755	47,518	98%	Satisfactory	1996A
Bethesda Commons [17],[19]	Montgomery County	Bethesda Commons Limited Partnership	None	372	0	N/A	GNMA	480	452	6.300%	25,730,000	25,371,931	25,371,931		95%	Satisfactory	1997A
Bishop's Garth	Carroll County	Bishop's Garth Associates	Section 8	72	72	20	FHA	480	248	11.066%	2,307,100	2,095,906	2,095,906	37,595	100%	Satisfactory	1996A
Bolton House I [20][21]	Baltimore City	Mid-City Urban, LLC	Section 236	260	260	40	Risk Share	213	197	7.850%	5,433,760	5,235,265	5,235,265	195,768	100%	Satisfactory	1999D
Bolton House II [20],	Baltimore City	Mid-City Urban, LLC	Section 236				Risk Share	360	356	6.470%	3,091,240	3,080,567	3,080,567				1999D
Branchwood Towers	Prince George's County	Branchwood Towers Limited Partnership	Section 8	180	180	20	FHA	480	251	10.520%	7,618,400	6,870,843	6,870,843	1,821,999	100%	Above Average	1996A
Calvert Pines I	Calvert County	Housing Authority of Calvert County	Section 8	51	50	40	FHLMC	480	232	7.730%	1,692,000	1,373,541	1,373,541	122,188	98%	Above Average	1996A
Calvert Pines II	Calvert County	Housing Authority of Calvert County	None	48	0	N/A	MHF	336	227	7.000%	372,486	303,966	303,966	276,755	98%	Above Average	1996A
Cambridge/ Bradford House	Dorchester County	Cambridge Associates	Section 8	122	121	30	MHF	360	116	7.500%	3,662,000	2,109,015	2,109,015	706,482	98%	Satisfactory	1996A
Chesapeake Commons [5]	Baltimore City	City College Associates Limited Partnership	None	95	0	N/A	MHF	360	263	7.000%	235,000	209,969	209,969		100%	Satisfactory	1996A
Chimneys of Cradlerock/ Woodlands	Howard County	Oxford-Columbia Associates	Section 8	198	40	30	FHA	480	238	7.500%	6,937,300	5,646,738	5,646,738	453,937	99%	Above Average	1996A
Churchill Apts. [9],[10],[16],[17],[19]	Montgomery County	Oakwood Properties	None	121	0	N/A	GNMA	480	480	6.700%	5,461,840	1,588,916	1,588,916				1999D
Drexel Park III	Anne Arundel County	Drexel Park Three Limited Partnership	Section 8	72	8	40	MHF	480	201	6.790%	1,943,100	1,413,348	1,414,337	394,375	99%	Below Average	1996A
Eastdale Apts.	Prince George's County	Riverdale Assc., Ltd. Partnership	None	70	0	N/A	MHF	360	342	6.380%	2,450,000	2,407,297	2,407,297	106,436	100%	Satisfactory	1999B

Name	Location	Owner	Subsidy	No. Units [12]	No. of Units Subsidized	Total Subsidy Term [1]	Credit Enhancement	Original Loan Term (Months)	Remaining Loan Term (Months)	Interest Rate [19]	Original Loan Balance	Scheduled Loan Balance [2]	Loan Balance (w/ Arrearages) [2]	RFR Balance [2]	Occupancy [3]	Inspection Rating [4]	Bond Series
Name	Location	Owner	Subidized	Units	Sub-Units	Sub-Term	Credit	Orig-Term	Remaining	Rate	OrigBal	SchBal	LoanBal	RFR	Occupancy	Inspection	Bond Series
Ellicott Terrace	Howard County	Ellicott Terrace Inc.	None	60	0	N/A	MHF	360	201	7.800%	475,000	383,018	383,018	83,667	100%	Satisfactory	1996A
Epiphany House [6]	Baltimore City	Epiphany House Limited Partnership	None	33	0	N/A	MHF	384	198	3.700%	925,000	523,395	523,395	34,251	88%	Satisfactory	1996A
Federalsburg Garden	Caroline County	Rural Housing Associates	Section 8	64	64	40	MHF	480	219	7.830%	1,504,819	1,196,419	1,196,419	11,564	94%	Satisfactory	1996A
Franklin Apartments	Montgomery County	Franklin Associates	Section 8	185	183	30	MHF	360	107	8.770%	6,316,900	3,690,278	3,690,278	905,359	99%	Above Average	1996A
Frostburg Heights	Allegany County	The Tressler Lutheran Home for Children	Section 8	110	110	40	FHLMC	480	214	6.790%	2,784,200	2,091,519	2,091,519	1,037,110	98%	Above Average	1996A
Greenbelt/ Greenridge	Prince George's County	City of Greenbelt	Section 8	101	100	40	MHF	480	197	7.230%	3,343,400	2,472,773	2,472,773	581,906	100%	Above Average	1996A
Hanover Square Apts./Inner Harbor [5]	Baltimore City	One West Conway Associates Limited Partnership	Section 8	199	198	40	MHF	480	231	7.830%	5,750,000	4,676,977	4,676,977	218,391	100%	Above Average	1996A
Har Sinai House	Baltimore City	Har Sinai Senior Citizens Housing Corp.	Section 236	186	186	40	MHF	480	193	6.460%	4,738,542	3,368,057	3,368,057	211,259	98%	Satisfactory	1996A
Hyattsville Housing /Friendship Arms	Prince George's County	Hyattsville Housing Associates	Section 8	151	150	40	FHLMC	480	222	7.730%	4,653,200	3,705,185	3,705,185	776,017	99%	Satisfactory	1996A
Lakeview House [5]	Montgomery County	The Shelter Foundation Inc. & Cornerstone Hsg. Corp.	Section 8	152	150	40	FHLMC	480	210	6.450%	4,525,900	3,343,629	3,343,629		100%	Above Average	1996A
Lexington Park [9],[10],[16][17],[19]	St. Mary' County	Lexington Park Housing, L.P.	None	110	0	N/A	GNMA	480	480	6.410%	8,060,000	792,958	792,958				2000A
Locust House Apartments	Carroll County	Locust House Associates	Section 8	99	98	40	MHF	480	217	7.730%	2,537,741	2,000,219	2,000,219	220,229	98%	Satisfactory	1996A
Longwood	Howard County	Columbia Associates	Section 8	100	100	40	MHF	480	211	7.230%	3,080,000	2,346,218	2,346,218	75,679	100%	Above Average	1996A
North Avenue Terrace [13],[15]	Baltimore City	North Avenue Terraces Limited Partnership	None	67	0	N/A	MHF	360	235	7.000%	1,350,000	1,149,707	1,183,265	0	85%	Unsatisfactory	1996A
Oakridge/ Quebec Terrace	Montgomery County	Roswitha S. Augusta and Donald L. Dittberner Trust	None	113	0	N/A	MHF	378	216	7.800%	2,006,594	1,655,570	1,655,570	99,500	100%	Satisfactory	1996A
Owings Mills [16],[17],[19]	Baltimore County	OMG Limited Partnership	None	159	0	N/A	GNMA	480	458	5.975%	11,030,000	10,900,691	10,900,691		97%		1998A
Palmer House Apartments	Charles County	Palmer Apartments Associates	Section 8	152	56	20	FHA	480	236	7.500%	4,830,200	3,916,911	3,916,911	114,406	93%	Satisfactory	1996A

Name	Location	Owner	Subsidy	No. Units [12]	No. of Units Subsidized	Total Subsidy Term [1]	Credit Enhancement	Original Loan Term (Months)	Remaining Loan Term (Months)	Interest Rate [19]	Original Loan Balance	Scheduled Loan Balance [2]	Loan Balance (w/ Arrearages) [2]	RFR Balance [2]	Occupancy [3]	Inspection Rating [4]	Bond Series
Name	Location	Owner	Subidized	Units	Sub-Units	Sub-Term	Credit	Orig-Term	Remaining	Rate	OrigBal	SchBal	LoanBal	RFR	Occupancy	Inspection	Bond Series
Penn Marr (16),(17),(19)	Prince George's County	Penn Marr Apts. LLC	None	291	0	N/A	GNMA	480	453	6.000%	14,075,000	13,871,239	13,871,239		97%	Above Average	1997C
Pine Bluff Village	Wicomico County	Pine Bluff Associates	Section 8	151	150	40	FHLMC	480	215	7.230%	3,972,000	3,052,993	3,052,993	475,390	100%	Above Average	1996A
Quebec Arms (9),(10),(16),(17),(19)	Prince George's County	Quebec Arms Apts. L.P.	None	332	0	N/A	GNMA	480	480	6.430%	19,385,000	9,603,919	9,603,919				2000A
Riverview II	Caroline County	Rural Housing Associates	Section 8	40	40	40	MHF	480	217	7.830%	916,138	725,768	725,768	35,936	98%	Satisfactory	1996A
Riverview III	Caroline County	Second Denton Associates	Section 8	16	16	20	MHF	360	119	7.800%	643,430	384,336	384,336	34,786	88%	Satisfactory	1996A
Rockville Commons (17),(18),(19)	Montgomery County	Rockville Commons Limited Partnership	None	190	0	N/A	GNMA	474	446	6.300%	11,405,000	11,246,425	11,246,425		100%	Above Average	1997A
Rockville Commons (17),(18),(19)	Montgomery County	Rockville Commons Limited Partnership	None				GNMA	474	446	6.300%	520,000	515,037	515,037				1999C
Rosemary Village	Montgomery County	Rosemary Village Cooperative Inc	Section 8	416	143	40	FHA	480	223	7.830%	9,251,500	7,408,679	7,408,679	790,518	96%	Below Average	1996A
Schoolhouse Road [7]	Carroll County	Schoolhouse Road Associates Ltd.	Section 8	26	26	40	MHF	480	246	6.450%	1,000,000	793,029	793,029	91,515	96%	Satisfactory	1996A
Selbourne (17)(19)	Prince George's County	ODC Selbourne House L.P.	None	126	0	N/A	GNMA	480	456	6.100%	7,660,000	7,564,710	7,564,710		95%	Satisfactory	1997B
Sharp Leadenhall I	Baltimore City	Sharp-Leadenhall Associates	Section 236	155	155	40	MHF	480	247	14.500%	6,362,200	6,053,758	6,053,758	145,350	100%	Satisfactory	1996A
Sharp Leadenhall II	Baltimore City	Henrietta Oxford Associates	Section 8	37	37	20	FHA	480	248	9.995%	1,355,500	1,204,727	1,204,727	221,629	97%	Satisfactory	1996A
Suburban Park Village (9),(10),(16),(17),(19)	Montgomery County	Consortium One - Gaithersburg, LP	None	168	0	N/A	GNMA	480	480	6.690%	10,017,500	8,542,095	8,542,095				1999B
Sunridge (9),(16),(17),(19)	Prince George's County	Sunridge Assoc. Limited Part.	None	366	0	N/A	GNMA	480	480	5.640%	16,345,000	15,186,648	15,186,648				1999A
Tabco Towers (5),(8)	Baltimore County	Tabco Towers Associates	Section 236	200	200	40	MHF	480	187	6.360%	4,733,700	3,295,330	3,295,330		94%	Satisfactory	1996A
Taney Village [5]	Frederick County	Taney Village Partners Ltd.	Section 8	131	129	40	FHLMC	480	210	6.790%	3,370,000	2,508,740	2,508,740	666,370	99%	Above Average	1996A
The Graw	Harford County	Havre de Grace Associates	Section 8	66	65	40	MHF	480	207	6.790%	1,575,000	1,163,496	1,163,496	38,815	98%	Satisfactory	1996A
Tomall Apartments	Worcester County	Tomall Limited Partnership	Section 8	8	8	30	MHF	360	160	7.800%	250,000	178,679	178,679	17,556	100%	Unsatisfactory	1996A
Trappe Creek	Worcester County	Rhoda's Legacy Limited Partnership II	Section 8	14	14	30	MHF	360	153	7.800%	568,300	395,824	397,372	64,646	78%	Unsatisfactory	1996A

Name	Location	Owner	Subsidy	No. Units (12)	No. of Units Subsidized	Total Subsidy Term (1)	Credit Enhancement	Original Loan Term (Months)	Remaining Loan Term (Months)	Interest Rate (19)	Original Loan Balance	Scheduled Loan Balance (2)	Loan Balance (w/ Arrearages) (2)	RFR Balance (2)	Occupancy (3)	Inspection Rating (4)	Bond Series
Name	Location	Owner	Subidized	Units	Sub-Units	Sub-Term	Credit	Orig-Term	Remaining	Rate	OrigBal	SchBal	LoanBal	RFR	Occupancy	Inspection	Bond Series
Villages of Laurel	Prince George's County	Riverdale Assc., Ltd. Partnership	None	128	0	N/A	MHF	360	342	6.380%	3,173,200	3,117,891	3,117,891	200,059	95%	Satisfactory	1999B
Walker Mews (5)	Baltimore City	Walker Mews Apartments LP	Section 8	167	166	40	FHLMC	480	221	7.730%	4,950,000	3,934,209	3,934,209	750,438	100%	Above Average	1996A
Totals				7,023	3,567						$264,178,920	$212,900,945	$212,927,040	$13,434,815			

(1) Includes original terms and all renewal terms. Section 236 contract terms are coterminous with applicable Loan term.

(2) As of June 30, 2001.

(3) Generally, as of June 30, 2001.

(4) The Inspection Rating is based upon the most recent rating available to the Administration as of June 30, 2001 and reflects the evaluation by the Department's Asset Management Group of the Development's physical condition, management practices, and compliance with regulations and loan documents The ratings reported on this schedule reflect inspections done between July 2000 and June 2001.

(5) These Developments also have outstanding first lien parity mortgages securing mortgage loans made with proceeds of the Administration's Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) in the following amounts: Chesapeake Commons $3,140,596; Hanover Square $2,628,493; Lakeview House $3,633,670; Tabco Towers $1,154,132; Taney Village $1,193,742; Walker Mews $460,231. Reserves for Replacement accounts for Chesapeake Commons, Lakeview House and Tabco Towers are reported in disclosures for the Multi-Family Housing Revenue Bond (Insured Mortgage Loans) Indenture.

(6) The Administration loaned the sponsor an additional $538,000, the proceeds of investment of which are used to support payments due under the Transferred Loan. The additional loan is not subject to the lien of the Bond Resolution. In addition, as part of a workout, the Administration reduced the interest rate to 3.7% from 7.8% on May 1, 1998. In August 1999, the Administration received a principal curtailment of $215,000.

(7) The Administration originally made two loans to this Development; the uninsured loan with outstanding principal of $219,428 was paid-off on June 30, 2000.

(8) The Reserve for Replacement Account for Tabco Towers is held by Deutsche Banc Alex. Brown Inc. The most recent statement received by Asset Management is for the period ending June 30, 2001.

(9) These loans have undisbursed proceeds as follows: Churchill $3,872,924; Lexington Park $7,267,042; Quebec Arms $9,781,081; Sunridge $1,158,253; and Suburban Park Village $1,475,405.

(10) These projects are in construction, and the Loans have not begun principal amortization. The scheduled date for principal amortization to begin for Suburban Park Village is August 1, 2001, for Churchill Senior Living February 1, 2002, for Lexington Park March 1, 2002, and for Quebec Arms September 1, 2002.

(11) On June 18, 1997 the Administration and the developer entered into an allonge to the mortgage note which provides that a prior arrearage of $7,667 is due in full on the maturity date of the note.

(12) Figures may include non-revenue manager-occupied units.

(13) As of June 30, 2001, the following loan has arrearages, in an amount more than two full payments of regularly scheduled principal and interest: North Avenue Terrace, $40,134. In August 2000, $53,702 was transferred from the RFR account to reduce the principal and interest arrearages. MHF has made pre-claims payments to satisfy interest arrearages.

(14) In 1999, Bethel Gardens drew $20,000 from their Reserve for Replacement Account to cover operating expenses which has not been reimbursed.

(15) This development is not in compliance with reserve for replacement requirements. No payments have been deposited to RFR since May 1995. In August 2000, the balance in the RFR account was applied to interest arrearages.

(16) These developments are in construction or lease-up and occupancy reports and inspection ratings are not required at this time.

(17) For loans enhanced by GNMA, the Reserve for Replacement Accounts are held by the lender.

(18) Both Rockville Commons loans are secured by the same GNMA Certificate.

(19)The interest rate received by the Administration on the related Guaranteed Securities for GNMA loans is .25% less than the Interest Rate shown in the chart because the GNMA Servicer deducts and retains a fee in that amount.

(20) Insured under the risk sharing program. See Official Statement, Appendix F - "MORTGAGE INSURANCE AND SECURITY GUARANTY PROGRAMS - HUD RISK SHARING PROGRAMS".

(21) The term of this loan and the term of the Subsidy are coterminous. When this loan was assumed by new owners, the remaining loan term was 213 months of the original loan term of 480 months. Likewise, the original subsidy term was 480 months; at the time of the assumption the remaining term of the subsidy was also 213 months.

Table D-3, Group Home and Single Family Loans Financed with the Proceeds of the Series 1996 A and B Bonds:

Name	Location	No. of Loans	Credit Enhancement	Original Loan Term (Months)	Remaining Loan Term	Interest Rate	Original Loan Balance	Current Loan Balance[9]	Occupancy	Physical Condition	Bond Series Financing Loan
Single Family Residences[1][2][3][4][5]	Various	35	MHF	360	Various	Various	$12,364,684	$899,320	N/A	N/A	1996 A
Group Homes[6][7][8]	Various	21	MHF	Various	Various	6.50%	$ 1,986,373	$1,827,869	N/A	N/A	1996 B

(1) Single family residences are owner occupied single family dwellings.
(2) One Single Family Loan was more than 60 days delinquent. Total principal and interest arrearage totaled $854
(3) Single family residences are located in Prince George’s, Howard, Montgomery and Anne Arundel Counties.
(4) Interest rates vary from 8.25% to 8.625% per annum.
(5) Original principal amount of Single Family Loans financed from proceeds of Prior Bonds.
(6) Group Homes are owned by various non-profit entities.
(7) 50 individuals are served by group home facilities.
(8) All Loans are expected to have terms of 30 years, except one Loan, which will have a term of 15 years and another Loan which will have a term of 20 years.
(9) As of June 30, 2001.

Table D-4 Rental Housing Developments in Financial in Default:

Project	Location	Developer	Subsidy	No. Units	No. Subsidized Units	Orig. Sec. 8	Original Mortgage Insurer	Original Loan Term	Remaining Loan Term	Original Interest Rate	Original Loan Balance	Amount of Mortgage Loan Balance	Principal and Interest Arrearage(1)	Bond Series Financing
North Avenue Terrace	Baltimore City	North Avenue Terraces Ltd. Partnership	None	67	0	N/A	MHF	360	235	7.000%	$1,350,000	$1,183,265	$40,134	HRB 1996A

(1) Amount of Mortgage Loan Arrearages includes principal and interest arrearages as of June 30, 2001.

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APPENDIX E

OUTSTANDING INDEBTEDNESS OF THE ADMINISTRATION

Outstanding Housing Revenue Bonds

The following table sets forth certain information relating to Bonds issued by the Administration under the Bond Resolution outstanding as of July 1, 2001.

	Year of Issue	Final Maturity	Amount Issued	Amount Outstanding
Housing Revenue Bonds (4)				
Series 1996 A	1996	7/1/2023	$ 137,385,000	$ 92,960,000
Series 1996 B	1996	7/1/2028	2,575,000	1,975,000
Series 1997 A	1997	7/1/2039	37,135,000	36,585,000
Series 1997 B	1997	7/1/2039	7,660,000	7,555,000
Series 1997 C	1997	7/1/2039	14,075,000	13,865,000
Series 1998 A	1998	1/1/2040	11,030,000	10,905,000
Series 1999 A	1999	7/1/2041	16,345,000	16,345,000
Series 1999 B	1999	7/1/2042	15,840,000	15,735,000
Series 1999 C	1999	7/1/2040	520,000	520,000
Series 1999 D	1999	7/1/2042	14,565,000	14,305,000
Series 2000 A	2000	7/1/2042	27,445,000	27,445,000
Total Housing Revenue Bonds			$ 284,575,000	$ 238,195,000

Other Outstanding Bonds of the Administration

The following table sets forth certain information relating to Bonds issued by the Administration under its other programs and outstanding as of July 1, 2001.

	Year of Issue	Final Maturity	Amount Issued	Amount Outstanding	
Multi-Family Housing Revenue Bonds					
1985 Series B	1985	5/15/2021	$ 45,196,888	$ 615,473	(5)
1989 Series B	1989	5/15/2021	1,390,000	510,000	
1990 Series A	1990	5/15/2032	7,795,000	7,265,000	
1990 Series B	1990	5/15/2022	2,045,000	1,880,000	
1990 Series D	1990	5/15/2032	27,153,636	24,999,875	(5)
1991 Series A	1991	5/15/2022	2,310,000	2,020,000	
1991 Series B	1991	5/15/2021	3,970,000	505,000	
1991 Series D	1991	5/15/2022	3,500,000	3,180,000	
1991 Series E	1991	5/15/2028	23,730,000	10,020,000	
1991 Series G	1991	5/15/2023	2,170,000	1,265,000	
1991 Series H	1991	5/15/2033	4,900,000	4,765,000	
1992 Series A	1992	5/15/2033	23,140,000	13,130,000	
1992 Series B	1992	5/15/2022	2,165,000	1,720,000	
1992 Series C	1992	5/15/2033	6,475,000	6,145,000	
1992 Series D	1992	5/15/2027	11,955,000	10,790,000	
1992 Series E	1992	5/15/2033	1,175,000	1,115,000	
1992 Series F	1992	5/15/2024	7,745,000	7,085,000	
1992 Series G	1992	5/15/2019	8,510,000	7,175,000	
1993 Series A	1992	5/15/2031	17,050,000	3,730,000	
1993 Series B	1992	5/15/2034	24,740,000	21,185,000	
1993 Series C	1993	5/15/2024	8,420,000	7,510,000	
1993 Series D	1993	5/15/2024	57,000,000	46,660,000	
1993 Series E	1993	5/15/2028	2,500,000	1,530,000	
1993 Series F	1993	5/15/2020	4,510,000	3,740,000	

Other Outstanding Bonds of the Administration

The following table sets forth certain information relating to Bonds issued by the Administration under its other programs and outstanding as of July 1, 2001.

			Year of Issue	Final Maturity	Amount Issued	Amount Outstanding
1993	Series	G	1993	5/15/2024	$ 2,000,000	$ 1,855,000
1993	Series	H	1993	5/15/2026	23,895,000	20,685,000
1993	Series	I	1993	5/15/2023	1,535,000	1,215,000
1993	Series	J	1993	5/15/2024	2,380,000	2,105,000
1993	Series	K	1993	5/15/2025	2,790,000	670,000
1994	Series	A	1994	5/15/2024	1,770,000	1,550,000
1994	Series	B	1994	5/15/2025	13,915,000	11,710,000
1994	Series	C	1994	5/15/2036	11,890,000	11,155,000
1994	Series	D	1994	5/15/2025	2,450,000	2,115,000
1994	Series	E	1994	5/15/2025	13,380,000	11,835,000
1994	Series	F	1994	5/15/2026	14,955,000	14,300,000
1995	Series	A	1995	5/15/2036	16,345,000	15,855,000
1995	Series	B	1995	5/15/2026	11,630,000	10,670,000
1995	Series	C	1995	5/15/2026	1,855,000	1,720,000
1995	Series	D	1995	5/15/2027	2,550,000	2,400,000
1998	Series	A	1998	5/15/2029	13,260,000	12,730,000
1998	Series	B	1998	5/15/2028	8,615,000	8,140,000
Total Multi-Family Housing Revenue Bonds					$ 444,760,524	$ 319,250,348

			Effective Bond Yield	Year of Issue	Final Maturity	Amount Issued	Amount Outstanding	
Residential Revenue Bonds (7)								
1997	Series	A	5.750520%	1997	3/1/2017	$ 17,325,000	$ 17,325,000	(1)(2)
1997	Series	B	5.781810%	1997	9/1/2029	82,675,000	73,545,000	(1)(2)
1998	Series	A	5.302760%	1998	9/1/2017	4,640,000	4,640,000	(2)
1998	Series	B	5.363320%	1998	9/1/2030	75,565,000	71,225,000	(1)(2)
1998	Series	D	5.080895%	1998	9/1/2029	62,810,000	60,765,000	(1)(2)
1999	Series	C	4.981370%	1999	9/1/2015	2,665,000	2,665,000	(2)
1999	Series	D	5.258230%	1999	9/1/2031	57,335,000	56,930,000	(1)(2)
1999	Series	E	5.561570%	1999	9/1/2017	22,780,000	22,780,000	(2)
1999	Series	F	5.883350%	1999	9/1/2031	57,220,000	56,380,000	(1)(2)
1999	Series	H	6.185333%	1999	3/1/2031	60,000,000	59,865,000	(1)
2000	Series	A	5.463189%	2000	9/1/2012	7,965,000	7,965,000	(2)
2000	Series	B	6.059197%	2000	9/1/2032	72,035,000	71,940,000	(1)(2)
2000	Series	C	5.726749%	2000	9/1/2013	6,090,000	6,090,000	
2000	Series	D	6.286454%	2000	9/1/2032	73,910,000	73,880,000	(1)
2000	Series	F	4.996857%	2000	9/1/2014	15,190,000	15,190,000	
2000	Series	G	5.991066%	2000	9/1/2032	64,810,000	64,800,000	(1)
2000	Series	H	5.775438%	2000	9/1/2032	60,000,000	60,000,000	(1)
2001	Series	A	4.689417%	2001	9/1/2017	18,885,000	18,885,000	(2)
2001	Series	B	5.329877%	2001	9/1/2032	50,800,000	50,800,000	(2)
2001	Series	C	3.200000%	2001	3/28/2002	11,220,000	11,220,000	(3)
2001	Series	D	3.250000%	2001	3/28/2002	47,960,000	47,960,000	(3)
2001	Series	E	4.428468%	2001	9/1/2012	13,775,000	13,775,000	
2001	Series	F	5.623777%	2001	9/1/2032	66,225,000	66,225,000	
Total Residential Revenue Bonds						$ 951,880,000	$ 934,850,000	

Other Outstanding Bonds of the Administration

The following table sets forth certain information relating to Bonds issued by the Administration under its other programs and outstanding as of July 1, 2001.

	Effective Bond Yield	Year of Issue	Final Maturity	Amount Issued	Amount Outstanding	
Single Family Program Bonds						
1991 Third Series	7.297200%	1991	4/1/2027	$ 58,945,000	$ 31,395,000	(1)
1992 First Series	6.335030%	1992	4/1/2011	7,260,000	4,360,000	
1992 Second Series	6.560440%	1992	4/1/2011	37,740,000	15,760,000	
1992 Third Series	6.591140%	1992	4/1/2017	10,350,000	8,335,000	
1992 Fourth Series	6.833690%	1992	4/1/2017	10,415,000	6,545,000	(1)
1992 Fifth Series	6.611540%	1992	4/1/2012	4,495,000	4,495,000	
1992 Sixth Series	6.855000%	1992	4/1/2024	58,735,000	49,990,000	(1)
1992 Seventh Series	6.471600%	1992	4/1/2012	4,630,000	4,630,000	
1992 Eighth Series	6.802740%	1992	4/1/2024	30,745,000	25,710,000	(1)
1993 Third Series	4.910970%	1993	4/1/2017	82,000,000	45,200,000	(1)(2)
1994 First Series	5.655880%	1994	4/1/2017	100,000,000	53,685,000	(1)(2)
1994 Fourth Series	6.230810%	1994	4/1/2014	38,295,000	38,295,000	
1994 Fifth Series	6.515110%	1994	4/1/2026	86,705,000	51,065,000	(1)
1994 Sixth Series	6.872360%	1994	4/1/2017	35,160,000	29,405,000	(2)
1994 Seventh Series	7.301320%	1994	4/1/2025	44,840,000	23,170,000	(1)(2)
1994 Ninth Series	5.944930%	1995	4/1/2019	23,010,000	20,035,000	
1995 First Series	6.145040%	1995	4/1/2017	39,585,000	37,970,000	
1995 Second Series	6.487970%	1995	4/1/2026	60,415,000	37,400,000	(1)
1995 Third Series	6.100200%	1995	4/1/2027	70,000,000	63,050,000	(1)
1995 Fourth Series	6.147770%	1995	4/1/2017	5,790,000	5,790,000	
1995 Fifth Series	6.208630%	1995	4/1/2027	31,200,000	26,125,000	
1996 Third Series	6.052340%	1996	4/1/2017	13,455,000	11,935,000	
1996 Fourth Series	6.516090%	1996	4/1/2028	31,545,000	27,935,000	(1)
1996 Fifth Series	5.815140%	1996	4/1/2016	30,735,000	30,400,000	
1996 Sixth Series	6.298720%	1996	4/1/2028	30,760,000	21,615,000	(1)
1997 First Series	5.527870%	1997	4/1/2018	143,260,000	108,565,000	(1)
1999 First Series	5.241844%	1999	4/1/2029	26,100,000	23,925,000	(2)
1999 Second Series	4.940188%	1999	4/1/2017	53,205,000	53,205,000	(2)
1999 Third Series	4.803280%	1999	4/1/2021	107,265,000	83,155,000	(1)(2)
2000 First Series	5.623890%	2000	4/1/2017	32,600,000	30,190,000	(1)
2001 First Series	4.747525%	2001	4/1/2017	66,495,000	66,495,000	(2)
2001 Second Series	4.475347%	2001	4/1/2023	21,260,000	21,260,000	(1)(2)
Total Single Family Program Bonds..				$ 1,396,995,000	$ 1,061,090,000	

	Year of Issue	Final Maturity	Amount Issued	Amount Outstanding
Infrastructure Financing Bonds				
1992 Series A (AMBAC Insured)......................	1992	6/1/2022	$ 9,045,000	$ 4,905,000
1994 Series A (AMBAC Insured)......................	1994	6/1/2024	8,030,000	6,205,000
1995 Series A (AMBAC Insured)......................	1995	6/1/2025	3,975,000	2,690,000
1996 Series A (MBIA Insured)..........................	1996	6/1/2026	8,405,000	7,215,000
1997 Series A (MBIA Insured)..........................	1997	6/1/2027	9,860,000	8,430,000
1998 Series A (MBIA Insured)..........................	1998	6/1/2018	6,320,000	5,255,000
1998 Series B (MBIA Insured)..........................	1998	6/1/2028	30,320,000	26,100,000
1998 Series C (MBIA Insured)..........................	1998	12/1/2020	2,845,000	1,945,000
1999 Series A (MBIA Insured)..........................	1999	6/1/2029	6,985,000	6,740,000
2000 Series A (MBIA Insured)..........................	2000	6/1/2030	8,065,000	7,815,000
2001 Series A (MBIA Insured)..........................	2001	6/1/2031	8,460,000	8,460,000
2001 Series B (MBIA Insured)..........................	2001	6/1/2021	1,930,000	1,930,000
Total Infrastructure Financing Bonds..			$ 104,240,000	$ 87,690,000

Other Outstanding Bonds of the Administration

The following table sets forth certain information relating to Bonds issued by the Administration under its other programs and outstanding as of July 1, 2001.

	Year of Issue	Final Maturity	Amount Issued	Amount Outstanding
Mortgage Revenue Obligations				
First Series (Storchwoods II)...........................	1978	1/1/2020	$ 1,544,400	$ 1,198,545
Total Mortgage Revenue Obligations...			$ 1,544,400	$ 1,198,545
Multifamily Development Revenue Bonds (6)				
1990 Issue A (College Estates)…………………	1990	2/1/2020	$ 6,750,000	$ 6,250,000
1990 Issue B (Middle Branch Manor)…………	1990	6/1/2020	12,350,000	10,700,000
1990 Issue C (Harbor City Townhomes)……….	1990	6/1/2020	4,150,000	3,600,000
Series 1998 A (Auburn Manor Project)......…….	1998	10/1/2028	11,000,000	10,690,000
Series 1998 A (Lexington Terrace Project)..…….	1998	10/1/2002	11,100,000	11,100,000
Series 1998 B (Lexington Terrace Project)..…….	1998	10/1/2002	3,900,000	3,900,000
Series 1999 A (GNMA-Selborne House Project).	1999	12/20/2040	2,150,000	2,150,000
Series 2000 A (Waters Landing II Apartments)	2000	8/1/2033	11,000,000	11,000,000
Series 2000 B-1 (Edgewater Village Apartments)	2000	2/1/2033	7,640,000	7,640,000
Series 2000 B-2 (Edgewater Village Apartments)	2000	2/1/2033	3,125,000	3,125,000
Series 2000 C (Park Montgomery Apartments)	2000	2/1/2031	6,170,000	6,170,000
Series 2001 A (Heritage Crossing Project)	2001	5/1/2004	3,050,000	3,050,000
Series 2001 B (Heritage Crossing Project)	2001	5/1/2004	3,050,000	3,050,000
Total Multi-Family Development Revenue Bonds...			$ 85,435,000	$ 82,425,000
Multifamily Development Revenue Refunding Bonds				
Series 1997 (Avalon Lea Apartments Project)....……..	1997	6/15/2026	$ 16,835,000	$ 16,835,000
Series 1997 (Avalon Ridge Apartments Project).…….	1997	6/15/2026	26,815,000	26,815,000
Series 1999 C (Westfield/Greens Projects)…………….	1999	12/1/2029	9,200,000	9,075,000
Total Multifamily Development Revenue Refunding Bonds...…			$ 52,850,000	$ 52,725,000
Total Amount of Other Bonds Outstanding			$ 3,037,704,924	$ 2,539,228,893
Total Amount of Housing Revenue Bonds Outstanding (8).............................……….			$ 284,575,000	$ 238,195,000
Total Amount of All Bonds Outstanding ....…….			$ 3,322,279,924	$ 2,777,423,893

(1) A portion of this series of bonds was redeemed on August 1, 2001.
(2) Certain prepayments of mortgage loans financed with the proceeds of such series of bonds are to be applied first to the redemption of certain bonds within such series.
(3) Residential Revenue Bonds 2001 Series C and Series D are short-term notes which may be redeemed prior to their maturity date at any time on or after October 1, 2001.
(4) On July 12, 2001, the Administration issued $29,645,000 of Housing Revenue Bonds Series 2001 A.
(5) Includes Bonds for which the principal amount outstanding is based on accreted value as of May 15, 2001.
(6) On July 11, 2001, the Administration issued $9,800,000 of Multifamily Development Revenue Bonds Series 2001 C for Parklane Apartments Project.
(7) On September 25, 2001, the Administration issued $60,000,000 of Residential Revenue Bonds 2001 Series G and 2001 Series H.
(8) See information under caption "Outstanding Housing Revenue Bonds" above.

APPENDIX F

MORTGAGE INSURANCE AND CREDIT ENHANCEMENT

THE MHF INSURANCE PROGRAM

The following describes the mortgage insurance programs administered by the MHF pursuant to Section 3-201 through 3-208 of Article 83B of the Annotated Code of Maryland, as amended (the "MHF Statute"), and is qualified in its entirety by reference to such statute and the regulations thereunder (the "MHF Regulations").

MHF was created in 1971 as a special insurance fund of the State of Maryland and is an agency in the Division of Credit Assurance of the Department (the "Division"). MHF is authorized to insure mortgage loans, including mortgage loans for multi-family developments financed by public agencies such as the Administration, and to provide primary and pool insurance for single family mortgage loans. MHF insures against certain monetary losses incurred as a result of nonpayment of principal, interest or other sums agreed to be paid and certain other events of default under the terms of any insured mortgage loan but does not insure against property losses, including without limitation, title risk, risks of defective construction or casualty, or any other reduction in project value due to insurable risk or force majeure, casualty or title loss.

Certain Actions of Moody's Investors Service and Response by the Department

In early 1997, the Department suspended indefinitely all new insurance activity of MHF (except for pool insurance for certain single family loans). MHF expects to continue to honor existing insurance commitments. The Department suspended new insurance activity partly as a result of concerns expressed by Moody's Investors Service during 1996 and 1997. See information under the subheading "FINANCIAL STATEMENTS AND INFORMATION" below.

On December 11, 1996, Moody’s Investors Service issued a release stating that Moody’s was placing the Administration’s Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) under review for possible downgrade.

The Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) were issued by the Administration under a parity indenture between 1982 and 1995. Proceeds of the Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) have been used in substantial part to fund mortgage loans for multi-family rental housing projects. A substantial portion of the mortgage loans under that program are insured by MHF (as is the case with the Loans financed with proceeds of the Bonds). Moody’s release indicated that the action taken with respect to the Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) was based upon information provided to Moody’s about the condition of MHF.

Following the issuance of the release, the Department conducted a review of MHF’s programs and provided additional information to Moody’s concerning MHF and the Administration’s bond programs. The Department and MHF began taking the following steps:

- The Department devoted enhanced attention to asset and portfolio management. The suspension of new MHF insurance activity enabled the Division to concentrate exclusively on managing the existing portfolio.

- The Department adopted a policy of recognizing the importance of its General Bond Reserve Fund as a potential source of security for its bonds, and stating its intention to use funds from the General Bond Reserve Fund, to the extent available, to compensate for any deficiency in funds available to meet obligations to the Administration's bondholders as a result of any future failure of MHF to pay claims on multi-family loans. The Department further adopted a policy of maintaining certain balances in the General Bond Reserve Fund. See *"General Bond Reserve Fund"*, in the text of Official Statement, for a description of the General Bond Reserve Fund and the policy described above.

On May 27, 1997, Moody's, in connection with an expansion of its rating scale for all public finance issues, issued a release in which it refined the rating on the Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) to "Aa3" and the rating on the Single Family Program Bonds to "Aa2". In each case, the prior rating was "Aa".

Risk-Sharing. The Administration has been designated as a participant in HUD's Risk-Sharing Program. See "THE FHA INSURANCE PROGRAM – FHA Risk-Sharing Program". The Administration and HUD would share in any losses incurred on a project insured under the Risk-Sharing Program. The Administration expects that MHF would reimburse the Administration for its share of such losses. However, in keeping with the policy of not issuing new MHF insurance commitments, the Administration currently will participate in the Risk-Sharing Program only for refinancings of projects previously insured by MHF where the Administration expects that risk-sharing will decrease the dollar amount of MHF's insurance exposure on the project being refinanced.

Financial Statements and Information

MHF ceased issuing commitments for new insurance during 1997 (except only that MHF reserves the right to issue pool insurance for single family mortgages subject to primary insurance acceptable to the Department). MHF has been focusing on managing its existing risk with the resources available from premium income on existing policies, existing reserves, and income from investment of reserves.

Audited financial statements of MHF for the years ended June 30, 2001, and June 30, 2000 are included in Appendix J – "FINANCIAL STATEMENTS OF THE MARYLAND HOUSING FUND". The financial statements of MHF are reported on a consolidated basis combining results of operations for MHF's Multi-Family, Single Family, Revitalization and Home and Energy Mortgage Insurance Programs.

Operating Income and Reserves

MHF's operating income from insurance premiums is used to pay operating expenses and also may be used to pay insurance claims.

MHF maintains five insurance reserves which are separate from MHF's operating funds. Four of the reserves cover specific categories of insurance: the Multi-Family Reserve, the Single Family Regular Program Reserve, the Revitalization Reserve and the Home and Energy Loan Reserve. The fifth reserve, the Unallocated Reserve, may be used to pay claims on all categories of insurance, may be transferred into any other reserve, or may be restricted for claims under a particular category. The Unallocated Reserve contains certain funds set aside for single family claims and other funds available for any category of claims.

The MHF Statute provides that any moneys of MHF which the Department creates as an identifiable insurance reserve may be used only in conformance with the terms and conditions creating that reserve. MHF regulations provide that each reserve is maintained to pay claims arising from its respective category of insurance and may not be subject to claims arising from other categories of insurance (except for the Unallocated Reserve, and except for claims arising from single family regular and revitalization insurance issued before August 20, 1975, which claims are payable from all MHF insurance reserves). The reserves are held by the Office of the Treasurer of the State, which credits MHF with income on investment of reserves for the benefit of MHF. MHF adds this investment income to the Unallocated Reserves.

MHF does not insure the Bonds, and the assets of MHF are not available to the Administration or the Trustee to satisfy obligations to holders of the Bonds. The obligation of MHF is limited to the payment of mortgage insurance claims as described herein. An insurance claim against MHF is payable from and limited to the applicable MHF reserve and does not constitute a general obligation of MHF, the Department or the State.

Selected Balance Sheet Information

The following table is selected balance sheet information, derived from the audited financial statements, relating to MHF's operations as of June 30, 1999, June 30, 2000, and June 30, 2001. Reference is made to the financial statements in Appendix J for more detailed information.

	Audited 06/30/99	Audited 06/30/00	Audited 06/30/01
ASSETS			
Operating Cash (1)	$ 1,284,666	$ 1,513,958	$ 3,003,140
Cash in Reserves (2)	97,247,623	94,280,202	96,351,857
Other Assets (3)	14,775,733	13,540,007	14,752,288
TOTAL ASSETS	$113,308,022	$109,334,167	$114,107,285
LIABILITIES AND FUND EQUITY			
Allowance for Unpaid Insurance Losses (4)			
Single Family	$ 17,963,225	$ 18,134,697	$16,738,775
Multi-Family	19,803,929	14,647,049	14,909,337
	37,767,154	32,781,746	31,648,112
Other Liabilities (5)	4,963,975	4,926,178	4,561,317
TOTAL LIABILITIES	42,731,129	37,707,924	36,209,429
Fund Equity			
Reserves:			
Multi-Family	49,400,000	44,698,739	44,698,739
Single Family Regular	32,273,875	32,273,875	32,273,875
Revitalization (Pilot)	2,224,450	2,224,450	2,224,450
Home and Energy Loan	500,000	500,000	500,000
Unallocated	12,849,298	14,583,138	16,654,793
	97,247,623	94,280,202	96,351,857
Unreserved Fund Deficit (6)	(26,670,730)	(22,653,959)	(18,454,001)
TOTAL FUND EQUITY	70,576,893	71,626,243	77,897,856
TOTAL LIABILITIES AND FUND EQUITY	$113,308,022	$109,334,167	$114,107,285

(1) Operating cash (net of operating expenses) is available for Single Family and Multi-Family claims and operations.

(2) MHF maintains five insurance reserves which are separate from MHF's operating funds. Four of the reserves cover specific categories of insurance: the Multi-Family Reserve, the Single Family Regular Reserve, the Revitalization Reserve and the Home and Energy Loan Reserve. Each of these four separate reserves is available only for payment of its respective category of claims. The fifth reserve, the Unallocated Reserve, may be used to pay claims on all categories of insurance, may be transferred into any other reserve, or may be restricted for claims under a particular category. The Unallocated Reserve contains certain funds set aside for single family claims and other funds available for any category of claims.

(3) Includes notes receivable, mortgages, and real estate owned net of allowances for losses.

(4) The allowance for unpaid insurance losses is a liability and represents MHF's estimate of net insurance losses from potential claims not yet filed. The estimate of losses is based upon a review of the insured properties and loans. The actual losses could be greater or less than the estimated allowance.

(5) Includes unearned premiums, mortgage escrow accounts, accounts payable and accrued liabilities.

(6) Unreserved Fund Deficit is the term used in the financial statements of MHF to indicate cumulative revenues and cumulative expenses excluding those allocated to the reserve accounts stated under Fund Equity.

Discussion of Balance Sheet at June 30, 1999. MHF's overall equity declined from $73,822,562 at the close of the fiscal year ended June 30, 1998, to $70,576,893 at June 30, 1999. Unreserved Fund Deficit, a part of overall equity, increased from a deficit of $23,140,546 to a deficit of $26,670,730 due to losses of $3,530,184 from operating activities for the twelve month period ended June 30, 1999.

A primary factor contributing to the change in Unreserved Fund Deficit continued to be the increase in the allowance for unpaid single family insurance losses.

The increase in the allowance for unpaid single family insurance losses was the result of higher loss margins on recent sales of single family acquired properties and the continuing refinement of the data collection process as it relates to the calculation of the allowance. In addition, for 1999 MHF began including in the allowance an estimate of carrying costs on single family properties in foreclosure for which claims have not been paid; this accounted for $1,010,000 of the overall increase.

Discussion of Balance Sheet at June 30, 2000. MHF's overall equity increased from $70,576,893 at the close of the fiscal year ended June 30, 1999, to $71,626,243 at June 30, 2000. Significant factors in this change included the following:

- For the fiscal year 2000, the Department refinanced seven MHF-insured multi-family loans that were in default. The MHF insurance was canceled on five of the loans and remained in place for the remaining two loans. In each case, MHF paid a claim to the Administration for the difference between the insured outstanding indebtedness and the balance of the loans as refinanced. Each claim was paid from MHF's Multi-Family Reserve. In addition, the Administration sold the mortgage note on an additional multi-family project that had been declared in default due to its physical condition, and MHF paid a claim to the Administration for the difference between the insured amount and proceeds of the sale of the mortgage note. As a result of these actions, MHF withdrew $4,701,261 from the Multi-Family Reserve to pay the claims, and the allowance for unpaid multi-family insurance losses decreased by $5,156,880 largely because the allowance for potential losses on these projects was decreased.

- During the same period, the allowance for single family losses increased. During that time, MHF changed the method for estimating future claims, thereby increasing the allowance. This increase was offset by a decrease in the number of single family loans in delinquency and improved loss margin on REO sales, resulting in a net increase of $171,472.

Unreserved Fund Deficit, a part of overall equity, improved from a deficit of $26,670,730 to a deficit of $22,653,959 due to the following three factors: loss of $4,187,402 from operating activities (loss net of interest earned on investments held by the State Treasurer); a transfer of $3,502,912 from the Unallocated Reserve; and transfers of $4,701,261 from the Multi-Family Reserve used to pay multi-family claims during the year ended June 30, 2000.

Discussion of Balance Sheet at June 30, 2001. MHF's overall equity increased from $71,626,243 at the close of the fiscal year ended June 30, 2000, to $77,897,856 at June 30, 2001. The Unreserved Fund Deficit, a part of overall equity, improved from a deficit of $22,653,959 to a deficit of $18,454,001 due to income of $638,798 from operating activities (income net of interest earned on investments held by the State Treasurer) and a transfer of $3,561,160 from the Unallocated Reserve used to pay single family claims for the fiscal year ended June 30, 2001.

Selected Income Statement Information

The following table sets forth selected information from MHF's Statement of Operations, derived from the audited financial statements, as of June 30, 1999, June 30, 2000, and June 30, 2001. Reference is made to the financial statements in Appendix J for more detailed information.

	Audited 06/30/99	Audited 06/30/00	Audited 06/30/01
REVENUES			
Net premiums (1)			
Single Family	$ 5,597,369	$ 5,002,978	$4,374,699
Multi-Family	1,915,565	1,821,327	1,634,807
Interest income on investments (2)	5,065,733	5,257,587	5,662,074
Interest income on mortgages	596,435	554,020	578,333
Other income	19,476	34,197	753,577
	13,194,578	12,670,109	13,003,490
EXPENSES			
Provision for possible insurance and loan losses (3)			
Single Family	10,366,895	7,668,060	3,397,295
Multi-Family	1,774,054	344,289	(309,014)
Expenses related to acquired property			
Single Family	964,584	202,757	278,827
Multi-Family	79,100	223,113	59,515
General and administrative	161,944	76,798	49,918
Salaries and related costs	3,093,670	3,105,742	3,255,336
	16,440,247	11,620,759	6,731,877
Net Income (Loss)	$ (3,245,669)	$ 1,049,350	$6,271,613

(1) Premium income on multi-family and single family loans is recognized on a straight-line basis over the related benefit period.
(2) Primarily interest on deposit with the State Treasurer.
(3) The provision for possible insurance and loan losses is an expense item relating to changes in the allowance for unpaid insurance losses (which was discussed above under the heading "Selected Balance Sheet Information"), the allowance for loan losses and the allowance for losses on acquired properties.

Discussion of Statement of Operations for the Period Ended June 30, 1999. As shown in MHF's financial statements, the net loss for the fiscal year ended June 30, 1999, was $3,245,669, which is a 20% improvement from the prior year. Investment earnings for the fiscal year ending June 30, 1999, in the amount of $4,993,780, flow directly to reserve fund equity.

The improved performance for the fiscal year ended June 30, 1999, was primarily due to a reduction in the provision for possible insurance and loan losses.

Discussion of Statement of Operations for the Period Ended June 30, 2000. As shown in MHF's financial statements, the net income for the fiscal year ending June 30, 2000, was $1,049,350. This was due primarily to an improvement in the provision for possible insurance and loan losses. Investment earnings for the year ending June 30, 2000, in the amount of $5,236,752, flow directly to reserve fund equity.

Discussion of Statement of Operations for the Period Ended June 30, 2001. As shown in MHF's financial statements, the net income for the fiscal year ended June 30, 2001, was $6,271,613. The improved performance for the fiscal year ended June 30, 2001 was primarily due to a reduction in the provision for possible insurance and loan losses. Investment earnings for the period ended June 30, 2001, in the amount of $5,632,815 flow directly to reserve fund equity. During the 2001 audit, certain reclassifications have been made to amounts for fiscal years 1999, 2000 and 2001 which do not affect the net income (loss).

Additional Unasserted Claims

As described in "Multi-Family Information – Certain Additional Expected Multi-Family Claims" and "Single Family Information – Certain Additional Expected Single Family Claims", the Administration has notified MHF of defaults under insured mortgages which were expected to result in additional claims to MHF. Payment of these claims is not reflected in MHF’s Statement of Operations; however, MHF included provisions for these claims in its allowance for unpaid insurance losses.

Selected Activity in MHF's Operating Cash Account

The following table is management's presentation of activity in MHF's operating account as it relates to cash. The financial statements contained in Appendix H contain Statements of Cash Flows which are presented in accordance with generally accepted accounting principles using the indirect method.

	06/30/99	06/30/00	06/30/01
Premiums Earned (1)			
Single Family	$ 5,597,369	$ 5,002,978	$4,374,699
Multi-Family	1,915,565	1,821,327	1,634,807
	7,512,934	6,824,305	6,009,506
Operating Expenses Incurred (2)	(3,241,979)	(3,182,540)	(3,305,254)
Premiums Net of Operating Expenses	4,270,955	3,641,765	2,704,252
Claims (3)			
Single Family	(16,226,331)	(16,239,111)	(13,153,177)
Multi-Family	(5,999,336)	(22,048,598)	(929,187)
	(22,225,667)	(38,287,709)	(14,082,364)
Recoveries (4)			
Single Family	9,906,300	9,198,594	7,946,340
Multi-Family	3,265,798	17,199,120	814,607
	13,172,098	26,397,714	8,760,947
Net Claim Activity	(9,053,569)	(11,889,995)	(5,321,417)
Other (5)	(140,066)	273,349	545,187
Net Cash Activity before Transfers from Reserves	(4,922,680)	(7,974,881)	(2,071,978)
Transfers from Reserves for Claim Payments			
Single Family Claims	4,709,265	3,502,912	3,561,160
Multi-Family Claims	-	4,701,261	-
	4,709,265	8,204,173	3,561,160
Net Increase (Decrease) in Cash Operating Account	(213,415)	229,292	1,489,182
CASH OPERATING ACCOUNT, beginning of period	1,498,081	1,284,666	1,513,958
CASH OPERATING ACCOUNT, end of period	$1,284,666	$1,513,958	$3,003,140

1) Premiums earned as stated in the Income Statement. Adjustments to reflect cash collected on premiums are included in "Other".
2) Operating expenses include salaries and benefits, general and administrative, and intradepartmental expenses as reflected in the Income Statement. Adjustments to reflect cash operating expenses are included in "Other".
3) Includes principal, interest and supplemental expenses incurred on claims, and carrying costs on acquired properties. Adjustments to reflect claims paid are included in "Other".
4) Includes proceeds accrued on the sale of loans or acquired properties. Adjustments to reflect recoveries received are included in "Other".
5) Includes changes in other assets and liabilities such as escrows, accounts receivable, unearned premiums, investments and accrued liabilities.

Liquidity

MHF's primary uses of funds are to pay its operating expenses (direct and indirect) and to satisfy multi-family and single family claims under its insurance policies resulting from a loan default (payment or physical) by an insured borrower. In general, MHF's insurance policies require MHF to pay claims to the lender, which include the total principal outstanding, interest in arrears (through foreclosure), and other expenses associated with a failed real estate loan (e.g., foreclosure costs, negative escrows, etc.). MHF generally acquires a loan or property with the payment of the claim. The proceeds of the sale of this asset is deducted from the original claim to derive the net loss (or net gain) associated with the defaulted loan claim.

Besides these proceeds from the sale of assets acquired through the payment of claims, MHF's primary sources of funds result from mortgage insurance premiums paid by the borrowers and investment interest on funds in insurance reserves. In addition to these sources, MHF has the corpus of the reserves to pay insurance claims and related expenses. The available reserves are leveraged against insurance commitments outstanding. Calculations for the leverage ratios are shown in the sections entitled "MULTI-FAMILY INFORMATION – Multi-Family Insurance in Force and Available Reserves" and "SINGLE FAMILY INFORMATION – Single Family Insurance in Force and Available Reserves", for multi-family and single family, respectively.

In order to effectively manage MHF's resources from both a business and liquidity sense, the management of MHF has developed several claims paying strategies. For multi-family defaulted loans, MHF pays debt service claims after a loan has missed a total of six monthly payments. These claim payments represent any unpaid principal and interest due from the regular scheduled payment. While making these monthly payments, MHF, working with the Administration, attempts to workout the loan in order to minimize its loss. When the final workout of the loan is completed, MHF either pays a partial claim or pays the full claim. A workout may be accomplished (a) through refinancing of the loan after re-underwriting the debt to enable the project to meet debt service from net operating income; or (b) through payment of claims and resale of the asset to minimize the total size of the claim. MHF employed the refinancing strategy in refunding seven defaulted multi-family loans during fiscal year 2000.

For single family defaulted loans, MHF generally requires the lender to foreclose on the loan and secure the property before it pays the claim. This affords MHF the ability to begin marketing the property at the same time it has paid out the cash. MHF attempts to resell single family properties in a manner which provides for recoveries as soon as possible while minimizing holding costs. While MHF strives to sell its real estate owned ("REO") to home buyers, its desire to conduct quick turn around sales does necessitate the selling of a significant portion of the REO to investors and non-profit organizations. Selling to investors generally increases the overall net loss on the claim to MHF.

Single Family Information

Single Family Insurance in Force and Available Reserves

The reserves which are available to pay claims for the Single Family Program are the Single Family Regular Program Reserve and the Unallocated Reserve.

MHF had previously elected to divide the Unallocated Reserve into a Restricted Unallocated Reserve and an Unrestricted Unallocated Reserve. Funds in the Restricted Unallocated Reserve were set aside to provide Primary Insurance for Single Family Mortgage Loans purchased by the Administration from available proceeds of Bonds (and to provide Pool Insurance for a limited category of loans). As such Mortgage Loans are actually insured, funds are transferred to the Single Family Regular Program Reserves to provide for them and the corresponding restriction on the Unallocated Reserve is released. MHF further had elected to make provision against the Unrestricted Unallocated Reserve for a portion of MHF's negative retained earnings. Currently, MHF has no restrictions against the reserves.

The following chart sets forth information about the status of the Single Family Regular Program Reserve and the Unallocated Reserve:

Status of the Single Family Program Regular Reserve and the Unallocated Reserve

	06/30/99	06/30/00	06/30/01
Total Single Family Regular Program Reserve	$32,273,875	$32,273,875	$32,273,875
Total Unallocated Reserve	12,849,298	14,583,138	16,654,793
Less: Restricted Unallocated Reserve (1)	(81,878)	-	-
Unrestricted Unallocated Reserve	$12,767,420	$14,583,138	$16,654,793

(1) The Restricted Unallocated Reserve was maintained to provide insurance on Single Family Mortgage Loans that were to be purchased in the future from bond proceeds. Currently, MHF does not maintain this restricted reserve.

The following table sets forth additional information concerning the MHF Single Family Regular Program insurance coverage, reserve requirements and available reserve for the Primary Insurance Program and Pool Insurance Program:

Selected Additional Information About MHF Single Family Regular Program

	06/30/99	06/30/00	06/30/01
Primary Insurance coverage in force (1)	$194,847,497	$170,242,200	$149,750,458
Pool Insurance coverage in force (2)	160,384,837	160,384,837	160,384,837
Single Family Regular Program Reserve (3)(4)	32,273,875	32,273,875	32,273,875
Ratio of Mortgage Loans to the Regular Reserve (5)	11.01 to 1	10.24 to 1	9.61 to 1

(1) The primary insurance coverage is 25% of loans insured under the Single Family Regular Program ($599,001,832 at 06/30/01)

(2) This coverage represents: (a) the 10% stop-loss on pool insurance for mortgage loans financed by certain bonds issued by the City of Baltimore; and (b) the 20% stop-loss on pool insurance provided for mortgages financed by one series of bonds issued by the City of Baltimore. Wisconsin Mortgage Assurance Corporation, formerly Mortgage Guaranty Insurance Corporation ("MGIC"), has provided reinsurance for $43,025,000 of the mortgage loans financed by one series of the Administration's Bonds, and $3,447,500 of mortgages financed by one series of bonds issued by the City of Baltimore. Notwithstanding the reinsurance provided by MGIC, the MHF pool insurance coverage in force also includes coverage for mortgage loans financed by these series.

(3) MHF leverages its reserves 25 to 1 for Primary Insurance coverage and 7 to 1 for Pool Insurance coverage. The Single Family Regular Program Reserve does not include amounts, if any, which have been restricted for possible additional insurance coverage in the Unallocated Reserve.

(4) Fund balances for MHF reserves are calculated in the same manner as in the financial statements of the MHF and include investment income earned and allocated by the Secretary to the Single Family Regular Program Reserve.

(5) The ratio in the table is computed based on the maximum amount of risk rather than the aggregate amount of mortgage loans insured, where the maximum amount of risk is calculated by taking (i) the aggregate amount of pool insurance issued for the Administration and for one series of bonds issued by the City of Baltimore less the amount of reinsurance provided by MGIC and multiplying that remainder by 10%; and then adding to that product (ii) the amount of pool insurance for one series of bonds issued by the City of Baltimore less the amount of reinsurance provided by MGIC and multiplying that remainder by 20%; and then adding to those two products (iii) the maximum amount of risk on loans insured under the Single Family Regular Program (see 1 above), and then dividing the sum of those three amounts by (iv) the amount of the Single Family Regular Program Reserve.

Certain Additional Expected Single Family Claims

Under its single family insurance program, MHF is not obligated to pay claims on single family insurance until after the insured lender has completed foreclosure, evicted the occupants of the properties (if necessary) and restored the property to a condition satisfactory to MHF. As a result, at any time there are a number of mortgages that have been foreclosed and which are likely to result in payment of claims but which have not yet reached the point where MHF recognizes them as liabilities in its financial statements. The total principal amount of such potential claims was $5,759,367 as of June 30, 2001. On a quarterly basis, MHF includes its projection of net losses with respect to these potential claims in its financial statements as part of the allowance for single family insurance losses. Although these amounts are not payable from the Multi-Family Reserve, they are potentially payable from other resources of MHF, including operating cash, the Unrestricted Unallocated Reserve and single family reserves.

Discussion of Single Family Operations

MHF has taken steps to address the potential single family claims. A part of this focus is applying more active loss mitigation strategies to single family loans to prevent them from going to foreclosure, including forbearance and extended repayment plans. In addition, operational audits of loan servicers are ongoing. The audits are intended to insure that loss mitigation strategies are being pursued in applicable cases.

MHF is also managing its sales of units acquired through foreclosure or similar action to improve overall returns. Sales incentives are being offered to increase sales to homebuyers, which historically have yielded higher recoveries than investor sales. Advertising has been increased targeting homebuyers. MHF has a program to improve the cosmetic appearance, and in certain cases the physical condition, of some of its inventory to enhance marketing of the units.

Single Family Claims Experience

The following chart sets forth information about claims on mortgage loans insured under the Single Family Regular Program Reserve, the Revitalization Reserve, and the Home and Energy Loan Reserve. This data includes net claim activity for properties sold during fiscal years ended June 30, 1999, June 30, 2000, and June 30, 2001. The data for all of these reporting periods are subject to adjustment due to additional expenses paid and proceeds received after June 30, 2001.

Single Family Claims Experience

	06/30/99	06/30/00	06/30/01
Recoveries on Sales of Properties Acquired through Claims During the Fiscal Year	$9,651,321	$9,148,462	$8,027,387
Claims Paid on Acquired Properties Sold During the Fiscal Year			
Principal	(14,158,046)	(13,265,343)	(10,422,276)
Interest	(1,110,466)	(1,101,725)	(791,770)
Expenses and Carrying Costs	(2,880,205)	(2,458,419)	(2,056,382)
Total Claims Paid	(18,148,717)	(16,825,487)	(13,270,427)
Net Loss on Acquired Properties Sold During the Fiscal Year	($8,497,396)	($7,677,025)	($5,243,041)

Single Family Insurance Agreement

MHF entered into an insurance agreement dated as of May 14, 1980, with the Administration governing the Single Family Program. The agreement provides as follows:

(1) MHF will not decrease the amount of funds in the Single Family Regular Program Reserve as increased from time to time for any reason except to pay claims and advances against claims arising under the Program and for expenditures with respect to properties acquired by MHF as a result of payment of such claims.

(2) Except as necessary to pay claims and advances on claims and except for expenditures with respect to properties acquired by MHF as a result of payment of such claims, MHF will not permit the ratio of Single Family Regular Insurance to the Single Family Regular Reserve to exceed 25 to 1 and will not issue or commit to issue additional insurance if as a result such leverage ratio would be exceeded.

(3) Except as necessary to pay claims and advances on claims and except for expenditures with respect to properties acquired by MHF as a result of payment of such claims, MHF will not permit the ratio of Single Family Pool Insurance to the Single Family Regular Reserve to exceed 7 to 1 and will not issue or commit to issue additional insurance if as a result such leverage ratio would be exceeded. (For purposes of the calculations in paragraphs (2) and (3), the Single Family Regular Reserve is considered divided into two separate portions. The leverage ratios may be increased under certain circumstances set forth in the Insurance Agreement.)

(4) MHF will take all actions necessary for the qualification of Single Family Program insurance as mortgage insurance from a qualified insurer within the meaning of Section 3.02(6)(2) of the Fannie Mae Charter Act.

Terms of Single Family Insurance Coverage

MHF insures mortgage loans on one-to-four family structures under its Single Family Regular Program, which includes the Primary Insurance Program and the Pool Insurance Program.

Primary Insurance. MHF issues Primary Insurance which covers 20% to 25% of the total claims depending upon initial loan-to-value ratio. For loans of the Administration, the Primary Insurance Program currently covers the top 25%.

Under the current MHF Primary Insurance Program, the items allowed in a claim include, to the extent actually incurred by the insured lender: (1) the principal balance due; (2) mortgage interest through the date of foreclosure sale, transfer of title by deed in lieu of foreclosure, sale to a third party, or assignment to MHF; (3) any expenses of foreclosure or title acquisition, including reasonable attorney's fees of up to 3% of the principal and interest as above; (4) property taxes paid and hazard insurance premiums paid; (5) other expenses necessarily incurred by the insured in the preservation of the mortgaged property, *less* (a) amounts received by the insured lender on account of the mortgage after the institution of foreclosure proceedings or the acquisition of the mortgaged property by direct conveyance or otherwise by default, (b) all amounts received by the insured lender from any source relating to the mortgaged property on account of rent or other income after deducting reasonable expenses incurred in handling the mortgaged property and (c) all cash retained by the insured lender, including amounts held or deposited for the account of the mortgagor or to which he is entitled under the mortgage transaction that have been applied in reduction of the principal of the mortgage indebtedness or otherwise expended.

Coverage by MHF does not include loss due to casualty, condemnation or title risk. Expenses incurred for property repair resulting from insurable causes, accidental or otherwise, such as negligence, flood, fire, termites, vandalism, defective construction, and undisclosed pre-existing conditions of environmental contamination are not eligible for claim computation and are distinguished from expenses incurred in the preservation and normal maintenance of the property.

Termination. MHF Regulations provide that mortgage insurance may be terminated if: (1) the lender requests cancellation; (2) a claim is satisfied; (3) the mortgage is paid off; (4) a renewal premium is not paid by the mortgagee after its receipt of final notice from the MHF; or (5) the mortgage terms are modified without MHF approval.

Pool Insurance. MHF issued a pool insurance policy endorsement to the Administration at the time of delivery of each series of Single Family Program Bonds issued under the Administration's Single Family Program Bond General Certificate (prior to 1997). The endorsement covered the total amount of lendable proceeds generated with respect to the series. MHF reserved funds in its Single Family Regular Reserve (in accordance with the applicable leverage ratio) and does not reduce the amount reserved as mortgages amortize. Coverage continues so long as any bonds of the series, or bonds issued to refund such bonds, remain outstanding. For each applicable series of bonds, MHF computed a stop loss equal to 10% (or in a few cases 20%) of the amount of proceeds of the series of bonds. The obligation of MHF to pay losses is subject to a loss limit aggregating the total stop loss amounts for the policy.

Items allowed in a Pool Insurance claim include (1) the unpaid principal balance at the time of an approved sale; (2) the delinquent interest to the date of claim payment at the rate of interest of the mortgage loan (but excluding applicable late charges and penalty interest); and (3) advances made by the insured for hazard insurance premiums, real property taxes, certain property expenses, foreclosure costs and reasonable attorneys' fees, *less* the net proceeds of an approved sale of the property and any payment received by the insured under a policy of primary mortgage insurance or which the insured would be entitled to receive assuming due performance by the primary insurer and full compliance with the terms and conditions of the primary policy by the insured. Coverage under the Pool Insurance Program does not include loss due to casualty, condemnation or title risk. Expenses incurred by the insured for property restoration necessitated by any physical loss or damage to the property from any cause, accidental or otherwise, are not eligible for claim computation.

Payment of Claims. MHF pays all claims under the Primary Insurance Program in cash. MHF may select one of four options in settling Primary Insurance claims:

(1) Loan Assignment - MHF takes an assignment of the mortgage and pays the claim (but not including expenses of foreclosure and acquisition of title);

(2) Fixed Percentage Settlement - claim settlement under this option is applicable when MHF provides only primary mortgage insurance for the loan and provides for payment based on a declared percentage of the total claim and MHF, under this method, also waives any interest in the subject property;

(3) Lender Acquisition Settlement - the lender acquires title at foreclosure (or by deed in lieu of foreclosure) and transfers title to MHF, and (a) if MHF is both the primary and the pool insurer, MHF pays the full amount of the claim, or (b) if MHF is the primary insurer only, MHF pays the amount of the claim up to the percentage specified in the primary policy; and

(4) Third Party Acquisition - when the property is sold to a third party (at foreclosure, by the lender after taking a deed in lieu of foreclosure, or by the borrower after the commencement of foreclosure proceedings, with the approval of MHF), MHF pays as follows: (a) if MHF is both the primary and the pool insurer, the full amount of the claim *less* net proceeds of sale, or (b) if MHF is the primary insurer only, the lesser of the percentage specified in the primary policy before crediting net sales proceeds or the full claim after crediting net proceeds of sale.

For claims paid under the Lender Acquisition Settlement method, MHF requires the Administration to take all steps required after default in order to deliver the property to MHF in condition satisfactory to MHF. These steps may include foreclosure, eviction of the occupants if necessary, and cleaning of the property. As a result, a substantial period of time may elapse between the time an insured loan goes into default and payment of a claim. MHF Regulations regarding single family mortgage insurance presently do not require MHF to pay interest on a claim from the time an insured lender acquires title to the property, or from the date MHF agrees to take a Loan Assignment or make a Fixed Percentage Settlement, to the time the claim is paid. Claims are not paid until after the title to the property has been conveyed, which is at least 60 days after default and could be longer. MHF will review cases that involve claims of more than nine months of delinquent interest on a case by case basis to ascertain the cause for the delayed claim and determine the amount of interest, if any, in excess of nine months to be paid. Interest will be paid in excess of nine months where circumstances beyond the control of the insured lender caused the delay in making the claim, such as the filing of bankruptcy by the mortgagor.

MHF pays all claims under the Pool Insurance Program in cash. MHF determines the loss payable on a claim as described above, and may specify alternate methods of settlement which are consistent with full recovery under the primary mortgage insurance, if any, with respect to a mortgage loan. Under any method, the coverage results in payment of the full loss as computed above, subject, however, to the aggregate loss limits specified in the Pool Insurance Policy.

Multi-Family Information

Multi-Family Insurance in Force and Available Reserves

The following table sets forth information about outstanding insurance on mortgage loans under MHF's multi-family program as of June 30, 2001. The amounts shown are net of debt service claim payments. The amounts shown do not include insurance on mortgage loans insured by MHF and reinsured by FHLMC. See "The FHLMC Reinsurance Agreement". The reinsured mortgage loans had an aggregate principal balance at June 30, 2001, of $57,440,682.

In addition to the loans listed below, as of June 30, 2001, 32 single family loans financed with the proceeds of Housing Revenue Bonds of the Administration, with outstanding principal balances in the aggregate amount of $866,461, are insured under the multi-family reserves.

Outstanding Multi-Family Insurance as of June 30, 2001

LOAN CATEGORY	Loans with Outstanding Insurance	Original Insured Principal Amount	Outstanding Insured Principal Amount
Housing Revenue Bonds of the Administration (1)			
Multi-Family Projects	28	$66,434,769	$51,912,555
Other	21	1,986,373	1,827,869
Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) of the Administration (2)			
Multi-Family Projects	51	170,137,391	158,896,609
Other	97	9,179,748	8,131,944
HELP Program (3)	3	2,871,225	1,738,799
Housing Opportunities Commission of Montgomery County (4)	7	34,347,183	32,008,802
Prince George's County (5)	1	601,100	469,769
Other Financial Institutions (6)	2	8,599,079	6,654,720
TOTAL	210	$294,156,868	$261,641,067

(1) Loans financed with proceeds of the Administration's Housing Revenue Bonds. The Loans provided permanent financing or construction and permanent financing for developments located in 12 counties and the City of Baltimore. These Developments (not including group homes) contain 2,621 units of which 1,041 units in 14 Developments are assisted under the Section 8 Program. The 21 projects in the "Other" category represent group home loans under $250,000.

(2) Loans financed with proceeds of the Administration's Multi-Family Housing Revenue Bonds (Insured Mortgage Loans). The Loans provided permanent financing or construction and permanent financing for developments located in 15 counties and the City of Baltimore. The Developments contain 5,454 units (including as a unit each person served by Group Homes) of which 667 units in 10 Developments are assisted under the Section 8 Program. The mortgage loans were initially endorsed for insurance between 1982 and December 31, 1997. The 51 Multi-Family Projects include group home loans over $250,000; the 97 projects in the "Other" category are group home loans under $250,000.

(3) Loans financed with proceeds of the Administration's Home and Energy Loan Bonds. The mortgage loans provided energy conservation and rehabilitation financing for developments located in two counties and the City of Baltimore. The developments contain 1,138 units. The mortgage loans were initially endorsed for insurance between 1984 and 1989.

(4) Insurance issued to the Housing Opportunities Commission of Montgomery County ("HOC") to insure loans financed with proceeds of bonds issued by HOC. The mortgage loans provided financing for developments containing 882 units. The mortgage loans were initially endorsed for insurance between 1980 and 1996.

(5) Insurance issued to Prince George's County to insure one mortgage loan providing financing for a development containing 11 units. The loan was initially endorsed for insurance in 1981.

(6) Insurance issued to a private financial institution to insure two mortgage loans providing financing for two developments containing 501 units. One mortgage loan was initially endorsed for insurance in 1994 in the amount of $4,000,000, and one mortgage loan was initially endorsed for insurance in 1993 in the amount of $4,599,079.

Charts detailing the multi-family loans insured by MHF and financed by the Administration may be found in the Administration's filings in accordance with Rule 15c2-12 of the Securities and Exchange Commission with the nationally recognized municipal securities information repositories ("NRMSIRS") for Housing Revenue Bonds and for Multi-Family Housing Revenue Bonds (Insured Mortgage Loans).

MHF's Multi-Family Reserve is available to pay multi-family insurance claims. In addition, to the extent available, MHF could elect to pay all or part of any multi-family claim from the Unallocated Reserve (other than certain portions thereof which MHF has chosen to restrict for single family purposes) or from operating funds. MHF maintains other reserves which are not available to pay such claims (*i.e.,* the Single Family, Revitalization, and Home and Energy Loan, and Restricted Unallocated Reserves).

Selected Information About the Multi-Family Reserve

	06/30/99	06/30/00	06/30/01
Total Multi-Family Reserve	$ 49,400,000	$ 44,698,739	$44,698,739
Amount Available for Calculation of "Ratio of Insurance to Available Reserve" (see text below)	35,496,690	36,627,918	42,899,531
Insurance Outstanding			
Multi-Family mortgage insurance in force	307,029,817	279,990,189	261,641,067
Multi-Family mortgage insurance committed (1)	-	412,507	-
Single family mortgage loans insured under the Multi-Family Reserve	1,290,554	1,099,029	866,461
TOTAL	$308,329,371	$281,501,725	$262,507,528
Ratio of Insurance to Available Reserve	8.69 to 1	7.69 to 1	6.12 to 1

(1) In connection with the refinancing for the Bolton House Apartment loan under the FHA Risk-Sharing Program, mortgage insurance has been committed and will be fully in force once construction is complete and the full loan amount has been disbursed to the borrower. See "Discussion of Multi-Family Operations – *Refinancings During Fiscal Year 2000*" below.

The total amount of the Multi-Family Reserve is available to pay claims. However, in calculating the amount available for calculation of the ratio of insurance to reserves as shown in the chart above, MHF reduces the amount of the Multi-Family Reserve by all or a portion of MHF's Unreserved Fund Deficit in order to comply with an existing insurance agreement between MHF and the Administration (the "Insurance Agreement"). (For a description of MHF's Unreserved Fund Deficit, see "FINANCIAL STATEMENTS AND INFORMATION – Selected Balance Sheet Information".) See "The Insurance Agreement and the Multi-Family Reserve" below. As of June 30, 1999, the Multi-Family Reserve was reduced by allocating $13,903,310 of the $26,670,730 Unreserved Fund Deficit to the Multi-Family Reserve. As of June 30, 2000, the Multi-Family Reserve was reduced by allocating $8,070,821 of the $22,653,959 Unreserved Fund Deficit to the Multi-Family Reserve. As of June 30, 2001, the Multi-Family Reserve was reduced by allocating $1,799,208 of the $18,454,001 Unreserved Fund Deficit to the Multi-Family Reserve.

The ratio described in the chart above at June 30, 1999, June 30, 2000, and June 30, 2001, was affected by two one-time events: (i) release of certain additional insurance, in the amount of $7,408,301 as of June 30, 1997, formerly payable from the reserve, and (ii) release of $4,300,000 from MHF's Revitalization Reserve to MHF's Unallocated Reserve as a result of over-funding of the Revitalization Reserve, which transfer had the effect of reducing the portion of MHF's negative Unreserved Fund Deficit which is offset against the Multi-Family Reserve for purposes of calculating the ratio as described above. But for these two events, as of June 30, 1999, the ratio would have been 10.12 to 1 instead of 8.69 to 1; as of June 30, 2000, the ratio would have been 8.94 to 1 instead of 7.69 to 1; and as of June 30, 2001, the ratio would have been 6.99 to 1 instead of 6.12 to 1.

Under the Insurance Agreement, MHF has contracted with the Administration that, except as necessary to pay claims or advances on claims, MHF will not permit the ratio of multi-family insurance to assets in the Multi-Family Reserve (reduced as described above) to exceed 10 to 1, and that MHF will not issue new insurance payable from the Multi-Family Reserve if upon such issuance the ratio would exceed

10 to 1. As described previously, MHF already has ceased issuing new commitments for multi-family insurance.

Certain Additional Multi-Family Claims

As of June 30, 2001, the Administration had notified MHF of defaults on nine multi-family mortgage loans involving eight developments insured under MHF's Multi-Family Reserves, each of which had an amount due, net of late charges, equal to at least two full monthly principal and interest payments. The arrearages described in the chart below are as of June 30, 2001, and thus are with respect to payments due through June 30, 2001. From time to time other mortgage loans will be in arrears in minor amounts, primarily due to late payments. There can be no assurance that other defaults will not occur.

Expected Claims for Multi-Family Loans in Financial Default as of June 30, 2001

Loan	Scheduled Principal Balance as of 06/30/01	Principal Arrearage	Unpaid Principal Balance as of 06/30/01	Interest Arrearage	MHF Pre-Claim Payments as of 06/30/01	Unasserted Claims as of 06/30/01	Represents Cumulative Shortfalls of Payments Due for Period Beginning:
Bay Street	$ 1,111,344	$ 71,234	$ 1,182,578	$ -	$ (71,234)	$ 1,111,344	08/1997
Calvert Heights	663,207	7,633	670,840	8,139	-	678,979	04/2001
North Avenue	1,149,707	33,558	1,183,265	6,576	(40,134)	1,149,707	08/1999
Robinwood (1)	2,379,386	72,373	2,451,759	321,630	(317,369)	2,456,020	09/1999
Various group home loans (2)	297,801	4,486	302,287	19,224	(21,173)	300,338	07/2000
Total	$ 5,601,446	$ 189,284	$ 5,790,729	$ 355,568	$ (449,910)	$ 5,696,388	

(1) Two loans.
(2) Four loans. Based on its assessment of the underlying collateral, MHF does not anticipate any material losses in connection with these loans. Therefore, no specific allowance has been established for the various group home loans.

MHF Regulations provide that after a mortgage loan insured by MHF has been in default for six months, the Administration or any other public agency that is an insured lender may require that the mortgage loan be assigned to MHF and an insurance claim paid by MHF to the Administration or such public agency. Pursuant to the MHF Regulations, MHF has made periodic payments of principal and interest due under the terms of each mortgage loan. See "Debt Service Claims" below.

As of June 30, 2001, the total amount payable with respect to these unasserted claims, net of debt service claim payments made by MHF was $5,696,388. If the Administration were to assert full claims with respect to all such mortgage loans, MHF would be required to pay this amount in full. Funds available for this purpose would include the Multi-Family Reserve, the Unallocated Reserve and operating funds. MHF includes in its financial statements an allowance for its net loss on certain projects after payment of a claim and sale or other disposition of the project by MHF; as of June 30, 2001, MHF's allowance for losses for the projects financed by these loans was $2,381,000 n the aggregate. (No specific allowance has been established for the group home loans.) The allowance for losses is an estimate, and the actual loss may be greater or less than the projected amount. In the case of some projects, the allowance is based upon an estimated recovery from disposition of collateral; the timing and amount of such recovery will depend on certain factors outside of MHF's control, including without limitation, potential bidders, interest rates, availability of financing, demographics, and general economic factors. For purposes of presentation in the MHF financial statements, the allowance is split between two accounts: (1) the allowance for loan losses in the amount of pre-claim debt service payments, and (2) the allowance for unpaid multi-family insurance losses.

In addition, two mortgage loans for affiliated projects known as Woods of Marlton I and Woods of Marlton II have outstanding principal balances $12,417,003 and $6,472,282, respectively. From June, 1996 through June 30, 2001, the Administration made payments to cover loan arrearages on these loans in the aggregate amount of $1,960,303 from a cash collateral account and a working capital account held by the Administration. The working capital account was funded at initial closing. The cash collateral account was funded at initial closing and supplemented with syndication proceeds. The Administration has advised MHF that default may occur on these loans if the collateral accounts become depleted. MHF includes a provision with respect to each project in the allowance for unpaid insurance losses. As of June 30, 2001, $314,753 remained in the cash collateral account, and is being supplemented with additional syndication proceeds, with a $125,000 payment for Woods of Marlton II received on September 6, 2001. Additional funds are expected early in 2002 and 2003.

Another project, Woodbourne Center Project with an outstanding balance of $748,871 as of June 30, 2001, is not in financial default. However, the borrower, Woodbourne Centers, Inc., filed Chapter 11 bankruptcy on June 23, 2000. Furthermore, the Patterson Commons Project, which is not in default, leases all of its units to Woodbourne Center, Inc.

Discussion of Multi-Family Operations

Portfolio Risk Rating. Since June, 1997, the Department has developed and implemented a rating system for the MHF-insured multi-family portfolio. The Division evaluates each insured project each quarter and assigns the loan a rating of "A", "B" or "C". Factors considered in evaluating projects include the project type, the vacancy level, net operating income and debt service coverage ratio, whether the mortgage is delinquent, the age of the loan and the age of the project, whether there is significant deferred maintenance, adequacy of funds held in reserve for replacements in relation to age and condition of project, rating by the Division in its annual management review, and stability of the market surrounding the property

"A" Projects are those projects which require no more than standard attention because no factors indicate the prospect of a default.

"B" Projects are those projects which are not in default but require more oversight and monitoring and present the possibility for default if existing conditions deteriorate further.

"C" Projects are those projects which are in financial or physical default.

MHF's Risk Rating of the Multi-Family Projects as of June 30, 2001

	Current Principal Balances	Percentage of Total Principal	Number of Loans	Number of Projects
"A" Loans:	$147,261,812 (1)	56.28%	40	37
"B" Loans:	89,832,704	34.33%	44	41
"C" Loans:	24,546,551	9.38%	8	7
Portfolio Totals:	$261,641,067	100.00%	92	85

(1) Included in the "A" Loans, in the "Current Principal Balance" column, is $9,959,813 for 118 small group home loans (under $250,000) which are not reflected in the "Number of Loans" or "Number of Projects" columns.

Portfolio Management. The Division is working on disposition or restructuring of the Loans in the "C" category to minimize the financial impact on MHF while giving consideration to the Department's commitment for affordable housing. Strategies for dealing with "C" loans may include loan sales, foreclosures, or workouts and refinancings.

The Division is evaluating each of the Loans in the "B" category to develop a plan for stabilizing the loans and reducing its potential for default. Strategies may include loan modification, use of additional resources, adjustments to funding of reserves for replacement going forward, and replacement of management agents.

Refinancings During Fiscal Year 2000. In two bond financings since September 30, 1999, the Administration refinanced five defaulted projects (for a total of seven loans), and MHF paid claims for the amounts due net of the amounts refinanced. On November 10, 1999, the Administration used a portion of the proceeds of its Housing Revenue Bonds, Series 1999 B to refinance Eastdale Apartments and Villages of Laurel. MHF continues to insure those two loans and has re-underwritten each project. On November 18, 1999, the Administration refinanced Westfield Gardens, Westfield Apartments and Apartments at the Greens through the issuance of its Multifamily Development Revenue Refunding Bonds (Westfield/Greens Projects) Series 1999 C. Credit enhancement for that bond financing was provided by Fannie Mae, and MHF no longer insures the related mortgage loans.

In each such financing, a portion of the debt on the respective projects was refinanced through the Administration's bond issuance. MHF paid a claim to the Administration for the difference between the amount refinanced and the total due on the outstanding Loans. See "Multi-Family Claims Experience" below for information on the amounts paid.

In addition, the Administration used $8,525,000 of proceeds from its 1999 Housing Revenue Bonds Series D to refinance an existing loan balance of approximately $5,491,661 for Bolton House Apartments, as a result of which certain prior bonds were redeemed. The original loan was insured by MHF. The Bolton House loan financed by 1999 Housing Revenue Bonds Series D is insured by FHA under the risk-sharing program described in the Official Statement for 1999 Housing Revenue Bonds Series D in Appendix F "THE FHA INSURANCE PROGRAM – FHA Risk-Sharing Program". Under the Administration's risk-sharing agreement with FHA, the Administration would be required to reimburse FHA for 50% of any insurance claim paid on the project. MHF, in turn, would reimburse the Administration for the Administration's share of any such loss.

Furthermore, the mortgage loan for Stewarttown Apartments was sold by the Administration for $2,150,000. MHF paid to the Administration a claim equal to the difference between the sale price and the outstanding principal balance plus any accrued and unpaid interest.

Multi-Family Claims Experience

The following chart describes claims paid by MHF on loans insured under the Multi-Family Reserve as of June 30, 2001.

In the column entitled "Claims Net of Cash Recoveries", the figures show the result as of June 30, 2001. Workouts are in progress. See the individual footnotes below for further information.

MULTI-FAMILY CLAIMS PAID BY MHF

As of June 30, 2001

Development/Claim Status	Principal	Interest and Carrying Costs	Total	Recoveries	Claims Net of Cash Recoveries	Date Claim Paid
Closed Claims						
Single Family Mortgage Loans [1]	$ 309,392	$ -	$ 309,392	$ 346,620	$ 37,228	Various
Beethoven Apartments	40,000	-	40,000	40,000	-	
Douglynne Woods and Rhoda's Legacy	566,658	-	566,658	566,658	-	04/1982
Bond Street [2]	543,940	71,711	615,651	408,859	(206,792)	08/1989
Belleview-Manchester [3]	288,333	-	288,333	-	(288,333)	10/1990
Strathdale Manor Apartments [4]	10,700,000	2,376,830	13,076,830	-	(13,076,830)	05/1994
Walker Mill [5]	3,346,441	1,229,080	4,575,521	2,314,817	(2,260,704)	01/1997
Edmondale [6]	457,739	24,206	481,945	-	(481,945)	04/1997
Town Properties [7]	819,111	12,493	831,604	582,989	(248,615)	07/1997
Loch Raven [8]	12,103,623	1,065,472	13,169,095	9,080,444	(4,088,651)	02/1998
Village Home Apartments [9]	954,202	55,182	1,009,384	649,523	(359,861)	12/1998
Regent Apartments [10]	1,227,455	72,446	1,299,901	860,603	(439,298)	01/1999
Maple Avenue [11]	3,053,892	211,540	3,265,432	1,748,397	(1,517,035)	06/1999
Westfield Apartments [12]	4,401,438	390,924	4,792,362	2,910,539	(1,881,823)	11/1999
Westfield Gardens [13]	496,757	1,735	498,492	279,435	(219,057)	11/1999
Apartments at the Greens [14]	6,337,284	21,927	6,359,211	6,010,026	(349,185)	11/1999
Stewarttown [15]	2,543,590	-	2,543,590	2,150,000	(393,590)	12/1999
Telephone Apartments [16]	1,030,275	33,569	1,063,844	773,833	(290,011)	01/2001
Claims where debt is outstanding						
Renaissance Plaza [17]	$6,907,349	$4,680,554	$11,587,903	$3,892,249	($7,695,654)	2/1991
Mount Pleasant [18]	3,506,595	601,296	4,107,891	3,829,748	(278,143)	2/1996
Villages of Laurel [19]	5,036,854	607,133	5,643,987	3,306,831	(2,337,156)	11/1999
Eastdale [20]	3,302,667	320,060	3,622,727	2,603,392	(1,019,335)	11/1999
Group Home Loans [21]	470,680	20,361	491,041	-	(491,041)	3/2001
Claims where REO is held						
Belle Haven Apts [22]	$5,856,640	$2,448,280	$8,304,920	$732,790	($7,572,130)	6/1996
Market Mews [23]	1,700,014	1,540,728	3,240,742	1,686,302	($1,554,440)	12/1985
Hollins Townhouses [24]	2,445,475	927,962	3,373,437	1,176,240	(2,197,197)	10/1990
Lease-Purchase [25]	1,534,088	75,782	1,609,870	257,535	(1,352,335)	5/1996

(1) Claims on eight single family loans insured under the multi-family reserve before 1980.

(2) Deed of trust note in the original principal amount of $543,940.

(3) Construction Loan under Administration's HELP Program. Secured by a second mortgage. First insured lender bought property at the foreclosure sale.

(4) Deed of trust note in the original principal amount of $14,285,000. Claim amount paid by MHF included $10,700,000 of original principal on the Note, and $145,139 in interest. MHF paid $2,205,204 of operating deficits for the project. The proceeds of a letter of credit in the amount of $3,585,000 provided by Maryland National Bank were used to cover the rest of the original principal portion of the Note. As required by an intercreditor agreement between MHF and Maryland National Bank, MHF filed for foreclosure on August 4, 1994 and after prolonged negotiations with Baltimore City, the project developer, and other developers interested in further renovating the project proved unsuccessful, the property was sold to Baltimore City at foreclosure on April 15, 1997. The property was sold for an amount that was insufficient to provide any recovery to MHF.

(5) Deed of trust note in the original principal amount of $4,400,000, as modified by an allonge dated November 5, 1987, reducing the principal amount of the note to $3,400,000. The deed of trust note was sold and assigned to an unrelated third party purchaser on February 6, 1997.

(6) Deed of trust note in the original principal amount of $508,000.

(7) Deed of trust note in the original principal amount of $884,984. The property was sold to an unrelated third party at foreclosure on August 7, 1997.

(8) Deed of trust and two deed of trust notes in the original principal amounts, as amended, of $9,765,000 and $2,785,000, respectively. In return, the Administration accepted a demand note from MHF in the principal amount of $11,782,615, the amount of the outstanding indebtedness net of the non-refundable deposit for the sale of the deed of trust notes bearing interest at 8.25%. The deed of trust notes were sold and assigned to an affiliate of the borrower on February 3, 1998. MHF received net sale proceeds in the amount of $8,900,000, which were combined with additional claim payments totaling $2,890,216 to repay the claim note and accrued interest. The net loss on the transaction was paid from the Unallocated Reserve.

(9) Deed of trust note in the original principal amount of $986,856, dated September 30,1993. The property was sold for $640,000. The Administration accepted a claim note from MHF for $1,009,109. MHF paid $318,664 plus $50,720 paid previously as pre-claim payments, and $275 per diem interest and signed over the proceeds to repay the claim note in December 1999.

(10) Deed of trust note in the original principal amount of $1,255,000, dated September 16, 1994. The property was sold for $860,603. The Administration accepted a claim note from MHF for $1,299,265. MHF paid $383,187 plus $55,475 paid previously as pre-claim payments and $636 per diem interest and signed over the proceeds to repay the claim note in January 1999.

(11) Deed of trust note in the original principal amount of $3,150,000, dated March 12, 1992. The property was sold for $1,700,000 less settlement charges. The Administration accepted a claim note from MHF for $2,953,878. MHF paid $1,288,286 plus $310,294 paid previously as pre-claim payments, $1,259 per diem interest, signed over the proceeds and with $10,000 received directly by the Administration repaid the claim note in June 1999.

(12) Deed of trust note in the original principal amount of $4,600,000, dated April 12, 1983. The property was sold for $2,910,539. MHF paid a partial claim in the amount of $1,433,520 which includes $390,924 of accrued interest, plus $448,303 paid previously as pre-claim payments.

(13) Deed of trust notes in the original principal amounts of $498,908 and $28,150, dated September 21, 1983. The property was sold for $279,435. MHF paid a partial claim in the amount of $180,318, which includes $1,735 of accrued interest, plus $38,739 paid previously as pre-claim payments.

(14) Deed of trust notes in the original principal amounts of $6,348,627 and $341,850, dated April 21, 1983. The property was sold for $6,010,026. MHF paid a partial claim in the amount of $302,222, which includes $21,927 of accrued interest, plus $46,963 paid previously as pre-claim payments.

(15) Deed of trust note in the original principal amount of $3,136,100, dated July 18, 1975. The property was sold for $2,150,000. MHF paid a partial claim payment in the amount of $393,590.

(16) In May 1993, MHF paid a partial claim, in the amount of $291,487 for which a promissory note has been received. On February 8, 2001, MHF sold the Deed of Trust. The proceeds of the sale exceeded the claim paid to the Administration by MHF by $1,477. The partial claim of $291,487 will not be repaid. MHF had an allowance for loan loss for the full amount of this note.

(17) Deed of trust note in the original principal amount of $7,000,000. MHF paid all amounts in arrears totaling $428,052 in February 1991. In connection with the default, MHF also paid additional principal of $6,880,050, interest totaling $1,498,664, and operating deficits in the amount of $2,781,137. The Renaissance Plaza project, which consists of three buildings, has been sold pursuant to the orders of a judicial receivership. Closing on the sale of one building occurred on December 30, 1993. MHF received two notes in payment of the purchase price: a first lien mortgage in the amount of $2,722,544 at 6.22% interest, $365,000 of which is an amortizing loan, the balance to be paid out of cash flow, if any, from the properties; and a second lien gap note in the amount of $512,404 at 0% interest until maturity. The gap note was paid in full at the closing of financing for rehabilitation of the building on February 18, 1994. The closing of the other two buildings occurred on December 14, 1994. MHF received three notes in payment of the purchase price for the two buildings: a first lien mortgage in the amount of $2,600,000 at 7.4% interest to begin amortizing on January 1, 1997; a second lien mortgage in the amount of $4,450,000 at 8.23% interest to be paid out of cash flow, if any, from the properties; and a third lien gap note in the amount of $500,000 at 0% interest until maturity (April 13, 1995), and a default rate of 7.4% interest. The gap note was paid in full at the closing of financing for rehabilitation of the two buildings on February 14, 1995. The $2,600,000 deed of trust note was sold at par and assigned to the Administration on September 24, 1996, in connection with an issuance of bonds by the Administration.

(18) In February, 1996, MHF accepted assignment of a Deed of Trust and Deed of Trust Note in the original principal amount of $3,900,000. MHF paid a claim for the project in the amount of $4,107,891 on February 15, 1996. The property was sold to new ownership who planned to rehabilitate the project using a combination of new equity funds and State and City of Baltimore financing in combination with proceeds of the CDA Multi-Family 1995 December Bond Issue in the amount of $2,550,000. New CDA and MHF loan documents were executed in conjunction with a loan closing in July, 1996. MHF received a Deed of Trust Note in the amount of $1,087,259 of which $293,770 is an amortizing 0% interest loan, and the balance is a cash flow loan with interest accruing at 2% per annum. MHF received partial recovery of $2,450,000 at the time of closing and $1,066,720 in September, 1996. Reserves for construction contingencies and various operating expenses, in the amount of $460,305, were funded from the recovery proceeds. In June, 1998, a construction reserve held by MHF in the amount of $198,000 and cost certification savings received from CDA in the amount of $100,513 were applied to reduce the outstanding principal balance of the Deed of Trust note held by MHF.

(19) Deed of trust note in the original amount of $5,140,000. The loan was refunded with $3,173,200 in new bond proceeds, a partial claim payment from MHF in the amount of $1,645,098 and pre-claim payments paid by MHF in the amount of $825,689. MHF received cash of $54,023 and a cash flow note in the amount of $2,416,765, equal to the net claim paid. The MHF Note is secured by a second deed of trust lien on the land and improvements on which the project is located. To date the project has made payments on the MHF Note of $79,609.

(20) Deed of trust note in the original amount of $3,401,000. The loan was refunded with $2,450,000 in new bond proceeds, a partial claim payment from MHF in the amount of $746,513 and pre-claim payments made by MHF in the amount of $426,214. MHF received cash of $54,324 and a cash flow note in the amount of $1,118,403, equal to the net claim paid. The MHF Note is secured by a second deed of trust lien on the land and improvements on which the project is located. To date the project has made payments on the MHF Note of $99,067.

(21) Five deed of trust notes totaling $502,950 of original principal for various Group Home loans. MHF has paid a full claim on these five loans in the amount of $491,041. MHF anticipates full recovery on three of these loans by virtue of MHF purchasing at foreclosure the properties securing these loans on June 7, 2001. MHF anticipates full recovery on the fourth loan by virtue of a third party purchasing at foreclosure on June 7, 2001 the property securing the loan for an amount sufficient to pay MHF in full. MHF anticipates a loss of $40,000 on the fifth loan by virtue of a third party purchasing at foreclosure on June 7, 2001 the property securing the loan for an amount not sufficient to pay MHF in full. The foreclosure sales are subject to ratification by the court.

(22) In June, 1996, MHF accepted assignment of a Deed of Trust and Deed of Trust Note in the original amount of $6,186,990. MHF paid a claim in full for the project in the amount of $7,995,330 on June 26, 1996. MHF anticipates partial recovery of this amount upon disposition of the underlying collateral. The property was brought-in by MHF with a bid of $5,100,000 at a foreclosure auction held on July 25, 2000. The Circuit Court of Prince George's County ratified the foreclosure sale on January 25, 2001. A contract for the sale of the property was executed on February 7, 2001, and sold on August 30,2001 in the amount of $5,100,00.

(23) Deed of trust note in the original principal amount of $1,700,000. MHF paid all amounts in arrears totaling $151,733. Administration accepted a promissory note from MHF in the total principal amount of $1,693,568, with interest at the annual rate of 7%, which had a maturity date of December 31, 1995. MHF paid the claim note in full as of February 22, 1995. To date, MHF has paid principal and interest on the claim note and operating deficits in the total amount of $3,240,742 . MHF foreclosed on this development in an uncontested foreclosure proceeding held on July 14, 1995. Seven units have since been sold.

(24) Deed of trust note in the original principal amount of $2,300,000. MHF paid all amounts in arrears totaling $176,025, and the Administration accepted a promissory note from MHF in the total principal amount of $2,427,094, with interest at the annual rate of 7%, which had a maturity date of December 31, 1995. MHF paid the claim note in full as of February 22, 1995. To date, MHF has paid principal and interest on the claim note and operating deficits in the total amount of $3,373,437. MHF foreclosed on this development in an uncontested foreclosure proceeding held on July 14, 1995. Three of the units were sold to third party purchasers at the time of the foreclosure sale. Two additional units have been sold and the majority of the remaining units are occupied by tenants under Section 8 contracts.

(25) Deed of trust note in the original principal amount of $2,000,000. MHF anticipates partial recovery of this amount upon disposition of the underlying collateral. MHF accepted a deed in lieu of foreclosure on July 12, 1996. Five units have been sold and the majority of the remaining units are occupied by tenants, some of whom are candidates to purchase their properties.

Actuarial Studies

The Insurance Agreement requires MHF to undertake periodic actuarial studies. PricewaterhouseCoopers submitted a study of the Multi-Family Reserves and multi-family operations on January 6, 1994. The study used various economic assumptions and projections of future MHF activity based on prior claims experience and endorsement activity of MHF. The study projected that MHF's then current resources, together with future premiums, would be sufficient to cover administrative costs and losses for insurance currently in force. However, the study projected that MHF's premium income alone might be insufficient to cover losses and administrative costs without using funds in the reserves. The study also concluded that MHF might not be able to continue writing new insurance for multi-family loans without an increase in available resources through an infusion of capital, a reduction in level of endorsements, reduction in the size of the existing portfolio, or an increase in premiums.

PricewaterhouseCoopers submitted an additional study on October 14, 1998. The study calculated the actuarial present values of future MHF cash flows using six different sets of assumptions. In each of these scenarios, PricewaterhouseCoopers elected to use FHA's reported multi-family claim and prepayment experience for the FHA 221(d)(4) program. The discount rate applied was 8.70%.

The baseline scenario assumed FHA claim and prepayment rates, a loss rate on claims of 45%, a two-year period between claim payment and recovery on collateral, and administrative expenses of 0.33%.

Additional scenarios provided sensitivity analysis by modifying the baseline assumptions as follows:

- Rate of claims of 200% of FHA experience;
- A rate of prepayment at 200% of FHA experience;
- A loss rate of 65% instead of 45%;
- A recovery lag of three years instead of two; and
- A rate of claims at 200% and a loss rate of 65%.

In each scenario, the actuarial value of future cash flows due solely to multi-family operations was negative, indicating premiums insufficient to cover risks under the assumptions tasked. However, the study concluded that the cohort of insured loans supported by project-based Section 8 payments (approximately 25% of the portfolio) had a positive value on this basis, indicating that premium income would cover risk with respect to that cohort in all scenarios with the exception of those involving double the baseline level of claims. The study's findings of the actuarial value of multi-family operations combined with capital reserves (i.e. earnings from the Multi-Family Reserve assuming a 5.35% investment yield) are summarized in the following chart:

Fund Economic Values and Capital Ratios
($ Millions)

Scenario	Present Value of Future Cash Flows	Economic Value of Capital Resources	Economic Value of Fund (1)	Capital Ratio (2)
Baseline	-$8.30	$32.2	$23.9	6.77%
Claims @ 200%	-$20.90	$23.0	$2.10	0.60%
Prepayments @ 200%	-$8.40	$32.3	$23.9	6.77%
Loss Rate @ 65%	-$12.90	$26.5	$13.6	3.85%
Three-Year Recovery Lag	-$9.50	$30.4	$20.9	5.92%
Claims @ 200% and Loss Rate @ 65%	-$29.10	$14.8	-$14.3	-4.05%

(1) Economic Value of Fund equals the sum of Present Value of Future Cash Flows (first column of table) plus Economic Value of Capital Resources (second column).
(2) Capital Ratio equals the Economic Value of Fund (third column of table) divided by $352.8 million which is the outstanding insured principal amount as shown in the MHF financial statement for the fiscal year ended June 30, 1997.

The study found certain insufficiencies in MHF's multi-family data base, but it observed that these issues were not unusual with respect to other large multi-family insured portfolios in the country which they studied. It observed that MHF's underwriting criteria have been less conservative in some aspects than FHA criteria, suggesting that MHF's claims experience could be less favorable than FHA experience. It concluded that approximately 48% of amortized loan amounts relate to insurance endorsements subsequent to 1992, suggesting significant risk from relatively unseasoned loans. These loans further have no Section 8 subsidies and include the largest loans in the portfolio. The study concluded that MHF's operating costs are relatively high. It suggested that MHF would not, on a present value basis, be able in the future to maintain a 10 to 1 risk-to-capital ratio[1]. The study suggested that higher investment returns of reserves could improve projected portfolio performance.

A copy of the 1998 Actuarial Study is available upon request. See "Additional Information" below.

MHF has engaged a firm to update the study and anticipates that the study will be completed by early 2002.

The Insurance Agreement and the Multi-Family Reserve

MHF operates its multi-family insurance in accordance with an amended and restated insurance agreement dated August 30, 1988, with the Administration (the "Insurance Agreement") and MHF Regulations.

In accordance with the Insurance Agreement and the Regulations, MHF will not decrease the Multi-Family Reserve for any reason except (1) to pay claims and advances against claims under multi-family insurance or additional insurance, or for expenditures with respect to properties acquired by MHF as a result of the payment of claims or (2) to reallocate investment earnings on the reserves as determined by the Secretary in accordance with the MHF Regulations. MHF's multi-family cash operating fund may be used, in the discretion of the Secretary, to pay (1) authorized expenses, (2) claims, and (3) expenditures with respect to properties acquired by MHF. The Secretary may, at his discretion, transfer funds from the multi-family operating fund to the Multi-Family Reserve (but has no obligation to do so). Neither the Multi-Family Reserve nor the multi-family portion of MHF cash operating fund will be subject to claims arising from other categories of insurance, except for claims arising under insurance issued prior to August 20, 1975.

The Insurance Agreement further provides as follows:

(1) MHF will not decrease the amount of funds in the Multi-Family Reserve for any reason except to pay claims and advances against claims arising under multi-family insurance or additional insurance and for expenditures with respect to properties acquired by MHF as a result of the payment of such claims;

(2) except as necessary to pay claims or advances on claims, MHF will not permit the ratio of multi-family insurance to assets in the Multi-Family Reserve to exceed 10 to 1, and MHF will not issue new insurance payable from the Multi-Family Reserve if upon such issuance the ratio would exceed 10 to 1;

(3) MHF will not, with respect to a mortgage loan for any one development, issue multi-family insurance in an aggregate amount larger than 25% of the Multi-Family Reserve, unless the portion in excess of 25% is supported by additional collateral; and

(4) insurance provided under MHF multi-family program (and other MHF insurance programs) will be in accordance with sound insurance underwriting criteria, consistent with the public purposes of the programs under which such insurance is provided.

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1 As described under "The Multi-Family Insurance Agreement and Regulations", MHF's agreement with the Administration permits it to exceed a 10 to 1 ratio as necessary to pay claims, and requires MHF to cease issuing new commitments if the ratio is exceeded. The agreement does not provide for the ratio to be calculated on the basis of present value of cash flows.

The limitations referred to in clauses (1), (2) and (3) above may be revised upon the recommendation of an independent nationally recognized actuarial expert whose qualifications are acceptable to the Trustee. No representation can be made as to the reasonableness of the limitations contained in the Insurance Agreement or the sufficiency of the Multi-Family Reserve with respect to the risks related to the mortgage loans which have been or will be insured.

In accordance with the Insurance Agreement, MHF also insures (1) multi-family mortgage loans made by the Administration which are financed with bonds issued by the Administration under other indentures and (2) multi-family mortgage loans made by lenders other than the Administration. See "Multi-Family Insurance in Force and Available Reserves" above.

Terms of Multi-Family Mortgage Insurance

The Department has suspended indefinitely all new insurance activity of MHF. The following description of MHF multi-family mortgage insurance and MHF Regulations is provided primarily for information concerning past practices and procedures of MHF's multi-family mortgage insurance program.

MHF adopted amended and restated multi-family program regulations which became effective as of December 5, 1994. These MHF Regulations govern the eligibility of insured lenders, eligibility of mortgage loans for insurance, underwriting criteria and conditions to endorsement of a mortgage loan for insurance, coverage limits, loan to value ratios, fees and premiums, claims procedures and insurance termination. The following is a description of certain terms of the amended and restated regulations.

Eligibility in General. MHF is authorized to provide mortgage insurance for permanent loans for rental developments, and for construction loans provided that the development has an acceptable commitment for permanent financing. The insurance coverage applies to loans made for rental residential projects located in the State having title acceptable to MHF and conforming to applicable State and local building, zoning, health and housing codes. The loan must be secured by a first lien on the subject real estate, except for certain loans for energy conservation or general rehabilitation described below. See *"Home and Energy Loans"* under this heading. Any person, partnership, corporation, municipality or joint venture legally able to enter into contractual obligations may qualify as an eligible mortgagor provided that such entity is the owner of the property for which the mortgage insurance is requested, satisfies MHF concerning its financial capability, general credit standing, management capabilities, overall financial position and business background, and is not under an order suspending or debarring it from participating in the Department's programs.

Coverage. The standard coverage for public agency insured lenders is up to 100% of the loan amount. The standard coverage for claims of insured lenders that are not public agencies is the amount of the loss not to exceed 20%-25% of the loan amount, but MHF may negotiate up to 100% coverage and accordingly charge higher premiums for non-public insured lenders.

In general, the maximum loan to value ratio for an insured loan is 90% of the appraised value upon completion of the project. MHF may insure a loan with a loan to value ratio of up to 100% if (1) a materially significant number of units benefit from federal rent subsidies, and the subsidy contract extends beyond the time the project is expected to achieve a 90% loan to value ratio; (2) the top 10% of loss is covered by other acceptable insurance or an acceptable letter of credit; (3) the insurance is issued in connection with a refinancing essential to avoid a claim against MHF; (4) a Secretarial Determination of exceptional public purpose is made; or (5) the project is completed and occupied, has an operating history meeting certain standards, is not in need of major rehabilitation, and the sponsor is not receiving any return on equity. Not more than 15% of the multi-family reserve may be used to insure loans with loan to value ratios of more than 90%.

Construction Loans. In general, MHF will insure a loan during the construction phase for a period of 24 months, and the insurance is renewable at MHF's discretion for an additional 12 months. However, when MHF insures mortgages for multi-family rental developments for which the Administration is providing both construction and permanent financing, MHF is committed to provide permanent mortgage insurance at the end of the construction phase.

Premiums. MHF Regulations set forth a schedule of premiums to be charged. Generally, the premium for insurance of construction loans is 1% of the loan amount for the first year and 1.25% for each succeeding year. Generally, the premium for permanent loans is 0.5% per year (0.75% for the first year for lenders other than public agencies). Pursuant to the Insurance Agreement, all premium income on multi-family insurance and additional insurance will be paid into the Multi-Family Operating Account. Amounts on deposit in such Fund will be used to pay expenses allocable to the Multi-Family Reserve and to pay claims under multi-family insurance and additional insurance.

Non-Residential Use. A multi-family project insured by MHF may include (1) up to 15% of total building space for related non-commercial supporting purposes for use by residents, (2) 5% of total building space for incidental, ancillary and supportive commercial or other non-residential uses, and (3) an additional 15% of total building space for related non-commercial supporting purposes upon a determination of the Director of MHF that such space is adaptable to marketable uses.

Multiple Loans for a Single Project. MHF may insure multiple loans on a single project if all of the loans, in the aggregate, comply with the MHF Regulations, including without limitation, the following: (1) the aggregate of loans does not exceed the maximum allowed loan to value ratio, (2) the loans are secured equally by a first lien deed of trust, (3) the aggregate of the loans does not exceed the maximum allowed insured loan amount, and (4) to the extent that the loans are originated by different lenders, the lenders have all executed an intercreditor agreement acceptable to MHF.

Claims Procedures and Collection of Insurance Benefits. A default exists when the mortgagor either fails to make a payment in full when due under the mortgage or fails to perform any other obligation under the mortgage loan. A notice of delinquency must be submitted to MHF within 30 days after the mortgage loan is in default. MHF has the right to require the insured lender to exercise any and all rights under the loan instrument such as, without limitation, the appointment of a receiver, assignment of rents, realization on collateral security, rights of set-off and enforcement of payment and performance bonds and personal guarantees. The insured lender may not exercise any such rights without the prior approval of MHF. When a public agency of the State is the insured lender, it may upon default and with MHF's consent assign the mortgage and its rights thereunder to MHF, which shall pay the appropriate claim amount upon recordation of the assignment and upon the assignment to MHF of all claims of the insured lender against the mortgagor. After the mortgagor has been in default for six months, either MHF or the insured lender, without the other's consent, may require the assignment of the mortgage to MHF. MHF, upon such assignment, has all rights of the insured lender to pursue the mortgagor for any deficiency, loss, or periodic payments.

In those instances where the insured lender is a public agency, if the mortgage is not assigned to MHF upon the default, then MHF is obligated to make such periodic payments as are due under the terms of the insured mortgage with the exception of late charges and mortgage insurance premiums. Such periodic payments continue from default until the default is cured or the loan is foreclosed upon or assigned to MHF. See "Certain Additional Expected Multi-Family Claims" and "Debt Service Claims".

MHF may reduce the claim amount in the event of any reduction in value to the property due to pre-claim casualty, title loss, act of God, or other damage, by the amount of such casualty, loss or damage. MHF may also pay a claim for customary and reasonable expenses of operating a project if such expenses were paid with the prior written approval of MHF.

MHF Regulations provide for MHF to settle claims either in cash or by delivery of a claim note although private insured lenders will receive a claim note only at the sole discretion of MHF. Payment of a claim in cash will be in the amount of 100% of the principal amount of the mortgage loan at the time of default together with interest at the mortgage rate through the date of claim settlement, *plus* certain expenses (the "Default Expenses") which include (1) property taxes paid, (2) insurance premiums paid, and (3) other customary expenses incurred by the insured lender during the period of default in connection with preserving the mortgage premises, *less* certain income (the "Default Income") which includes (A) all amounts received by the insured lender after default from any source for the account of the mortgagor, (B) all amounts received by the insured lender after default from rents or other income after deducting actual and reasonable expenses for operating the mortgaged property, and (C) any amount retained by the insured lender for the account of the mortgagor that has not been applied in reduction of the principal or interest of the mortgage indebtedness.

A claim may be paid by delivery of a claim note if all of the following conditions are satisfied: (1) the insured lender consents; (2) MHF makes a cash payment to the insured lender equal to all delinquent principal and interest on the mortgage indebtedness through the date of claim settlement, plus Default Expenses less Default Income; and (3) the principal amount of the claim note, when aggregated with the outstanding principal amounts of all other claim notes issued by MHF, does not exceed 25% of the Multi-Family Reserve. If a claim is paid by a claim note, (A) the principal amount of the claim note will be equal to the balance of the insured mortgage loan outstanding on the date of payment of the claim, (B) payments under the claim note will be equal to the payments required under the insured mortgage loan, and (C) MHF will restrict an amount equal to the principal amount of the claim note less any amounts set aside for the insured mortgage loan in MHF's allowance for loan loss account. MHF is required to restrict funds in the Multi-Family Reserve, MHF's unallocated reserves or MHF's operating fund for payment of claim notes. If amounts in the Multi-Family Reserve are restricted, such amounts will not be considered as part of the Multi-Family Reserve for purposes of computing the leverage ratio under the Insurance Agreement. See "Multi-Family Insurance In Force and Available Reserves." MHF's obligation to pay a claim note is secured by the Multi-Family Reserve and unrestricted amounts on deposit in MHF's unallocated reserves.

A claim note issued in payment of a claim will mature and be paid upon the first of the following to occur: (1) sale of the property securing the insured mortgage loan for which the claim note was paid, (2) the date of the last scheduled payment of such mortgage loan, (3) seven years from the date of issuance of the claim note, or (4) the date on which the unrestricted amount on deposit in the Multi-Family Reserve is less than 75% of the unrestricted amount that was on deposit in the Multi-Family Reserve at the time the claim note was issued.

MHF may pay a partial claim on an insured loan if (1) the insured lender requests approval to file a partial claim, (2) the partial claim payment is used to reduce the unamortized principal balance of the insured loan or MHF receives certain collateral equal to the amount of the partial claim, (3) the insured loan balance remaining after payment of the partial claim can be amortized over the term of the loan on feasible terms and the loan will continue to conform to all initial regulatory requirements, (4) payment of the partial claim will cure the default and the insured lender will withdraw its notice of default, and (5) the borrower will give a promissory note to MHF, secured by a subordinate deed of trust, that provides for repayment to MHF of the amount of the partial claim over the remaining term of the insured loan or from a sale or refinancing of the project. Instead of MHF paying a partial claim, the insured lender may make an additional loan with respect to the insured property in order to bring the original insured loan current and accept a note from the borrower, which MHF may insure if (1) the additional loan is secured equally with the original insured loan, (2) the maximum insurable loan amount does not exceed regulatory limits, and (3) all other requirements of the regulations are satisfied.

Certain Limitations on Coverage. MHF coverage does not include loss due to casualty, condemnation or title risk. Expenses incurred for property repair resulting from insurable causes, including, but not limited to, negligence, flood, fire, infestation, vandalism and defective construction are not eligible for claim computation. The repair of any damaged property by a public agency insured lender is not a condition to payment of its insurance claim by MHF.

MHF multi-family insurance does not cover an event of a non-monetary default resulting from the failure of a mortgagor to comply with the income and rental requirements of the 1954 Code and the 1986 Code, as the case may be, and regulations thereunder; in such event, the insured lender may have to exercise other remedies, the effectiveness of which may depend on the discretion of a court.

If a project is foreclosed upon by the insured lender with the approval or at the direction of MHF and is sold to a third party, the amount of the claim is the net loss after crediting gross sales proceeds. If the insured lender takes title after foreclosure, MHF may elect to acquire title and pay the total loss to the insured lender or to pay the net loss after disposition of the property by the insured lender.

A claim payment includes interest at the mortgage rate on the unamortized value of the mortgage loan, from the date of default (or from the date of notice of the default to MHF if such notice was not timely given).

For projects with less than 100% coverage, MHF may elect at any time to pay its declared percentage of the loss and waive any interest in the project. For any project, MHF may elect to take an assignment of the insured loan and pay the full claim.

Termination of Mortgage Insurance. The MHF Regulations provide that MHF multi-family insurance coverage will be terminated if the insured lender requests cancellation, a claim is satisfied, or the mortgage is paid in full. The MHF Regulations further provide that MHF may terminate its insurance of a loan if (1) a renewal mortgage insurance premium is not paid after demand, (2) the mortgage loan terms are modified without the prior written approval of MHF, (3) the lender permits non-compliance with the loan documents without the prior written consent of MHF, (4) the mortgage is assigned by the lender without prior written approval of MHF, (5) the project's borrower, lender, general contractor or management agent which was approved by MHF at the time of the loan closing is substituted with the knowledge of the lender and without prior written approval of MHF, (6) the property is transferred, conveyed, or encumbered without the consent of the lender or MHF in violation of the MHF Regulations, (7) the lender either fails to take any action required by MHF to enforce the lender's rights after loan default, or takes any such action without the prior approval of MHF, (8) the lender fails to fulfill its obligations under the loan documents, the underwriting guidelines, or the MHF Regulations, after demand to do so has been made by MHF, or (9) the lender becomes the subject of an order debarring it from participating in the Department's programs.

Group Homes. As of June 30, 2001, the outstanding balance of Group Home mortgage loans under $250,000 insured under the Administration's Special Housing Opportunities Program ("SHOP") was $9,959,813 MHF Regulations provide for insurance of mortgage loans that finance or refinance the acquisition, construction or rehabilitation of shared living and related facilities for special needs populations which are owned and sponsored by nonprofit organizations or local development agencies (the "SHOP Program"). The sponsor must be licensed to operate the project by the State, to the extent required by State law, and have an operating subsidy contract with a State or local agency which provides for reimbursement of expenses incurred in operating the project based on either a fixed annual amount or *per diem* rate. The SHOP Program insures both loans made by the Administration under its group housing program and loans made under similar programs by public or private lenders acceptable to MHF. Insurance claims under the SHOP Program are payable from the Multi-Family Reserve.

The SHOP Program regulations provide that:

(1) the sponsor must demonstrate financial credibility and stability, the capability to undertake the project, and the ability to manage the project, demonstrated by at least two years' management of the project or a comparable project by the sponsor or an affiliate;

(2) for acquisition, construction or rehabilitation loans, the maximum amount of any mortgage loan insured under the SHOP Program may not exceed either (A) the lesser of 90% of the appraised value of the project or total cost of the project, or (B) 100% of the appraised value of the project if MHF determines either that: (i) the sponsor has at least 4 years of prior experience in operating the project or comparable projects and owns at least two projects (or any other combination of managerial experience and project ownership acceptable to MHF) and income available to the project will permit accelerated principal payments to reduce the outstanding loan amount to 90% of appraised value within a period acceptable to MHF, or (ii) any changes or modifications to the project will not impair the marketing of the project as a single family home in the event of a default;

(3) for refinancing loans, the maximum amount of any mortgage loan insured under the SHOP Program may not exceed the lesser of: (A) 85% of the appraised value of the project, or (B) the sum of the outstanding principal balance of the loan being refinanced, legal, title and other processing or closing fees, and other charges relating to the debt to be refinanced;

(4) the term of the mortgage loan does not exceed 30 years plus, in certain cases, an initial interest only period of not more than 18 months;

(5) the sponsor must repay the loan in equal monthly installments of principal and interest in order to fully amortize the loan over its term; and

(6) the mortgage loan shall be secured by a first mortgage, an assignment of the State or local government contract for reimbursing operating costs, and any other sureties or guaranties required by MHF.

The premiums for permanent mortgages during the initial period are 0.5% for public lenders and 1% for private lenders. Annual renewal premiums for permanent mortgage loans are 0.5% for public lenders and 0.75% for private lenders. For construction or rehabilitation loans, the premium for the first 12 months is: for public lenders, 0.5% for loans of $150,000 or less, 0.75% for loans of $150,001 to $300,000, and 1% for loans greater than $300,000; for private lenders, the premium is 0.25% greater than the premiums described in the preceding sentence. Construction insurance for public and private lenders may be renewed for one six-month period for a premium of 0.75% or for one 12-month period for a premium of 1.25%. Premiums for construction loans are nonrefundable. Premiums for permanent mortgage loans are refundable in part upon prepayment in full.

Home and Energy Loans. As of June 30, 2001, the outstanding balance of mortgage loans insured under the HELP Program was $1,738,799. MHF regulations provide for insurance of mortgage loans that finance energy-conserving or general improvement or rehabilitation of rental housing and that are secured by a deed of trust which may be subject to a prior lien which meets certain standards (the "HELP Program"). The HELP Program regulations provide that (1) either the Administration or a public agency be the insured lender, (2) the mortgage loan and the outstanding principal balance of all prior liens not exceed 85% of the value of the property after rehabilitation, (3) the term of the mortgage loan does not exceed the remaining term of any prior lien which requires a mandatory payment prior to full amortization, (4) the loan shall be secured by a first or second mortgage, (5) if the loan is secured by a second mortgage, the holder of the first lien must meet certain standards of responsibility, shall consent to the second lien, and shall grant to MHF notice of and certain rights to cure defaults, and (6) the total amount of all liens on each property, including the mortgage loan, does not exceed 25% of the reserves allocated to the Multi-Family Reserve. In certain cases the HELP Program regulations also provide for slightly lower fees and premiums.

Waivers of the MHF Regulations. The regulations permit the Secretary to waive or vary particular provisions of the regulations to the extent such a waiver is not inconsistent with governing statutes and controlling agreements if (1) conformance to the requirements of a federal agency providing assistance to/a development necessitates such a waiver or (2) the application of the MHF Regulation in a specific case or in an emergency situation would be inequitable or contrary to the purposes of governing statutes, and for waivers under certain insurance programs the waiver would not materially adversely affect bondholders or others relying on the Multi-Family Reserve of MHF.

However, the Insurance Agreement provides that MHF will not change the MHF Regulations in any manner materially adverse to the interests of the holders of bonds issued by the Administration. In addition, the Insurance Agreement allows MHF to make certain specific changes in the MHF Regulations, including the adoption of MHF Regulations (1) relating to co-insurance or re-insurance and any applicable premiums and (2) permitting MHF to write multi-family insurance payable from the Multi-Family Reserve for conventional mortgages with the same coverage (up to 100%) and premiums as are available to the Administration.

In order for MHF to insure second mortgages for the acquisition and rehabilitation of two developments, Circle Terrace Apartments and Bay Ridge Apartments in 1991 and 1993, respectively, the Secretary waived provisions of MHF regulations in order to permit MHF to insure second mortgages held by non-public insured lenders, but required the developments to be subject to provisions in the regulations which govern insurance of second mortgages held by public-sector insured lenders.

By MHF Regulation, MHF insures up to 100% of the principal amount of a mortgage loan with a first lien on the property. In order to increase the availability of affordable housing, MHF has insured (1) a portion of each of two mortgage loans and (2) one mortgage loan which shared a first lien with another mortgage. In each situation the mortgage loans secured by a first lien had an amount which was greater than 25% of the Multi-Family Reserve. In each case the amount of these mortgage loans insured by MHF did not exceed 25% of the Multi-Family Reserve, and the total amount of mortgage loans secured by a first lien did not exceed 90% of the appraised value for developments owned by for-profit sponsors and 100% of the appraised value for developments owned by non-profit sponsors and public agencies. One such mortgage loan was insured for a project named Strathdale in the amount of $10,700,000 with the balance of the mortgage loan secured by a letter of credit from a commercial bank in the amount of $3,585,000. In May, 1994, MHF paid a claim to the Administration for this project in the amount of $10,700,000 plus interest. The underlying collateral was sold to Baltimore City at foreclosure on April 15, 1997, for an amount which was insufficient to provide any recovery to MHF. See "Multi-Family Claims Experience". The second such mortgage loan was insured for a project named Ring House in the amount of $12,950,000 with the balance of the mortgage loan secured by a letter of credit from a commercial bank in the amount of $5,372,030; to the extent that losses are incurred on the mortgage loan, MHF would sustain losses in the same proportion as the ratio of the insured portion of the mortgage loan to the total mortgage loan. The third such mortgage loan was insured for a project named Alexander House in the amount of $12,500,000 with the balance of the development cost financed by a separate mortgage loan that was not insured. The subject note was endorsed by FHA on February 10, 1997, effectively terminating MHF insurance.

FHLMC Reinsurance Agreement

On December 28, 1994, MHF, the Department and the Administration entered into a Reinsurance Agreement with the Federal Home Loan Mortgage Corporation ("FHLMC"). The purpose of the Reinsurance Agreement was to cede to and fully reinsure with FHLMC MHF's mortgage insurance obligations with respect to certain loans insured by MHF. Under the Reinsurance Agreement, FHLMC has agreed to fully reinsure, without any contingent liability for MHF, 17 loans insured by MHF having an original unpaid principal balance of $70,346,036, and, as of June 30, 2001, an aggregate unpaid principal balance of $57,440,682 . Nine of these loans were financed originally with the Administration's Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) and acquired with proceeds of the Administration's Housing Revenue Bonds Series 1996 A Bonds, and are identified in Appendix D – "Description of Loans and Developments" in the Official Statement for the Administration's Housing Revenue Bonds, Series 1999 D. The remainder of these loans were financed with the proceeds of the Administration's Multi-Family Housing Revenue Bonds (Insured Mortgage Loans).

All of the units in each of the developments financed with loans reinsured by FHLMC are subject to Section 8 housing assistance payments. The contracts relating to these payments have been assigned to FHLMC as collateral security. However, FHLMC cannot exercise any remedies with respect to the housing assistance payment contracts unless and until it has paid any insurance claim with respect to a reinsured loan.

Under the terms of the Insurance Agreement, loans insured by MHF which are reinsured without contingent liability on the part of MHF are not taken into account in determining MHF's compliance with the maximum 10-to-1 ratio of amounts insured to assets in the Multi-Family Reserve. Accordingly, the reinsured loans are not being taken into account in determining compliance by MHF with this ratio.

FHLMC may, under the terms of the Reinsurance Agreement, require that the Administration foreclose without assignment to FHLMC upon any reinsured loan in the event of a breach of certain warranties regarding the absence of environmental hazards.

FHLMC prepares an annual Information Statement that describes FHLMC, its business and operations and contains FHLMC audited financial statements. From time to time FHLMC prepares Information Statement Supplements that include unaudited financial data and other information concerning its business and operations. Investors can obtain any of these documents and any other documents prepared and made available by FHLMC by writing or calling the Investor Inquiry Department at FHLMC at 8200 Jones Branch Drive, McLean, Virginia 22102 (telephone (703) 903-2000) or by using their website at freddiemac.com.

Staff

The Director of MHF is appointed by the Secretary of the Department and serves at the pleasure of the Secretary, with such authority as the Secretary determines to delegate to the Director. The Director also serves as the Director of the Division of Credit Assurance of the Department.

Financial operations for MHF have been centralized and are now within the Division of Finance and Administration for the Department.

Certain senior staff members of the Division of Credit Assurance, and the Division of Finance and Administration and MHF are as follows:

Name	Position
George Eaton	Director, Division of Credit Assurance and MHF
Karen Williams Gooden	Deputy Director, Division of Credit Assurance
Jolly Burks	Director, Division of Finance and Administration
Ruth Putnam	Director, MHF Finance and State Funded Loans
Roy Kiewe	Director, Multifamily Operations
Stanley H. Sanders, Jr.	Director, Single Family Operations

George Eaton was appointed Director of the Division of Credit Assurance and the Maryland Housing Fund as of March, 1999, having been Acting Director since December, 1998. He has been with the Department since October, 1995. He also served as Director of Multifamily Operations from May to December, 1998. From 1996 through April, 1998, he was the Director for State Funded Loans for MHF. Before joining the Department, he worked for a national property management company as a District Manager, as Assistant Director at University of Maryland teaching hospital, and as Assistant Administrator of The Johns Hopkins University Hospital. He also holds a M.A. in Administration and has taught at several Maryland Community Colleges.

Karen Williams Gooden was appointed Deputy Director, Division of Credit Assurance as of January, 1999. An attorney, she transferred from the Department of Budget and Management where she was a hearings examiner and an employee relations specialist. A graduate of Howard University and Howard Law School, Ms. Gooden served as Deputy Director and Legal Counsel for the Prince George's County Minority Business Opportunities Commission; as an Associate County Attorney for Prince George's County government, and has practiced privately.

Jolly Burks, Director of the Division of Finance and Administration, has been with the Department since 1992. From 1992 until July of 1997, she was the Director of Accounting. Prior to 1992, Ms. Burks worked in the audit department at KPMG PeatMarwick.

Ruth Putnam was made Director of MHF Finance and State Funded Loans in January, 2001. She has been with the Department since 1990 serving as a Budget Analyst from 1990 through 1994, Budget Director from 1995 through 1998 and Director of Financial Planning and Review from 1999 through 2000. Prior to joining the Department, she worked as Manager of Investor Relations in a private corporation.

Roy Kiewe, was made Director of Multi-Family Operations in July, 1999. He has been with the Department since 1987, serving as an Asset Management Officer from 1987 through 1988, Asset Management Administrator from 1989 through 1992, Single Family Administrator from 1992 through 1998, and Single Family Collection Manager from 1998 until July, 1999. Prior to joining the Department, he was a property manager for the Housing Authority of Baltimore City and the director of two community-based housing organizations. He holds a B.A. degree in sociology and social work from the University of Maryland.

THE FHA INSURANCE PROGRAM

The following is a brief description of the multi-family mortgage insurance program administered by HUD, acting through FHA, pursuant to Section 542(c) of the Housing and Community Development Act of 1992, as amended, (the Risk Sharing Act") and Sections 221(d)(3) ("Section 221(d)(3)"), 221(d)(4)

("Section 221(d)(4)") and Section 223(f) ("Section 223(f)") of Title II of the National Housing Act, as amended, and is qualified in its entirety by reference to the National Housing Act and the Risk Sharing Act and the regulations thereunder.

FHA Multi-Family Mortgage Insurance

FHA is authorized under the National Housing Act, as amended, to insure mortgage loans, including mortgage loans financing developments containing five or more dwelling units. FHA mortgage insurance provided pursuant to Section 221(d)(3) and Section 221(d)(4) are the principal forms of federal mortgage insurance available for new construction or substantial rehabilitation purposes. Section 223(f) provides insurance for refinancing of mortgages on existing properties. Prior to issuing a commitment for mortgage insurance pursuant to these sections, FHA or an FHA-approved lender processes a mortgage loan through several stages of review to determine the acceptability of the development securing the mortgage loan. Pursuant to this program, FHA insures mortgage loans providing acquisition, construction, substantial rehabilitation and long-term financing of a development.

Nine of the Transferred Loans acquired with the proceeds of the Series 1996 A Bonds are insured by FHA, one pursuant to Section 221(d)(3) and the remainder pursuant to Section 221(d)(4).

Insurance Benefits

If a default on a mortgage loan which is fully insured by FHA continues for a period of 30 days, regulations require that a written notice of the default be filed with FHA. Within 45 days of the date the mortgage becomes eligible to receive mortgage insurance benefits, the mortgagee is required to give written notice of the mortgagee's intention to file an insurance claim. FHA mortgage insurance provides an option to the mortgagee either to assign the mortgage loan to FHA or to acquire title to the development by foreclosure and convey it to FHA.

Under the Section 221(d)(3) and 221(d)(4) program, FHA will pay claims for insurance benefits in cash, in debentures, or in a combination of both, at the option of the Administration as mortgagee. Under the Section 223(f) program, FHA may elect to pay claims in cash or debentures, or a combination of both, as determined by FHA at or prior to the time of payment. In the event of a claim on a Mortgage Loan, the Administration will request payment in cash, but there can be no assurance that FHA will make payment in cash for Mortgage Loans insured under Section 223(f). Currently, two Mortgage Loans are insured under Section 223(f).

Following an assignment of a defaulted mortgage loan to FHA and the filing of a claim for insurance benefits, FHA will pay insurance benefits in an amount equal to the sum of (1) the unpaid principal amount of the mortgage loan, computed as of the date of default, (2) certain eligible payments made by the mortgagee, and (3) interest on the insurance proceeds from the date of default at the FHA debenture rate in effect when the FHA insurance commitment was issued or as of the date of initial endorsement, whichever is higher, less (a) an amount equal to 1% of the unpaid balance of the loan and (b) certain amounts received by the mortgagee from the mortgage or the property after the date of default and (c) certain cash items retained by the mortgagee. For defaults occurring after final endorsement, FHA may, but is not obligated to, pay 90% of the insurance claim within 15 days of assignment of the defaulted mortgage loan to FHA is recorded. For defaults occurring prior to final endorsement, FHA may, but is not obligated to, pay 70% of the insurance claim with 15 days of the recordation of the mortgage to HUD. In each case, HUD will pay the balance of the insurance claim after audit, usually within three to 12 months. In each case prompt payment by FHA is subject to, among other things, complete delivery by the mortgagee of all documentation required under FHA mortgage insurance. All of the Mortgage Loans insured by FHA have either been finally endorsed or are further credit enhanced by Guaranteed Securities.

The Loan Documents

The FHA Loans are made pursuant to certain standard form FHA documents some of which (but not including certain documents for new construction or substantial rehabilitation loans) are hereinafter generally described.

Regulatory Agreement. The owner of a development enters into a Regulatory Agreement with FHA which sets forth certain of the owner's obligations in connection with the management and operation of such development.

Pursuant to the Regulatory Agreement, the owner must establish a reserve fund for replacements. The reserve fund for replacements will be funded by monthly payments by the owner in the amount established by the mortgagee as directed by FHA. Moneys in such fund may be disbursed, with prior FHA approval, to replace structural elements or mechanical equipment of the development or for certain other purposes.

The owner may not make, receive or retain any distribution of assets or income from the development, except from "Surplus Cash". "Surplus Cash" is defined in the HUD regulations as cash remaining at the end of any semiannual or annual fiscal period after the payment of (1) all sums due under the mortgage and the mortgage note, (2) all amounts required to be deposited in the reserve fund for replacements, and (3) all obligations of the development other than the mortgage (unless otherwise provided for). Surplus Cash does not include amounts held in special funds required to be maintained for the development or tenant security deposits.

In the event the owner violates any provisions of the Regulatory Agreement, and fails to cure the default within 30 days after the mailing of notice from FHA, or such longer period as FHA may determine, the Agreement provides that FHA may notify the mortgagee of the default and request the mortgagee to declare a default under the mortgage and mortgage note.

Mortgage Note. In the State of Maryland the debt instrument for FHA-insured loans secured by real estate is a deed of trust note. References to a mortgage note herein are applicable to a deed of trust note.

The standard form FHA mortgage note is a nonrecourse obligation since the maker is not personally liable for the payment of the principal of the indebtedness and interest thereon. Each mortgage note evidencing an FHA Loan is in a face amount approved by FHA and has been endorsed for insurance by FHA at the initial closing of the mortgage loan as the same may be modified at final closing when the loan is cost certified. Each FHA-insured mortgage note is a fully amortizing note maturing up to 40 years after the date set by FHA for commencement of amortization.

Mortgage. In the State of Maryland the underlying security for a deed of trust note is a deed of trust. References to a mortgage herein are applicable to a deed of trust.

In order to secure the payment of the debt evidenced by the mortgage note for an FHA Loan, the owner of the related Development has conveyed for the benefit of the payee under the mortgage note its title to the project site, together with all buildings, improvements and fixtures to be constructed on the site and all articles of personal property of the owner located on the site (collectively, the "mortgaged property") and, in addition, has assigned to the mortgagee all rents, profits and income to be derived from the mortgaged property. Until final payment of the indebtedness, each owner agrees not to encumber the mortgaged property in any way without the consent of the Administration or the mortgagee and FHA.

In addition to the monthly payments due under the mortgage note, the mortgage obligates the owner to deposit with the mortgagee in escrow on the first day of each month sums sufficient to provide the mortgagee with funds to pay the next annual mortgage insurance premium and to pay estimated taxes, water charges, special assessments and fire and other hazard insurance premiums, if any, with respect to the mortgaged property.

Collection of Insurance Benefits

In the case of a monetary default, the date of default is deemed to be the date on which payment was originally due (i.e., the first of the month). Since interest is paid one month in arrears in FHA mortgage transactions, the mortgagee will not, in the event of a claim for insurance benefits, be reimbursed for interest which had accrued in the previous month and was due and payable on the date of default. FHA will reimburse the mortgagee only for interest at the applicable "debenture rate" commencing on the date of default.

Upon a default by the mortgagor which entitles the mortgagee to assign the mortgage to FHA, the mortgagee must notify FHA of the default and of the mortgagee's intention to assign the mortgage within the time frames set out in the applicable FHA handbooks. Upon receipt of this notification and election, FHA reviews the documentation to determine whether the mortgagee is entitled to assign the mortgage and to receive insurance benefits under the mortgage insurance contract. Prior to actual assignment of the loan to FHA and receipt of insurance benefits, the mortgagee must also satisfy certain legal requirements including submission of a title policy showing (except for encumbrances approved by FHA) that no liens or encumbrances are superior or inferior to the mortgage lien.

The mortgagee is required to submit all required documentation within 45 days from the date the mortgage is assigned to FHA unless the time is extended by FHA. The documentation required to be supplied to FHA includes (1) an assignment of claims of the mortgagee against the mortgagor or others arising out of the mortgage; (2) all policies of title or other insurance or surety bonds or other guaranties and any claims thereunder, including evidence that the effective date of the title coverage has been extended to include assignment to FHA, (3) all records and accounts relating to the mortgage, (4) all property of the mortgagor held by the mortgagee, and (5) any additional information required by FHA. If the election is not made or the documents are not delivered within the 45 days, FHA will not pay the mortgagee interest on sums outstanding from the date the election should have been made or the date the required documents should have been submitted to FHA, whichever is applicable, to the date when the insurance claim is finally paid unless FHA has agreed to extend the period with interest.

Failure of a mortgagor to comply with the income and rental requirements of Section 103(b)(4)(A) of the 1954 Code or Section 142(d) of the 1986 Code, as applicable, does not constitute event of default under the FHA Loans.

Partial Settlement Upon Assignment. FHA may request the mortgagee in lieu of assignment, to accept partial payment of the claim under the mortgage insurance contract and to recast the mortgage, under such terms and conditions as FHA may determine.

Deposits Held by Mortgagee. The mortgagee is responsible for all deposits under its control. FHA deducts from any insurance claim the amount of cash or cash equivalents held by the mortgagee on behalf of the owner. Where deposits are held by the mortgagee in the form of a letter of credit, it is the mortgagee's responsibility to convert the letter of credit to cash in the event the funds are necessary. For insurance purposes, FHA views a letter of credit held in lieu of cash deposit as the equivalent of cash. Letters of credit accepted by the Administration or the mortgagee must be unconditional and irrevocable. FHA does not review or approve letters of credit.

The mortgagee is responsible for all funds in its custody and must therefore obtain approvals from FHA and others, when required, prior to release of any funds which may be in its possession. Failure to protect properly such funds may result in a deduction from the FHA insurance claim in an amount equal to the funds FHA asserts should have properly been held as a deposit.

Warranties Upon Assignment. In the event of an assignment of a mortgage, FHA requires the mortgagee to warrant that (1) no act or omission of the mortgagee has impaired the validity and priority of the mortgage; (2) the mortgage is prior to all mechanics' and materialmen's liens filed on record subsequent to the recording of the mortgage, regardless of whether such liens attached prior to the recording date; (3) the mortgage is prior to all liens and encumbrances which may have attached or defects which may have arisen subsequent to the recording of the mortgage, except such liens or other matters as may be approved by FHA; (4) the amount stated in the instrument of assignment is actually due under the mortgage and there are no offsets or counterclaims against such amount; and (5) the mortgagee has a good right to assign the mortgage. In assigning its security interest in chattels, including materials, located on the premises covered by the mortgage, or its security interest in building components stored either on-site or off-site at the time of the assignment, the mortgagee is required to warrant that (a) no act or omission of the mortgagee has impaired the validity or priority of the lien created by the chattel security instruments; (b) the mortgagee has a good right to assign the security instruments; and (c) the chattel security instruments are a first lien on the items covered by the instruments except for any liens or encumbrances approved by FHA.

Title Insurance Policy (Mechanics' and Other Liens). The mortgagee will be required to furnish FHA with a title policy which names FHA as the insured party and which assures FHA that the mortgage loan to be assigned constitutes a first lien on the mortgaged premises, subject only to those exceptions previously approved by FHA. The mortgagee will be required to remove any intervening liens and to obtain an updated title endorsement within the 45-day period during which documents are required to be submitted. FHA may deduct the amount of any liens which have priority over the mortgage lien from the mortgagee's FHA insurance claim.

Tax liens against the property which have priority over the lien of the mortgage or which are due within 60 days of the assignment to FHA must be paid by the mortgagee. Although the mortgagee will be reimbursed for funds it advances to pay real estate taxes on the mortgaged property, failure to pay taxes when due may result in a penalty which will not be reimbursed by FHA as part of the insurance claim.

Losses on Advances other than Mortgage Proceeds. Although the mortgagee will be reimbursed for advances properly made for taxes, insurance premiums and preservation of the property, such reimbursement may not fully compensate the mortgagee for the making of the advances since the mortgagee will be paid only debenture interest on those advances from the date of default.

Reimbursement for Maintaining the Mortgaged Property. FHA will reimburse the mortgagee for funds advanced to maintain or preserve the mortgaged property if the approval of FHA is received prior to the time the funds are advanced.

FHA Risk-Sharing Program

The Risk Sharing Act authorizes the Secretary of HUD to enter into risk-sharing agreements with qualified state or local housing finance agencies ("HFAs") to enable those HFAs to underwrite and process loans for which HUD, acting through FHA, will provide full mortgage insurance for eligible projects. HUD has promulgated regulations at 24 C.F.R. Part 266 (the "Regulations") pursuant to the Housing Act. The Risk-Sharing Program established by the Risk Sharing Act allows HFAs to carry out certain HUD functions, including the assumption of underwriting, loan management and property disposition functions and responsibility for defaulted loans, including reimbursement of HUD for a portion of the loss from any defaults that occur while the HUD contract of mortgage insurance is in effect. The Risk-Sharing Program is designed to increase the supply of affordable multifamily units by allowing HFAs to originate and service mortgage loans that are fully insured by FHA.

This mortgage insurance program requires that an interested HFA first be approved as a qualified housing finance agency. Upon notification of approval as a qualified HFA, the HFA must execute a risk-sharing agreement with the Commissioner of FHA. The risk-sharing agreement must state the agreed upon risk apportionment between HUD and the HFA, the number of units allocated to the HFA, a description of the HFA's standards and procedures for underwriting and servicing loans and a list of HFA certifications designed to assure its proper performance.

Projects eligible to be insured under the Risk-Sharing Program include new construction projects, substantial rehabilitation projects, acquisition of existing projects, projects receiving Section 8 or other rental subsidies, single room occupancy projects, board and care/assisted living facilities and elderly projects. Transient housing or hotels, projects in military impact areas, retirement service centers, and nursing homes or intermediate care facilities are specifically excluded from eligibility for insurance under the program. Risk-sharing projects must constitute "affordable housing", which means that either 20% or more of the units are rent-restricted (as defined below) and occupied by families whose income is 50% or less of the area median income as determined by HUD, with adjustments to income based on household size, or that 40% or more of the units are rent-restricted and occupied by families whose income is 60 percent or less of the area median income as determined by HUD, with adjustments to income based on household size. A residential unit is rent-restricted if the gross rent with respect to such unit does not exceed 30% of the income limitation applicable to the unit as published from time to time by HUD.

The Administration has entered into a risk-sharing agreement with HUD dated as of November 30, 1994 (the "Risk-Sharing Agreement") which sets out the terms for the Administration's participation in the Risk-Sharing Program. The Administration has a "Level I" approval under the regulations which means it may elect to reimburse HUD for between 50% and 90% (in increments of 10%) of any losses incurred as a result of a default under a loan. Level I approval permits the Administration to use its own underwriting standards and loan terms and conditions (as disclosed and submitted with its application) to underwrite and approve loans without further review by HUD. The Administration also has a "Level II" approval which means it may insure either 10% or 25% of any losses on the mortgage loan (based on certain loan-to-value criteria). In the event of a loan default, the Risk-Sharing Agreement requires the Administration to share with HUD in any loss arising as a consequence of the loan default.

The Administration currently expects that its participation in the Risk-Sharing Program will be limited to loans which have existing MHF Insurance and are being refinanced in a manner so as to reduce MHF's insurance liability with respect to such loans. In such cases, MHF is expected to reimburse the Administration for the Administration's share of any loss. To date, the Administration has financed three loans under the Risk-Sharing Program, each in connection with a refinancing of a previously MHF insured mortgage loan financed by the Administration.

The Risk-Sharing Program regulations require that the Administration establish a dedicated account at a financial institution acceptable to HUD in the initial amount of $500,000. This account, with a current balance of $610,237, has been established by restricting $610,237 in the Administration's General Bond Reserve Fund for such purpose. HUD may make withdrawals from this account for the purpose of meeting the Administration's obligations under the program and the Risk-Sharing Agreement. At the closing of any mortgage loan insured under this program, the Administration is required to deposit and maintain in the dedicated account an amount equal to one percent of the unpaid principal of such loan, up to and including $50,000,000, three-quarters of one percent of the unpaid principal of such loan in excess of $50,000,000 but less than $150,000,000, and one-half of one percent of the unpaid principal of such loan in excess of $150,000,000.

FHA Insurance under the Risk-Sharing Program with respect to any mortgage loan may be terminated upon the occurrence of certain events, including the following: (1) the corresponding mortgage is paid in full; (2) the Administration acquires mortgaged property and notifies the Commissioner that it will not file an insurance claim; (3) a party other than the Administration acquires property at a foreclosure sale; (4) the Administration notifies the Commissioner of a voluntary termination; (5) the Administration or its successors commit fraud or make a material misrepresentation to the Commissioner with respect to certain information; (6) the receipt by the Commissioner of an application for final claims settlement by the Administration or (7) the Administration acquires the mortgaged property and fails to make an initial claim.

During its participation in the program, the HFA must take responsibility for certain functions, including those relating to the Affirmative Fair Housing Marketing Plan, labor standards, insurance of advances, cost certification, and lead-based paint requirements. A mortgagor must certify to the HFA that it is in compliance with certain enumerated discrimination and civil rights statutes and executive orders. HUD has specifically retained certain functions, including monitoring compliance with the Davis-Bacon Act, environmental laws, enforcement of certain fair housing and equal opportunity laws and other program criteria. Certain HUD requirements may only be applicable when construction advances are insured.

Upon completion of construction, presentation of a closing docket, including an executed regulatory agreement between the HFA and the mortgagor, and certifications required by the Regulations, FHA issues a final endorsement of the mortgage note for the costs related to the project which have been certified by an independent certified public accountant and have been approved by the Administration. Although the Administration has been given authority to approve cost certifications by a mortgagor, HUD has the authority, in its sole discretion, at any time prior to and including final endorsement, to adjust the amount of mortgage insurance.

The Regulations define an event of default under an FHA-insured mortgage as (1) a failure to make any payment due under the mortgage or (2) a failure to perform any other mortgage covenant (which include covenants in the related regulatory agreement, which is incorporated by reference in the applicable mortgage) if the mortgagee, because of such failure, has accelerated the debt. A mortgagee is entitled to receive the benefits of insurance after the mortgagor has defaulted and such default continues for a period of 30 days. If the default continues to exist at the end of the 30-day grace period, the mortgagee is required to give HUD written notice of the default within 10 days after such grace period and monthly thereafter, unless waived by HUD, until such default has been cured or the Administration has filed an application for an initial claim payment. Unless a written extension is granted by HUD, the Administration must file an application for initial claim payment (or, if appropriate, for partial claim payment) within 75 days from the date of default. Such claim may be made as early as the first day of the month following the month for which a payment was missed. Upon request of the Administration, HUD may extend, up to 180 days from the date of default, the deadline for filing a claim. In those cases where the Administration certifies that the project owner is in the process of transacting a bond refunding, refinancing the mortgage, or changing the ownership for the purpose of curing the default and bringing the mortgage current, HUD may extend the deadline for filing a claim beyond 180 days but not exceed 360 days from the date of default.

The initial claim amount is based on the unpaid principal balance of the mortgage note as of the date of default, plus interest at the mortgage note rate from the date of default to the date of initial claim payment. The mortgage note interest component of the initial claim amount is subject to curtailment as described below. HUD must make all claim payments in cash. The initial claim payment to the Administration is equal to the initial claim amount, less any delinquent mortgage insurance premiums, late charges and interest assessment under the Regulations. **The Administration must use the proceeds of the initial claim payment to retire any bonds or any other financing mechanisms for the mortgages within 30 days of the initial claim payment.** Any excess funds resulting from such retirement or repayment shall be returned to HUD within 30 days of the retirement. Within 30 days of the initial claim payment, the Administration must also issue to HUD a debenture, payable in five years unless extended, in an amount equal to the amount of the initial claim payment, representing the Administration's obligation to HUD under its Risk-Sharing Agreement.

In determining the mortgage note interest component of the initial claim amount, if the Administration fails to meet any of the requirements of the Regulations within the specified time (including any granted extension of time), HUD shall curtail the accrual of mortgage note interest by the number of days by which the required action was late. Losses sustained as a consequence of the sole negligence of the Administration will be the sole obligation of the Administration, notwithstanding the risk apportionment otherwise agreed to by HUD and the Administration.

When FHA pays a claim, the Risk-Sharing Agreement provides that the Administration will issue a debenture (each, a "Debenture") to HUD for the full amount of the claim, which shall be supported by the full faith and credit of the Administration. Each Debenture will have a term of five years, will bear interest at HUD's published debenture rate, and interest will be payable annually. The Risk Sharing Act contemplates that during the five year term of each Debenture, the Administration would work toward curing the default, foreclosure or resale of the related development. Upon the due date of each Debenture, the total loss to be shared by the Administration and HUD shall be computed pursuant to the Risk-Sharing Agreement. As noted, MHF is expected to reimburse the Administration for its share of any loss.

The Regulations provide that not later than 30 days after either (1) foreclosure sale or sale after acceptance of a deed in lieu of foreclosure or (2) expiration of the term of the Debenture, loss on the mortgaged property is determined and allocated between HUD and the HFA in accordance with their respective percentages of risk specified in the mortgage note and risk-sharing agreement.

Information on project management and servicing will be required after endorsement. Additionally, the HFA must submit semiannual reports, annual financial statements and must maintain its eligibility by continued compliance with the risk-sharing agreement, the regulatory agreement, and all the requirements for initial program eligibility.

THE GNMA GUARANTY PROGRAM

GNMA is a wholly-owned corporate instrumentality of the United States within the United States Department of Housing and Urban Development (“HUD”) with its principal office in Washington, D.C.

A Guaranteed Security is a “fully modified pass through” mortgage-backed security which requires monthly payments by an FHA-approved lender, as the issuer of the Guaranteed Security (the “Lender”), to the registered holder of the Guaranteed Security of principal of and interest on such Guaranteed Security when due, whether or not the Lender receives payments on the mortgage note underlying such Guaranteed Security, plus any prepayments of principal of the mortgage note received by the Lender. GNMA guarantees timely payment of principal of and interest on Guaranteed Securities. Loans which are credit enhanced by Guaranteed Securities are described in Appendix D – “Description of Loans and Developments”.

GNMA Guaranty

GNMA is authorized by Section 306(g) of Title III of the National Housing Act to guarantee the timely payment of the principal of and interest on Guaranteed Securities which are based on and backed by a mortgage insured by FHA. Section 306(g) provides further that "the full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection." In order to meet its obligations under such guaranty, GNMA is empowered under Section 306(d) of Title III of the National Housing Act to borrow from the United States Treasury, through the issuance of its general obligations, in an amount sufficient to enable GNMA to perform its obligations under its guaranty of the timely payment of the principal of and interest on Guaranteed Securities that are guaranteed by GNMA. The United States Treasury is authorized to purchase any obligations so issued by GNMA and has indicated in a letter dated February 13, 1970, from the Secretary of the United States Treasury to the Secretary of HUD, that the United States Treasury will make loans to GNMA, if needed, to implement the aforementioned guaranty. GNMA warrants to the registered owner of Guaranteed Securities, that, in the event it is called upon to make payment pursuant to such guaranty of the payment of principal of and interest on the Guaranteed Securities, it will, if necessary, apply to the Treasury Department of the United States for a loan or loans in amounts sufficient to make such payments.

Guaranteed Securities issued in connection with mortgage loans on multi-family projects are issued in two forms-construction loan certificates for projects under construction and project loan certificates for completed projects. Prior to the issuance of a Guaranteed Security, the Lender must become an approved issuer of GNMA-guaranteed securities and obtain GNMA's commitment to guarantee such Security, and in the case of a project under construction, the Lender must obtain GNMA's commitment to guarantee payments of the construction loan certificates, and upon completion of the project, the project loan certificate.

Project loan certificates can be issued only after the project has been completed and the mortgage loan on the project finally endorsed for mortgage insurance by HUD.

Construction loan certificates are issued periodically--usually monthly--as construction of the project progresses, in the amount of the principal amount of the mortgage loan that at the time of such issuance has been disbursed and endorsed for insurance by FHA. Immediately following final endorsement for mortgage insurance by HUD, the construction loan certificates are exchanged for the project loan certificate.

As a condition to the issuance of each construction loan certificate, the Lender will be obligated to deliver certain documents to GNMA not later than 3 business days prior to the anticipated delivery date of such Guaranteed Security, including evidence of the advance of the mortgage loan and its endorsement for insurance by FHA. During such 3 business day period between the date of an advance under the mortgage loan and the issuance of a GNMA guaranty of the related construction loan certificate, it is possible that the Borrower could default under the mortgage loan or the Lender could default under a GNMA guaranty agreement (the "GNMA Guaranty Agreement"). In connection with other mortgage loans, GNMA has stated, among other things, that, in the event of either or both types of default, it nevertheless will (except in the event of fraud or misrepresentation by the Lender) be obligated to approve the issuance of the construction loan certificate corresponding to the advance under the mortgage loan made prior to the default.

Servicing of Mortgage

Under contractual arrangements between a Lender and GNMA, the Lender is responsible for servicing and otherwise administering the mortgage securing a Guaranteed Security in accordance with generally accepted practices of the mortgage banking industry and the GNMA Servicer's Guide.

The monthly remuneration of the Lender, for its servicing and administrative functions, and the guaranty fee charged by GNMA, are based on the unpaid principal amount of the Guaranteed Security outstanding. GNMA regulations and policies have fixed the total of these servicing and guaranty fees at a minimum of 0.25% per annum and a maximum of 0.50% per annum calculated on the principal balance of the Guaranteed Security outstanding on the last day of the month preceding such calculation. A Guaranteed Security carries an interest rate that is fixed below the interest rate on the underlying mortgage note by the amount of such servicing and guarantee fees.

Payments of principal of and interest on the mortgage notes are expected to be received by the Lender from the mortgagor in amounts and at times sufficient to be the source of the payments of principal of and interest on the Guaranteed Securities. If such payments are less than the amount due, the Lender is obligated to advance its own funds to make the timely payment of all amounts due on the GNMA Security. GNMA guarantees such timely payment in the event of failure by the Lender to make scheduled payments when due. The Guaranteed Security does not represent a liability or an obligation of the Lender and recovery may be sought only from GNMA.

The Lender is required to advise GNMA in advance of any impending default on scheduled payments so that GNMA as guarantor will be able to continue such payments as scheduled on the 15th day of each month. However, the Guaranteed Securities will not constitute a liability nor evidence recourse against the Lender if such payments are not received as scheduled. If such payments are not received as scheduled, the Administration has recourse directly to GNMA.

In the event of a default by the Lender, including (1) a request to GNMA to make a payment of principal of or interest on a Guaranteed Security when the mortgagor is not in default under the mortgage note, (2) insolvency of the Lender or (3) default by the Lender under any other guaranty agreement with GNMA, the GNMA Guaranty Agreement provides that GNMA shall have the right, by letter to the Lender, to effect the complete extinguishment of the Lender's interest in the mortgage, and the mortgage will become the absolute property of GNMA, subject only to the unsatisfied rights of the owner of the GNMA security. In such event, the GNMA Guaranty Agreement provides that on and after the time GNMA directs such a letter of extinguishment to the Lender, GNMA will be the successor in all respects to the Lender in its capacity under the GNMA Guaranty Agreement and the transaction and arrangements set forth or arranged for therein, and shall be subject to all responsibilities, duties, and liabilities (except the Lender's indemnification of GNMA), placed on the Lender by the terms and provisions of the GNMA Guaranty Agreement, provided that at any time, GNMA may enter into an agreement with any other eligible issuer of GNMA securities under which the latter undertakes and agrees to assume any part or all such responsibilities, duties or liabilities theretofore placed on the Lender, and provided that, no such agreement shall detract from or diminish the responsibilities, duties or liabilities of GNMA in its capacity as guarantor of the Guaranteed Security, or otherwise adversely affect the rights of the holders thereof.

Payment of Principal and Interest on the Guaranteed Securities

Payment of interest on Guaranteed Securities is required to be made in monthly installments on or before the 15th day of each month (or the 17^{th} day for book entry Guaranteed Securities) commencing the month next following the date of issue of the Guaranteed Securities. Payment of the principal of Guaranteed Securities is expected to commence 15 days after the commencement of amortization of principal of the mortgage note.

Following the issuance of the Guaranteed Securities and commencement of the payment of principal thereon, Guaranteed Securities are payable in equal monthly installments, subject to prepayment. Each installment on Guaranteed Securities is applied first to interest and then to the reduction of the principal balance then outstanding. Interest is paid at the specified rate on the unpaid portion of the principal of the Guaranteed Securities. The amount of principal due on Guaranteed Securities is in an amount equal to the scheduled principal amortization currently due on the underlying mortgage notes. Payments of principal and interest are subject to adjustment due to prepayments or other early unscheduled recoveries of principal on the underlying mortgage note.

The Lender agrees to pay to the owner of a Guaranteed Security monthly installments of not less than the interest due on the Guaranteed Security at the rate specified in the Guaranteed Security, together with any scheduled installments of principal, whether or not collected from the mortgagor and any prepayments or early recoveries of principal. Final payment is made upon surrender of the Guaranteed Securities. The Guaranteed Security does not represent a liability or an obligation of the Lender and recovery may be sought only from GNMA.

APPENDIX G

FEDERAL HOUSING SUBSIDY PROGRAMS

Section 8 Program

General. The following is a brief description of the housing assistance payments program for new construction and substantial rehabilitation authorized by Section 8 of the United States Housing Act of 1937, as amended (the "Housing Act") as such program relates to the Loans. Such description is qualified in its entirety by reference to the applicable provisions of the Housing Act and the regulations promulgated thereunder. Although the Housing and Urban Recovery Act of 1983 repealed the new construction and substantial rehabilitation programs of Section 8 as of October 1, 1983, any projects receiving funding under such programs are still subject to regulation under those programs. The housing assistance payments program authorized by Section 8 for moderate rehabilitation or for existing housing may differ. Reference is made to the Housing Act and regulations thereunder for a complete description.

Provision has been made under the Housing Act and the United States Department of Housing and Urban Development ("HUD") regulations for the administration of Section 8 subsidies through state housing finance or development agencies, including the Administration.

Subsidy Contracts. Under the Section 8 housing assistance payments program, three principal contracts are executed. The owner and a public housing agency, such as the Administration, execute an Agreement to Enter Into Housing Assistance Payments Contract ("AHAP") with respect to a development to be constructed or rehabilitated. This AHAP is approved by HUD and, subject to certain conditions, commits the owner to enter into a Housing Assistance Payments Contract ("HAP Contract") upon completion and acceptance of the development. The HAP Contract is executed by the owner and the public housing agency and approved by HUD. In connection with the AHAP, the public housing agency and HUD enter into an Annual Contributions Contract ("ACC") which provides for the disbursement by the public housing agency, as HUD's agent, of housing assistance payments in accordance with the terms of the HAP Contract. The ACC and the HAP Contract usually provide for the payment of the Section 8 subsidy for an initial term, sometimes automatically renewable for additional terms of not more than five years each, with a maximum term of up to 40 years. See APPENDIX D - "DESCRIPTION OF LOANS AND DEVELOPMENTS" for selected information on the Loans, including the terms of applicable HAP Contracts.

None of the Loans were made subject to HUD's financing adjustment factor rule published in 1981.

Payments received under the HAP Contracts constitute a primary source of revenues for many of the Developments. Therefore, the termination of a HAP Contract prior to the maturity date of the related loan would have a material adverse impact on the ability of a Development to generate revenues sufficient to pay the principal of and interest on a Loan if the HAP Contract or other similar financial assistance program is not extended by HUD at the expiration of a HAP Contract, if a public housing agency does not continue to allocate on an annual basis Section 8 certificates or housing vouchers to tenants in a development, or the owner is otherwise unable to lease substantially all of the units in the development at rentals which produce revenues equivalent to those which would have been received if the term of the HAP Contract had been extended for the term of a Loan. In such event, there is a likelihood of a default on the related Loan if the term of such Loan exceeds that of the HAP Contract.

Calculation and Payment of Subsidy. The HAP contract specifies a "Contract Rent" for each assisted dwelling unit. The Contract Rent is generally limited by the "fair market rents" established by HUD and published in the Federal Register and by the rents of unassisted units of similar age, design, location and amenities. The Contract Rent for the assisted dwelling units in each development is adjusted by HUD annually pursuant to an adjustment factor established by HUD.

An amount equal to the Contract Rent for each assisted dwelling unit is set aside by HUD in an ACC Reserve Account for each development. Each month, HUD pays from such accounts to the public housing agency, for the account of the owner, an amount equal to the Contract Rent and utilities allowance for each assisted dwelling unit less up to 30% of the resident's income, with certain adjustments. This latter amount is paid directly to the owner by the resident. The proportion of the Contract Rent actually paid by HUD and the resident may vary from month to month depending upon the resident's income. Funds left in the project account are held over to cover future contingencies or rent increases.

Generally, the Section 8 subsidy is payable only when a dwelling unit is occupied by an eligible tenant. However, HUD regulations provide for payments to be made under certain limited circumstances when the unit is not occupied. Subject to certain conditions, after rent-up a subsidy equal to 80% of Contract rents is payable for vacant units for a period of 60 days, and thereafter for an additional 12-month period in an amount equal to the debt service attributable to the unit, subject to additional conditions.

The housing assistance payments are made by HUD directly to the public housing agency and, together with any tenants' contributions, are available to pay debt service on the mortgage note and operating costs of the development and, except in the case of owners organized as nonprofit entities, a return on the owner's initial equity in the development. The public housing agency may deduct debt service, escrows and reserve requirements and remit the balance, if any, to the owner.

Adjustment of Subsidy Amount. HUD regulations provide for the determination by HUD of an adjustment factor at least once a year. On each anniversary date of the HAP Contract, Contract Rents are adjusted upon request from the owner to the contract administrator in accordance with this factor. Current law and HUD regulations require that rent adjustments not result in material differences between the Contract Rents and rents for comparable unassisted units, except to the extent that the differences existed at the time of execution of the HAP Contract. Current law requires HUD to deny rent adjustments to those Section 8 projects with rents above the applicable fair market rents established by HUD unless the mortgagor demonstrates that the adjusted rent would not exceed rents for comparable unassisted units (plus the initial rent difference), and also requires HUD to reduce the annual adjustment factor by one percentage point for those units in which there was no tenant turnover during the previous year. In addition, provision is made in HUD regulations for special additional adjustments to reflect increases in the actual and necessary expenses of owning and maintaining the subsidized units which have resulted from substantial general increases in real property taxes, utility rates or similar costs, to the extent that such general increases are not adequately compensated for by the automatic annual adjustments. There is no assurance that such adjustments or special additional adjustments will in fact be sufficient to cover such cost increases. Current federal law provides that Contract Rents in effect on or after April 15, 1987 for newly constructed, substantially rehabilitated or moderately rehabilitated projects may not be reduced unless the project has been refinanced in a manner that reduces the periodic payments of the owner.

The ACC provides that the maximum amount of annual contributions initially available for housing assistance payments will equal the initial Contract Rents and utilities allowances for all assisted units in the development.

In the event that increases in Contract Rents resulting from automatic or special adjustments require annual contributions in excess of the amount then available under the ACC, and HUD approves the estimated required amount for the project, the Section 8 program provides that the Secretary of HUD shall take such steps as may be necessary, including paying annual contributions in amounts in excess of the amounts initially contracted for, reserving annual contributions authorized for the purpose of amending ACCs, or allocating a portion of new authorizations to amend ACCs and HAP Contracts, to assure that assistance payments are increased on a timely basis to cover increases in Contract Rents or decreases in family incomes. HUD's ability to implement such steps may be dependent upon Congressional appropriations of funds.

Termination of Subsidy Contracts. Housing assistance payments do not automatically terminate if a mortgage loan is in default. In addition, in the event of foreclosure, or an assignment or sale to the public housing agency in lieu of foreclosure, or in the event of assignment or sale agreed to by the public housing agency and approved by HUD, housing assistance payments continue in accordance with the terms of the HAP Contract. However, HUD has reserved the right in the event of a default with respect to the mortgagor's obligations under the HAP Contract to take corrective action, abate or terminate housing assistance payments or terminate the HAP Contract in accordance with the provisions of the ACC after providing reasonable notice to the public housing agency and opportunity to correct the default.

Compliance with Subsidy Contracts. Each ACC and HAP Contract contains, where applicable, agreements on the part of HUD, the Administration and the owner concerning, among other things, maintenance of the housing development as decent, safe and sanitary housing and compliance with a number of requirements typical of federal contracts (such as non-discrimination, equal employment opportunity, relocation, pollution control and labor standards) as to which noncompliance by either the public housing agency or the owner, or both, may abate the payment of the federal subsidy, in whole or in part. Under Loans financed by the Administration, default by an owner in the performance of its obligations is an event of default under the terms of its mortgage which would permit foreclosure by the Administration.

Housing assistance payments will continue as long as the owner complies with the requirements of the HAP Contract and has leased the assisted units to eligible tenants or satisfies the criteria for receiving assistance for vacant units. The public housing agency, which has primary responsibility for administering the HAP Contract subject to review and audit by HUD, may require the owner to cure any default under the HAP Contract and may abate housing assistance payments and recover over-payments pending remedy of the default. If the default is not cured, the public housing agency may terminate the HAP Contract or take other corrective action, as directed by HUD. HUD has an independent right to determine whether the owner is in default, to take corrective action, and to apply appropriate remedies.

If HUD determines that the Administration has failed to fulfill its obligations, HUD may, after notice to the Administration giving it a reasonable opportunity to pursue corrective action, require that the public housing agency assign to HUD all its rights under the HAP Contract.

Eligible Tenants. An eligible tenant for a Section 8-assisted unit or a Housing Voucher is a family or an individual whose income, determined in accordance with HUD schedules and criteria, does not exceed the income limits prescribed by HUD for the area in which the development is located. Under existing HUD regulations, the income limit is generally fifty percent (50%) of the area's median income, with further adjustment for the size of the tenant's family and regional economic conditions; although tenants in up to twenty five percent (25%) of units (fifteen (15%) for developments with HAP contracts dated after October 1, 1981) may have incomes up to eighty percent (80%) of the area's medium income, as adjusted by HUD. Recent legislation also requires that not less than 40% of the dwelling units that become available for occupancy in any fiscal year shall be available for leasing only by families whose annual income does not exceed 30% of area median income (as determined by HUD and adjusted for family size) at the time of admission.

Expiring HAP Contracts and Recent Developments. In recent years, there have been numerous proposals and pronouncements from Members of Congress, the Clinton Administration and HUD Officials which address the future of HUD and the various programs operating pursuant to Section 8 of the 1937 Housing Act. The primary focus of these proposals and pronouncements have been developments that have FHA-insured mortgages with terms ranging from 30 to 40 years and which have Section 8 HAP Contracts with substantially shorter terms. Efforts to address this subject are often referred to, generally and with out specific import, as "Portfolio Reengineering" or "Mark-to-Market."

After a series of interim legislative acts and demonstration programs, HUD's Fiscal Year 1998 Appropriations Act, Pub. L. 105-65, was signed into law by the President on October 27, 1997. This legislation includes within it the "Multifamily Assisted Housing Reform and Affordability Act of 1997"(as amended, the "Restructuring Act"), which was further amended by the "Preserving Affordable Housing for Senior Citizens and Families into the 21st

Century Act," enacted by Congress as part of HUD's Year 2000 Appropriations Act (the "Year 2000 Amendments"). The Restructuring Act implements a new "Mark-to-Market" program, beginning in fiscal year 1999, pursuant to which many FHA insured Section 8 developments with expiring HAP Contracts and above-market rents will be eligible for restructuring plans, and, upon restructuring, may receive continuing Section 8 assistance. These restructuring plans may include refinancing and/or partial payment of mortgage debt, intended to permit the reduction of Section 8 rent levels to those of comparable market rate properties or to the minimum level necessary to support proper operations and maintenance. The Restructuring Act provides, however, that no restructuring or renewal of HAP Contracts will occur if the owner of a project has engaged in material adverse financial or managerial actions with respect to that project or other federally assisted projects, or if the poor condition of the project cannot be remedied in a cost effective manner. In addition, the Year 2000 Amendments provided for a new program for preservation of Section 8 developments (including Section 236 developments that have project based HAP Contracts) that allows increases in Section 8 rent levels for certain developments that have below market rents, to market or near market rate levels (the "Mark-up-to Market Program").

The restructuring (or expiration and renewal of HAP Contracts) is designed also to result in a change from "project-based" to "tenant-based" Section 8 payments in many cases. In the former circumstances, the HAP Contract is associated with a particular development and the units therein, and when a tenant moves from the development, the successor tenant, assuming that he or she is within the applicable income limits, will receive the benefit of the Section 8 payments. With "tenant-based" assistance, the Section 8 subsidy is associated with a particular tenant, and when the tenant moves from the development, the successor tenant will not receive the benefit of the Section 8 payments.

The Restructuring Act contains distinct mortgage restructuring and HAP Contract renewal and contract rent determination standards for Section 8 developments for which the primary financing or mortgage insurance was provided by a state or local government, or a unit or instrumentality of such government. Upon the request of the owner of such a development, HUD is currently required to renew an expiring HAP Contract (absent certain actions or omissions of an owner or affiliate and subject to certain verifications). Under current HUD policy, renewals are expected to be made for an initial term of one year, with initial rents at the lesser of: (1) existing rents adjusted by an Operating Costs Adjustment Factor ("OCAF") established by HUD, or (2) a budget-based rent determined by HUD. Under current law, future rent adjustments will be determined using an OCAF or a budget-based adjustment. While it is anticipated that any such adjustment will be structured so as to take due account of debt service requirements, there can be no assurance that rent adjustments will provide for contract rents adequate to pay principal and interest on Bonds. More generally, there can be not assurance that future policies or funding levels will continue to make renewals and rent adjustments available on the same terms as are currently anticipated.

Under the Year 2000 Amendments, as interpreted by HUD in its implementing guidelines, Section 8 developments with FHA-insured mortgages for which the primary financing was provided by a unit of state or local government, such as the Administration, are subject to the Mark-to-Market program unless implementation of a mortgage restructuring plan would be in conflict with applicable law or agreements governing such financing. To the extent any such state and local government financed Section 8 developments with FHA-insured mortgages are determined not to qualify for the Mark-to-Market program, such developments would be treated in the same manner as other Section 8 developments, as discussed above, that do not have FHA-insured mortgages. To the extent any such Section 8 developments are determined to be eligible for the Mark-to-Market program, all or a portion of the debt for such developments may be prepaid as part of a restructuring agreement.

HAP Contract rents under the Restructuring Act may be significantly lower than the current HAP Contract rents in Section 8 developments, and the corresponding reduction in Section 8 subsidy payments for such developments could materially adversely affect the ability of the owners of such developments to pay debt service on the Loans. Any termination or expiration of HAP Contracts, without renewal or replacement with other project-based assistance (whether due to enactment of additional legislation, material adverse financial or managerial actions by a mortgagor, poor condition of the development or other causes) could also have a material adverse impact on the ability of the related Section 8 developments to generate revenues sufficient to pay debt service on the Loans. In such an instance, a default under the FHA-insured mortgage would result in a claim for payment of mortgage insurance benefits.

While the Restructuring Act generally allows owners to renew HAP Contracts (absent certain material adverse conduct or conditions), owners are not required to renew HAP Contracts beyond their expiration. Upon an election not to renew a HAP Contract owners are required to provide certain notices and transitional tenant protections.

The Office of Multifamily Housing Assistance Restructuring ("OMHAR"), which is responsible for implementing the Mark-to-Market programs, and HUD's authority to restructure mortgages, were both scheduled to expire on September 30, 2001. Under the Continuing Resolution adopted on September 28, 2001 for the Fiscal Year 2002 Budget (P.L. 107-44), Congress expressly extended such authority through October 16, 2001. Prior to the adoption of the Continuing Resolution, both Houses of Congress had passed bills which would have extended such authority through at least September 30, 2004, and it is expected that such legislation will be enacted. The failure of Congress to extend the authority to restructure such mortgages could lead to increased defaults with respect to Loans which have a term longer than that of the related HAP Contract, which in turn could result in an insurance claim.

Section 236 Program

General. Under Section 236 of the National Housing Act, the Secretary of HUD (the "HUD Secretary") enters into contracts with owner-mortgagors to make interest reduction payments to the mortgagee, on behalf of the project owner, in an amount generally equal to the difference between the monthly payment for principal, interest and mortgage insurance premium and the monthly payment for principal and interest such project owner would be obligated to pay if the mortgage were to bear interest at the rate of 1 percent per annum. Such Section 236 Contracts are project-based and coterminous with the related mortgages.

As a condition to receiving the interest reduction payments, the project owner must operate the project in accordance with tenant eligibility and rent requirements established by law and further prescribed by the HUD Secretary, maintain the project in satisfactory condition and meet various other HUD requirements. The HUD Secretary is to review tenant income requirements at least annually.

Interest Rate Subsidy. For each dwelling unit there is established, with the approval of the HUD Secretary, (A) a basic rental charge determined on the basis of operating the project with payments of principal and interest due under a mortgage bearing interest at the rate of 1 percent per annum and (B) a fair market rental charge determined on the basis of operating the project with payments of principal, interest and a mortgage insurance premium which the mortgagor is obligated to pay under the mortgage covering the project. The rental paid by the tenant of each dwelling unit shall be at the basic rental charge or such greater amount, not exceeding the lesser of (A) the fair market rental charge, or (B) the actual rent paid for a comparable unit in comparable unassisted housing in the market area in which the housing is located, up to 30 percent of the tenant's adjusted income.

With respect to those projects which the HUD Secretary determines have separate utility metering for some or all dwelling units, the HUD Secretary is authorized: (A) to permit the basic rental charge and the fair market rental charge to be determined on the basis of operating the project without the payment of the cost of utility services used by such dwelling units; and (B) to permit the charging of a rental for such dwelling units at such an amount, less than 30 percent of a tenant's adjusted income, as the HUD Secretary determines represents a proportionate decrease for the utility charges to be paid by such tenant, but in no case shall such rental be lower than 25 percent of a tenant's adjusted income.

The project owner shall, as required by the HUD Secretary, accumulate, safeguard, and periodically pay to the HUD Secretary, on a unit-by-unit basis as distinct from a net project basis, all rental charges collected in excess of the basic rental charges ("Section 236 Excess Rents"). With HUD's consent, and subject to certain restrictions, such Section 236 Excess Rents may be retained by the project owner for project use. Otherwise, Section 236 Excess Rents must be remitted to HUD.

In order to induce advances by owners for capital improvements (excluding any owner contributions that may be required by the HUD Secretary), in establishing basic rental charges and fair market rental charges, the HUD Secretary may include an amount that would permit a return of such advances with interest to the owner out of project income, on such terms and conditions as the HUD Secretary may determine. Any resulting increase in rent contributions shall be:

(i) to a level not exceeding the lower of 30 percent of the adjusted family income of the tenant or the published existing fair market rent for comparable housing established under the Section 8 program;

(ii) phased in equally over a period of not less than 3 years, if such increase is 30 percent or more; and

(iii) limited to not more than 10 percent per year if such increase is more than 10 percent but less than 30 percent.

Assistance under the Section 8 program shall be provided, to the extent available under appropriations acts, if necessary, to mitigate any adverse effects of these provisions on income-eligible tenants.

Interest reduction payments are made upon receipt by the HUD Secretary of a billing containing representations of facts by the Administration. If the HUD Secretary finds that interest reduction payments have been excessive because of inaccurate facts contained in the billing or other cause, the Administration is obligated to immediately refund the amount that was overpaid. Adjustments in the interest reduction payments are also made in the event a subsidized dwelling unit is destroyed or rendered not habitable for any reason unless the unit is restored or rehabilitated within a reasonable time or unless an unsubsidized unit is designated in its place.

Covenants of Owner. In the Section 236 Contract the project owner covenants and agrees with respect to each subsidized dwelling unit of the project, among other things, that:

(a) Any revision in the basic rental or fair market rental for any subsidized dwelling unit shall be made or approved by the Administration as well as subject to approval by the HUD Secretary, and the HUD Secretary agrees that it will not unreasonably withhold approval of rent revisions made or approved by the Administration;

(b) Preference for occupancy in subsidized dwelling units shall be given to displaced families and to families whose incomes are within the lowest practicable limits for obtaining rental units in the project; and

(c) The mortgagor shall not sell, convey or transfer the project except to a purchaser who is approved by the HUD Secretary and is entitled to participation under Section 236 and who assumes the project owner's duties and obligations under the Section 236 Contract.

Covenants of Administration. The Administration covenants and agrees that it will not assign the project mortgage or agree to the forbearance or deferment of any payment due under the project mortgage without the prior written approval of the HUD Secretary; except that, in connection with the issuance of its notes and bonds for the purpose of providing financing under the project mortgages, the Administration may assign or pledge the project mortgage and its rights thereunder as security for its note or bond holders or to a trustee without the written approval of the HUD Secretary. The HUD Secretary shall terminate payments under the Section 236 Contract if the property is acquired by any owner not eligible under Section 236 of the National Housing Act. Section 236 was amended in 1989 to include public entities as eligible owners, as well as non-profit owners.

Termination of HUD Payments. The HUD Secretary may also terminate interest reduction payments under the Section 236 Contract:

(1) Upon default by the project owner or the Administration under any provision of the agreement; or

(2) If any action of foreclosure is instituted by the Administration, unless the Administration (i) gives to the HUD Secretary in advance written notice of its intention to institute such foreclosure and (ii) submits to the HUD Secretary in advance a plan acceptable to the HUD Secretary providing for continuity of eligibility of the project for receiving the benefits of Section 236.

A payment default under the related mortgage, in and of itself, is not a default under the Section 236 Contract.

If a project is sold upon foreclosure to a new owner (which could include another public entity on behalf of the Administration), upon satisfaction of the requirements specified in (2) above, the Section 236 interest reduction payments would continue with respect to any mortgage loan assumed or incurred by the new project owner on the same annual and total basis and formula as specified in the related Section 236 Contract.

In the event the HUD Secretary terminates Section 236 interest reduction payments under the Section 236 Contract, the HUD Secretary shall give prior written notice thereof to the Administration stating the reasons therefor. If payments are terminated or to be terminated, such payments may be reinstated or continued by the HUD Secretary at its discretion and on such conditions as the HUD Secretary may prescribe.

Section 236, the rules, regulations and directives promulgated pursuant thereto and the Section 236 Contracts, do not contain any express requirement that any savings which result from a reduction in the Administration's cost of borrowing due to a refunding of its obligations issued to finance a mortgage loan must be used to lower the interest rate on the mortgage loan and thereby to reduce HUD Payments. Consequently, the Administration does not intend to reduce the interest rate on any of the Transferred Loans receiving Section 236 interest reduction payments as a result of the issuance of the Series 1996 A Bonds to refund the bonds originally issued by the Administration to finance such Loans. Based on the foregoing, the Administration does not believe that HUD or any other party is entitled to all or a portion of the Administration's debt service savings that result from the issuance of the Series 1996 A Bonds. However, no assurance can be provided that HUD will not assert a right to reduce the amount of payments payable under the Section 236 Contracts based upon the issuance of the Series 1996 A Bonds. If such a right is asserted, HUD could take certain actions including attempting to reduce payments under the Section 236 Contract.

Prepayment of Loan. Each Borrower covenanted in the applicable Section 236 Loan documents not to prepay such Loan prior to 20 years from the date the Project was occupied. Each such Loan permits the Borrower to prepay such Loan at any time after such date subject only to certain temporary affordability restrictions and transitional protections for affected tenants. The Year 2000 amendments permit mortgagors of Section 236 Loans to refinance their mortgages (if the mortgages are otherwise eligible for prepayment) while retaining the Section 236 subsidy. It is too early to tell what impact, if any, such provision will have upon those Section 236 Loans that are eligible for prepayment.

Any prepayment of Loans could result in the redemption of Bonds at any time, at a redemption price equal to 100% of the principal amount of Bonds redeemed, plus accrued interest to the redemption date as described under "THE OFFERED BONDS - Redemption Provisions."

Transfer of Loan. Each Section 236 Contract provides that the corresponding Section 236 Loan may only be assigned, including any assignment or reassignment between the Administration and the Trustee, with HUD's prior written approval.

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APPENDIX H

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The following is a brief summary of certain provisions of the Bond Resolution, and such summary is qualified in its entirety by reference to the Bond Resolution.

Purposes for Which Bonds May Be Issued. §1.01.

Bonds may be issued under the Bond Resolution to provide funds for one or more of the following purposes:

(1) for the making, purchasing or otherwise financing of Qualified Loans;

(2) for the refinancing of Qualified Loans (including, without limitation, Qualified Loans in default);

(3) for the refunding of any or all Outstanding Bonds or any other bonds, notes or other obligations, whether or not the Administration is the issuer thereof, including any or all interest and redemption premiums thereon;

(4) for the payment of any "Development Cost" as such term is defined in the Act and any other cost, including, without limitation, costs of issuance, discount, insurance or credit enhancement premiums or fees, fees and expenses of counsel, financial advisors and other professional advisors and consultants, all as permitted by the Act;

(5) for the funding of reserves; or

(6) achieving any other of the Administration's purposes, as described in the Act, as now or hereafter in effect.

Contract with Trustee and Bondholders. §1.02.

As provided in the Act and in consideration of the acceptance by the Trustee of the trusts created pursuant to the Bond Resolution and of the purchase and acceptance of Bonds of any Series issued under the Bond Resolution by any who shall from time to time be holders thereof:

(a) The provisions of the Bond Resolution and applicable Series Resolutions shall be a contract of the Administration with the Trustee and the holders of the Bonds.

(b) The Administration covenants that it will cause to be paid to and deposited with the Trustee all proceeds of Bonds, all payments of Loans, and all income and receipts therefrom.

Series Resolutions. §2.02.

The Administration may, in a Series Resolution, allow permitted variances from provisions of the Bond Resolution (including, without limitation, any modifications to redemption notice provisions) and any other provisions deemed advisable by the Administration and not in conflict with or in substitution for the provisions of the Bond Resolution.

Purchase of Bonds. §4.06.

The Administration may purchase or cause to be purchased any Bonds of any particular Series or maturity in lieu of redemption of such Bonds or for any other purpose pursuant to written instructions given by the Administration to the Trustee, provided that, if the purchase price of any Bonds exceeds the then applicable Redemption Price and accrued interest to the date of purchase, such written instructions shall be accompanied by a Cash Flow Certificate which takes into account any redemption or cancellation of Bonds so purchased. Such purchases shall be made in such manner as directed by the Administration. The Administration or the Trustee shall pay the purchase price of such Bonds together with accrued interest thereon from such funds as may be available therefor pursuant to the Bond Resolution, any applicable Series Resolution, or as otherwise may be made available by the Administration.

The Administration may from time to time in its discretion invite tenders for sale of Bonds to the Administration or a person designated by the Administration, either by public offer or private invitation, at such prices or bidding procedure as may be determined by the Administration. Such tender invitations may be made in lieu of redemption of Bonds or for any other purpose.

Funds and Accounts. §5.01.

The following funds and accounts are established under the Bond Resolution:

(1) Bond Proceeds Fund;

(2) Revenue Fund;

(3) Redemption Fund;

(4) Debt Service Reserve Fund;

(5) Collateral Reserve Fund; and

(6) Acquired Development Fund.

All such funds and accounts shall be held and maintained by the Trustee. The Administration may establish accounts and sub-accounts within each fund and account to the extent consistent with the Bond Resolution and such other funds or accounts as may be authorized pursuant to a Supplemental Resolution. All monies or securities held by the Trustee pursuant to the Bond Resolution or a Supplemental Resolution shall be held in trust and applied only in accordance with the provisions of the Bond Resolution, the applicable Supplemental Resolution, the Act and other applicable law.

The Administration may at any time direct the transfer of moneys or Permitted Investments between or among any fund or account created pursuant to the Bond Resolution, provided such transfers are otherwise in accordance with the provisions of the Bond Resolution. The Administration may, but is under no obligation to, at any time deposit or cause to be deposited into any fund or account under the Bond Resolution moneys from any source, including, without limitation, funds of the Administration.

Bond Proceeds Fund. §5.02.

Any proceeds of the sale of Bonds representing principal, premium or other amounts required to be deposited therein pursuant to the Bond Resolution and any Supplemental Resolution or Series Resolution and any other amounts determined by the Administration to be deposited therein from time to time shall be deposited in the Bond Proceeds Fund.

Amounts in the Bond Proceeds Fund shall be expended only: (i) to finance one or more of the purposes authorized by the Bond Resolution; (ii) to pay Cost of Issuance; (iii) to pay principal of and interest on the Bonds when due, to the extent amounts in the Revenue Fund are insufficient for such purpose; (iv) to purchase or redeem Bonds; (v) to pay, purchase or redeem bonds, notes or other obligations of the Administration or any other entity; (vi) for any other use or purpose permitted by the applicable Series Resolution and the Act, and (vii) if so provided in a Supplemental Resolution, to reimburse a Credit Facility Provider or Credit Enhancer for amounts paid or obtained under a Credit Facility or Credit Enhancement for any of the purposes described in clauses (iii), (iv), (v) or (vi) of this paragraph.

The Trustee shall pay out and permit the withdrawal of amounts on deposit in the Bond Proceeds Fund at any time for the purpose of making payments pursuant to clause (i) or (ii) of the preceding paragraph, but only upon receipt of:

(1) a written requisition setting forth each amount to be paid, the person or persons to whom such payment is to be made (which may be or include the Administration) and the purpose of each such payment; and

(2) a certificate of an Authorized Officer identifying such requisition and stating that (A) the amount to be withdrawn from the Bond Proceeds Fund pursuant to such requisition is a proper charge thereon, (B) if such requisition is in connection with the financing of a Loan, including construction advances thereon, such Loan complies with the provisions of the Bond Resolution, and (c) the amount of all payments theretofore or thereupon made by the Administration does not exceed the amount necessary to finance the purpose of such payment.

At any time the Administration may direct the Trustee in writing to transfer amounts in the Bond Proceeds Fund not required for the financing of the Administration's purposes to the Redemption Fund or to apply such amounts directly to the redemption, purchase or retirement of Bonds.

Revenue Fund. §5.03.

The Administration shall cause all Revenues to be deposited promptly with the Trustee in the Revenue Fund. There shall also be deposited in the Revenue Fund any other amounts required to be deposited therein pursuant to the Bond Resolution or any Supplemental Resolution or any other funds from any source directed to be deposited therein by the Administration.

The Trustee shall pay out of the Revenue Fund:

(i) on or before each Interest Payment Date, the amounts required for the payment of Principal Installments or Sinking Fund Installments, if any, and interest due on the Outstanding Bonds on such date, and

(ii) on or before the Redemption Date or date of purchase, the amounts required for the payment of premium, if any, and accrued interest on outstanding Bonds to be redeemed or purchased on such date unless the payment of such accrued interest shall be otherwise provided for,

and in each such case, such amounts shall be applied by the Trustee to such payments; provided that if, pursuant to a Supplemental Resolution, amounts obtained under a Credit Facility or Credit Enhancement are to be used to make the payments referred to in this paragraph, then amounts in the Revenue Fund which would have otherwise been used to make such payments may be applied to reimburse the Credit Facility Provider or Credit Enhancer for the amounts so obtained, all in accordance with such Supplemental Resolution; and, provided further, the foregoing payments with respect to a Series of Subordinate Bonds shall be subject to the requirements and priorities set forth in any applicable Series Resolution authorizing such Series of Subordinate Bonds.

Any amount accumulated in the Revenue Fund up to the unpaid balance of each Sinking Fund Installment may, and, if so directed in writing by the Administration, shall, be applied by the Trustee prior to the fifth day preceding the date the Trustee is required to give notice of redemption of Bonds pursuant to such Sinking Fund Installment: (i) to the purchase of Bonds of the maturity for which such Sinking Fund Installment was established, or (ii) to the redemption of such Bonds, if then redeemable by their terms, at the Redemption Prices referred to above; provided that if, pursuant to a Supplemental Resolution, amounts obtained under a Credit Facility or Credit Enhancement are to be used to make the purchases referred to in this paragraph, then amounts in the Revenue Fund which would have otherwise been used to make such purchases may be applied to reimburse the Credit Facility Provider or Credit Enhancer for the amounts so obtained, all in accordance with such Supplemental Resolution. Upon the purchase or redemption of any Bond, an amount equal to the principal amount of the Bonds so purchased or redeemed shall be credited toward the next Sinking Fund Installment thereafter to become due with respect to the Bonds of such maturity and the amount of any excess of the amounts so credited over the amount of the next Sinking Fund Installment shall be credited by the Trustee against future Sinking Fund Installments in direct chronological order, unless otherwise instructed in writing by an Authorized Officer.

On each interest payment date, following any payments made as provided above, and subject to the requirements and priorities set forth in any applicable Series Resolution authorizing a Series of Subordinate Bonds, the Trustee shall transfer from the Revenue Fund:

(i) first, to the Debt Service Reserve Fund, an amount equal to the amount necessary to be transferred to such Fund in order that the amount on deposit therein be equal to the Debt Service Reserve Requirement (or such lesser amount as may be available),

(ii) second, to the Bond Proceeds Fund, such amount as the Administration determines is required to finance the purposes or uses permitted to be paid from the Bond Proceeds Fund, as evidenced by a certificate of an Authorized Officer,

(iii) third, if so directed by the Administration, to the Trustee, an amount equal to the Trustee's unpaid fees and expenses,

(iv) fourth, if so directed by the Administration, to any Credit Facility Providers or Credit Enhancers, an amount equal to any fees due and owing to such Credit Facility Providers or Credit Enhancers,

(v) fifth, to the Administration, an amount equal to any Operating Expenses, to the extent unpaid, and

(vi) sixth, to the entities providing Permitted Investments with respect to the funds and accounts or any arrangements or agreements with respect thereto, amounts equal to the fees due and payable on or before the next succeeding Interest Payment Date to such entities, as designated in a certificate of an Authorized Officer, provided that the transfers made pursuant to the foregoing clauses (ii) through (v) shall be consistent with the most recent Cash Flow Statement or Cash Flow Certificate.

If the amounts to be transferred pursuant to the foregoing clauses (ii) through (v) are greater than permitted by the most recent Cash Flow Statement or Cash Flow Certificate, such greater amounts may be transferred upon the receipt by the Trustee of a new Cash Flow Statement or Cash Flow Certificate taking such increased transfers into account. At any time after the transfers described in (i), (ii), (iii), (iv), (v) and (vi) above have been made, except as otherwise provided in a Supplemental Resolution, the Administration may, upon the written request of an Authorized Officer and upon filing with the Trustee of a Cash Flow Statement or a Cash Flow Certificate, withdraw free and clear of the lien of the Bond Resolution any amount remaining in the Revenue Fund.

The Trustee may at any time make transfers from the Revenue Fund, upon the written direction of an Authorized Officer, to the Redemption Fund for the purposes of such fund. No such transfer shall be made, however, unless there is on deposit in the Revenue Fund after such transfer an amount equal to the Debt Service accrued on all Outstanding Bonds as of the date of such transfer.

No payments shall be required to be made into the Revenue Fund so long as the amount on deposit therein shall be sufficient to pay all outstanding Bonds (including the Sinking Fund Installments for the retirement thereof) in accordance with their terms, and any Revenues thereafter received by the Administration may be applied to any lawful purpose of the Administration free and clear of the pledge and lien of the Bond Resolution.

The Administration reserves the right to transfer any legally available funds, including, without limitation, proceeds of Refunding Bonds, to the Trustee for credit to the Revenue Fund to pay all or a portion of scheduled principal or interest payments on any Loan, to cure or avert a default on any Loan, or to make any payment of principal, premium, interest or Sinking Fund Installment with respect to any or all of the Bonds. The Administration shall be entitled to recover from the Borrower any amounts so advanced, together with interest thereon at the rate payable on the Loan, or to enforce its right to such recovery under the Loan.

Redemption Fund. §5.04.

The Trustee shall credit to the Redemption Fund all Recovery Payments, moneys permitted to be transferred from the Debt Service Reserve Fund, the Revenue Fund and the Bond Proceeds Fund and any other amounts provided by or on behalf of the Administration (including, without limitation, proceeds of refunding bonds or other obligations); each of which shall be used and applied, as directed by an Authorized Officer, to any of the following purposes: (i) to provide additional funds to the Bond Proceeds Fund for an increase in the amount of a Loan authorized by the Administration or for new Loans to be made, purchased or financed by the Administration, (ii) for the purchase or redemption of Outstanding Bonds as directed by an Authorized Officer, or (iii) for transfer to the Revenue Fund of amounts included in a Recovery Payment representing interest on a Loan. Upon the direction of an Authorized Officer, the Trustee shall transfer any excess funds then held in the Redemption Fund to the Revenue Fund.

Upon receipt of the instructions from an Authorized Officer, the Trustee shall apply money in the Redemption Fund not otherwise applied in accordance with the foregoing paragraph to the purchase of Bonds so designated at the most advantageous price obtainable or the redemption of Bonds.

If, pursuant to a Supplemental Resolution, amounts obtained under a Credit Facility are to be used to purchase or redeem Bonds, then amounts in the Redemption Fund which would otherwise have been used for such purposes may be applied to reimburse the Credit Facility Provider for the amounts so obtained, all in accordance with such Supplemental Resolution.

Debt Service Reserve Fund. §5.05.

If moneys in the Revenue Fund are insufficient to provide for the payment when due of any Principal Installment, interest on the Bonds or any Sinking Fund Installment, the Trustee shall withdraw from the Debt Service Reserve Fund and pay into the Revenue Fund the amount of the deficiency then remaining. See "SECURITY FOR THE BONDS - Debt Service Reserve Fund."

Collateral Reserve Fund. §5.06.

Moneys or Cash Equivalents shall be deposited into the Collateral Reserve Fund in accordance with the requirements of a Series Resolution or a Supplemental Resolution, which may establish terms, conditions and provisions relating to the funding of the Collateral Reserve Fund, disbursement of moneys or Cash Equivalents from such fund, and maintenance of moneys or Cash Equivalents required to be held in such fund with respect to either a Series of Bonds or generally. The amount of moneys or Cash Equivalents required to be held in the Collateral Reserve Fund may be reduced upon receipt by the Trustee of a Cash Flow Certificate taking into account such reduction and confirmation from each Rating Agency that such reduction, in and of itself, will not cause or result in a reduction of the rating or ratings on the Bonds in effect immediately before such reduction. Any balance in the Collateral Reserve Fund in excess of the Collateral Reserve Requirement, may, at the direction of an Authorized Officer, be withdrawn from the Collateral Reserve Fund and credited by the Trustee to any other fund.

Acquired Development Fund. §5.07.

Acquired Development Receipts shall be held by the Trustee in the Acquired Development Fund and shall be used solely for the payment of Acquired Development Expenses; provided that any amount specified by an Authorized Officer as not being needed to maintain the Acquired Development Expense Requirement shall be transferred to the Revenue Fund. Payments from the Acquired Development Fund shall be made upon the direction of an Authorized Officer. Upon receipt of each such direction of an Authorized Officer, the Trustee shall pay the amount stated therein to the Administration by check or draft or shall arrange for the transfer, deposit or payment of such amounts as directed by the Authorized Officer.

Enforcement of Loan Provisions. §6.05.

The Administration shall take all reasonable steps, actions and proceedings it deems appropriate or necessary for the enforcement of all terms, covenants and conditions of Loans made, purchased or financed by the Administration, including the prompt collection of Loan repayments and fees and charges and other Revenues.

The Administration may, in its discretion, modify, amend or alter any security for, or any terms or provisions, of any Loan or Mortgage, provided that, if such modification, amendment or alteration is material, the Administration has filed with the Trustee a Cash Flow Certificate taking such sale, release, modification, amendment or alteration into account.

Whenever the Administration deems it necessary or appropriate to protect and enforce the rights of the Administration under a Mortgage securing a Loan and to protect and enforce the rights and interests of Bondholders under the Bond Resolution, the Administration either shall (i) make claim under any Credit Enhancement relating to the Loan and, if required, assign such Loan to the Credit Enhancer, (ii) commence foreclosure proceedings against the Borrower or the Development, or (iii) take such other action or exercise such other rights of the Administration upon default with respect to the Borrower or the Development as may be determined by the Administration to be in the best interests of the Bondholders. If the Loan is the subject to any Credit Enhancement, the Administration may take such actions or commence such proceedings (or refrain therefrom) as necessary or required by the Credit Enhancer and any applicable rules, regulations or procedures applicable to any Credit Enhancement in order to collect upon or exercise its rights with respect to the Credit Enhancement. To the extent necessary for the protection and enforcement of its rights under such Mortgage, the Administration may accept a deed in lieu of foreclosure or bid for and purchase the Development covered by such Mortgage at the foreclosure or other sale thereof and may acquire and take possession of such Development if to do so would, in the Administration’s judgment, be in the best interests of the Bondholders.

Upon foreclosure of a Mortgage or upon acquisition of an Acquired Development in lieu of foreclosure of a Mortgage, and so long as the Administration shall have title to or be in possession of the Acquired Development, the Administration may, as the case may be, construct, operate and administer such Acquired Development in the place and stead of the Borrower. To the extent moneys on deposit in the Bond Proceeds Fund relating to the Acquired Development or other moneys are available for such purpose, the Administration may apply such moneys to complete the construction and development thereof, if not already completed. The Administration may pay or make provision for payment of the costs and expenses of taxes, insurance, foreclosure fees, including appraisal and legal fees and similar expenses required to preserve or acquire unencumbered title to the Acquired Development from money withdrawn from the Acquired Development Fund. The Trustee is authorized to pay to the Administration, upon its request, any amount on deposit in the Bond Proceeds Fund with respect to any Acquired Development foreclosed or otherwise acquired by the Administration, upon receipt of advice from an Authorized Officer that such amount is required to pay an item that would have been included in the cost of the Acquired Development had the Administration not acquired the same.

Upon or after foreclosure of a Development under a Mortgage or acquisition thereof from the Borrower in lieu of foreclosure:

(1) the Administration may convey title to the Acquired Development, provided that such conveyance results in the collection of Credit Enhancement benefits, if any, relating to the Loan;

(2) the Administration may sell the Acquired Development at the best obtainable price, as determined by and in the judgment of the Administration;

(3) the Administration may sell the Acquired Development to a Borrower and make a Loan with respect thereto, as if such Borrower were the original Borrower;

(4) if the Acquired Development has not been completed, the Administration may elect to complete all or any part thereof and sell the Acquired Development as completed and any land not required for such completion as separate parcels for an aggregate price determined in accordance with paragraphs (2) or (5) above; or

(5) notwithstanding the foregoing, if the fair market value of the Acquired Development, as determined by the Administration based on such appraisals as it deems necessary, is less than the amount computed in accordance with the Bond Resolution, it may nevertheless be sold at its fair market value.

Prepayments of Loans. §6.06.

The Bond Resolution provides that the Administration will not consent to the Prepayment of any Loan unless all of the following requirements are met:

(1) The Prepayment is permitted by the Credit Enhancer (if any) of the Loan.

(2) The Administration requires that any voluntary Prepayment shall be in an amount determined by the Administration to be sufficient to provide for payment by the Administration of the following:

(i) an amount sufficient to redeem all Bonds that the Administration, in its discretion, determines to redeem in connection with such Prepayment ("Redemption Bonds") in a principal amount at least equal to the amount of the Prepayment as of the date selected by the Administration for redemption of such Redemption Bonds (the "Redemption Date");

(ii) the interest to accrue on the Redemption Bonds to such Redemption Date and premium due on such Redemption Bonds, if any; and

(iii) the costs and expenses of the Administration in effecting such redemption.

(3) In addition to the foregoing, the Administration may require that any voluntary Prepayment shall include an amount sufficient to provide for payment of other costs and expenses incurred in connection with the issuance of the Outstanding Bonds of the Series from which proceeds were used to finance the Loans, as determined by the Administration (including, without limitation capitalized interest, costs of issuance, reserves, bond discount and legal fees not included in the principal of the Loan).

(4) If required, the Administration furnishes to the Trustee a Cash Flow Certificate taking such Prepayment into account.

In determining the foregoing amount, the Administration may include a reasonable estimate of income to be derived from the investment of such Prepayment until the Redemption Date.

Sale of Loans; Release from Lien of Bond Resolution. §6.07.

The Administration is authorized to sell, assign or otherwise dispose of a Loan (and to release the same from the lien of the Bond Resolution), in addition to a sale, assignment or disposition otherwise permitted under the Bond Resolution or any applicable Supplemental Resolution, provided the proceeds of such sale, assignment or disposition shall be treated as a Recovery Payment for purposes of the Bond Resolution and provided, further, that, with respect to any Loan not in default, the Administration files with the Trustee a Cash Flow Certificate taking into account such sale, assignment or disposition.

The Administration is authorized to release a Loan from the lien of the Bond Resolution, provided the Administration files with the Trustee a Cash Flow Certificate taking into account such release.

The Administration is authorized to release a Loan secured by a Credit Facility or Credit Enhancement, reserves created or held with respect to such Loan or the Series of Bonds (or portion of such Series) issued to make, purchase or finance such Loan and any other moneys to be received with respect to such Loan from the lien of the Bond Resolution at the direction of the Credit Facility Provider or Credit Enhancer which issued or provided any Credit Facility securing the Series of Bonds which financed the Loan or the Credit Enhancement securing the Loan, provided such Credit Facility or Credit Enhancement continues in effect. Such release may occur only after payment is made under the terms of the Credit Facility or Credit Enhancement.

Maintenance of Debt Service Reserve Requirement. §6.08.

In the event the amounts held in the Debt Service Reserve Fund shall for any reason be less than the Debt Service Reserve Requirement, the Administration shall cause deposits to be made to the Debt Service Reserve Fund from moneys available in the Revenue Fund until the amounts in such fund shall equal or exceed the Debt Service Reserve Requirement. *The failure of the Administration to maintain the Debt Service Reserve Requirement shall not, in and of itself, constitute an Event of Default under the Bond Resolution*. See "SECURITY FOR THE BONDS - Debt Service Reserve Fund."

Accounts and Reports. §6.09.

The Administration shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all its transactions relating to the Program and all funds and accounts established by or pursuant to the Bond Resolution, which shall at all reasonable times be subject to the inspection of the Trustee or of the holders of an aggregate of not less than five percent in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

Annually, within 180 days after the close of each Fiscal Year, the Administration shall file with the Trustee, and otherwise as provided by law, a copy of an annual report for such Fiscal Year, accompanied by an Accountant's Report, including the following statements in reasonable detail: a statement of assets and liabilities as of the end of such period and a statement of income, expenses and changes in fund balances for such period. Revenues and expenses shall be accrued, and assets shall be valued in such manner as is deemed by the Administration and the accountant to be necessary to present fairly the results of operations for the Fiscal Year and the financial position of such funds and accounts at the end of the Fiscal Year in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding Fiscal Year.

Cash Flow Statements and Certificates. §6.13.

See the discussion of Cash Flow Statements and Cash Flow Certificates under the heading "SECURITY FOR THE BONDS - Cash Flow Statements and Certificates."

A Cash Flow Statement shall be based upon the Administration's reasonable expectations, and shall be based upon assumptions consistent with those used in the most recent Cash Flow Statement or such other assumptions as shall not adversely affect any of the Rating Agency's ratings on the Bonds. In calculating the amount of interest due on Bonds in the current and each succeeding Bond Year in which Bonds are scheduled to be Outstanding on Bonds bearing interest at a variable rate as defined in a Supplemental Resolution, the interest rate used shall be assumed to be the fixed rate, which in the judgment of the remarketing agent for such Bonds, or such other financial consultant selected by the Administration and experienced in the sale of municipal securities (having due regard to the prevailing market conditions), would be necessary to enable such Bonds to be sold at par in the secondary market on the date of such calculation or such higher or lower rate which does not adversely affect any of the Rating Agency's ratings on the Bonds. The calculations contained in a Cash Flow Statement may be prepared by the Administration or a financial advisor or a financial or accounting firm acceptable to the Administration.

Discharge of Lien. §7.01.

If the Administration shall pay or cause to be paid, or there shall otherwise be paid or provision for payment made, to the holders of the Bonds the principal of, premium, if any, and interest due or to become due thereon at the times and in the manner stipulated therein and in the Bond Resolution, then the estate and rights granted under the Bond Resolution shall terminate and the Trustee shall assign and deliver unto the Administration all rights or property assigned or pledged to the Trustee or otherwise subject to the lien of the Bond Resolution, except cash held by the Trustee or any Paying Agent for the payment of the principal of, premium, if any, and interest on the Bonds.

Any Bond shall be deemed to be paid for all purposes of the Bond Resolution when payment of the principal of, premium, if any, and interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided in the Bond Resolution) either: (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided by irrevocably depositing with the Trustee, in trust and irrevocably set aside exclusively for such payment (A) moneys sufficient to make such payment or (B) either Federal Obligations or Pre-Refunded Municipal Obligations maturing as to principal and interest in such amount and at such time as will ensure, together with any moneys held for payment of the Bonds pursuant to the preceding paragraph, the availability of sufficient moneys to make such payment. At such times as a Bond shall be deemed to be paid under the Bond Resolution, it shall no longer be secured by or entitled to the benefits of the Bond Resolution, except for the purposes of any such payment from such moneys, Federal Obligations or Pre-Refunded Municipal Obligations.

If the Administration shall pay or cause to be paid, or there otherwise shall be paid to the Bondholders of all Outstanding Bonds of a particular Series, the principal or Redemption Price, if applicable, thereof and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Bond Resolution, such Series of Bonds shall cease to be entitled to any lien, benefit or security under the Bond Resolution and the applicable Series Resolution, and the applicable Series Resolution and all covenants, agreements and obligations of the Administration to the Bondholders of such Series of Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

Events of Default. §8.01.

Each of the following shall constitute an event of default under the Bond Resolution:

(a) Interest on any of the Bonds is not paid within 30 days after the same becomes due, or the principal or redemption price of any Bonds is not paid at maturity or at a redemption date at which the Bonds have been called for redemption, or a Sinking Fund Installment is not paid when due;

(b) If there is a material default in the performance or observance of any other of the Administration's covenants, agreements or conditions contained in the Bond Resolution, a Series Resolution or the Bonds, and such default is not remedied after notice thereof; or

(c) If the Administration shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State.

No default under clause (b) above shall constitute an Event of Default until actual notice of such default shall be given to the Administration by the Trustee or by the holders of not less than 100% in aggregate principal amount of all Bonds Outstanding and the Administration shall have had 180 days after receipt of such notice to correct said default or cause said default to be corrected, and shall not have corrected said default or caused said default to be corrected within the applicable period; provided that if said default be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Administration within the applicable period and diligently pursued until the default is corrected.

Remedies; Rights of Bondholders. §8.02.

Upon the occurrence of an Event of Default described in Paragraph (a) under the heading "Events of Default. §8.01" above, the Trustee may pursue any available remedy under the Act, at law or in equity to enforce the payment of the principal and interest on the Bonds then Outstanding, including, declaring the principal of all Bonds Outstanding and the interest accrued thereon to be immediately due and payable.

In addition, upon the occurrence of an Event of Default, the Administration shall:

(a) if requested so to do by the holders of no less than 100% in aggregate principal amount of Bonds then Outstanding, effectuate the assignment to the Trustee of any or all of the Loans and Mortgages held by the Administration and financed under the Program;

(b) subject the books of record and account of the Administration and all records relating to the Program to the inspection and use of the Trustee and of its agents and attorneys; and

(c) whenever the Trustee shall demand, account as if it were the trustee of an express trust for all Revenues and other money, securities and funds and accounts pledged or held under the Bond Resolution for such period as shall be stated in such demand.

Right of Bondholders to Direct Proceedings. §8.03.

The holders of 100% of the aggregate principal amount of Bonds then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Bond Resolution, or for the appointment of a receiver or any other proceedings under the Bond Resolution; provided that such direction shall not be otherwise than in accordance with the provisions of law and of the Bond Resolution.

Rights and Remedies of Bondholders. §8.07.

No holder of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the Bond Resolution or for the execution of any trust hereof or for the appointment of a receiver or any other remedy under the Bond Resolution, unless (1) a default has occurred of which the Trustee has been notified or of which it is deemed to have notice, (2) such default shall have become an Event of Default and the owners of not less than 100% in aggregate principal amount of Bonds then Outstanding shall have made written notice to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in their own name or names, (3) they have offered to the Trustee indemnity as required by the Bond Resolution, and (4) the Trustee shall thereafter fail or refuse to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding in its own name. All proceedings at law or in equity shall be instituted, had and maintained for the equal and ratable benefit of the holders of all Bonds then Outstanding (other than owners of Subordinate Bonds, who shall be entitled to the priority established with respect to the applicable Series of Subordinate Bonds). However, nothing contained in the Bond Resolution shall affect or impair the right of any Bondholders to enforce the payment of the principal of and interest on any Bond at and after the maturity thereof, or the obligation of the Administration to pay the principal of and interest on each of the Bonds issued under the Bond Resolution to the respective holders thereof at the time, place, from the source and in the manner expressed in the Bonds.

Waivers of Events of Default. §8.09.

The Trustee may at its discretion waive any Event of Default under the Bond Resolution and its consequences, and shall do so upon the written request of the holders of (1) more than 100% in aggregate principal amount of all the Bonds then Outstanding in respect of which default in the payment of principal or interest, or both, exists, or (2) more than 50% in aggregate principal amount of all Bonds then Outstanding in the case of any other default; provided that there shall not be waived (a) any Event of Default in the payment of the principal of any Outstanding Bonds at the date of maturity or sinking fund redemption date specified therein or (b) any default in the payment when due of the interest on any such Bonds unless, prior to such waiver or rescission, all arrears of interest or all arrears of payments of principal when due, as the case may be, with interest on overdue principal at the rate borne by the Bonds, and all expenses of the Trustee in connection with such default shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceedings taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the Administration, the Trustee and the Bondholders shall be restored to their former positions and rights under the Bond Resolution, respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

Supplemental Bond Resolutions. §9.01 - §9.03.

For any one or more of the following purposes and at any time or from time to time, a resolution of the Administration supplementing the Bond Resolution may be adopted, which resolution, upon filing with the Trustee of a copy thereof certified by an Authorized Officer, shall be fully effective in accordance with its terms to:

(a) close the Bond Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Bond Resolution on, the issuance in the future of Bonds;

(b) add to the covenants or agreements of the Administration in the Bond Resolution, other covenants or agreements to be observed by the Administration which are not contrary to or inconsistent with the Bond Resolution as theretofore in effect;

(c) add to the limitations, restrictions or provisions in the Bond Resolution, other limitations, restrictions or provisions to be observed by the Administration which are not contrary to or inconsistent with the Bond Resolution as theretofore in effect;

(d) surrender any right, power or privilege reserved to or conferred upon the Administration by the Bond Resolution;

(e) confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Bond Resolution, of the Revenues or any other money, Loans, funds or accounts; or

(f) specify, determine or authorize by Series Resolution any and all matters and things relative to the Bonds of a Series or the proceeds thereof which are not contrary to or inconsistent with the Bond Resolution as theretofore in effect.

For any one or more of the following purposes and at any time or from time to time, a resolution of the Administration, amending or supplementing the Bond Resolution, may be adopted, which, upon (i) filing with the Trustee of a copy thereof certified by an Authorized Officer and (ii) filing with the Administration of an instrument in writing made by the Trustee consenting to such resolution, shall be fully effective in accordance with its terms to:

(a) cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Bond Resolution;

(b) insert such provisions clarifying matters or questions arising under the Bond Resolution as are necessary or desirable and are not contrary to or inconsistent with the Bond Resolution as theretofore in effect; or

(c) amend the Bond Resolution in any respect which, in the opinion of the Trustee, is not materially adverse to the interests of the Bondholders and will not, in and of itself, adversely affect the ratings on the Bonds in effect immediately before the adoption of such amendment.

Except as provided above, the holders of not less than two-thirds in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, anything contained in the Bond Resolution to the contrary notwithstanding, to consent to and approve the execution by the Administration and the Trustee of such Supplemental Resolutions hereto as shall be deemed necessary and desirable by the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Bond Resolution or in any Supplemental Resolutions; provided that nothing in this paragraph shall permit, or be construed as permitting, without the consent of the holders of all Outstanding Bonds, (a) an extension of the maturity or mandatory sinking fund redemption date of the principal of or the interest on any Bond issued under the Bond Resolution, or (b) a reduction in the principal amount of any Bond or the rate of interest, or sinking fund redemption requirements, thereon, or (c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (d) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Resolution, or (e) the creation of any lien other than a lien ratably securing all of the Bonds at any time Outstanding under the Bond Resolution or (f) any modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee without the written consent of the Trustee.

Investment of Funds and Accounts. §10.02.

Except as otherwise provided in the Bond Resolution, the Administration may direct the Trustee to, and in the absence of direction the Trustee shall, invest moneys in the funds and accounts held by the Trustee in Permitted Investments, the maturity or redemption date (at the option of the Administration or the Trustee) of which shall coincide as nearly as practicable with the times at which moneys in said fund or account will be required for the purposes provided in the Bond Resolution.

Except as otherwise provided in a Series Resolution, the amount in any fund or account held by the Trustee under the provisions of the Bond Resolution shall be determined as of the end of each month as follows:

(i) the bid and asked prices of investments as published by a nationally recognized pricing service on or the date immediately preceding the date of determination, or the average bid price at the time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments;

(ii) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and

(iii) as to any investment not specified above: the value thereof established by prior agreement between the Administration and the Trustee.

The Trustee shall sell at the best price obtainable, as determined by the Administration, or present for redemption, any obligation purchased by it as an investment whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund or account for which such investment was made.

Trustee. Article XI.

The Trustee or any successor Trustee shall be a bank, trust company or national banking association having trust powers and a combined capital and surplus of not less than $50,000,000. The Trustee shall be under no obligation or duty to perform any act which would involve it in expense or liability, to institute or defend any action or suit in respect of the Bond Resolution or Bonds, or to advance any of its own moneys, unless properly indemnified. The Trustee shall not be liable in connection with the performance of its duties under the Bond Resolution, except for its own negligence or default.

The Trustee may become the owner of or may deal in Bonds or may act as a Servicer as fully and with the same rights it would have if it were not the Trustee. To the extent permitted by law, the Trustee may act as depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or the Bond Resolution, whether or not any such committee shall represent the holders of a majority in aggregate principal amount of the Bonds Outstanding.

The Trustee, or any successor thereof, may at any time resign and be discharged of its duties and obligations created by the Bond Resolution by giving not less than 60 days' written notice to the Administration and giving or publishing notice thereof, specifying the date when such resignation is proposed take effect, within 20 days after the giving of such written notice. Such resignation shall not, however, take effect unless previously a successor shall have been appointed by the Administration or Bondholders as provided in the Bond Resolution, in which event such resignation shall take effect immediately on the appointment of such successor and its acceptance of such appointment.

The Trustee, or any successor thereof, may be removed at any time by the Administration (so long as the Administration is not in default under the Bond Resolution) in its sole discretion (including, without limitation, competitive or negotiated bidding for services) by notice given by the Administration to the Trustee, or by the holders of a majority in aggregate principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the Administration, by an instrument or concurrent instruments in writing signed and duly acknowledged by such Bondholders or by their attorneys duly authorized in writing and delivered to the Administration.

If the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent or if a receiver, liquidator or conservator of the Trustee or of its property shall be appointed or if any public office shall take charge or control of the Trustee or of its property or affairs, a successor may be appointed by the holders of a majority in aggregate principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the Administration, by an instrument or concurrent instruments in writing signed by such Bondholders or their attorneys duly authorized in writing and delivered to such successor Trustee and to the Administration. Pending such appointment, the Administration shall forthwith appoint a successor Trustee to fill such vacancy until a successor Trustee shall be appointed by Bondholders as authorized under the Bond Resolution.

The Administration reserves the right to approve, in its sole discretion, any successor Trustee if any Trustee is merged or converted or consolidated or if any Trustee sells or transfers all, substantially all or any portion of its corporate trust business. Any proposed transfer of the trusts created under the Bond Resolution to a successor not approved by the Administration shall constitute sufficient ground for removal of the Trustee. The Administration, in its sole discretion, reserves the right, in the future and from time to time, to undertake to obtain competitive proposals from financial and trust institutions for the performance of the services of Trustee, Registrar and Paying Agent under the Bond Resolution. The Trustee, Paying Agent and Registrar each agree that in the event its proposal is not accepted by the Administration in such circumstances, it shall resign as Trustee, Registrar or Paying Agent upon request of the Administration. Alternatively, at the option of the Administration, the failure of the Trustee, Registrar or Paying Agent to be the party whose proposal is accepted for trustee, registrar or paying agent services in the future shall constitute sufficient reason for removal of the Trustee, Registrar or Paying Agent under the Bond Resolution by the Administration.

Publication of Notice. §12.07.

Whenever the Administration or the Trustee is required or permitted to give or publish notice of any event or occurrence under the Bond Resolution, such notice shall be given or published in such manner and by such means as the Administration or the Trustee, as the case may be, shall determine to be appropriate. Such publication may be by (but is not limited to) any of the following means: (1) publication in one or more newspapers or trade journals selected by the Administration or the Trustee, as the case may be; (2) publication by or through one or more financial information reporting services; (3) delivery to one or more "nationally recognized municipal securities information repositories" (as such terms is defined in Securities and Exchange Commission Rule 15c2-12) or any successor repository or entity fulfilling a substantially similar or like role; or (4) by mailing a copy of such notice by first class mail, postage prepaid, to the person entitled to receive the notice at such person's address as shown on the records of the Administration or the Trustee.

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APPENDIX I

FINANCIAL STATEMENTS OF THE PROGRAM

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Community Development Administration
Housing Revenue Bond Program Fund

Financial statements
As of June 30, 2001 and 2000
Together with report of independent public accountants

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ARTHUR ANDERSEN

Report of independent public accountants

To the Office of the Secretary of the
Department of Housing and Community Development:

We have audited the accompanying balance sheets of the Community Development Administration Housing Revenue Bond Program Fund (the Fund) as of June 30, 2001 and 2000, and the related statements of revenues, expenses and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Development Administration Housing Revenue Bond Program Fund as of June 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The disclosure of change in fair value of investments and mortgage-backed securities held on June 30, 2001, presented as supplementary information on page 12, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it.

Arthur Andersen LLP

Baltimore, Maryland
September 21, 2001

Community Development Administration
Housing Revenue Bond Program Fund

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Community Development Administration
Housing Revenue Bond Program Fund

Balance sheets
As of June 30, 2001 and 2000
(in thousands)

	2001	2000
Assets:		
Cash on deposit with trustee	$ 46,291	$ 41,832
Investments	28,255	24,428
Mortgage-backed securities	98,070	79,568
Mortgage loans – single-family	902	1,102
Mortgage loans – multi-family	107,710	114,513
Accrued interest and other receivables, net	1,803	1,753
Deferred bond issuance costs	916	1,007
Total assets	$ 283,947	$ 264,203
Liabilities and fund equity:		
Accrued interest payable	$ 7,231	$ 6,529
Accounts payable	363	105
Bonds payable	240,560	222,365
Other liabilities – principally deposits by borrowers	25,385	24,195
Total liabilities	273,539	253,194
Commitments and contingencies		
Fund equity:		
Total fund equity	10,408	11,009
Total liabilities and fund equity	$ 283,947	$ 264,203

The accompanying notes are an integral part of these balance sheets.

Community Development Administration
Housing Revenue Bond Program Fund

Statements of revenues, expenses and changes in fund equity
For the years ended June 30, 2001 and 2000
(in thousands)

	2001	2000
Revenues:		
Interest on mortgage loans	$ 9,082	$ 9,380
Interest on mortgage-backed securities	5,577	4,432
Interest on investments	2,804	2,695
Other income	106	115
Loan fees	49	36
Increase on fair value of investments	193	48
Decrease in fair value of mortgage-backed securities	(3,291)	(3,825)
Total revenues	14,520	12,881
Expenses:		
Interest on bonds payable	13,291	12,068
Trustee, legal and mortgage servicing costs	44	37
Amortization of bond issuance costs	42	46
Other expense	159	174
Total expenses	13,536	12,325
Income before extraordinary item	984	556
Extraordinary item – loss on early extinguishment of bonds payable	(49)	(81)
Net income	935	475
Transfers of funds, net, at CDA's discretion, in accordance with the General Certificate of Revenue Bond Authorization and the Certificate of General Authorization	(1,536)	(1,995)
Fund equity, beginning of year	11,009	12,529
Fund equity, end of year	$ 10,408	$ 11,009

The accompanying notes are an integral part of these statements.

Community Development Administration
Housing Revenue Bond Program Fund

Statements of cash flows
For the years ended June 30, 2001 and 2000
(in thousands)

	2001	2000
Cash flows from operating activities:		
Net income	$ 935	$ 475
Adjustments to reconcile net income to net cash provided by (used in) operating activities–		
Increase in fair value of investments	(193)	(48)
Decrease in fair value of mortgage-backed securities	3,291	3,825
Purchase of mortgage-backed securities	(22,442)	(15,698)
Purchase and origination of mortgage loans	(825)	(7,889)
Interest on investments	(2,804)	(2,695)
Repayment of mortgage-backed securities	650	300
Repayment of mortgage loans	7,588	5,756
Increase in accrued interest and other receivables	(50)	(156)
Decrease in due from other funds	—	267
Increase (decrease) in accounts payable	258	(56)
Deferred loan fees collected	412	368
Increase in other liabilities	1,190	49
Amortization of investment premiums or discounts	4	4
Amortization of deferred loan fees	(173)	(32)
Amortization of deferred bond issuance costs	42	46
Interest expense	13,291	12,068
Increase in other deferred income	—	127
Transfer of deferred fees from other fund	—	97
Net cash provided by (used in) operating activities	1,174	(3,192)
Cash flows from investing activities:		
Proceeds from maturity and sale of investments	23,806	14,934
Purchase of investments	(27,445)	(18,108)
Interest on investments	2,804	2,695
Net cash used in investing activities	(835)	(479)
Cash flows from noncapital financing activities:		
Proceeds from the sale of bonds	27,445	30,925
Principal payments	(9,250)	(12,320)
Decrease in deferred bond issuance costs due to redemption of related bonds	49	81
Interest payments	(12,588)	(11,026)
Transfers of funds	(1,536)	(1,995)
Net cash provided by noncapital financing activities	4,120	5,665
Net increase in cash on deposit with trustee	4,459	1,994
Cash on deposit with trustee, beginning of year	41,832	39,838
Cash on deposit with trustee, end of year	$ 46,291	$ 41,832

The accompanying notes are an integral part of these statements.

Community Development Administration
Housing Revenue Bond Program Fund

Notes to financial statements
June 30, 2001 and 2000
(in thousands)

1. Program description:

The Community Development Administration (CDA) was created in 1970 by Sections 266 DD-1 to 266 DD-8 of Article 41 (now in Article 83B, Sections 2-201 through 2-208) of the Annotated Code of Maryland to meet the shortage of adequate, safe and sanitary housing in the State of Maryland, particularly for persons or families of limited income. CDA is in the Division of Development Finance in the Department of Housing and Community Development (DHCD) of the State of Maryland.

The accompanying financial statements only include CDA's Housing Revenue Bond Program Fund (the Fund). CDA's other programs are not included. The Fund was established to issue bonds to provide funds to finance or refinance loans for various types of housing.

2. Summary of significant accounting policies:

Basis of presentation

The Fund is set up primarily in accordance with CDA's enabling legislation and the various note and bond certificates. The Fund is an enterprise fund of the State of Maryland and uses the accrual basis of accounting.

Investments

Investments are stated at fair value, based on quoted market prices. The cost of securities sold is determined by the specific identification method.

Loan fees

Loan fees are deferred over the life of the related loans and amortized using the effective interest rate method.

Bond issuance costs

Expenses incurred in issuing bonds are capitalized and amortized on a straight-line basis over the lives of the respective bond issues.

Allowance for loan losses

Substantially all the mortgage loans of the Fund are insured or guaranteed by agencies of the U.S. government, the Maryland Housing Fund or private insurers. As such, no allowance for loan losses was necessary as of June 30, 2001 and 2000.

Administrative support

In addition to expenses incurred directly by the Fund, CDA receives certain support services from other divisions of DHCD. The cost of these services has been allocated to CDA's General Bond Reserve Fund. The General Bond Reserve Fund records these expenses as invoiced by DHCD for the fiscal year.

For the years ended June 30, 2001 and 2000, the allocation to CDA's General Bond Reserve Fund was:

	2001	2000
Salaries and related costs	$ 6,051	$ 5,719
General and administrative expenses	1,808	1,857
	$ 7,859	$ 7,576

The employees of CDA are covered by the Maryland State Retirement and Pension System (the System). Additional information about the System is presented in the State of Maryland's Comprehensive Annual Financial Report and in the Consolidated Annual Report of the Maryland State Retirement and Pension Systems.

The retirement benefit cost of employees is included in the salaries and related costs allocation discussed above. This allocation includes the Fund's total liability relating to the System as of June 30, 2001 and 2000.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains and losses during the reporting period. Actual results could differ from these estimates.

3. Cash, investments and mortgage-backed securities:

Proceeds from bonds are invested in authorized investments as defined in the indenture until required for purchasing or originating mortgage loans, funding reserves, redeeming outstanding bonds and notes, and funding program expenses. Authorized investments include obligations of the U.S. Treasury, U.S. government agencies and corporations, political subdivisions of the U.S., bankers acceptances, repurchase agreements, corporate debt securities and certificates of deposit with foreign or domestic banks. All CDA accounts held in trust by the trustee are kept separate from the assets of the bank and from other trust accounts.

Cash

As of June 30, 2001 and 2000, the Fund had $46,291 and $41,832, respectively, invested in a money market mutual fund (ARK U.S. government Cash Management Corporate II Class Fund) which is classified as cash. This fund invests exclusively in obligations of the U.S. government and its agencies and instrumentalities and in repurchase agreements. It is rated AAA by Standard & Poor's and Aaa by Moody's Investor Services.

As of June 30, 2001 and 2000, the cost of this money market mutual fund approximates fair value.

The money market mutual fund is not categorized by credit risk because it is not evidenced by securities that exist in physical or book entry form.

Investments

Obligations of the U. S. Treasury are held in CDA's account by the trustee.

The repurchase agreements also include guaranteed investment contracts. For all these investments, collateral is held by the trustee of the fund group or its agent. The agreements and contracts are at fixed interest rates, with maturities ranging from less than two years up to three years.

As of June 30, 2001 and 2000, the amortized cost and fair value of the Fund's investments, by type of investment, were as follows:

	2001		2000	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Obligations of the U.S. Treasury	$ 5,859	$ 5,545	$ 5,670	$ 5,549
Securities held under repurchase agreements or guaranteed investment contracts	22,396	22,396	18,758	18,758
	$ 28,255	$ 27,941	$ 24,428	$ 24,307

Mortgage-backed securities

All mortgage-backed securities held by CDA are guaranteed by the Government National Mortgage Association (GNMA), an instrumentality of the United States. A security guaranteed by GNMA is a "fully modified pass through" mortgage-backed security which requires monthly payments by an FHA-approved lender, as the issuer of the Guaranteed Security, to the registered holder of the Guaranteed Security of principal and interest on such Guaranteed Security when due. GNMA guarantees timely payment of principal of and interest on Guaranteed Securities. It is the intention of CDA to hold these securities until the underlying loan is paid in full.

As of June 30, 2001 and 2000, the cost and fair value of mortgage-backed securities were as follows:

	Fair Value	Cost
2001	$ 98,070	$ 105,186
2000	79,568	83,393

Category of risk

Investments and mortgage-backed securities are classified as to credit risk by the three categories described below:

Category 1 – Insured or registered, with securities held by CDA or its agent in CDA's name.

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department in CDA's name.

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in CDA's name.

All investments and mortgage-backed securities of the Fund are classified as Category 1.

4. Mortgage loans:

Substantially all the mortgage loans are secured by first liens on the related property and are insured or guaranteed by either the Federal Housing Administration, the Federal Home Loan Mortgage Corporation, the Maryland Housing Fund or GNMA. As of June 30, 2001, interest rates on such loans range from 3.7 to 14.5 percent, with remaining loan terms from 9 to 40 years.

5. Bonds payable:

The bonds issued by CDA are special obligations of CDA and are payable from the revenues and special funds of the applicable program. These bonds and notes do not constitute debt and are not guaranteed by the State of Maryland or any other program of the State of Maryland or any political subdivision.

The following table summarizes the outstanding debt of the Fund, as of June 30, 2001 and 2000:

2001

Series 1996 A dated November 1, 1996. $31,160 due serially from 2001 to 2008, with interest rates of 4.45% to 5.3%; $7,810 term bonds due January 1, 2010, with interest at 5.5%; $1,095 term bonds due January 1, 2016, with interest at 5.8%; $38,160 term bonds due July 1, 2016, with interest at 5.875%; $16,510 term bonds due July 1, 2023, with interest at 5.95%.	$ 94,735
Series 1996 B dated November 1, 1996. $355 due serially from 2001 to 2008, with interest rates of 4.45% to 5.3%; $530 term bonds due July 1, 2016, with interest at 5.875%; $1,105 term bonds due July 1, 2028, with interest at 5.95%.	1,990

Series 1997 A dated June 1, 1997. $2,810 due serially from 2001 to 2009, with interest rates of 4.40% to 5.20%; $4,200 term bonds due July 1, 2017, with interest at 5.70%; $9,110 term bonds due July 1, 2027, with interest at 5.85%; $20,600 term bonds due July 1, 2039, with interest at 6.00%.	$ 36,720
Series 1997 B dated September 1, 1997. $600 due serially from 2001 to 2009, with interest rates of 4.25% to 5.00%; $860 term bonds due July 1, 2017, with interest at 5.55%; $1,850 term bonds due July 1, 2027, with interest at 5.65%; $4,300 term bonds due July 1, 2039, with interest at 5.75%.	7,610
Series 1997 C dated December 1, 1997. $1,285 due serially from 2001 to 2010, with interest rates of 4.10% to 5.00%; $1,465 term bonds due July 1, 2017, with interest at 5.45%; $1,140 term bonds due July 1, 2021, with interest at 5.5%; $2,300 term bonds due July 1, 2027, with interest at 5.55%; $7,730 term bonds due July 1, 2039, with interest at 5.65%.	13,920
Series 1998 A dated April 1, 1998. $1,840 due serially from 2001 to 2015, with interest rates of 4.10% to 5.30%; $1,020 term bonds due July 1, 2020, with interest at 5.45%; $3,090 term bonds due July 1, 2030, with interest at 5.50%; $5,000 term bonds due January 1, 2040, with interest at 5.625%.	10,950
Series 1999 A dated February 1, 1999. $1,820 due serially from 2002 to 2012, with interest rates of 3.7% to 4.7%; $1,475 term bonds due July 1, 2018, with interest at 5.05%; $1,655 term bonds due July 1, 2023, with interest at 5.1%; $2,165 term bonds due July 1, 2028, with interest at 5.15%; $1,610 term bonds due July 1, 2031, with interest at 5.2%; $7,620 term bonds due July 1, 2041, with interest at 5.35%.	16,345
Series 1999 B dated October 15, 1999. $2,785 due serially from 2001 to 2014, with interest rates of 4.40% to 5.85%; $2,150 term bonds due January 1, 2021, with interest at 6.15%; $4,270 term bonds due July 1, 2029, with interest at 6.25%; $1,945 term bonds due July 1, 2032, with interest at 6.25%; $4,575 term bonds due January 1, 2042, with interest at 6.4%; $90 term bonds due July 1, 2042, with interest at 6.4%.	15,815
Series 1999 C dated October 15, 1999. $60 term bonds due July 1, 2014, with interest at 5.85%; $60 term bonds due January 1, 2021, with interest at 6.15%; $185 term bonds due July 1, 2032, with interest at 6.25%; $215 term bonds due July 1, 2040, with interest at 6.4%.	520
Series 1999 D dated December 1, 1999. $2,920 due serially from 2001 to 2009, with interest rates of 4.50% to 5.40%; $1,900 term bonds due July 1, 2013, with interest at 5.9%; $3,995 term bonds due July 1, 2023, with interest at 6.2%; $1,685 term bonds due July 1, 2030, with interest at 6.25%; $1,010 term bonds due July 1, 2031, with interest at 6.25%; $3,000 term bonds due July 1, 2042, with interest at 6.35%.	14,510
Series 2000 A dated October 1, 2000. $3,555 due serially from 2003 to 2015, with interest rates of 4.60% to 5.55%; $2,735 term bonds due July 1, 2021, with interest at 5.875%; $7,870 term bonds due July 1, 2032, with interest at 6.00%; $6,285 term bonds due July 1, 2038, with interest at 6.10%; $7,000 term bonds due July 1, 2042, with interest at 6.10%.	27,445
Total	$ 240,560

2000

Series 1996 A dated November 1, 1996. $36,035 due serially from 2000 to 2008, with interest rates of 4.3% to 5.3%; $8,135 term bonds due January 1, 2010, with interest at 5.5%; $1,245 term bonds due January 1, 2016, with interest at 5.8%, $39,930 term bonds due July 1, 2016, with interest at 5.875%, $17,590 term bonds due July 1, 2023, with interest at 5.95%.	$ 102,935
Series 1996 B dated November 1, 1996. $480 due serially from 2000 to 2008, with interest rates of 4.3% to 5.3%; $640 term bonds due July 1, 2016, with interest at 5.875%; $1,345 term bonds due July 1, 2028, with interest at 5.95%.	2,465
Series 1997 A dated June 1, 1997. $3,070 due serially from 2000 to 2009, with interest rates of 4.30% to 5.20%; $4,200 term bonds due July 1, 2017, with interest at 5.70%; $9,110 term bonds due July 1, 2027, with interest at 5.85%; $20,600 term bonds due July 1, 2039, with interest at 6.00%.	36,980
Series 1997 B dated September 1, 1997. $650 due serially from 2000 to 2009, with interest rates of 4.15% to 5.00%; $860 term bonds due July 1, 2017, with interest at 5.55%; $1,850 term bonds due July 1, 2027, with interest at 5.65%; $4,300 term bonds due July 1, 2039, with interest at 5.75%.	7,660
Series 1997 C dated December 1, 1997. $1,390 due serially from 2000 to 2010, with interest rates of 4.00% to 5.00%; $1,465 term bonds due July 1, 2017, with interest at 5.45%; $1,140 term bonds due July 1, 2021, with interest at 5.5%; $2,300 term bonds due July 1, 2027, with interest at 5.55%; $7,730 term bonds due July 1, 2039, with interest at 5.65%.	14,025
Series 1998 A dated April 1, 1998. $1,920 due serially from 2000 to 2015, with interest rates of 4.00% to 5.30%; $1,020 term bonds due July 1, 2020, with interest at 5.45%; $3,090 term bonds due July 1, 2030, with interest at 5.50%; $5,000 term bonds due January 1, 2040, with interest at 5.625%.	11,030
Series 1999 A dated February 1, 1999. $1,820 due serially from 2002 to 2012, with interest rates of 3.7% to 4.7%; $1,475 term bonds due July 1 2018, with interest at 5.05%; $1,655 term bonds due July 1, 2023, with interest at 5.1%; $2,165 term bonds due July 1, 2028, with interest at 5.15%; $1,610 term bonds due July 1, 2031, with interest at 5.2%; $7,620 term bonds due July 1, 2041, with interest at 5.35%.	16,345
Series 1999 B dated October 15, 1999. $2,810 due serially from 2000 to 2014, with interest rates of 4.15% to 5.85%; $2,150 term bonds due January 1, 2021, with interest at 6.15%; $4,270 term bonds due July 1, 2029, with interest at 6.25%; $1,945 term bonds due July 1, 2032, with interest at 6.25%; $4,575 term bonds due January 1, 2042, with interest at 6.4%; $90 term bonds due July 1, 2042, with interest at 6.4%.	15,840
Series 1999 C dated October 15, 1999. $60 term bonds due July 1, 2014, with interest at 5.85%; $60 term bonds due January 1, 2021, with interest at 6.15%; $185 term bonds due July 1, 2032, with interest at 6.25%; $215 term bonds due July 1, 2040, with interest at 6.4%.	520

Series 1999 D dated December 1, 1999. $2,975 due serially from 2000 to 2009, with interest rates of 4.15% to 5.40%; $1,900 term bonds due July 1, 2013, with interest at 5.9%; $3,995 term bonds due July 1, 2023, with interest at 6.2%; $1,685 term bonds due July 1, 2030, with interest at 6.25%; $1,010 term bonds due July 1, 2031, with interest at 6.25%; $3,000 term bonds due July 1, 2042, with interest at 6.35%.	$ 14,565
Total	$ 222,365

As of June 30, 2001, the required principal payments including mandatory sinking fund payments for each of the next five years are as follows:

For the year ended June 30,				
2002	**2003**	**2004**	**2005**	**2006**
$ 4,445	$ 4,915	$ 5,360	$ 5,645	$ 5,920

All outstanding bonds are subject to redemption at the option of CDA, as a whole or in part at any time after certain dates, as specified in the respective series certificates. The prescribed redemption prices range from 100 to 102 percent of the principal amount.

6. Redemption of bonds and extraordinary item:

The provisions of the bond certificates require or allow for the redemption of bonds through the use of unexpended bond proceeds and excess funds accumulated primarily through prepayment of mortgage loans.

During the years ended June 30, 2001 and 2000, CDA redeemed Housing Revenue Program Fund Bonds in the following series.

2001	2000
▪ Series 1996 A	• Series 1996 A
▪ Series 1996 B	

The redemption of bonds resulted in the write-off of any unamortized deferred issuance costs or original issue discounts net of unamortized original issue premiums. The corresponding loss has been recorded as an extraordinary item in the accompanying statements of revenues, expenses and changes in fund equity.

7. Pension and other postretirement benefits:

Eligible employees of CDA and employees of the State of Maryland are covered under the retirement plans of the State Retirement and Pension System of Maryland (System) and are also entitled to certain healthcare benefits upon retirement. CDA's only liability for retirement and postemployment benefits is its required annual contribution, which it has fully funded during the years ended June 30, 2001 and 2000. The System prepares a separate audited Comprehensive Annual Financial Report which can be obtained from the State Retirement and Pension System of Maryland, 301 West Preston Street, Baltimore, Maryland 21201.

8. Subsequent event:

On July 12, 2001, CDA issued the following bonds:

Series 2001 A	$ 29,645

Community Development Administration
Housing Revenue Bond Program Fund

Supplemental disclosure of change in fair value of investments and mortgage-based securities
June 30, 2001
(In thousands)
(Unaudited)

During fiscal year 1997, CDA adopted the provisions of The Government Accounting Standards Board (GASB) Statement No. 31. This statement requires the financial statements of CDA to reflect investments and mortgage-backed securities at fair value, and the increase or decrease in fair value is included in the statement of revenues, expenses and changes in fund equity.

For investments held by CDA as of June 30, 2001, the following schedule summarizes the differences between fair value and amortized costs attributable for each of these years:

Cumulative FY 1996 and prior periods	$ —
FY 1992	(352)
FY 1998	832
FY 1999	(407)
FY 2000	48
FY 2001	193
Cumulative total	$ 314

For mortgage-backed securities held by CDA as of June 30, 2001, the following schedule summarizes the differences between fair value and cost attributable for each of these years:

Cumulative FY 1996 and prior periods	$ —
FY 1998	—
FY 1999	—
FY 2000	(3,825)
FY 2001	(3,291)
Cumulative total	$ (7,116)

APPENDIX J

FINANCIAL STATEMENTS OF THE MARYLAND HOUSING FUND

The attached financial statements are financial statements of the Maryland Housing Fund, an agency in the Division of Credit Assurance of the Department, and are *not* the financial statements of the Administration or the Program. The Bonds are not secured by the revenues or assets of the Maryland Housing Fund.

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Maryland Housing Fund

Component unit financial statements
As of June 30, 2001 and 2000
Together with report of independent public accountants

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ARTHUR ANDERSEN

Report of independent public accountants

To the Office of the Secretary of the
Department of Housing and Community Development:

We have audited the accompanying balance sheets of Maryland Housing Fund (a component unit of the State of Maryland) as of June 30, 2001 and 2000, and the related statements of operations, changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maryland Housing Fund as of June 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Baltimore, Maryland
September 21, 2001

Maryland Housing Fund

Table of contents

Maryland Housing Fund

Balance sheets
As of June 30, 2001 and 2000

	2001	2000
Assets:		
Cash on deposit with the State Treasurer:		
Loan account	$ 96,351,857	$ 94,280,202
Operating account	3,003,140	1,513,958
	99,354,997	95,794,160
Investments	891,932	889,943
Loans and accrued interest receivable, net	866,708	4,807,528
Acquired property	12,736,338	7,328,960
Other assets	257,310	513,576
Total assets	$114,107,285	$109,334,167
Liabilities and fund equity:		
Accounts payable and other accrued liabilities	$ 677,293	$ 887,360
Mortgage escrow accounts	940,260	793,721
Unearned premiums	2,943,764	3,245,097
Allowance for unpaid insurance losses	31,648,112	32,781,746
Total liabilities	36,209,429	37,707,924
Commitments and contingencies		
Fund equity:		
Reserved funds–		
Multi-Family	44,698,739	44,698,739
Regular Single-Family	32,273,875	32,273,875
Revitalization (Pilot)	2,224,450	2,224,450
Home and Energy Loan	500,000	500,000
Unallocated	16,654,793	14,583,138
	96,351,857	94,280,202
Unreserved fund deficit	(18,454,001)	(22,653,959)
Total fund equity	77,897,856	71,626,243
Total liabilities and fund equity	$114,107,285	$109,334,167

The accompanying notes are an integral part of these balance sheets.

Maryland Housing Fund

Statements of operations
For the years ended June 30, 2001 and 2000

	2001	2000
Revenues:		
Net premiums	$ 6,009,506	$ 6,824,305
Interest income on investments	5,662,074	5,257,587
Interest income on loans	578,333	554,020
Other income	753,577	34,197
Total revenues	13,003,490	12,670,109
Expenses:		
Provision for possible insurance and loan losses	3,088,281	8,012,349
Expenses related to acquired property	338,342	425,870
Salaries and related costs	3,255,336	3,105,742
General and administrative	49,918	76,798
Total expenses	6,731,877	11,620,759
Net income	$ 6,271,613	$ 1,049,350

The accompanying notes are an integral part of these statements.

Maryland Housing Fund

Statements of changes in fund equity
For the years ended June 30, 2001 and 2000

	Reserved Funds						
	Multi-Family	Regular Single-Family	Revitalization (Pilot)	Home and Energy Loan	Unallocated	Unreserved Fund (Deficit)	Total
Balance, June 30, 1999	$ 49,400,000	$ 32,273,875	$ 2,224,450	$ 500,000	$ 12,849,298	$ (26,670,730)	$ 70,576,893
Interest income allocated at discretion of DHCD secretary	—	—	—	—	5,236,752	(5,236,752)	—
Transfers	(4,701,261)	—	—	—	(3,502,912)	8,204,173	—
Net income	—	—	—	—	—	1,049,350	1,049,350
Balance, June 30, 2000	44,698,739	32,273,875	2,224,450	500,000	14,583,138	(22,653,959)	71,626,243
Interest income allocated at discretion of DHCD secretary	—	—	—	—	5,632,815	(5,632,815)	—
Transfers	—	—	—	—	(3,561,160)	3,561,160	—
Net income	—	—	—	—	—	6,271,613	6,271,613
Balance, June 30, 2001	$ 44,698,739	$ 32,273,875	$ 2,224,450	$ 500,000	$ 16,654,793	$ (18,454,001)	$ 77,897,856

The accompanying notes are an integral part of these statements.

Maryland Housing Fund

Statements of cash flows
For the years ended June 30, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Net income	$ 6,271,613	$ 1,049,350
Adjustments to reconcile net income to net cash used in operating activities–		
Interest on investments	(5,662,074)	(5,257,587)
Provision for possible insurance and loan losses	3,088,281	8,012,349
Depreciation	6,921	11,135
Increase in loans	(335,568)	(4,705,749)
Increase in accrued interest	(574,686)	(912,988)
Payments received from loans	321,047	233,071
Properties acquired	(15,998,160)	(15,777,682)
Proceeds from sale of acquired properties	10,898,895	9,124,357
Decrease in other assets	250,008	218,239
(Decrease) increase in accounts payable and other accrued liabilities	(210,067)	198,448
Increase in mortgage escrow accounts	146,539	7,770
Decrease in unearned premiums	(301,333)	(244,015)
Net cash used in operating activities	(2,098,585)	(8,043,302)
Cash flows from investing activities:		
Interest received on investments	5,662,074	5,257,587
(Increase) decrease in loan account	(2,071,655)	2,967,421
(Increase) decrease in investments	(1,989)	49,000
Purchase of property and equipment	(663)	(1,414)
Net cash provided by investing activities	3,587,767	8,272,594
Net increase in cash operating account	1,489,182	229,292
Cash operating account, beginning of year	1,513,958	1,284,666
Cash operating account, end of year	$ 3,003,140	$ 1,513,958

The accompanying notes are an integral part of these statements.

Maryland Housing Fund

Notes to financial statements
June 30, 2001 and 2000

1. Program description:

The Maryland Housing Fund (MHF) was established by 1971 legislation to encourage the flow of private investment capital into multiple-unit and single-family housing by insuring qualified lending institutions against losses on mortgage loans. Legislation enacted in 1981 enables MHF to originate mortgage loans to assist in the disposal of property acquired through foreclosure or pursuant to any other payment in settlement for a claim or loss. MHF is a division of the Department of Housing and Community Development (DHCD).

MHF is an enterprise fund of the State of Maryland (the State) and follows the accrual basis of accounting.

MHF's single-family programs insure mortgages made by private Maryland lending institutions, Baltimore City and the Community Development Administration of the State of Maryland (CDA). These programs include:

- Regular Single-Family Program – MHF is liable for the first loss, up to 20 or 25 percent of the mortgage amount, depending on the loan-to-value ratio.

- Baltimore City Pilot, State Pilot, Pension Loan and Baltimore Residential Programs – MHF insures 100 percent of the mortgage amounts.

- Pool Insurance – MHF insures mortgages financed through proceeds of revenue bonds of CDA. Coverage is limited to a maximum loss of 10 percent of lendable proceeds for the aggregate of revenue bond issues.

- Home and Energy Loan Program – MHF insures loans made for the purpose of rehabilitation and energy conservation in owner occupied or rental housing financed by CDA's Home and Energy Loan Program and is liable for up to 100 percent of the loan amounts.

MHF's Multi-Family Program provides several plans, but all existing multi-family insurance, other than the program for private lenders, is 100 percent insurance of projects financed by revenue bonds. Currently, MHF is insuring loans for CDA, the Housing Opportunities Commission of Montgomery County, the Housing Authority for Prince George's County and Sun Trust Mortgage, Inc.

MHF has allocated separate reserved funds for the Multi-Family Program, Regular Single-Family Program, Revitalization (Pilot) Programs and the Home and Energy Loan Program. Insurance of single-family mortgage loans funded by certain CDA housing mortgage revenue bonds provides 100 percent coverage and is backed by the multi-family reserved fund. Insurance offered to private lenders for permanent mortgages in publicly designated renewal or redevelopment areas provides 100 percent coverage and is also backed by the multi-family reserved fund.

MHF's reserved funds are derived from the net proceeds of five issues of State general obligation bonds aggregating $39,300,000. In addition, $7,500,000 in proceeds were derived from State appropriations. The unreserved fund reflects MHF's operations since inception less interest income.

2. Summary of significant accounting policies:

Cash on deposit with the State Treasurer

All cash is deposited with the State Treasurer. The cash is pooled with all other State funds and invested under State guidelines.

Premium income recognition

Premium income on multi-family and single-family loans is recognized on a straight-line basis over the related benefit period.

Allowance for unpaid insurance losses

MHF provides for estimated insurance losses under each insurance plan. The allowance for unpaid insurance losses is increased by provisions charged to current operating expenses and reduced by claim payments. The provision for possible insurance losses is based on management's review of insured properties, considering past loss experience and current economic conditions which may affect the frequency of claims and the recovery of claim costs.

Salaries and related costs

MHF is subject to an allocation of intradepartmental support costs of the DHCD, which are included in salaries and related costs in the statements of operations. Such costs could affect MHF's financial position or operating results in a manner that differs from those that might have been obtained if MHF was autonomous. MHF records these costs as invoiced by DHCD for the fiscal year. However, the allocation is subject to review and adjustment subsequent to year-end. Any adjustment is included on invoices and recorded in the period in which the adjustment is identified.

Acquired property

Property acquired as a result of claims settled is carried at the principal claim cost, less management's estimate of expenses and losses related to the maintenance and sale of the property, which management believes approximates fair value, less costs to sell. As of June 30, 2001 and 2000, acquired property consists of $6,028,485 and $6,120,893 of single-family property, and $6,707,853 and $1,208,067 of multi-family property, respectively.

Investments

Investments consist of U.S. government treasury notes and zero-coupon bonds carried at market based on quoted market prices.

Investments are classified as to credit risk by the three categories described below:

Category 1 – Insured or registered, with securities held by MHF or its agent in MHF's name.

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department in MHF's name.

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in MHF's name.

All investments of MHF are classified as Category 1.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains and losses during the reporting periods. Actual results could differ from these estimates.

Reclassifications

Certain reclassifications have been made to the prior year component unit financial statements to conform with the current year presentation. Certain costs previously classified as expenses related to acquired property have been reclassified as part of the provision for possible insurance and loan losses. These reclassifications have had no effect on net income.

3. Cash on deposit with the State Treasurer:

The investment income earned from cash included in the operating account does not accrue to MHF. Included in the loan account are proceeds of certain general obligation bonds aggregating approximately $2,500,000, of which interest earnings do not accrue to MHF. Proceeds of the remaining general obligation bonds and the State appropriations included in the loan account are invested by the State Treasurer for the account of MHF so that the investment income accrues to MHF. Proceeds from the sale of bonds and interest income received by MHF are reflected as loan account cash. For additional information on the risk categories of cash, see the State of Maryland Comprehensive Annual Financial Report.

4. Loans and accrued interest receivable, net:

Loans and accrued interest receivable, net, consist of loans made directly by MHF and loans originally made by others and subsequently assigned to MHF under the provisions of the insurance agreements and corresponding accrued interest, net of possible losses. Loans and accrued interest receivable consists of the following as of June 30:

	2001	2000
Multi-Family	$ 11,459,465	$ 17,635,886
Single-Family	290,858	316,714
Accrued interest on loans	3,861,865	5,495,600
	15,612,188	23,448,200
Allowance for possible losses	(14,745,480)	(18,640,672)
Loans and accrued interest receivable, net	$ 866,708	$ 4,807,528

Changes in the allowance for loan losses were as follows:

	2001	2000
Balance, beginning of year	$ 18,640,672	$ 15,986,197
Provision charged to operations	(567,800)	778,664
Transfer from allowance for unpaid insurance losses	—	2,411,513
Charge-offs	(3,327,392)	(535,702)
Balance, end of year	$ 14,745,480	$ 18,640,672

In November 1999, MHF incurred claims related to insurance losses on two multi-family projects. As a result, MHF took back cash flows notes (the Notes) in the amount of $3,535,168, which are included in multi-family loans as of June 30, 2001 and 2000. MHF previously established $1,123,655 of loan receivables (the Loans) related to these projects, which were fully reserved. As a result of the claim payments, the Loans were eliminated and the related allowance was combined with an allowance assumed of $2,411,513 related to these projects, in order to fully reserve the Notes.

In May 2001, MHF foreclosed upon a multi-family loan resulting in a transfer of the carrying value of the asset of approximately $5.1 million to acquired property. Carrying value approximated fair value of the related property, less costs to sell.

5. Unearned premiums:

The unearned premiums for the unexpired terms of all policies in force or written as of June 30, 2001 and 2000, and changes for the years then ended were as follows:

	Unearned premiums, beginning of year	Premiums written	Premiums earned	Unearned premiums, end of year
Single-Family programs:				
Baltimore City Pilot, State Pilot, Pension Loan, and Baltimore Residential Programs	$ 19,093	$ 29,299	$ 36,309	$ 12,083
Community Development Administration under Multi-Family reserves	1,470	2,522	2,897	1,095
Regular	1,600,114	2,934,834	3,039,992	1,494,956
Pool insurance	618,204	1,232,447	1,294,629	556,022
Home and Energy Loan	1,960	3,353	3,769	1,544
Total Single-Family	2,240,841	4,202,455	4,377,596	2,065,700
Multi-Family programs:				
Construction and permanent mortgages	816,526	1,366,305	1,483,619	699,212
Additional insurance premium	150,161	69,529	75,620	144,070
Multi-Family HELP Program	2,984	9,088	9,303	2,769
Shop loans	34,585	60,796	63,368	32,013
Total Multi-Family	1,004,256	1,505,718	1,631,910	878,064
Total for the year ended June 30, 2001	$ 3,245,097	$ 5,708,173	$ 6,009,506	$ 2,943,764
Summary totals for the year ended June 30, 2000	$ 3,489,112	$ 6,580,290	$ 6,824,305	$ 3,245,097

6. Allowance for unpaid insurance losses:

Changes in allowance for unpaid insurance losses were as follows:

	Single-Family	Multi-Family	Total
Balance, June 30, 1999	$ 17,963,225	$ 19,803,929	$37,767,154
Provision charged to operations	7,669,402	(435,717)	7,233,685
Charge-offs	(7,497,930)	(2,309,650)	(9,807,580)
Transfer to allowance for loan losses	—	(2,411,513)	(2,411,513)
Balance, June 30, 2000	18,134,697	14,647,049	32,781,746
Provision charged to operations	3,393,793	262,288	3,656,081
Charge-offs	(4,789,715)	—	(4,789,715)
Balance, June 30, 2001	$ 16,738,775	$ 14,909,337	$31,648,112

7. Commitments and contingencies:

Single-Family mortgages

All loans insured by MHF are with approved lenders and are collateralized by a first or second lien against the improved property, which must be located in the State of Maryland. The details of insured loans and commitments to insure loans as of June 30, 2001, were as follows:

	Insured mortgages		
	Original commitments		Current balances
	No.	Amount	Amount
Primary insurance coverage:			
100% insured (Baltimore City Pilot, State Pilot, Pension Loan and Baltimore Residential Programs)	359	$ 9,864,379	$ 8,251,355
20% and 25% insured	10,654	675,595,955	599,001,832
Home And Energy Loan Program (up to 100% insured, second lien)	57	608,212	296,572
Total	11,070	$ 686,068,546	$ 607,549,759
Pool insurance coverage:			
Pool insurance	15,086	$ 957,004,382	$ 844,215,547

As of June 30, 2001, MHF was contingently liable as insurer on the above loans in the aggregate amount of $158,298,385 for primary insurance coverage. Also, MHF was contingently liable as insurer for 10 percent of the aggregate amount of lendable bond proceeds of $1,603,848,370 for pool insurance coverage, or $160,384,837.

Multi-Family mortgages

MHF insured mortgage loans as of June 30, 2001, net of partial claim payments, were as follows:

	No.	Current balances
Construction and permanent mortgages financed by CDA	79	$ 210,809,164
CDA Multi-Family help program	3	1,738,799
CDA Single-Family loans under Multi-Family reserves	32	866,461
CDA group homes/shop loans	118	9,959,813
Loans financed by the Housing Opportunities Commission of Montgomery County	7	32,008,802
Loan financed by the Housing Authority for Prince George's County	1	469,769
Loans financed by Sun Trust Mortgage, Inc.	2	6,654,720
	242	$ 262,507,528

DHCD has suspended indefinitely all new insurance activity of MHF, except for pool insurance for certain single-family loans. The suspension of new insurance activity allows all of the financial resources of MHF to be available for existing insurance risk.

8. Pension and other postretirement benefits:

Eligible employees of MHF and employees of the State, are covered under the retirement plans of the State Retirement and Pension System of Maryland (System) and are also entitled to certain healthcare benefits upon retirement. MHF’s only liability for retirement and postemployment benefits is its required annual contribution, which it has fully funded during the years ended June 30, 2001 and 2000. The System is considered part of the State’s financial reporting entity, and is not considered a part of MHF’s reporting entity. The System prepares a separate Comprehensive Annual Financial Report which can be obtained from the State Retirement and Pension System of Maryland at State Office Building, 301 West Preston Street, Baltimore, Maryland 21201.

MHF made its required contribution during the fiscal years ending June 30, 2001 and 2000, of $18,722 and $25,522, respectively, which represented 5.6 percent and 7.2 percent, respectively, of the covered payroll.

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APPENDIX K

PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL

LETTERHEAD OF HAWKINS, DELAFIELD & WOOD, WASHINGTON, D.C.

[Closing Date]

Community Development Administration
Maryland Department of Housing and
Community Development
100 Community Place
Crownsville, Maryland 21032

$47,630,000
COMMUNITY DEVELOPMENT ADMINISTRATION
MARYLAND DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
Housing Revenue Bonds
Series 2001 B

Ladies and Gentlemen:

We have acted as Bond Counsel to the Community Development Administration (the "Administration"), an agency in the Division of Development Finance of the Department of Housing and Community Development (the "Department"), a principal department of the government of the State of Maryland (the "State"), in connection with the issuance and sale of $47,630,000 aggregate principal amount of its Housing Revenue Bonds, Series 2001 B (the “Offered Bonds”).

The Offered Bonds are being issued under and pursuant to (1) Sections 2-201 through 2-208 of Article 83B of the Annotated Code of Maryland, as amended (the "Act"), (2) the resolution of the Administration adopted as of November 1, 1996, entitled "Resolution Providing for the Issuance of Housing Revenue Bonds" (the "Bond Resolution"), and (3) the resolution of the Administration, adopted as of October 1, 2001(the "Series Resolution"), pursuant to which the Series 2001 B Bonds are authorized to be issued. The Bond Resolution and the Series Resolution are referred to collectively as the "Resolution". The Director of the Administration determined, pursuant to Section 2-206(c) of the Act, that the issuance of the Offered Bonds is necessary to achieve one or more purposes of the Administration, and such determination was approved by the Secretary of Housing and Community Development. Capitalized terms used in this opinion and not otherwise defined in this opinion shall have the meanings set forth in the Resolution or the Act.

Applicable Federal tax law establishes certain requirements which must be met subsequent to the delivery of the Offered Bonds in order to assure that interest on the Offered Bonds will be and will remain excludable from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). The Administration has covenanted in the Bond Resolution to at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest on the Offered Bonds will be and will remain excludable from gross income for Federal income tax purposes. The Administration has also delivered a certificate dated the date of this opinion containing representations, provisions and procedures relating to compliance with the requirements of the Code. Noncompliance by the Administration with such provisions and procedures may require the inclusion of interest on the Offered Bonds in gross income for Federal income tax purposes retroactive to the date of issuance, regardless of when such noncompliance occurs or is discovered. In rendering this opinion, we have assumed compliance by the Administration with the aforementioned covenant and representations, provisions and procedures set forth in the aforementioned certificate.

Based upon the foregoing, we are of the opinion that:

1) Under the Constitution and laws of the State, the Act is valid and the Administration has been duly created and validly exists as an agency in the Division of Development Finance of the Department with such political and corporate powers as set forth in the Act and with good, right and lawful authority, among other things, to carry out the Program of making Qualified Loans, to issue the Offered Bonds to provide funds therefor and to perform its obligations under the terms and conditions of the Resolution.

2) The Resolution has been duly adopted by the Administration and approved by the Secretary and is valid and binding upon the Administration and is enforceable in accordance with its terms.

3) The Offered Bonds are valid and legally binding limited obligations of the Administration secured by a pledge in the manner and to the extent set forth in the Resolution and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution. The Resolution creates the valid pledge of and the valid lien which it purports to create upon the Revenues and other assets and income described in the Resolution, subject only to the provisions of the Resolution permitting the use and payment thereof for or to the purposes and on the terms and conditions set forth in the Resolution.

4) Under existing law, interest on the Offered Bonds is excludable from gross income for Federal income tax purposes pursuant to Section 103 of the Code, except that no opinion is expressed as to such exclusion of interest on any Offered Bond for any period during which such Offered Bond is held by a person who is a "substantial user" of the facilities financed with the Bond proceeds or a "related person" to such a substantial user, both within the meaning of Section 147(a) of the Code. In addition, interest on the Offered Bonds is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code, and such interest is included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

5) Under existing statutes, the Offered Bonds, their transfer, the interest payable thereon, and any income derived therefrom, including any profit realized on the sale or exchange thereof, are exempt from taxation of every kind and nature whatsoever by the State of Maryland, except that no opinion is expressed with respect to any exemption from Maryland franchise taxes or estate or inheritance taxes.

The foregoing opinion is qualified only to the extent that the enforceability of the Offered Bonds and the Resolution may be limited by bankruptcy, moratorium, insolvency, or other laws affecting creditors' rights or remedies generally and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We express no opinion regarding any other Federal or state tax consequences with respect to the Offered Bonds. We render our opinion under existing statutes and court decisions as of the issue date, and we assume no obligation to update this opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Offered Bonds, or under state and local tax law.

Very truly yours,

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