

## **NEW ISSUE**

*In the opinion of Bond Counsel, assuming compliance with certain covenants in the Bond Resolutions intended to assure compliance with the applicable provisions of the Internal Revenue Code of 1986, as amended, and subject to the exceptions under "Tax Exemption and Related Considerations" herein, interest on the 2002 Series D Bonds and the 2002 Series E Bonds is excludable from gross income for federal income tax purposes under existing laws, regulations, rulings and judicial decisions. Interest on the 2002 Series D Bonds is not, and interest on the 2002 Series E Bonds is, a tax preference item directly subject to the alternative minimum tax on individuals and corporations. A discussion of the requirements for, the extent of, and exclusions or exceptions to such exemption, is contained under "Tax Exemption and Related Considerations" herein. In the opinion of Bond Counsel, the 2002 Series D Bonds and the 2002 Series E Bonds, their transfer, the interest payable thereon and any income derived therefrom, including any profit realized from their sale or exchange, are exempt from taxation of every kind and nature whatsoever by the State of Maryland or by its political subdivisions, municipal corporations or public units of any kind under existing law, except that no opinion is expressed as to such exemption from Maryland franchise taxes or estate or inheritance taxes.*

**\$109,945,000**

**COMMUNITY DEVELOPMENT ADMINISTRATION  
MARYLAND DEPARTMENT OF HOUSING AND  
COMMUNITY DEVELOPMENT**

**Residential Revenue Bonds**

**\$41,980,000 2002 Series D (Non-AMT)**

**\$67,965,000 2002 Series E (AMT)**



**Dated: Date of Delivery**

**Due: December 18, 2003**

The 2002 Series D Bonds and the 2002 Series E Bonds (collectively, the "2002 Series 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 ("DTC"), which will act as securities depository for the 2002 Series Bonds. Purchases of the 2002 Series Bonds will be in book entry form only, in principal amounts of \$5,000, or any integral multiple thereof. Interest on the 2002 Series Bonds is payable by Allfirst Bank, Baltimore, Maryland, as Trustee, to DTC on July 1, 2003 and at maturity or upon earlier redemption and shall cease to bear interest at maturity or upon earlier redemption. DTC will remit such payments to participating financial organizations for subsequent disbursement to beneficial owners of the 2002 Series Bonds. Additional information is contained under the caption "THE 2002 SERIES BONDS" herein.

**The 2002 Series Bonds are subject to optional redemption at par prior to maturity at the times and under the conditions set forth under "THE 2002 SERIES BONDS" herein.**

**The 2002 Series Bonds are special obligations of the Community Development Administration (the "Administration"), an agency in the Division of Development Finance of the Maryland Department of Housing and Community Development, payable solely from the revenues and assets of the Administration pledged therefor under the Bond Resolution. The Administration has no taxing power. The 2002 Series 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.**

**\$41,980,000 1.20% 2002 Series D Bonds — Price 100%**

**\$67,965,000 1.25% 2002 Series E Bonds — Price 100%**

*The 2002 Series Bonds are offered for delivery when, as and if issued and received by the Underwriters, subject to the opinions of Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania, Bond Counsel, as to the validity of the 2002 Series 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 and Counsel to the Department. Certain legal matters will be passed upon for the Underwriters by Kutak Rock LLP, Atlanta, Georgia. It is expected that the 2002 Series Bonds will be available for delivery to DTC in New York, New York on or about December 18, 2002.*

**Bear, Stearns & Co. Inc.**

**Ferris, Baker Watts  
Incorporated**

**Legg Mason Wood Walker  
Incorporated**

**UBS PaineWebber Inc.**

This cover page contains certain information for quick reference only. It is not a summary of this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed decision.

December 11, 2002

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 2002 Series Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been furnished by the Administration and by other sources which are believed to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. No dealer, broker, salesman or other person has been authorized by the 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. The information and expressions of opinion herein speak only as of the date hereof and 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 2002 SERIES BONDS OR OF ANY OTHER BONDS OF THE ADMINISTRATION 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**

**\$109,945,000**  
**Residential Revenue Bonds**  
**\$41,980,000 2002 Series D (Non-AMT)**  
**\$67,965,000 2002 Series E (AMT)**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover page and the 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 \$41,980,000 aggregate principal amount of its Residential Revenue Bonds, 2002 Series D (the “2002 Series D Bonds”) and \$67,965,000 aggregate principal amount of its Residential Revenue Bonds, 2002 Series E (the “2002 Series E Bonds” and, together with the 2002 Series D Bonds, the “2002 Series Bonds”).

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The information contained under this caption is qualified by reference to the entire Official Statement. This introduction is only a brief description of the Official Statement and potential investors should review the entire Official Statement, as well as the documents summarized or described herein, in order to make an informed investment decision. All terms not otherwise defined herein shall have the meanings set forth in Appendix C – “DEFINITIONS”.

**Authorization**

The Administration is authorized to issue the 2002 Series Bonds pursuant to Sections 2-201 through 2-208 of Article 83B of the Annotated Code of Maryland, as amended (the “Act”), and a Residential Revenue Bond Resolution providing for the issuance of Residential Revenue Bonds adopted by the Administration as of August 1, 1997 (the “Bond Resolution”), for the benefit of Allfirst Bank, as trustee (the “Trustee”). The 2002 Series D Bonds will be issued pursuant to a Series Resolution Providing for the Issuance and Sale of \$41,980,000 Aggregate Principal Amount of Residential Revenue Bonds 2002 Series D (Non-AMT) which will be adopted by the Administration prior to the issuance of the 2002 Series D Bonds (the “2002 Series D Bond Resolution”) and the 2002 Series E Bonds will be issued pursuant to a Series Resolution Providing for the Issuance and Sale of \$67,965,000 Aggregate Principal Amount of Residential Revenue Bonds 2002 Series E (AMT) which will be adopted by the Administration prior to the issuance of the 2002 Series E Bonds (the “2002 Series E Bond Resolution” and, together with the 2002 Series D Bond Resolution, the “2002 Series Bond Resolutions”). The Bond Resolution and the 2002 Series Bond Resolutions are collectively called the “Bond Resolutions”.

## **Bonds Issued Under Bond Resolution**

As of October 1, 2002, the Administration had issued 34 prior Series of Bonds under the Bond Resolution (the “Prior Bonds”). As of October 1, 2002, \$983,375,000 in aggregate principal amount comprising 26 Series of Bonds were outstanding under the Bond Resolution. See Appendix E hereto for further information. The Bond Resolution provides for the issuance of Additional Bonds which will be on a parity with the Prior Bonds and the 2002 Series Bonds, and will be equally and ratably secured under the Bond Resolution. See “SECURITY FOR THE BONDS – Additional Bonds” herein. The Prior Bonds and the 2002 Series 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 also allows the issuance of Subordinate Bonds which will not be on a parity with the Bonds. To date, the Administration has not issued Subordinate Bonds under the Bond Resolution.

## **Purpose of Bond Resolution**

The Administration adopted the Bond Resolution pursuant to the Act primarily to finance single family housing loans under the Residential Revenue Bond Program (the “Program”), but has reserved the right to finance and also may issue Bonds to finance other kinds of housing and other types of loans permitted to be financed under the Bond Resolution, including portions of or participations in single family housing loans made, purchased or otherwise financed by the Administration, home improvement loans, housing rehabilitation loans, as well as loans to finance or refinance developments authorized by the Act, including, without limitation, multi-family housing projects, group housing facilities and shared living facilities. To date, the Administration has applied proceeds of Bonds only to finance single family housing loans, participations in single family housing loans and reserves related thereto. See “SECURITY FOR THE BONDS” and Appendix D – “SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION”.

## **The 1980 General Certificate**

Between 1980 and the adoption of the Bond Resolution on August 1, 1997, the Administration issued bonds for its single family program under a general certificate providing for the issuance of single family program bonds (“Single Family Program Bonds”), which general certificate was adopted by the Administration as of May 1, 1980, as supplemented (the “1980 General Certificate”). The Administration expects, but is not required, to finance new loans for its single family program in the foreseeable future primarily under the Bond Resolution. The Administration also expects, however, to finance loans under the 1980 General Certificate from time to time in connection with refunding or other economic measures.

As of October 1, 2002, \$864,070,000 in aggregate principal amount of bonds were outstanding under the 1980 General Certificate. Bonds issued under the Bond Resolution are not secured by or payable from the assets of the 1980 General Certificate.

## **Use of Proceeds of Bonds**

The Bond Resolution authorizes the Administration to issue Bonds to provide funds to finance or refinance any loan, project, facility, undertaking or purpose for which the Administration is authorized to undertake, finance or provide financing for pursuant to the Act (“Program Assets”), including, but not limited to mortgage loans, or portions of or participations in mortgage loans (“Mortgage Loans”), to finance or refinance the purchase of owner-occupied single family residences by persons or families of limited incomes, to refund Bonds or other obligations (including bonds issued by the Administration under resolutions other than the Bond Resolution), for the funding of reserves, for the payment of Costs of Issuance or for achieving any other of the Administration’s purposes. In addition to Mortgage Loans,

the Bond Resolution permits financing of various types of Loans, including, without limitation, loans to finance various types of housing developments within the State, which include single family residences, multi-family residential rental facilities, and group living facilities (collectively, the “Developments”) 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 Bond Resolution. Program Assets may include, without limitation, whole loans (with or without Credit Enhancement) and purchases of mortgage-backed securities.

Proceeds from the 2002 Series Bonds will be used to refund and to pay at maturity certain Prior Bonds and certain prior series of the Administration’s Single Family Program Bonds, as a result of which funds representing prepayments and repayments of mortgage loans financed with proceeds of such Prior Bonds and Single Family Program Bonds will be made available to make or purchase Mortgage Loans. **The Administration, however, will not apply available funds relating to the issuance of the 2002 Series Bonds to the making or purchasing of Mortgage Loans until on or after the refunding of the 2002 Series Bonds at maturity or earlier redemption thereof with proceeds of additional Bonds bearing fixed interest rates to their maturities. If the Administration does not refund the 2002 Series Bonds at maturity or earlier redemption with proceeds of additional Bonds bearing fixed interest rates to their maturities, such funds will be applied to the payment at maturity of the 2002 Series Bonds.**

Brief descriptions of the 2002 Series Bonds and the security for the Bonds are included in this Official Statement. Descriptions of the Department and the Administration, the Program, the definitions of certain terms and the summary of certain provisions of the Bond Resolutions are included as Appendices A, B, C and D, respectively. Appendices E and F contain certain information regarding the outstanding indebtedness of the Administration and its redemption requirements for the Bonds from Prepayments of Loans as required by the Code, respectively. A summary of the FHA Mortgage Insurance Program, the VA Home Loan Guaranty Program and the USDA/RD Mortgage Guarantee Program is included as Appendix G. The financial statements of the Program, the investments held in the Residential Revenue Bond Funds and the proposed form of the opinion of Bond Counsel are included as Appendices H, I and J, respectively. **The Appendices to this Official Statement constitute a part of this Official Statement and contain information which any potential investor should read in order to make an informed investment decision.**

Information concerning the 2002 Series Bonds, the Administration and the Program and descriptions of certain provisions of the Act, the 2002 Series Bonds and the Bond Resolutions are included in this Official Statement. All summaries herein of any statute, agreement or document are qualified in their entirety by reference to such statute, agreement or document, and all summaries of the 2002 Series Bonds are qualified in their entirety by reference to the definitive form thereof and the information with respect thereto contained in the Bond Resolutions. Copies of the Bond Resolutions and the Act are available for inspection at the offices of the Administration at 100 Community Place, Crownsville, Maryland 21032-2023. Requests to inspect copies of the Bond Resolutions and the Act should be directed to Anne P. Konrad, Director, Finance, at (410) 514-7326 or by e-mail at [konrad@dhcd.state.md.us](mailto:konrad@dhcd.state.md.us).

## **THE 2002 SERIES BONDS**

### **General Description**

The 2002 Series Bonds will be dated the initial date of authentication and delivery and are issuable as fully registered bonds. The 2002 Series Bonds 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 2002 Series Bonds. The 2002 Series Bonds will be issued in book entry form only in denominations of \$5,000 principal amount or any integral multiple thereof. The 2002 Series Bonds will mature on December 18, 2003 and will bear interest from their initial date of authentication and delivery, payable on July 1, 2003 and at maturity or upon earlier redemption and shall cease to bear interest at maturity or upon earlier redemption as set forth herein. References herein to the registered owner will be to Cede & Co., as nominee for DTC. For a description of DTC's procedures, see "DTC and Book Entry" herein. Allfirst Bank, Baltimore, Maryland, has been designated by the Administration as Trustee under the Bond Resolution.

Interest on the 2002 Series Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Payments of interest will be made by wire transfer from the Trustee to Cede & Co., as registered owner.

### **Application of 2002 Series D Bond Proceeds**

The Administration will deposit from the proceeds of the sale of the 2002 Series D Bonds \$41,980,000 into a Redemption Account established pursuant to the 2002 Series D Resolution for the purpose of refunding within 90 days of delivery of the 2002 Series Bonds and paying at maturity certain Prior Bonds and certain prior series of the Administration's Single Family Program Bonds, as a result of which \$41,980,000, representing prepayments and repayments of mortgage loans financed with proceeds of such Prior Bonds and Single Family Program Bonds, will be transferred to the 2002 Series D Bond Program Account of the Program Fund under the Bond Resolution and are expected to be made available to make or purchase Mortgage Loans upon the refunding of the 2002 Series D Bonds at maturity or earlier redemption thereof with proceeds of additional Bonds bearing fixed interest rates to their maturities. The application of moneys resulting from the refunding of prior Series of Bonds with the proceeds of the 2002 Series D Bonds are summarized below:

|                                               |                     |
|-----------------------------------------------|---------------------|
| Transfer of moneys into 2002 Series D Program |                     |
| Account.....                                  | <u>\$41,980,000</u> |
| Gross Proceeds of 2002 Series D Bonds.....    | <u>\$41,980,000</u> |

### **Application of 2002 Series E Bond Proceeds**

The Administration will deposit from the proceeds of the sale of the 2002 Series E Bonds \$67,965,000 into a Redemption Account established pursuant to the 2002 Series E Resolution for the purpose of refunding within 90 days of delivery of the 2002 Series Bonds and paying at maturity certain Prior Bonds and certain prior series of the Administration's Single Family Program Bonds, as a result of which \$67,965,000, representing prepayments and repayments of mortgage loans financed with proceeds of such Prior Bonds and Single Family Program Bonds, will be transferred to the 2002 Series E Program Account of the Program Fund under the Bond Resolution and are expected to be made available to make or purchase Mortgage Loans upon the refunding of the 2002 Series E Bonds at maturity or earlier redemption thereof with proceeds of additional Bonds bearing fixed interest rates to their maturities. The application of proceeds of the 2002 Series E Bonds are summarized below:

|                                                    |                     |
|----------------------------------------------------|---------------------|
| Transfer of moneys into 2002 Series E Bond Program |                     |
| Account.....                                       | <u>\$67,965,000</u> |
| Gross Proceeds of 2002 Series E Bonds.....         | <u>\$67,965,000</u> |

## **Redemption Provisions**

Optional Redemption. The 2002 Series Bonds may be redeemed prior to their date of maturity at the option of the Administration, in whole or in part, at any time on or after July 1, 2003 from any moneys made available for such purpose, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest to the redemption date.

General Provisions. If fewer than all of the 2002 Series Bonds are to be redeemed and are no longer held in book entry form, the Trustee will select the particular 2002 Series Bonds or portions thereof to be called for redemption by lot. The Trustee will mail notice of the redemption to the registered owners of any 2002 Series Bonds or portions thereof to be redeemed not less than 15 days (or, in the case of 2002 Series Bonds then registered under DTC's book-entry-only system of registration, 30 days) nor more than 90 days before any date upon which 2002 Series Bonds may be redeemed at their last addresses appearing upon the registration books. Such notice by mail is sufficient and published notice of the call for redemption need not be given. The notice of redemption may be conditional. If conditional, the notice will set forth the conditions precedent to such redemption and that if such conditions have not been met prior to the redemption date, such notice will be of no force and effect. Notice otherwise having been provided, the 2002 Series Bonds designated in the notice will become due and payable at the applicable redemption price, plus interest accrued to the redemption date. On and after the redemption date, such 2002 Series Bonds will cease to bear interest and such 2002 Series Bonds will no longer be considered as outstanding under the Bond Resolution.

## **DTC and Book Entry**

At the time of issuance of the 2002 Series Bonds, DTC will act as securities depository for the 2002 Series Bonds. The 2002 Series Bonds will be issued as one fully registered 2002 Series D Bond and one fully registered 2002 Series E Bond, each of the same maturity and each in the aggregate principal amount of the respective 2002 Series Bonds. The 2002 Series Bonds will be initially 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 and provides asset servicing for U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, CSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on

file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the 2002 Series Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2002 Series Bonds on DTC's records. The ownership interest of each actual purchaser of each 2002 Series Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2002 Series Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2002 Series Bonds, except in the event that use of the book-entry system for the 2002 Series Bonds is discontinued.

To facilitate subsequent transfers, all 2002 Series Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2002 Series Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2002 Series Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2002 Series Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2002 Series Bonds may wish to make certain to augment the transmission to them of notices of significant events with respect to the 2002 Series Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of 2002 Series Bonds may wish to ascertain that the nominee holding the 2002 Series Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2002 Series Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2002 Series Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Administration as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds on the 2002 Series Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Administration or the Trustee, on the date such proceeds are payable 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 “street name,” and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or the Administration, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds to Cede & Co. (or such other nominee as maybe requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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 2002 Series Bonds for redemption. 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.

The Administration and the Trustee cannot give any assurances that DTC will distribute payments of principal, redemption price of or interest on the 2002 Series 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 such payments or notices received by them or do so on a timely basis, or that DTC will serve and act in a 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 the 2002 Series Bonds.

DTC may discontinue providing its services as depository with respect to the 2002 Series Bonds at any time by giving reasonable notice to the Administration. Under such circumstances, in the event that a successor depository is not obtained, the 2002 Series Bonds are required to be printed and delivered.

The Administration may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2002 Series Bonds will be printed and delivered.

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

## **SECURITY FOR THE BONDS**

### **Provisions of 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) the Administration's right, title and interest in and to all Program Assets financed from such proceeds;
- (3) Revenues;

- (4) 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 the Rebate Fund or 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
- (5) 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 Bond Resolution subject to the filing of a Cash Flow Certificate, (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”.

**The Bonds are special obligations of the Administration payable solely from the revenues and assets 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.**

### **Program Assets**

*Loans.* Mortgage Loans financed with the proceeds of Bonds may be either whole Mortgage Loans or participations in Mortgage Loans. Mortgage Loans (including participations in Mortgage Loans) financed by the Administration with proceeds of Bonds are pledged as Program Assets under the Bond Resolution, and the Trustee retains all right, title and interest in each such Mortgage Loan or participation interest for the equal and ratable security of the Bonds.

Proceeds from the 2002 Series Bonds will be used to refund and to pay at maturity certain Prior Bonds and certain prior series of the Administration’s Single Family Program Bonds, as a result of which funds representing prepayments and repayments of mortgage loans financed with proceeds of such Prior

Bonds and Single Family Program Bonds will be made available to make or purchase Mortgage Loans. **The Administration, however, will not apply available funds relating to the issuance of the 2002 Series Bonds to the making or purchasing of Mortgage Loans until on or after the refunding of the 2002 Series Bonds at maturity or earlier redemption thereof with proceeds of additional Bonds bearing fixed interest rates to their maturities. If the Administration does not refund the 2002 Series Bonds at maturity or earlier redemption with proceeds of additional Bonds bearing fixed interest rates to their maturities, such funds will be applied to the payment at maturity of the 2002 Series Bonds.**

Pursuant to a Mortgage Participation Agreement, dated December 1, 1998, as amended (the "Mortgage Participation Agreement"), among the Administration, Allfirst Bank, as fiscal agent thereunder (the "Fiscal Agent"), as Trustee under the Bond Resolution and as trustee under the 1980 General Certificate, the Administration may combine amounts available from the Program Fund under the 1980 General Certificate with amounts available from the Program Fund under the Bond Resolution to purchase Mortgage Loans which are held in trust by the Fiscal Agent. The Administration has applied certain proceeds of Prior Bonds and may apply proceeds of other Series of Bonds under the Bond Resolution designated by the Administration to purchase participations in such Mortgage Loans that are also funded from amounts available from the Program Fund under the 1980 General Certificate. Each participation interest purchased with proceeds of a Series of Bonds and pledged as a Program Asset under the Bond Resolution will consist of a participation interest in a Mortgage Loan held by the Fiscal Agent pursuant to the Mortgage Participation Agreement, and the Trustee will retain all right, title and interest in a pro rata portion of the payments, the mortgage and interests arising thereunder for the equal and ratable security of the Bonds. Payments of principal on all such Mortgage Loans, including Prepayments or recoveries from foreclosure of defaulted Mortgage Loans, will be divided between the Trustee and the trustee under the 1980 General Certificate, pursuant to the Mortgage Participation Agreement, on a pro rata basis in conformance with the contributions of proceeds from the Series of Bonds designated by the Administration and amounts available from the Program Fund under the 1980 General Certificate which are used to make Mortgage Loans for this purpose.

Each such Mortgage Loan financed in this manner and retained under the Mortgage Participation Agreement is expected to have an original term of 30 years, with equal monthly payments of principal and interest. Each such Mortgage Loan is expected to bear interest at fixed annual rates to be established from time to time by the Administration, with as little as 0% of the interest allocable to participation interests purchased with amounts available from the Program Fund under the 1980 General Certificate and up to 100% of the interest allocable to participation interests purchased with proceeds of the Bonds. The interest rate of such Mortgage Loans resulting from blending the interest rates attributable to the participation interests purchased from amounts available from the Program Fund under the 1980 General Certificate with the interest rates attributable to the participation interests purchased from the proceeds of the Bonds will comply with the requirements of the Code.

Each of the Loans financed with the proceeds of Prior Bonds issued under the Bond Resolution have been Mortgage Loans. Initially, each of the Loans was required to be secured by Credit Enhancement in the form of FHA mortgage insurance. Loans financed from the proceeds of the 1998 Series D Bonds and Series of Bonds issued thereafter may have FHA insurance or a USDA/RD guarantee; and loans financed from the proceeds of the 1999 Series C Bonds, the 1999 Series D Bonds and the Series of Bonds issued thereafter may be insured by FHA or guaranteed by VA or USDA/RD. See Appendix G – "FHA MORTGAGE INSURANCE PROGRAM, VA HOME LOAN GUARANTY PROGRAM AND USDA/RD MORTGAGE GUARANTEE PROGRAM". Proceeds of FHA mortgage insurance or a VA or USDA/RD guarantee paid upon default of Mortgage Loans held by the Fiscal Agent under the Mortgage Participation Agreement will be apportioned on a pro rata basis in conformance with the participation interests held in each Mortgage Loan. The Bond Resolution does *not* require that a Loan

financed in the future be secured by Credit Enhancement. Credit Enhancement of all or a portion of a Loan, if any, will be provided in accordance with the applicable provisions 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 Mortgage Loans financed with the proceeds of the Prior Bonds 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. Any of the 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. Before selling or otherwise transferring a Loan not in default (other than transfer of a Program Asset to a provider of Credit Enhancement or a Credit Facility provided that payment is made under the terms of the Credit Enhancement or Credit Facility), the Administration is required to file with the Trustee a Cash Flow Certificate taking such sale, release, cancellation, modification, amendment or alteration into account. The Administration may materially modify, amend, alter, release or cancel any terms or provisions of any Credit Enhancement.

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 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, Borrowers fail to satisfy their respective obligations under the Program and the proceeds of Credit Enhancement, if any, are insufficient, 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 Program Asset does not constitute a default with respect to any other Program Asset. 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 Program Asset. Under such circumstances, neither the Administration nor the Trustee has the right to accelerate payment of any Program Asset not in default. The Bonds are not secured by or payable from the assets and revenues of the 1980 General Certificate.

*Developments.* In addition to financing Loans, Bonds may be issued under the Bond Resolution to provide funds for the making, purchasing or otherwise financing or refinancing of Developments, including any project, facility, undertaking or purpose which the Administration is authorized to undertake, finance or provide financing for pursuant to the Act as now or hereafter in effect, including, without limitation, Single Family Residences, multi-family housing, group housing, shared living facilities, home improvements, housing rehabilitation and any undertaking or project, or portion thereof, which is defined as a “community development project,” a “public purpose project,” an “energy conservation project,” a “home improvement project,” an “infrastructure project” or a “special housing facility” by the Act.

## **Reserve Fund**

The Reserve Requirement, as of any date of calculation, is the aggregate of the amounts specified as the Reserve Requirement for each Series of Bonds in the applicable Series Resolution. During fiscal

year 1997, the Administration adopted the provisions of GASB 31, which require that the financial statements of the Administration reflect investments at fair value. Accordingly, the balance of the Reserve Fund reported at September 30, 2002, includes investments at fair value. As of September 30, 2002, the available balance in the Reserve Fund was \$18,162,493, of which \$1,333,600 was cash equivalents. The fair value of investments was \$16,828,893, of which \$16,203,344 was the book value of investments and \$625,549 was the increase in fair value of investments. See Appendix I – “INVESTMENTS HELD IN THE RESIDENTIAL REVENUE BOND FUNDS” herein. The amount currently on deposit in the Reserve Fund is at least equal to the aggregate Reserve Requirement established in the Series Resolutions which is 2% of the sum of: (i) the aggregate lendable proceeds on deposit in the 2002 Series A Proceeds Account of the Program Fund relating to the 2002 Series A Bonds and all Prior Bonds, and (ii) the aggregate principal amount of the Mortgage Loans then outstanding made or purchased from amounts described in clause (i) above.

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 with respect to the Bonds, the Trustee shall withdraw from the Reserve Fund and pay into the Revenue Fund the amount of such deficiency. If any such withdrawal results in the balance in the Reserve Fund falling below the amount of the 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 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 Reserve Fund in excess of the 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 Reserve Fund and the 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 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.

### **Collateral Reserve Fund**

The Administration has established a Collateral Reserve Fund under the Bond Resolution to provide additional pledged collateral as it deems appropriate. The Bond Resolution does not require the funding of the Collateral Reserve Fund, except as determined by the Administration. Any moneys, Cash Equivalents (*e.g.*, letters of credit, insurance policies, sureties, guaranties or other security arrangements), Program Assets, Non-Conforming Loans (*i.e.*, Loans which do not comply with the mortgage eligibility requirements of the Code) or other assets on deposit in the Collateral Reserve Fund are pledged as security for the Bonds, but may be transferred to any other Fund or Account or withdrawn, free and clear of the lien of the Bond Resolution, by the Administration upon receipt by the Trustee of an Administrative Request and, with respect to amounts deposited pursuant to prior Series Resolutions, a Cash Flow Certificate.

Moneys, Cash Equivalents, Program Assets, Non-Conforming Loans and other assets may be deposited into the Collateral Reserve Fund in accordance with the requirements of a Series Resolution or a Supplemental Resolution. Such Series Resolution or Supplemental Resolution may establish terms, conditions and provisions relating to the funding of the Collateral Reserve Fund, disbursement of moneys or Cash Equivalents and the sale, disposition or release of Non-Conforming Loans from the Collateral

Reserve Fund as well as the maintenance of such assets required to be held in such fund with respect to either a Series of Bonds or generally. The Collateral Reserve Fund was established with an initial deposit of \$8,750,000. The fund purchased Mortgage Loans with an original principal balance of \$8,736,273. As of September 30, 2002, the Collateral Reserve Fund held Mortgage Loans with an outstanding principal balance of \$7,653,995 and Investment Obligations in the amount of \$1,874,995. See Appendix I – “INVESTMENTS HELD IN THE RESIDENTIAL REVENUE BOND FUNDS” herein.

### **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, provided that the Administration shall file with the Trustee a current Cash Flow Statement at least annually.

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) Revenues;
- (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);
- (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,
- (v) 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 Investment Obligations held in any Fund or account pledged to the payment of the Bonds (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.

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 or excess Revenues;

(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 or otherwise transferring any Loan not in default, except with respect to the sale or release of Non-Conforming Loans and Loans secured by a Credit Facility or a Credit Enhancement which continues in effect after such release provided that payment is made under the Credit Enhancement or Credit Facility.

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) in the description of the Cash Flow Statement 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) in the description of the Cash Flow Statement 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.

Cash Flow Statements and Cash Flow Certificates 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 Agencies' ratings on the Bonds. 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.

## **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 Investment Obligations. See Appendix C – “DEFINITIONS – Investment Obligations” and Appendix B – “THE PROGRAM – Existing Portfolio and Available Funds Under the Bond Resolution” herein. The Administration expects that moneys held in the Program Accounts for the 2002 Series Bonds will be invested in a security issued by the Federal Home Loan Bank which constitutes an Investment Obligation. As of September 30, 2002, the proceeds of Prior Bonds held in the Program Fund, the Revenue Fund, the Reserve Fund and the Collateral Reserve

Fund were invested in the Investment Obligations set forth in Appendix I – “INVESTMENTS HELD IN THE RESIDENTIAL REVENUE BOND FUNDS” herein.

In general, it is the Administration's policy to invest funds held in the Revenue Fund, the Reserve Fund, the Program Fund and the Collateral Reserve Fund in U.S. Treasury securities, collateralized investment contracts, accounts with financial institutions, and securities of other institutions created by the U.S. Government. In addition, the Administration expects to use all funds currently held in the Program Fund and the Collateral Reserve Fund to finance Mortgage Loans.

The Trustee may purchase Investment Obligations that do not meet the ratings requirements described in the definition of Investment Obligations, so long as the purchase of such Investment Obligations 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 Investment Obligation purchased by the Trustee changes adversely subsequent to the date of purchase, the Trustee is not required to sell such Investment Obligations. If a Rating Agency were to downgrade or withdraw the rating on any Investment Obligations previously purchased by the Trustee, the rating on the Bonds could be negatively affected. See “RATINGS” herein.

### **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. To date, Bonds issued under the Bond Resolution have not been secured by a 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, 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) Investment Obligations, 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 Enhancement**

Forms of credit enhancement may include mortgage insurance provided through the FHA mortgage insurance programs, the VA and the USDA/RD guarantee programs, private mortgage insurance policies and the Maryland Housing Fund (“MHF”) mortgage insurance program. (MHF, an insurance fund in the Department, has not engaged in new insurance activity since early 1997; MHF expects, however, to provide insurance for mortgage loans for group homes, which loans are expected to be financed with bonds issued under the Administration’s Housing Revenue Bonds resolution.) Other forms of credit enhancement also may include letters of credit, insurance policies, sureties, guarantees or any other security arrangement upon which the Administration or the Trustee may draw to provide credit support for Program Assets under the Bond Resolutions. Future Loans may, but are not required to be, secured by Credit Enhancement. See “SECURITY FOR THE 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 2002 Series 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 September 30, 2002, includes investments at fair market value. As of September 30, 2002, the available balance in the General Bond Reserve Fund was \$41,590,897, of which \$9,179,708 was cash equivalents. The fair value of investments was \$32,411,189, of which \$30,694,930 was the book value of investments and \$1,716,259 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 September 30, 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.* As of September 30, 2002, 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) \$605,091 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 bond resolution for the Administration's Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) 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; or (ii) the ratio of assets to liabilities fall below 101% under the bond resolution for the Administration's Housing Revenue Bonds, the bond resolution for the Administration's Multi-Family Housing Revenue Bonds (Insured Mortgage Loans), or the general bond certificate for the Administration's Single Family Program Bonds. The requirement 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 or Bonds, as applicable.

**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.**

**The Administration reserves the right to exclude the General Bond Reserve Fund as a potential source of security for Additional Bonds issued under the Bond Resolution.**

### **Additional Bonds**

The Administration, from time to time, may issue Additional Bonds which are on a parity with and shall be entitled to the same benefits and security under the Bond Resolution as all other Bonds previously issued under the Bond Resolution, including the 2002 Series Bonds and except Subordinate Bonds (described below). A series of Additional Bonds shall be authorized and issued under and secured by the Bond Resolution pursuant to the authorization contained in a resolution of the Administration relating to such series of Additional Bonds (a "Series Resolution"). A series of Additional Bonds may be issued to finance or refinance Program Assets, including, but not limited to, Mortgage Loans, to refund Bonds or other obligations (including bonds issued by the Administration under resolutions other than the Bond Resolution), to fund reserves, to pay Costs of Issuance or to achieve any other of the Administration's purposes. Each Series Resolution authorizing the issuance of such series of Additional Bonds shall set forth the details of such Additional Bonds as well as any determinations by the Administration relating to Program Assets to be financed with the proceeds of such Additional Bonds. See Appendix D – "SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION – Issuance of the Bonds" herein.

Before a series of Additional Bonds shall be authenticated and delivered by the Trustee, the Administration shall cause to be on file with the Trustee, among certain items specified in the Bond Resolution, (i) an opinion of Bond Counsel concerning the security for such Bonds and the due adoption and valid and binding nature of the Bond Resolution and the Series Resolution, and (ii) a Cash Flow Statement, accompanied by a Certificate of the Administration to the effect that the Administration has been advised by each rating agency then maintaining a rating on the Bonds that the existing rating of

Bonds then outstanding (other than Subordinate Bonds and any Series of Bonds which has a rating based on a credit facility) will not be reduced as a result of the issuance of the series of Additional Bonds (published rating criteria by such rating agency constituting evidence of such advice). See “SECURITY FOR THE BONDS – Cash Flow Statements and Certificates” herein.

The Administration, from time to time, may issue Additional Bonds to be secured by the Bond Resolution and a Series Resolution relating to such series of Additional Bonds, on a subordinated basis (“Subordinated Bonds”), subject to the conditions provided in the Bond Resolution and the related Series Resolution. A series of Subordinated Bonds may be payable from Revenues derived from the Bond Resolution, but only after payment of all other amounts payable from Revenues with respect to Bonds which are not Subordinated Bonds having a higher priority to payment from such Revenues. See Appendix D – “SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION – Authorization of Subordinate Bonds; Conditions Precedent to Delivery” herein.

## **TAX EXEMPTION AND RELATED CONSIDERATIONS**

### **Federal Law**

The proceeds from the 2002 Series Bonds are expected to be used to finance Loans on Single Family Residences upon the refunding of the 2002 Series Bonds at maturity or their earlier redemption with proceeds of additional Bonds bearing fixed interest rates to their maturities. The federal tax laws provide that interest on bonds issued for this purpose will be excluded from gross income for federal income tax purposes provided the bonds meet requirements set forth in various sections of the Internal Revenue Code of 1986, as amended (the “1986 Code”), principally Section 143 concerning qualified mortgage bonds. References herein to Section 143 and other provisions of the 1986 Code incorporate counterpart provisions of the Internal Revenue Code of 1954, as amended (the “1954 Code”), principally Section 103A of the 1954 Code, to the extent applicable to the 2002 Series Bonds. Under Section 143, a qualified mortgage bond is a bond which is issued as part of an issue the proceeds of which are used to finance owner-occupied residences meeting certain requirements relating to loan eligibility, Targeted Areas, arbitrage and other matters.

The loan eligibility requirements of Section 143 applicable to the 2002 Series Bonds are that (1) the residence on which the Mortgage Loan is made is a single family residence which is located in the State and can reasonably be expected to become the principal residence of the Borrower within a reasonable time after the Mortgage Loan is made; (2) except in certain limited circumstances, no part of the proceeds is to be used to acquire or replace any existing mortgage; (3) the acquisition cost (excluding usual and reasonable settlement or financing costs) of a property may not exceed a set percentage of the average area purchase price for residences in the area where the residence is located, which percentage depends on certain factors enumerated in Section 143; (4) with certain exceptions, the Borrower shall not have had a present ownership interest in his principal residence during the preceding three years; (5) with certain exceptions, the family income of the Borrower shall not exceed 115%, for families of three or more individuals, of 100%, for families of less than three individuals, of median gross income for the area in which the residence is located or the State, whichever is greater; and (6) the loan shall not be assumable unless the requirements of (1), (3), (4) and (5) above are met at the time of the assumption. An issue is treated as meeting the loan eligibility requirements of Section 143 if (1) the issuer in good faith attempted to meet all of the requirements before the loans were executed; (2) 95% or more of the proceeds of the issue used to finance loans was devoted to residences which met all such requirements at the time the loans were executed; and (3) any failure to comply with the loan eligibility requirements is corrected within a reasonable period after such failure is first discovered.

The 1986 Code imposes additional requirements to maintain the exclusion from gross income for federal income tax purposes of interest on the 2002 Series Bonds. These requirements impose limits on the yield that the Administration may realize from Mortgage Loans, require arbitrage from investment income to be rebated to the Internal Revenue Service, limit the period during which Mortgage Loans may be originated, limit the size of reserve funds and the amount of proceeds that may be spent on costs of issuance, and require prepayments of the Mortgage Loans to be used for bond redemptions in certain circumstances. Pursuant to the 2002 Series Resolutions, the Administration will covenant, in substance, to take, or refrain from taking, action, as necessary to comply with such requirements, unless in the opinion of Bond Counsel, it is not necessary to comply with such requirements in order to assure the exclusion from gross income for federal income tax purposes of interest on the 2002 Series Bonds.

The Administration expects to apply available funds relating to the issuance of the 2002 Series Bonds to the making or purchase of Mortgage Loans on or after the date of their refunding at maturity or earlier redemption with proceeds of additional Bonds bearing fixed interest rates to their maturities. Upon such an event, the Administration intends to make or purchase Mortgage Loans from such funds at interest rates that comply with the requirements of the 1986 Code. If the Administration does not refund the 2002 Series Bonds at maturity or earlier redemption with proceeds of additional Bonds bearing fixed interest rates to their maturities, such funds will be applied to the payment at maturity of the 2002 Series Bonds.

The terms and conditions of the Program documents have been designed to meet the requirements of the 1986 Code. The Administration will covenant in the 2002 Series Resolutions to meet these requirements and to take all steps necessary to comply with these requirements, including, but not limited to, initiating and pursuing foreclosure proceedings with respect to ineligible Mortgage Loans if repurchase obligations are either unavailable or prove to be unenforceable for any reason, so long as any Bonds issued to finance such Mortgage Loans are outstanding. See Appendix B – “THE PROGRAM – Eligible Mortgage Loans” hereto. Noncompliance with the requirements in the Program documents and the 2002 Series Resolutions would cause interest on the 2002 Series Bonds to become includable in the gross income of the holders thereof retroactively to the date of issue and adversely affect the price of the 2002 Series Bonds in the secondary market.

Assuming continuous compliance with certain covenants in the Bond Resolutions intended to assure compliance with the applicable provisions of the 1986 Code and with the procedures established by the Administration, in the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the 2002 Series Bonds is excludable from gross income of the holders thereof for federal income tax purposes, except as hereinafter described.

The following provisions of law may affect the exclusion from gross income for federal income tax purposes of interest on the 2002 Series Bonds or other federal income tax consequences of ownership of the 2002 Series Bonds with regard to certain taxpayers:

(a) Property and casualty insurance companies are required to reduce the amount of their deductible underwriting losses by 15% of the amount of tax-exempt interest received or accrued during the taxable year on certain obligations, including the 2002 Series Bonds, acquired after August 7, 1986. If the amount of its reduction exceeds the amount otherwise deductible as losses incurred, such excess may be included in income.

(b) Section 265 of the 1986 Code provides generally that taxpayers may not deduct interest expense on debt incurred or continued to purchase or carry tax-exempt obligations, including the 2002 Series Bonds. Section 265 further provides that banks and other financial institutions may not deduct the

portion of their interest expense allocable to certain tax-exempt obligations, including the 2002 Series Bonds, acquired after August 7, 1986.

(c) Interest on the 2002 Series D Bonds is not a “tax preference item” directly subject to the alternative minimum tax imposed on individuals and corporations under the 1986 Code.

(d) Although interest on the 2002 Series D Bonds is not a “tax preference item” directly subject to the alternative minimum tax, interest on the 2002 Series D Bonds is included in the “adjusted current earnings” (i.e., alternative minimum taxable income as adjusted for certain items including those items that would be included in the calculation of a corporation’s earnings and profits under Subchapter C of the 1986 Code) of certain corporations (other than S corporations, regulated investment companies, real estate investment trusts or real estate mortgage investment conduits) for taxable years beginning after 1989, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporation’s adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and before reduction for certain net operating losses).

(e) Interest on the 2002 Series E Bonds is a “tax preference item” directly subject to the alternative minimum tax imposed on individuals and corporations under the 1986 Code.

(f) Certain recipients of social security and railroad retirement benefits are required to include a portion of such benefits within gross income by reason of receipt of interest on tax-exempt obligations, including the 2002 Series Bonds.

(g) For foreign corporations operating branches in the United States, Section 884 of the 1986 Code imposes a branch-level tax on certain earnings and profits. Interest on tax-exempt obligations, such as the 2002 Series Bonds, may be included in the determination of such domestic branch taxable base on which this tax is imposed.

(h) If during a taxable year an S corporation has subchapter C earnings and profits at the close of its taxable year and more than 25% of the gross receipts of the S corporation are passive investment income, which includes interest on tax-exempt obligations such as the 2002 Series Bonds, the interest on the 2002 Series Bonds may be subject to federal income taxation under Section 1375 of the 1986 Code. Holders of the 2002 Series Bonds which are S corporations should consult their tax advisors as to whether the interest on the 2002 Series Bonds will be included in their income which is subject to the tax imposed under Section 1375 of the 1986 Code.

*The above summary of possible indirect tax consequences may not be exhaustive. All purchasers of the 2002 Series Bonds should consult their tax advisors regarding the possible federal income tax consequences of ownership of the 2002 Series Bonds.*

The opinions referred to herein as to the treatment of interest borne by the 2002 Series Bonds for federal income tax purposes are based upon laws, regulations, rulings and decisions in effect as of the date hereof. There can be no assurance that legislation will not be introduced or enacted after the issuance and delivery of the 2002 Series Bonds so as to affect adversely the exclusion from gross income for federal income tax purposes applicable to the 2002 Series Bonds. Under such circumstances, the Administration has no obligation to redeem or to increase the rate of interest paid on the 2002 Series Bonds. Each purchaser of the 2002 Series Bonds should consult his or her own tax advisor regarding any pending or proposed federal tax legislation.

## **State and Local Tax Exemption**

In the opinion of Bond Counsel, the 2002 Series Bonds, their transfer, the interest payable thereon and any income derived therefrom, including any profit realized from their sale or exchange, are exempt from taxation of every kind and nature whatsoever by the State, or by its political subdivisions, municipal corporations or public units of any kind under existing law, except that no opinion is expressed as to such exemption from Maryland franchise taxes or estate or inheritance taxes. Interest on the 2002 Series Bonds may be subject to state or local income taxes in jurisdictions other than the State under applicable state or local tax laws. All purchasers of the 2002 Series Bonds should consult their tax advisors regarding the tax status of the 2002 Series Bonds in a particular state or local jurisdiction other than the State.

## **FINANCIAL STATEMENTS FOR THE PROGRAM**

The financial statements for the year ended June 30, 2002 for the Residential Revenue Bonds of the Administration included in Appendix H to this Official Statement have been audited by Ernst & Young LLP, independent public accountants, as indicated in their report with respect thereto. 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. Unaudited financial statements for the Residential Revenue Bonds of the Administration for the period ended September 30, 2002 are also included in Appendix H to this Official Statement. 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" herein.

## **LITIGATION**

There is no pending litigation of any nature restraining or enjoining or seeking to restrain or enjoin the issuance, sale or delivery of the 2002 Series Bonds or in any way contesting or affecting the validity of the 2002 Series Bonds, the Bond Resolutions or other proceedings of the Secretary taken with respect to the authorization, issuance or sale of the 2002 Series Bonds, the Bonds, the Program, the pledge or application of any moneys under the Bond Resolutions, or the existence or powers of the Administration.

## **LEGAL MATTERS**

The authorization, issuance and delivery of the 2002 Series Bonds are subject to receipt of the opinions of Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania, Bond Counsel, which will be in substantially the forms set forth in Appendix J hereto. Certain legal matters pertaining to the Administration will be passed upon by an Assistant Attorney General of the State and Counsel to the Department. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP, Atlanta, Georgia.

## **LEGALITY FOR INVESTMENT**

Under the Act, the 2002 Series 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 2002 Series Bonds are securities which may

properly and legally 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 2002 Series Bonds are being purchased by Bear, Stearns & Co. Inc., Ferris, Baker Watts, Incorporated, Legg Mason Wood Walker, Incorporated and UBS PaineWebber Inc. (collectively, the "Underwriters"). The Underwriters have agreed to purchase all but not less than all of the 2002 Series Bonds from the Administration at the principal amount thereof. The Underwriters will receive an underwriting fee of \$102,543.35 with respect to the 2002 Series Bonds. The obligation to make such purchase will be subject to certain terms and conditions, including the approval of certain legal matters by counsel and certain other conditions. The initial public reoffering prices may be changed, from time to time, by the Underwriters. The Underwriters may offer and sell the 2002 Series Bonds to certain dealers (including dealers depositing 2002 Series Bonds into investment trusts) and certain dealer banks and banks acting as agents at prices lower than the public offering prices stated on the cover page hereof.

## **RATINGS**

Fitch, Inc. ("Fitch") has assigned to the 2002 Series Bonds the rating of "AA/F1+" and Moody's Investors Service ("Moody's") has assigned to the 2002 Series Bonds the rating of "Aa2/MIG 1". Each rating reflects only the view of Fitch and Moody's, respectively, and an explanation that such rating may be obtained from the issuing rating agency. There is no assurance that such ratings will be maintained for any given period of time or that they will not be lowered or withdrawn entirely by the issuing rating agency, if, in its judgment, circumstances so warrant. A downward change in or withdrawal of a rating may have an adverse effect on the market price of the 2002 Series Bonds. The Administration has no obligation or duty to provide Owners of the 2002 Series Bonds with notice of any change in or withdrawal of a rating.

## **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 nationally recognized municipal securities information repository ("NRMSIR") and to the appropriate state information depository ("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 (commencing with the fiscal year ended June 30, 2003):

1. a copy of the annual financial statements of the Residential Revenue Bond Program financed with the Bonds prepared in accordance with generally accepted accounting principles and audited by a certified public accountant; and
2. information regarding the status of the portfolio of Program Assets expected to be financed, and which are financed, with the proceeds of Bonds and the status of all Funds and Accounts held as security for the Bonds, which information shall be in a form generally provided by the Administration with respect to its existing single family program including:
  - (a) information concerning the existing Program Assets portfolio securing the Bonds;

- (b) information concerning the status of available funds to finance Program Assets;
- (c) information concerning any additional collateral or credit enhancements securing Program Assets or the Bonds;
- (d) information concerning delinquencies and foreclosures of Program Assets; and
- (e) information concerning Program Asset prepayments and Bond redemptions.

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 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 the 2002 Series Bonds, if material:

- (i) principal and interest payment delinquencies,
- (ii) non-payment related defaults,
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties,
- (iv) unscheduled draws on credit enhancements, if any, reflecting financial difficulties,
- (v) substitution of credit or liquidity providers, if any, or their failure to perform,
- (vi) adverse tax opinions or events affecting the tax-exempt status of the 2002 Series Bonds,
- (vii) modifications to rights of Bondholders,
- (viii) bond calls,
- (ix) defeasances,
- (x) release, substitution, or sale of property securing repayment of the 2002 Series Bonds or
- (xi) 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, if and when the Administration no longer remains an obligated person with respect to the 2002 Series 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 the holders of the 2002 Series Bonds, and will be enforceable by any

holder of 2002 Series Bonds or any beneficial owner of the 2002 Series Bonds. Such holders' and beneficial owners' right to enforce the provisions of this undertaking are limited to a right to obtain specific enforcement of the Administration's obligations with respect thereto. 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 the 2002 Series Resolutions.

The provisions of the undertaking with respect to the Rule described above may be amended, without the consent of the holders of the 2002 Series Bonds or any beneficial owners of the 2002 Series 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 Bond Resolutions and the 2002 Series 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 offices of the Administration.

### **Financial Advisor**

Caine Mitter & Associates Incorporated, in association with Columbia Equity Financial Corp. (collectively, the "Financial Advisor") have served as financial advisor to the Administration in connection with the sale of the 2002 Series Bonds.

### **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 2002 Series 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 2002 Series 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 2002 Series 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 of the 2002 Series Bonds.

\* \* \* \* \*

This Official Statement is not to be construed as a contract or agreement between the Administration and the owners of any of the 2002 Series 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  
DEPARTMENT OF HOUSING AND COMMUNITY  
DEVELOPMENT STATE OF MARYLAND

By: /s/ Fran D. Makle  
Fran D. Makle, Acting Director

December 11, 2002

## **APPENDIX A**

### **THE DEPARTMENT AND 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, and the Administration and the Maryland Housing Fund appears on page A-6 hereof.

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. In addition, the Administration, which is an agency within the Division, performs initial compliance review and approval of Mortgage Loans submitted by Mortgage Lenders.

The Secretary, with the approval of the Governor, appoints the Director of the Administration. The Director of the Administration, with the approval of the Secretary, appoints the Deputy Directors of the Administration and the other senior staff members of the Administration. The Act established 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, 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. The Maryland Housing Fund ("MHF") is an agency of the Department assigned to the Division of Credit Assurance.

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 Financial 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 a Revenue Bond Advisory Board (the "Board") that 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 and underwriters.

The Administration pays all costs and expenses of operating its programs from earnings received from its programs financed by 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 by e-mail at [konrad@dhcd.state.md.us](mailto: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 Maryland Housing Fund. 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.

*Fran D. Makle* was appointed Acting Director of the Administration effective October 15, 2002. In addition, Ms. Makle was appointed as Deputy Director, Community Development, for 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, Bond Finance, for the Administration, 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:

| <u>Name</u>           | <u>Position</u>                 |
|-----------------------|---------------------------------|
| Anne P. Konrad        | Director, Finance               |
| Patricia R. Sylvester | Director, Single Family Housing |
| Peter Engel           | Director, Multi-Family Programs |

As of September 30, 2002, the staff of the Administration consists of approximately 117 positions and an additional 19 vacancies, including more than 109 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, 23 are currently involved in Single Family Housing Programs in a professional or technical capacity. Certain information relating to the senior staff who have primary responsibilities for Finance and for Single Family Housing 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 the Maryland Housing Fund 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.

*Patricia Rynn Sylvester*, Director, Single Family Housing, has been with the Department since October 1997. Ms. Sylvester served as Deputy Director of Multi-Family Housing – Housing Development Programs for three years immediately preceding her appointment as Director of Single Family Housing in August 2002. Prior to joining the Department, she worked as an attorney with the Maryland General Assembly and served as an administrative law judge. Ms. Sylvester holds a J.D. degree from the University of Maryland Law School and a B.A. from Johns Hopkins University.

### **Other Housing Programs of the Department**

In addition to the Residential Revenue Program which is financed with the proceeds of Bonds (see Appendix B – “THE PROGRAM”), and the single family program financed with proceeds of bonds issued under the 1980 General Certificate, the staff of the Administration also is responsible for a broad range of other housing 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 secure the payment of principal 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.

*Single Family Housing.* Single Family Housing includes the Department's Homeownership Programs and Special Loan Programs. The Administration's Single Family Housing staff operates the Department's Homeownership Programs that are funded with State appropriations. These state-funded programs, which may or may not be funded at varying levels from year to year, currently provide low-interest mortgages to low- to moderate-income home buyers. In addition, the Department may have funding available from time to time for a Downpayment and Settlement Expense Loan Program for loans to eligible borrowers who are also receiving loans under the Program. Finally, Single Family Housing also administers a federally-funded weatherization assistance program.

The Special Loan Programs, which are funded with State appropriations, provide rehabilitation loans for general rehabilitation, 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. Federal HOME funds may also be used to finance rehabilitation loans for low income homeowners. These programs also provide loans to nonprofit organizations and individuals to purchase or construct group homes for low-income persons with special needs; group homes are funded with state appropriations, and are also expected to be funded from bonds issued under the Administration's Housing Revenue Bonds resolution.

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

The Administration's multi-family housing revenue bond program provides financing for development of rental developments whose owners are required to set aside certain percentages of available units for families of low or moderate income.

The Rental Housing Fund consists of rental housing finance programs funded with State appropriations and federal HOME funds which provide low-interest mortgages with flexible repayment

terms, interest rate write-downs and operating subsidies to increase the supply of new rental housing and to maintain and rehabilitate existing rental housing for low income elderly and family tenants.

The Partnership Rental Housing Program provides funding from general obligation bonds and potentially other state appropriations to local governments, housing authorities, and partnerships in which these entities are involved, to assist in financing the construction or rehabilitation of low income housing. The public entities provide the land and participate in the ownership and management of 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 low income requirements are not enforced.

The Department's 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. This program is administered through local governments and provides fixed monthly rental assistance payments for 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.

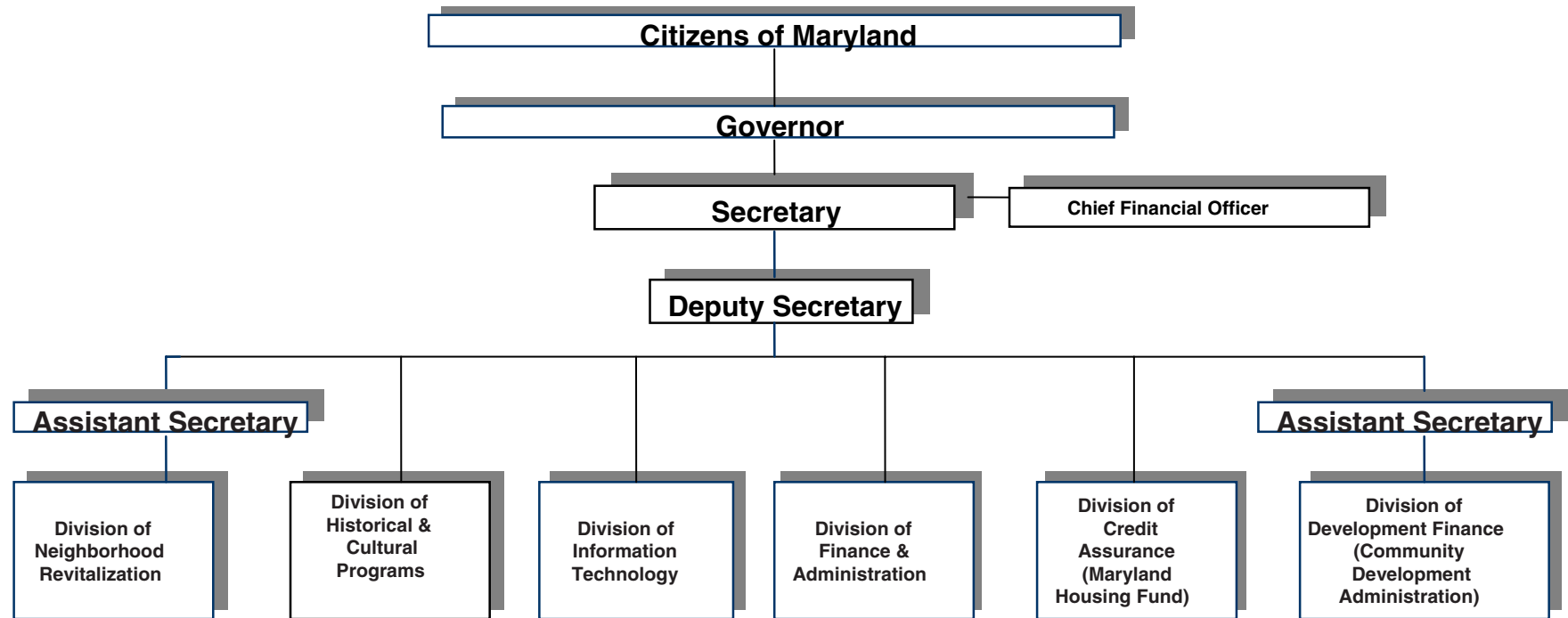
In addition, the Department was selected by HUD as the Contract Administrator for Project-Based Section 8 Housing Assistance Payment ("HAP") Contracts for the State of Maryland. As Contract Administrator, the Department makes payments to each property owner with the terms of the HAP Contracts and HUD regulations and requirements.

### **Infrastructure Financing Programs**

Between 1988 and September 30, 2002, the Administration issued 18 series of bonds for the purpose of financing loans to various local governments within the State under the Administration's Infrastructure Financing Program. (Five of the 18 series of bonds have been fully refunded or defeased.) In addition, the Administration issued its \$3,555,000 Local Government Infrastructure Bonds (AMBAC Insured) 2002 Series B on October 2, 2002. 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. All of the 13 series of bonds outstanding 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.

## **APPENDIX B**

### **THE PROGRAM**

The Administration adopted the Bond Resolution in 1997 pursuant to the Act primarily to finance single family housing loans under the Residential Revenue Bond Program, but reserved the right to finance and also may issue Bonds to finance other kinds of housing and other types of loans permitted to be financed under the Bond Resolution. Prior to the adoption of the Bond Resolution, the Administration funded its single family program primarily through the issuance of bonds under the 1980 General Certificate. The Administration expects, but is not required, to issue bonds for its single family program in the foreseeable future primarily under the Bond Resolution instead of the 1980 General Certificate. The Administration also expects, however, to finance loans under the 1980 General Certificate from time to time in connection with refunding or economic measures. The description of the Residential Revenue Bond Program contained in this Appendix B does not describe the mortgage portfolio financed under the 1980 General Certificate, except for a description of the “Status of Funds under the 1980 General Certificate” below.

Information provided in this Appendix B is derived from the Administration's most recently available statistics which are compiled from different sources on a weekly, monthly, and quarterly basis and later revised as necessary.

#### **Existing Portfolio and Available Funds Under the Bond Resolution**

*Existing Portfolio.* As of September 30, 2002, the Mortgage Loan portfolio of the Administration under the Bond Resolution consisted of 8,380 Mortgage Loans with an aggregate principal amount outstanding of \$736,680,330.

*Participations in Mortgage Loans.* The Administration may finance Mortgage Loans by purchasing participation interests in such Mortgage Loans, which may include Mortgage Loans financed with different Series of Bonds issued under the Bond Resolution, or Mortgage Loans financed with proceeds of bonds issued under the 1980 General Certificate and bonds issued under the Bond Resolution. Where participation interests involve the 1980 General Certificate, payments of principal on all such Mortgage Loans, including Prepayments or recoveries from foreclosure of defaulted Mortgage Loans, will be allocated on a pro rata basis in conformance with the contributions of proceeds from bonds issued under the 1980 General Certificate and bonds issued under the Bond Resolution. Each such Mortgage Loan shall bear interest at a rate determined from time to time by the Administration, with as little as 0% of such interest allocable to participation interests purchased with proceeds of bonds issued under the 1980 General Certificate and up to 100% of such interest allocable to participation interests purchased with proceeds of bonds issued under the Bond Resolution. As described below in “Certain Information Relating to Mortgage Loans”, portions of several series of bonds under the Bond Resolution each have been blended with 0% funds from the 1999 First Series Bonds which were issued under the 1980 General Certificate.

In addition, the following table sets forth, as of September 30, 2002, information on the number of whole loans and participation loans in the Mortgage Loan portfolio under the Bond Resolution:

**Whole Loans and Participation Loans  
as of September 30, 2002 (1)**

|                                                                                                     | <b><u>Current Number<br/>of<br/>Mortgage Loans</u></b> | <b><u>Original<br/>Principal<br/>Amount</u></b> | <b><u>Outstanding<br/>Principal<br/>Balance 09/30/02</u></b> |
|-----------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------|--------------------------------------------------------------|
| Loans financed entirely under the<br>Bond Resolution                                                | 6,907                                                  | \$640,003,135                                   | \$619,787,996                                                |
| Participation loans financed under both the Bond<br>Resolution and the 1980 General Certificate (2) | <u>1,473</u>                                           | <u>121,677,833</u>                              | <u>116,892,335</u>                                           |
| <b>TOTAL</b>                                                                                        | <b><u>8,380</u></b>                                    | <b><u>\$761,680,968</u></b>                     | <b><u>\$736,680,330</u></b>                                  |

(1) Individual amounts may not add up to the total amount because of rounding.

(2) The amount of participation loans is split between the Bond Resolution and the 1980 General Certificate. The participation loans are equally counted both in the Bond Resolution and the 1980 General Certificate.

The Administration may also finance Mortgage Loans with the proceeds of two series of bonds under the Bond Resolution, where the funds from one of the series of bonds earns interest at the rate of 0%. See "Certain Information Relating to Mortgage Loans" below.

*Status of Available Funds.* The chart below sets forth the status of available funds under the Bond Resolution as of November 20, 2002.

**Residential Revenue Bond Program  
Status of Available Proceeds (in thousands)  
as of November 20, 2002**

| <b><u>Source of Funds</u></b> | <b><u>Date of<br/>Issuance</u></b> | <b><u>Total<br/>Available for<br/>Mortgage<br/>Loans</u></b> | <b><u>Amount<br/>of<br/>Loans<br/>Purchased</u></b> | <b><u>Amount<br/>Available for<br/>Commitment</u></b> | <b><u>Reservations<br/>Against<br/>Available<br/>Funds (1)</u></b> |
|-------------------------------|------------------------------------|--------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------------|--------------------------------------------------------------------|
| 1998 Series D                 | 12/22/1998                         | \$ 61,578                                                    | \$ 60,827                                           | \$ 751                                                | \$ 752                                                             |
| 1999 Series E & F             | 08/31/1999                         | 78,431                                                       | 76,718                                              | 1,713                                                 | -                                                                  |
| 2000 Series A & B             | 03/29/2000                         | 78,431                                                       | 74,286                                              | 4,145                                                 | 849                                                                |
| 2000 Series C & D             | 06/14/2000                         | 78,431                                                       | 72,300                                              | 6,131                                                 | 4,045                                                              |
| 2000 Series F & G             | 09/07/2000                         | 78,431                                                       | 75,283                                              | 3,148                                                 | 3,141                                                              |
| 2000 Series H                 | 12/20/2000                         | 58,824                                                       | 45,877                                              | 12,947                                                | 6,084                                                              |
| 2001 Series A & B             | 03/28/2001                         | 68,319                                                       | 34,788                                              | 33,531                                                | 13,035                                                             |
| 2001 Series E & F             | 06/14/2001                         | 78,431                                                       | 69,607                                              | 8,824                                                 | 9,489                                                              |
| 2001 Series G & H             | 09/25/2001                         | 58,823                                                       | 32,418                                              | 26,405                                                | 1,305                                                              |
| 2002 Series A                 | 02/26/2002                         | <u>7,848</u>                                                 | <u>-</u>                                            | <u>7,848</u>                                          | <u>-</u>                                                           |
| <b>TOTAL</b>                  |                                    | <b><u>\$647,547</u></b>                                      | <b><u>\$542,104</u></b>                             | <b><u>\$105,443</u></b>                               | <b><u>\$38,700</u></b>                                             |

(1) The Administration expects that a certain percentage of applicants receiving reservations will not proceed to funding. Therefore, the Administration accepts reservations in an amount exceeding the funds available. To the extent necessary because of over-reservations, loans may be purchased into other series in a manner consistent with federal law.

(2) Individual amounts may not add up to the total amount because of rounding.

The chart above sets forth the Status of Funds as of November 20, 2002. Funds have been reserved as of that date for loans at interest rates ranging from 4.00% to 7.25%. Most of the funds have been reserved for whole loans, while some of the loans are participation loans to be funded from various series of bonds issued under the Bond Resolution. For information on interest rates for purchased loans, see "Certain Information Relating to Mortgage Loans – *Mortgage Loans by Interest Rate and Series as of*

*September 30, 2002*” below. As a result of economic refundings and management of bond proceeds, the Administration has been able to generate some funds for some loans and participation loans, which funds bear an interest rate of 0%. Because the Administration has some 0% funds available to subsidize interest rates, the Administration has been able to set lending rates for the general program based on market conditions. As of November 20, 2002, the interest rates for the general program were: 5.0% for existing homes, 5.5% for existing homes if the borrower received a loan through the Department’s Deferred Settlement Expense Loan Program (“DSELP”), 5.25% for new construction, and 5.75% for new construction if the borrower received a DSELP loan. Interest rates for new loans are subject to change, depending upon available funds and market conditions.

In addition to the sources of funds listed in the chart above, the Administration issued the 2002 Series B Bonds in the amount of \$36,745,000 and the 2002 Series C Bonds in the amount of \$60,530,000; these bonds are expected to be refunded with proceeds of the 2002 Series Bonds.

Initially, the series resolutions for the prior series of Bonds limited the Loans to Mortgage Loans on Single Family Residences, and required all of the Mortgage Loans to be insured by FHA mortgage insurance. The series resolutions for the 1998 Series D Bonds and the Series of Bonds issued thereafter also permit a USDA/RD guarantee. Furthermore, the series resolutions for the 1999 Series C Bonds and the 1999 Series D Bonds and the Series of Bonds issued thereafter also permit a VA guarantee. However, the Bond Resolution does not require that Loans be secured by Credit Enhancement. Furthermore, the Bond Resolution permits the Administration to require future Loans which it finances with Bonds to be insured with Credit Enhancement other than FHA mortgage insurance, or VA or USDA/RD guarantee. Such Credit Enhancement may include a variety of forms and may be provided by a variety of Credit Enhancers in addition to FHA, VA or USDA/RD.

The 1997 Series A and Series B Series Resolutions required, in part, that the Loan amount not exceed (1) the lesser of the purchase price or the appraised value of the property, plus (2) any financed up-front mortgage insurance premium. FHA, however, permits the fully insured Loan amount to include not only the up-front mortgage insurance premium, but, under certain circumstances, certain closing costs and other costs as well. Furthermore, through the FHA Section 203(k) Program, FHA will insure certain loans for up to 110 percent of the expected after-rehabilitation value of the property, plus permitted closing costs. Because the limitations in the Series Resolutions exceeded the limitations for FHA-insured loans, the Series Resolutions were amended by Supplemental Resolutions dated as of December 1, 1997 to provide that a Mortgage Loan may not exceed the maximum amount that FHA will insure for that Loan.

*Application of Proceeds of 2002 Series Bonds.* Proceeds from the 2002 Series Bonds will be used to refund and to pay at maturity certain prior Series of Bonds and certain prior series of the Administration’s Single Family Program Bonds, as a result of which funds representing prepayments and repayments of mortgage loans financed with proceeds of such Prior Bonds and Single Family Program Bonds will be made available to make or purchase Mortgage Loans. The Administration, however, will not apply available funds relating to the issuance of the 2002 Series Bonds to the making or purchasing of Mortgage Loans until the refunding of the 2002 Series Bonds at the maturity or earlier redemption thereof with proceeds of additional Bonds bearing fixed interest rates to their maturities. If the Administration does not refund the 2002 Series Bonds at maturity or earlier redemption with proceeds of additional Bonds bearing fixed interest rates to their maturities, such funds will be applied to the payment at maturity of the 2002 Series Bonds.

## **Eligible Mortgage Loans**

*General Provisions.* Each Mortgage Loan must comply with the Act and with the following conditions: (1) a deed of trust must be executed and recorded in accordance with the requirements of existing laws; (2) the deed of trust must be the subject of a title insurance policy in an amount at least equal to the outstanding principal amount of the Mortgage Loan, insuring that the deed of trust constitutes a first lien, subject only to permitted liens and encumbrances; (3) the Mortgage Loan must be subject to FHA mortgage insurance or a VA or USDA/RD guarantee; (4) the Mortgage Loan must require either (a) escrow payments on the part of the Borrower with respect to all taxes, assessments, water rates, ground rents, sewer rates, common area expense, insurance premiums (including mortgage insurance premiums) and other charges and prior items or (b) reasonable alternative arrangements for the payment of such amounts which are satisfactory to the Administration and acceptable to the Trustee; (5) the monthly payments of principal of and interest on the Mortgage Loan must be established at the time the Mortgage Loan is made; and (6) the property securing the Mortgage Loan must be insured, with a uniform standard extended coverage endorsement, as and to the extent required by the Administration to protect its interest against loss or damage by fire, and other hazards, and by flooding if the Single Family Residence is located in an area designated as having specific flood hazards. See Appendix G – “FHA MORTGAGE INSURANCE PROGRAM, VA HOME LOAN GUARANTY PROGRAM AND USDA/RD MORTGAGE GUARANTEE PROGRAM”.

*Purchase Price Limitations.* The federal tax law and the Act place limits on the maximum purchase price of a residence financed with a Mortgage Loan. The maximum purchase price permitted under the federal tax law may vary from county to county, and currently ranges from \$92,763 for existing homes in Allegany County (all of which is a targeted area at this time) to \$222,817 for new homes in certain Targeted Areas of the Washington, D.C. primary metropolitan statistical area. In addition, FHA maximum mortgage amounts vary from county to county and currently range from \$144,336 for Allegany, Caroline, Dorchester, Garrett, Kent, Somerset, Wicomico and Worcester Counties, to \$261,609 for the Baltimore, Maryland primary metropolitan statistical area, which includes Anne Arundel, Baltimore, Carroll, Harford, Howard and Queen Anne’s Counties and Baltimore City. In certain counties, the insurer’s or guarantor’s maximum mortgage amounts may be less or more than the maximum purchase prices permitted under federal tax law. The maximum purchase price of a residence financed by the Administration may not exceed the lesser of either the insurer’s or guarantor’s mortgage limit or the maximum purchase price established by federal tax law. Lower purchase price limits may apply to certain Mortgage Loans made available at interest rates that are lower than those generally available. In addition, maximum purchase price limits may be set lower for Mortgage Loans to be financed in particular community development projects of Single Family Residences or through Homeownership Initiatives.

*Mortgage Loan Amounts.* The maximum amount of a Mortgage Loan may not exceed the FHA maximum insured mortgage loan amount, or the maximum loan amount guaranteed by VA or USDA/RD as applicable. Under certain circumstances, the mortgage insurer or guarantor may allow financing above the amount of the purchase price of the mortgaged property in order to permit the financing of an up-front mortgage insurance premium, funding fee, guarantee fee, permitted closing costs, and other permitted costs such as rehabilitation and related costs permitted by FHA under the FHA Section 203(k) Rehabilitation Insured Mortgage Program. The Administration may finance such costs as part of the Mortgage Loan. Therefore, a substantial proportion of the Mortgage Loans are expected to have loan-to-value ratios which equal or exceed 100%. The USDA/RD guarantee permits financing of closing costs and guarantee fee above the purchase price, as long as the total loan amount does not exceed the appraised value.

*Borrower Income Limitations.* The federal tax law and the Act place limits on maximum annual income of Borrowers eligible to receive Mortgage Loans. From time to time the Secretary may determine income limits other than those that are generally applicable (subject to the limits imposed by Section 143). In addition, the insurer or guarantor may have maximum income limits that may differ from the limits imposed by federal law or the Act. The maximum income limit permitted under the federal tax law, which is adjusted for household size, may vary from county to county, and currently ranges from \$73,000 for a one- or two-person household in certain non-Targeted Areas of the State to \$128,100 for a three-person or larger household in certain Targeted Areas of the Washington, D.C. primary metropolitan statistical area. The maximum annual household income of Borrowers eligible to receive Mortgage Loans may not exceed the lesser of the maximum income limits permitted under federal tax law or by the mortgage insurer or guarantor. Lower income limits may apply to certain Mortgage Loans made available at interest rates that are lower than those generally available. In addition, maximum income limits may be set lower for Mortgage Loans to be financed in particular community development projects of Single Family Residences or through Homeownership Initiatives.

*“Smart Growth” Requirements.* Title 5, Subtitle 7B (Priority Funding Areas) of the State Finance and Procurement Article of the Maryland Annotated Code (the “Smart Growth Act”), enacted in 1997, in general requires the Administration to ensure that newly constructed homes financed by Program loans are located in certain “priority funding areas.” Single Family Projects (see “Developer Reservations” below) that financed newly constructed homes were required to be located in priority funding areas. Initially, the Administration required that loans purchased from Mortgage Lenders finance existing homes only, although the Administration reserved the right to purchase loans for newly constructed homes in priority funding areas. The Administration now focuses on purchasing loans and funding Single Family Projects financing the acquisition of homes located only in priority funding areas, whether new or existing homes; exceptions may be made, however, in certain special circumstances for matters such as protection of public health and other circumstances to be determined by the Secretary of the Department. The Smart Growth Act requirement does not apply if the loan is financed through bonds issued under a county's transfer of its allocation to the Administration under Title 13, Subtitle 8 of the Financial Institutions Article. See “Existing Portfolio and Available Funds Under the Bond Resolution – Application of Proceeds of 2002 Series Bonds”.

*Compliance with Federal Tax Law and Program Requirements.* Under the 1986 Code, the failure by a Borrower to occupy a Single Family Residence financed by a Mortgage Loan for a period of 12 consecutive months may result in the inability of such Borrower to deduct interest payments for income tax purposes with respect to such Mortgage Loan during such period. In addition, under the 1986 Code, Borrowers may be required to pay a recapture tax as a result of the sale or other disposition of the Single Family Residence.

In order to comply with Section 103A and Section 143 and to meet other Program requirements, the Administration will require that each Mortgage Loan meet certain additional requirements, including the following:

(1) each Borrower must certify that the proceeds of the Mortgage Loan will be used only to acquire a Single Family Residence located in the State to be owned and occupied by the Borrower, and, except in certain limited circumstances, will not be used to acquire or replace an existing mortgage or other financing of a residence or any improvements thereto;

(2) each Borrower must certify with respect to the residence to be acquired that the Borrower (a) is presently occupying such residence as the Borrower's principal residence, or shall occupy such residence as his principal residence in most cases within no more than 60 days after the closing of the Mortgage Loan, (b) intends thereafter to maintain the residence as the Borrower's sole residence, and (c)

will not use all or any portion of the residence in any trade or business activity, except with the prior written permission of the Administration;

(3) subject to certain exceptions, each Borrower must (a) provide to the Mortgage Lender or the Administration such Borrower's income tax information filed with the Internal Revenue Service during the preceding three years and (b) certify, and the Administration also examines the income tax information as evidence, that the Borrower had no present ownership interest in a principal residence of the Borrower at any time during the three-year period ending on the date the Mortgage Loan is originated, unless the home to be financed is located in a Targeted Area, as defined below, where such prohibition on prior homeownership is not dictated; and

(4) each Borrower and seller must certify the amount of the acquisition cost of the mortgaged property, and such acquisition cost may not exceed maximum acquisition costs established by the Administration in conformity with Section 143, FHA or other applicable maximum loan amounts, and Administration policy.

*Targeted Area Set-Aside.* As required by the 1986 Code, certain percentages of proceeds of Bonds may be required to be reserved to finance residences located in Targeted Areas throughout the State for a period of at least one year following the date of delivery of the related series of Bonds. A "Targeted Area," as defined in Section 143(j) of the 1986 Code, is an area which is either (1) a census tract in which 70% or more of the families have income which is 80% or less of the statewide median family income, or (2) an area of chronic economic distress designated by the State as meeting State standards for such designation and the designation of which has been approved by the United States Secretary of the Treasury and the United States Secretary of Housing and Urban Development.

*Soldiers' and Sailors' Civil Relief Act.* It is possible that one or more of the Mortgage Loans could be affected by the Soldiers' and Sailors' Civil Relief Act of 1940, as amended, which applies to persons called to active duty in the armed forces. The act creates a rebuttable presumption that any persons called to active duty will experience a "material impairment of their ability to pay their debts". As a result, the outstanding debts of a person called to active duty will be reduced to bear interest at an annual rate of 6% for the period of military service. The act also provides that foreclosure on such debt will not be permitted. A mortgagee, such as the Administration, may apply to any federal or State court to override the presumption and preclude its effects on a debt, such as a Mortgage Loan.

*Remedies for Noncompliance.* Mortgage Loans will provide that if the Administration discovers that any of the Borrower's covenants in the deed of trust, including the Borrower's and the seller's certifications concerning eligibility for the loan, is untrue or incomplete, the Administration may require that the Mortgage Loan become immediately due and payable.

Mortgage Loans purchased from Mortgage Lenders are subject to repurchase by such Mortgage Lenders in the event of certain types of noncompliance. See "Mortgage Loans Purchased from Mortgage Lenders – Provisions for Repurchase of Mortgage Loans" below.

In an effort to assure continued compliance with Sections 103A and 143, the Administration includes due on sale clauses in the Deeds of Trust for Mortgage Loans, except to the extent FHA, VA, or USDA/RD do not permit such provisions. The Administration will require borrowers to seek the permission of the Administration and the mortgage insurer for any assumption of Mortgage Loans by Borrowers. Under the federal Depository Institutions Act of 1982, due-on-sale clauses, such as those to be contained in the Deeds of Trust with respect to the Mortgage Loans, are generally enforceable, with certain exceptions which may affect the ability of the Administration to enforce such clauses. Although there has been no reported Maryland court decision on the enforceability by the Program of due-on-sale

clauses, an Assistant Attorney General of the State, in his capacity as counsel to the Department, rendered an opinion in 1981 that due-on-sale clauses in the context of the Program would be enforceable under Maryland law. However, any such enforcement by equitable remedies, such as foreclosure, would be subject to the exercise of discretion by the courts.

### **Mortgage Loans Purchased from Mortgage Lenders**

The Administration purchases Mortgage Loans from qualified Mortgage Lenders. The Mortgage Lenders accept applications from potential Borrowers, screen them for eligibility, reserve funds with the Administration, obtain the required mortgage insurance commitment, obtain pre-closing compliance approval from the Administration, settle the Mortgage Loans with the Borrowers, and submit the Mortgage Loans to the Administration for purchase.

The Division of Development Finance (the "Division") performs the initial screening of Mortgage Loans for eligibility under the criteria set forth above. See "Eligible Mortgage Loans" herein. After a Mortgage Lender obtains a reservation for a potential Borrower, the Mortgage Lender submits the potential Mortgage Loan to the Division. The Division reviews the potential Mortgage Loan for eligibility under the criteria set forth above.

The Administration made changes to the deadlines and fees paid to Mortgage Lenders for Mortgage Loans reserved with the Administration on or after October 1, 2002. After reservation and the initial eligibility screening of the Mortgage Loan, the Mortgage Lender has 90 days from reservation for an existing residence, or 150 days for new construction, to submit the Mortgage Loan to the Administration. Upon receipt of a post-closing compliance submission for a Mortgage Loan, the Administration conducts a review of the Mortgage Loan for eligibility under the criteria summarized above. If a Mortgage Loan is not eligible for reasons which, in the Administration's judgment, can be corrected, it is the practice of the Administration to afford the Mortgage Lender with an opportunity to cure the deficiency. The Administration will not purchase the Mortgage Loan, however, if the deficiency is not cured and the purchase file approved within 150 days of the reservation date for an existing home or 210 days if new construction.

The Administration purchases Mortgage Loans at a price equal to the outstanding principal balance thereof. The Mortgage Lenders pay the Administration a fee ranging between 1/4 of one percent and one percent, depending on when the purchase file is approved. The Mortgage Lender thus receives a one percent origination fee and may receive a service release fee ranging between 3/4 of one percent of the purchase price and 0 percent, depending on when the purchase file is approved. Such fees paid to the Administration are not revenues under the Bond Resolution. Except as permitted otherwise by the Administration, the Mortgage Lender may collect origination fees ("points") in an amount not exceeding 2% of the original balance of the Mortgage Loan, including the fee paid to the Administration.

*Eligibility of Mortgage Lenders.* Each Mortgage Lender must be (1) a "mortgage lender" within the meaning of the Act, (2) unless otherwise provided by the Administration, an approved seller of mortgage loans to Freddie Mac or Fannie Mae, and (3) in compliance with all other applicable State and federal laws, rules and regulations governing the business of the Mortgage Lender and the making of loans for residential housing. Each Mortgage Lender must enter into a Purchase Agreement with the Administration. The Administration may permit, upon its written approval, assignment of a Purchase Agreement to another Mortgage Lender that meets the preceding criteria.

*Representations of Mortgage Lenders.* Each Purchase Agreement sets forth or will set forth certain representations and warranties by the Mortgage Lender to the Administration concerning the Mortgage Loans sold to the Administration, including, among others, that at the time of delivery of such

Mortgage Loan to the Administration (1) there is no default or delinquency under the terms of the Mortgage Loan, and no payments are more than 20 days past due under the Mortgage Loan; (2) the Mortgage Loan has never been more than 45 days in arrears; (3) all documents required to be filed to perfect the lien on the mortgaged property against third parties have been filed; (4) the deed of trust for such mortgaged property is the subject of a title insurance policy by an insurer acceptable to the Administration in an amount at least equal to the original principal amount of the Mortgage Loan, insuring that the deed of trust constitutes a first lien (except as otherwise permitted by the Administration for Mortgage Loans which may be financed under future bond series), subject only to permitted liens and encumbrances; (5) the term of the Mortgage Loan does not exceed any limits set forth in the Purchase Agreement; (6) the Mortgage Loan meets all applicable State and federal laws, codes and regulations; (7) if the Mortgage Loan was made to finance the purchase of a newly constructed residence, the builder has warranted all materials, workmanship and mechanicals under a homeowners warranty acceptable to the mortgage insurer or credit enhancer; (8) the improvements constituting part of the property are covered by hazard insurance as required by the Administration; and (9) each Mortgage Loan is subject to mortgage insurance from FHA or a mortgage guarantee from VA or USDA/RD. In addition, under the Act, each Mortgage Lender must certify with respect to each Mortgage Loan that, in its opinion, the Borrower could not obtain a mortgage loan to purchase the property in the unassisted private lending market.

*Special Mortgage Purchase Agreements.* The Administration may enter into alternate mortgage purchase agreements with certain Mortgage Lenders that are not Fannie Mae or Freddie Mac approved sellers of mortgage loans and that serve areas where there is insufficient availability of such approved sellers of mortgage loans. Such alternate mortgage purchase agreements provided by the Administration currently include a requirement of loan eligibility review by the Administration prior to commitment by the Mortgage Lender.

*Provisions for Repurchase of Mortgage Loans.* Each Purchase Agreement further provides or will provide that the Mortgage Lender will repurchase any Mortgage Loan sold to the Administration, upon written notice by the Administration, if at any time (1) the Administration determines that any representation was untrue or incomplete when made or a misstatement of a material fact exists in any of the documents delivered in connection with such Mortgage Loan; (2) there is a failure to deliver required Mortgage Loan documents; (3) any mortgage insurance with respect to such Mortgage Loan lapses because of the negligence of the Mortgage Lender with respect to the servicing of such Mortgage Loan; (4) the Administration suffers or is threatened with a material loss by reason of the misfeasance, nonfeasance or malfeasance of the Mortgage Lender or its agent acting as servicer of such Mortgage Loan; (5) any payment of principal and interest is not made on the Mortgage Loan or the initial premium for any mortgage insurance is not paid and, on the basis of such non-payment, the issuer of mortgage insurance refuses to pay a claim on such Mortgage Loan; and (6) the Mortgage Lender, without prior written consent of the Administration, waives the enforcement of (or consents on behalf of the Administration to waive) the particular provisions of the Mortgage Loan requiring that (a) the Mortgage Loan is due on sale and may not be assumed except to the extent that the Mortgage Loan so provides; (b) at the time the Mortgage Loan is made, the Borrower shall not borrow additional amounts secured by the lien of the deed of trust without the consent of the Administration; and (c) an event of default permitting acceleration of the indebtedness shall occur if the Administration determines that any representation or statement of a material fact in any document executed in connection with the Borrower's application or the origination of such Mortgage Loan was or is untrue or incomplete.

If a Mortgage Lender refuses to repurchase a Mortgage Loan, then the Administration may seek enforcement through legal proceedings which are subject to bankruptcy, insolvency and other laws affecting creditors' rights generally and to the exercise of judicial discretion in accordance with general principles of equity. Such legal proceedings may result in a delay of the repurchase. The ability of a

Mortgage Lender to repurchase a Mortgage Loan will depend upon the financial condition of the Mortgage Lender at the time of the required repurchase.

### **Homeownership Initiatives and Developer Reservations**

*Homeownership Initiatives.* From time to time, the Administration may set aside a portion of proceeds of the Bonds for special initiatives that promote targeted homeownership objectives. For these special initiatives, the Administration may adjust interest rates, income limits and other eligibility criteria, within the requirements of the 1986 Code or the 1954 Code, as applicable, and the requirements of the credit enhancer. The following initiatives are in progress as of September 30, 2002:

*Hawthorne Hill Homeownership Initiative.* This initiative, which opened May 18, 2000, provides \$3 million of Mortgage Loan funds at an interest rate of 5% to encourage homeownership in the Landover/Palmer Park area of Prince George's County.

*HotSpot Homeownership Initiative.* The first phase of this initiative, which opened February 9, 1999, provided \$4 million of funds for Mortgage Loans at an interest rate of 4% to encourage homeownership in selected HotSpot communities. Funds remain available for HotSpot communities in Garrett County and Talbot County. HotSpot communities are designated by the Governor's Office on Crime Control and Prevention. The second phase of the initiative, which was announced on February 20, 2001, is providing approximately \$10.5 million of additional funds for Mortgage Loans at 5% to encourage homeownership in HotSpot communities in the City of Annapolis, Anne Arundel County, Baltimore City, the City of Seat Pleasant, the City of Aberdeen, Baltimore County, Harford County, the City of Salisbury, the City of Hagerstown, Montgomery County and Howard County. Funds remain in all of the HotSpot communities except for the City of Aberdeen and the City of Hagerstown.

*Developer Reservations.* The Administration may agree to provide financing for Mortgage Loans to eligible purchasers of Single Family Residences in certain "community development projects" (the "Single Family Projects") pursuant to commitments to developers. The Administration requires the developer to submit an application acceptable to the Administration. Upon a determination by the Secretary of project eligibility under the Act, the Administration issues a commitment to a developer for a specified time period to finance Mortgage Loans to eligible purchasers with respect to the Single Family Project. A commitment reserves financing for prospective purchasers who qualify and are eligible under the Program and also sets forth maximum sales prices on units to be financed by the Administration and covenants and warranties to be made by the developer. The Administration may allow developers of Single Family Projects to make a deposit in an escrow account which will be applied to reduce the monthly payments due on Mortgage Loans made on residences in the Single Family Projects for up to four years after closing.

After a developer has sold a Single Family Residence and entered into a sales contract, the developer or a representative of the developer forwards the completed loan application to the Administration, if the Administration is expected to make the Mortgage Loan, or to a Mortgage Lender, if the Administration is expected to purchase the Mortgage Loan.

For developers who arrange for Mortgage Loan financing of individual Mortgage Loans through approved Mortgage Lenders, the Administration will purchase Mortgage Loans for Single Family Residences either in accordance with a Purchase Commitment or pursuant to a reservation initiated by the Mortgage Lender on behalf of the borrower.

## **Status of Funds Under the 1980 General Certificate**

As of September 30, 2002, no funds were available for purchasing loans.

Loans under the 1980 General Certificate are pledged to the repayment of bonds issued under the 1980 General Certificate and do not secure payment of the Bonds.

## **Mortgage Loans Made by the Administration**

The Administration is authorized to originate Mortgage Loans, but will not originate FHA, VA or USDA/RD loans unless it becomes an FHA, VA or USDA/RD lender. If the Administration becomes an FHA, VA or USDA/RD lender, the process would be as follows: The Administration would receive a completed application for a Mortgage Loan financing the acquisition of a Single Family Residence in certain Single Family Projects, and the staff of the Administration would review the information in the application, make a determination of creditworthiness of the prospective Borrower, and approve the Mortgage Loan for mortgage insurance or a guarantee. Among other things, the staff would determine that the Borrower complied with the Program eligibility requirements. The Administration would issue a commitment to make a Mortgage Loan to such Borrower and a settlement date would be scheduled. The Administration may but generally has not charged loan origination fees in the past in connection with Mortgage Loans made directly by the Administration.

Mortgage Loans originated by the Administration that are found to be ineligible under Section 103A or Section 143 are not subject to repurchase by any Mortgage Lender. In order to preserve the exclusion from gross income for federal income tax purposes of the interest payable on the 2002 Series Bonds, the loans may be sold out of the Bond Resolution portfolio or the Administration may declare such Mortgage Loans in default and commence foreclosure proceedings or take other appropriate measures. Foreclosure is an equitable remedy subject to various defenses and judicial discretion.

## **Servicing of Mortgage Loans**

*Mortgage Agency Agreements.* Each Mortgage Loan is serviced under a Mortgage Agency Agreement by a financial institution that is approved by Fannie Mae. All Mortgage Loans reserved with the Administration on or after October 1, 2002 shall be serviced by the master servicer. Currently, the master servicer is Columbia National Incorporated ("CNI"), under a master Mortgage Agency Agreement through which CNI receives a monthly servicing fee of 1/12 of 0.23% of the unpaid principal balance of the Mortgage Loan serviced. Mortgage Loans reserved with the Administration before October 1, 2002 generally are serviced by the originating Mortgage Lender (the "Mortgage Agent"). The Mortgage Agent receives a monthly servicing fee of either 1/12 of 0.25% or 1/12 of 0.375% of the unpaid principal balance of each Mortgage Loan serviced and is entitled to reimbursement of certain expenses. Currently, with the approval of the Administration, a Mortgage Agent may transfer the servicing of Mortgage Loans to another Mortgage Agent.

Each Mortgage Agency Agreement requires the Mortgage Agent to perform all duties and acts incident to the servicing of Mortgage Loans covered thereby that a reasonable, prudent mortgagee would perform with respect to mortgage loans owned by it. The Mortgage Agent is responsible for the collection of all payments from Borrowers and must render an accounting monthly to the Administration of all sums collected and disbursed under the Mortgage Agency Agreement. Each Mortgage Agent is required to remit to the Trustee all Mortgage Repayments, Prepayments and curtailments it receives with respect to Mortgage Loans serviced under the Mortgage Agency Agreement. In addition, the Mortgage Agency Agreement requires the Mortgage Agent to have in effect (and maintain during the term of the related Mortgage Agency Agreement), at no cost to the Administration, a fidelity bond and policies of

insurance providing fire and extended coverage and errors and omissions coverage, all in amounts and with coverage satisfactory to the Administration, for mortgagee errors and omissions and insuring against loss arising from dishonest, criminal or fraudulent acts, and errors and omissions of the officers and employees of the Mortgage Agent.

If any default occurs on a Mortgage Loan covered by a Mortgage Agency Agreement, the Mortgage Agent must take all actions necessary and proper to enforce all applicable contractual provisions of the defaulted Mortgage Loan, including, at the direction of the Administration, the institution of foreclosure proceedings. The Administration will bear all foreclosure and related expenses, to the extent not reimbursable by the applicable mortgage insurance or collected from the Borrower. The failure of the Mortgage Agent to send notice properly and report to the Administration or the insurer of a Mortgage Loan as to the status of a delinquent Mortgage Loan may result in the Mortgage Agent being required to repurchase the Mortgage Loan or compensate the Administration.

Mortgage Agents are required to comply with detailed requirements set forth in the Administration's servicing manual.

*Asset Management.* Asset management for Mortgage Loans is provided to the Administration by the Single Family Operations section of the Division of Credit Assurance ("Asset Management").

With respect to the Mortgage Loans, Asset Management:

(1) monitors the servicing performance of the Mortgage Agents for compliance with the requirements of the Mortgage Agency Agreement and the Administration's servicing manual by requiring from each Mortgage Agent:

- (a) monthly Mortgage Loan delinquency reports;
- (b) annual audited financial statements; and
- (c) an annual certification that the Mortgage Agent is complying with the Mortgage Agency Agreement and the Administration's servicing manual;

(2) directs and reviews Mortgage Agents' handling of Mortgage Loan delinquencies;

(3) directs and evaluates Mortgage Agents' actions in connection with foreclosure proceedings; and

(4) analyzes delinquencies and foreclosures and creates and implements corrective action plans.

Asset Management staff manages the inventory of properties acquired by the Administration as a result of foreclosure, deed in lieu of foreclosure or mortgage assignment. Asset Management staff oversees repairs to, periodically inspects, actively markets and sells such properties.

### **Estimated Revenues of Program**

Under Section 143 of the Code, the yield of the Mortgage Loans or participations therein allocable to each Series of Bonds issued under the Bond Resolution (other than with any contributions by the Administration) may not exceed the yield of such Series of Bonds by more than 1-1/8 percentage points. All Revenues derived from such Mortgage Loans are available for payment of the Bonds.

However, except as otherwise permitted under the 1986 Code, an amount equal to the portion of Revenues derived from investments in Investment Obligations made in connection with such Series of Bonds (other than with contributions by the Administration) that exceeds a yield equal to the yield of such Series of Bonds (calculated in accordance with Section 143 of the Code, whichever is applicable) or represents gains made on such investments must be paid to the United States. Such restrictions limit the amounts available to pay the principal of and interest on the Bonds. The Administration estimates that, in each year in which the 2002 Series A Bonds are scheduled to be outstanding, there will be sufficient moneys available under the Bond Resolution to pay the principal of and interest on the Bonds, after payment of (1) fees and expenses of the fiduciaries and (2) the estimated costs of servicing the Mortgage Loans and other Program expenses.

### **Repurchase of Mortgage Loans**

From January, 1998 through September 30, 2002, the Administration demanded repurchase of twenty-two Mortgage Loans with an outstanding principal balance of \$1,841,840. Fourteen of the loans have been repurchased by the Mortgage Lender or Mortgage Agent. Eight repurchase demands were resolved and did not require repurchase. No repurchase demands remain outstanding.

### **Participating Mortgage Agents**

The following financial institutions currently are servicing Mortgage Loans financed under the Bond Resolution pursuant to a Mortgage Agency Agreement. The principal balances of any Mortgage Loans (including participations in Mortgage Loans) being serviced as of September 30, 2002, are set forth below:

#### **RESIDENTIAL REVENUE BOND PROGRAM LOAN PORTFOLIO BY SERVICER as of September 30, 2002 <sup>(1)</sup>**

| <u>Servicer</u>                     | <u>Current<br/>Outstanding<br/>Principal</u> | <u>Percentage of<br/>Current Total<br/>Outstanding Principal</u> |
|-------------------------------------|----------------------------------------------|------------------------------------------------------------------|
| Bank of America, N.A.               | \$ 3,099,386                                 | 0.42%                                                            |
| Bogman, Inc.                        | 13,815,766                                   | 1.88%                                                            |
| Charter One Mortgage Corporation    | 2,208,448                                    | 0.30%                                                            |
| Citimortgage, Inc                   | 3,515,151                                    | 0.48%                                                            |
| Columbia National Incorporated      | 376,590,091                                  | 51.12%                                                           |
| First Horizon Home Loan Corporation | 143,679,830                                  | 19.50%                                                           |
| Key Bank and Trust                  | 7,464,298                                    | 1.01%                                                            |
| Mercantile Mortgage Corporation     | 9,785,405                                    | 1.33%                                                            |
| NVR Mortgage Finance, Inc           | 23,375,650                                   | 3.17%                                                            |
| SunTrust Mortgage, Inc.             | 94,131,589                                   | 12.78%                                                           |
| Wells Fargo Home Mortgage, Inc      | 59,014,715                                   | 8.01%                                                            |
|                                     | <u>\$736,680,330</u>                         | <u>100.00%</u>                                                   |

(1) Individual amounts may not add up to the total amount because of rounding.

## Certain Information Relating to Mortgage Loans

Certain information relating to the Mortgage Loans (including participations in Mortgage Loans) made or purchased with proceeds of prior Series of Bonds as of September 30, 2002, is set forth below:

### MORTGAGE LOANS BY INTEREST RATE AND SERIES AS OF SEPTEMBER 30, 2002 (1)

| <u>Sources of Funds</u> | <u>Mortgage<br/>Loan<br/>Interest<br/>Rate</u> |          | <u>Original<br/>Number<br/>of<br/>Loans</u> | <u>Original<br/>Principal<br/>Amount (2)</u> | <u>Number of<br/>Outstanding<br/>Loans</u> | <u>Outstanding<br/>Principal<br/>Balance (2)</u> |
|-------------------------|------------------------------------------------|----------|---------------------------------------------|----------------------------------------------|--------------------------------------------|--------------------------------------------------|
| Collateral Reserve Fund | 4.000%                                         | (3)      | 106                                         | \$ 8,764,712                                 | 98                                         | \$ 7,653,995                                     |
| 1997 Series A Bonds     | 4.000%                                         |          | 41                                          | 3,633,437                                    | 38                                         | 3,058,384                                        |
|                         | 6.400%                                         |          | 156                                         | 13,314,155                                   | 129                                        | 10,247,310                                       |
|                         | 7.500%                                         |          | 1                                           | 44,413                                       | 1                                          | 43,486                                           |
| 1997 Series B Bonds     | 4.000%                                         |          | 210                                         | 17,674,896                                   | 199                                        | 15,527,828                                       |
|                         | 5.500%                                         | (4)(4.1) | 48                                          | 3,436,397                                    | 42                                         | 2,853,445                                        |
|                         | 6.000%                                         |          | 1                                           | 92,490                                       | 1                                          | 51,705                                           |
|                         | 6.400%                                         |          | 731                                         | 59,034,885                                   | 619                                        | 46,487,843                                       |
|                         | 6.900%                                         |          | 9                                           | 933,224                                      | 8                                          | 793,843                                          |
| 1998 Series A Bonds     | 5.000%                                         |          | 49                                          | 3,602,864                                    | 48                                         | 3,433,686                                        |
|                         | 6.100%                                         |          | 12                                          | 949,436                                      | 11                                         | 842,943                                          |
| 1998 Series B Bonds     | 5.500%                                         | (4)(4.2) | 201                                         | 16,692,492                                   | 179                                        | 14,064,183                                       |
|                         | 6.100%                                         |          | 665                                         | 54,369,384                                   | 582                                        | 44,861,768                                       |
|                         | 6.250%                                         |          | 9                                           | 1,033,541                                    | 9                                          | 1,018,403                                        |
|                         | 6.500%                                         |          | 3                                           | 297,847                                      | 3                                          | 290,101                                          |
|                         | 6.750%                                         |          | 21                                          | 1,913,299                                    | 19                                         | 1,638,971                                        |
| 1998 Series D Bonds     | 4.000%                                         | (4)(4.3) | 33                                          | 1,909,980                                    | 32                                         | 1,770,681                                        |
|                         | 5.500%                                         | (4)(4.4) | 647                                         | 56,978,406                                   | 607                                        | 50,976,697                                       |
|                         | 6.375%                                         |          | 17                                          | 1,856,242                                    | 17                                         | 1,828,740                                        |
| 1999 Series C Bonds     | 5.000%                                         |          | 20                                          | 1,982,759                                    | 20                                         | 1,949,794                                        |
|                         | 6.125%                                         |          | 1                                           | 124,287                                      | 0                                          | 0                                                |
|                         | 6.900%                                         |          | 4                                           | 477,502                                      | 4                                          | 466,847                                          |
| 1999 Series D Bonds     | 6.000%                                         |          | 149                                         | 13,941,938                                   | 136                                        | 12,281,199                                       |
|                         | 6.125%                                         |          | 353                                         | 33,902,866                                   | 334                                        | 30,816,214                                       |
|                         | 6.500%                                         |          | 90                                          | 8,488,785                                    | 84                                         | 7,652,459                                        |
| 1999 Series E Bonds     | 5.750%                                         | (5)(5.1) | 287                                         | 3,771,241                                    | 287                                        | 3,736,057                                        |
|                         | 6.000%                                         |          | 1                                           | 161,100                                      | 1                                          | 153,874                                          |
|                         | 6.125%                                         |          | 5                                           | 565,650                                      | 5                                          | 542,566                                          |
|                         | 6.750%                                         |          | 73                                          | 6,559,151                                    | 63                                         | 5,390,965                                        |
|                         | 7.000%                                         |          | 106                                         | 9,620,044                                    | 89                                         | 7,650,169                                        |
| 1999 Series F Bonds     | 6.000%                                         |          | 1                                           | 114,250                                      | 1                                          | 107,230                                          |
|                         | 6.125%                                         |          | 1                                           | 80,600                                       | 1                                          | 77,606                                           |
|                         | 6.500%                                         |          | 265                                         | 24,041,780                                   | 251                                        | 21,830,028                                       |
|                         | 6.750%                                         |          | 69                                          | 6,780,630                                    | 65                                         | 6,016,884                                        |
|                         | 6.900%                                         |          | 2                                           | 234,547                                      | 1                                          | 120,117                                          |
|                         | 7.000%                                         |          | 213                                         | 20,325,323                                   | 191                                        | 17,473,539                                       |
|                         | 7.250%                                         |          | 9                                           | 924,241                                      | 8                                          | 781,387                                          |

| <u>Sources of Funds</u> | <u>Mortgage<br/>Loan<br/>Interest<br/>Rate</u> | <u>Original<br/>Number<br/>of<br/>Loans</u> | <u>Original<br/>Principal<br/>Amount (2)</u> | <u>Number of<br/>Outstanding<br/>Loans</u> | <u>Outstanding<br/>Principal<br/>Balance (2)</u> |
|-------------------------|------------------------------------------------|---------------------------------------------|----------------------------------------------|--------------------------------------------|--------------------------------------------------|
| 1999 Series H Bonds     | 7.500%                                         | 36                                          | \$ 3,692,323                                 | 26                                         | \$ 2,401,278                                     |
|                         | 6.000%                                         | 158                                         | 16,020,135                                   | 157                                        | 15,667,565                                       |
|                         | 6.250%                                         | 1                                           | 64,450                                       | 1                                          | 63,630                                           |
|                         | 7.000%                                         | 254                                         | 23,728,090                                   | 210                                        | 18,884,271                                       |
|                         | 7.250%                                         | 142                                         | 13,335,578                                   | 118                                        | 10,656,852                                       |
| 2000 Series A Bonds     | 7.500%                                         | 59                                          | 5,719,921                                    | 43                                         | 3,901,005                                        |
|                         | 6.900%                                         | 75                                          | 7,002,330                                    | 71                                         | 6,345,322                                        |
|                         | 7.000%                                         | 1                                           | 64,648                                       | 1                                          | 62,762                                           |
|                         | 7.500%                                         | 7                                           | 751,474                                      | 5                                          | 468,843                                          |
| 2000 Series B Bonds     | 5.000% (5)(5.3)                                | 1                                           | 12,390                                       | 1                                          | 12,374                                           |
|                         | 5.000%                                         | 25                                          | 2,528,717                                    | 25                                         | 2,481,796                                        |
|                         | 5.750%                                         | 98                                          | 11,039,408                                   | 98                                         | 10,987,790                                       |
|                         | 5.875%                                         | 123                                         | 11,767,170                                   | 123                                        | 11,721,256                                       |
|                         | 6.900%                                         | 157                                         | 15,753,125                                   | 145                                        | 14,082,339                                       |
| 2000 Series C Bonds     | 7.250%                                         | 253                                         | 25,519,399                                   | 211                                        | 20,348,542                                       |
|                         | 7.125%                                         | 1                                           | 39,979                                       | 1                                          | 38,537                                           |
|                         | 7.250%                                         | 62                                          | 5,935,199                                    | 49                                         | 4,381,578                                        |
| 2000 Series D Bonds     | 5.000% (5)(5.3)                                | 1                                           | 56,316                                       | 1                                          | 56,247                                           |
|                         | 5.750%                                         | 17                                          | 1,833,448                                    | 17                                         | 1,827,256                                        |
|                         | 5.875%                                         | 36                                          | 3,765,184                                    | 35                                         | 3,606,863                                        |
|                         | 6.000%                                         | 12                                          | 1,381,195                                    | 12                                         | 1,356,811                                        |
|                         | 6.250%                                         | 14                                          | 1,479,231                                    | 14                                         | 1,463,027                                        |
|                         | 6.900%                                         | 9                                           | 968,942                                      | 7                                          | 742,903                                          |
|                         | 7.000%                                         | 7                                           | 643,123                                      | 7                                          | 625,661                                          |
|                         | 7.125%                                         | 335                                         | 34,038,611                                   | 299                                        | 29,441,380                                       |
|                         | 7.250%                                         | 200                                         | 19,945,356                                   | 174                                        | 16,763,400                                       |
|                         | 7.500%                                         | 16                                          | 1,527,916                                    | 15                                         | 1,375,492                                        |
| 2000 Series F Bonds     | 6.750%                                         | 144                                         | 13,222,053                                   | 138                                        | 12,389,294                                       |
|                         | 7.000%                                         | 12                                          | 1,167,793                                    | 12                                         | 1,135,912                                        |
|                         | 7.125%                                         | 6                                           | 532,685                                      | 6                                          | 521,329                                          |
| 2000 Series G Bonds     | 5.000% (4)(4.5)                                | 347                                         | 27,059,330                                   | 336                                        | 25,526,870                                       |
|                         | 5.875%                                         | 88                                          | 8,037,054                                    | 88                                         | 8,018,170                                        |
|                         | 6.000%                                         | 1                                           | 106,593                                      | 1                                          | 104,132                                          |
|                         | 6.750%                                         | 1                                           | 87,500                                       | 1                                          | 85,428                                           |
|                         | 6.900%                                         | 23                                          | 2,681,774                                    | 23                                         | 2,610,370                                        |
|                         | 7.000%                                         | 96                                          | 9,293,184                                    | 93                                         | 8,813,212                                        |
|                         | 7.125%                                         | 45                                          | 4,333,000                                    | 44                                         | 4,151,368                                        |
|                         | 7.250%                                         | 42                                          | 3,960,526                                    | 39                                         | 3,581,388                                        |
|                         | 7.500%                                         | 46                                          | 4,281,137                                    | 37                                         | 3,165,805                                        |
|                         | 6.000%                                         | 27                                          | 2,552,760                                    | 26                                         | 2,381,553                                        |
| 2000 Series H Bonds     | 6.125%                                         | 1                                           | 148,100                                      | 1                                          | 133,958                                          |
|                         | 6.250%                                         | 17                                          | 1,979,952                                    | 17                                         | 1,947,019                                        |
|                         | 6.375%                                         | 94                                          | 8,970,879                                    | 93                                         | 8,757,983                                        |
|                         | 6.500%                                         | 2                                           | 181,700                                      | 2                                          | 178,538                                          |

| <u>Sources of Funds</u> | <u>Mortgage<br/>Loan<br/>Interest<br/>Rate</u> | <u>Original<br/>Number<br/>of<br/>Loans</u> | <u>Original<br/>Principal<br/>Amount (2)</u> | <u>Number of<br/>Outstanding<br/>Loans</u> | <u>Outstanding<br/>Principal<br/>Balance (2)</u> |
|-------------------------|------------------------------------------------|---------------------------------------------|----------------------------------------------|--------------------------------------------|--------------------------------------------------|
|                         | 6.600%                                         | 3                                           | \$ 273,077                                   | 3                                          | \$ 267,337                                       |
|                         | 6.750%                                         | 21                                          | 2,103,350                                    | 21                                         | 2,059,256                                        |
|                         | 7.000%                                         | 82                                          | 7,663,564                                    | 79                                         | 7,114,346                                        |
|                         | 7.125%                                         | 2                                           | 182,379                                      | 2                                          | 178,799                                          |
|                         | 7.250%                                         | 49                                          | 5,175,460                                    | 43                                         | 4,398,113                                        |
|                         | 7.500%                                         | 178                                         | 16,746,588                                   | 132                                        | 11,412,114                                       |
| 2001 Series A Bonds     | 4.000% (5)(5.2)                                | 354                                         | 13,135,257                                   | 354                                        | 13,024,935                                       |
| 2001 Series B Bonds     | 5.875% (4)(4.6)                                | 117                                         | 10,873,159                                   | 116                                        | 10,612,515                                       |
|                         | 5.875%                                         | 14                                          | 1,448,897                                    | 13                                         | 1,342,874                                        |
|                         | 6.125%                                         | 59                                          | 5,841,374                                    | 58                                         | 5,675,398                                        |
| 2001 Series E Bonds     | 5.750%                                         | 40                                          | 4,122,549                                    | 40                                         | 4,087,378                                        |
|                         | 5.875%                                         | 25                                          | 2,279,159                                    | 25                                         | 2,276,340                                        |
| 2001 Series F Bonds     | 4.000% (4)(4.8)                                | 104                                         | 5,671,011                                    | 104                                        | 5,598,393                                        |
|                         | 5.750% (5)(5.1)                                | 287                                         | 24,782,543                                   | 287                                        | 24,551,333                                       |
|                         | 5.750%                                         | 2                                           | 185,850                                      | 2                                          | 183,441                                          |
|                         | 6.000% (4)(4.7)                                | 58                                          | 5,690,025                                    | 57                                         | 5,489,551                                        |
|                         | 6.000%                                         | 2                                           | 201,633                                      | 2                                          | 196,464                                          |
|                         | 6.125%                                         | 135                                         | 13,285,644                                   | 135                                        | 13,092,317                                       |
|                         | 6.250%                                         | 42                                          | 3,830,881                                    | 42                                         | 3,782,081                                        |
|                         | 6.375%                                         | 2                                           | 197,476                                      | 2                                          | 194,016                                          |
|                         | 6.750%                                         | 4                                           | 409,076                                      | 4                                          | 399,751                                          |
|                         | 6.900%                                         | 2                                           | 180,206                                      | 2                                          | 176,172                                          |
|                         | 7.000%                                         | 4                                           | 351,960                                      | 4                                          | 346,197                                          |
|                         | 7.125%                                         | 7                                           | 838,858                                      | 6                                          | 650,681                                          |
|                         | 7.250%                                         | 4                                           | 394,755                                      | 3                                          | 292,137                                          |
| 2001 Series G Bonds     | 5.750%                                         | 17                                          | 1,795,404                                    | 17                                         | 1,783,996                                        |
|                         | 5.875%                                         | 71                                          | 6,683,360                                    | 71                                         | 6,666,000                                        |
| 2001 Series H Bonds     | 4.000% (5)(5.2)                                | 354                                         | 19,105,861                                   | 354                                        | 18,945,392                                       |
|                         | 5.750%                                         | 38                                          | 4,148,601                                    | 38                                         | 4,124,948                                        |
| TOTAL                   |                                                | 9,136                                       | \$833,436,429                                | 8,380                                      | \$736,680,330                                    |

- (1) For information on the status of remaining funds from prior Series of Bonds, see "Existing Portfolio and Available Funds Under the Bond Resolution - Status of Available Funds" above.
- (2) Individual amounts may not add up to the total amount because of rounding.
- (3) The Collateral Reserve Fund is a fund established under the Bond Resolution at the time the 1997 Series A Bonds and the 1997 Series B Bonds were issued.
- (4) The mortgage rate paid by the borrower is derived from a blend of proceeds from a series of Residential Bonds and proceeds from the 1999 First Series Bonds issued under the 1980 General Certificate and loaned at 0.00%. (See the below table for detail.)
- (5) The mortgage rate paid by the borrower is derived from a blend of proceeds from different series of Residential Revenue Bonds. (See the table below for details). The total number of loans is adjusted to avoid a double count of the number of loans financed and proceeds of different series of Residential Revenue Bond Resolution.

**Detail of Footnotes (4) and (5)**

| Footnote No. | Indenture                | Blended Series    | Interest Rate by Series | Interest Rate to Borrower | No. of All Loans | Original Principal Amount | No. of Loans Outstanding | Outstanding Principal Balance |
|--------------|--------------------------|-------------------|-------------------------|---------------------------|------------------|---------------------------|--------------------------|-------------------------------|
| (4.1)        | Residential Revenue Bond | 1997 Series B     | 6.400%                  | 5.50%                     | 48               | \$ 3,436,397              | 42                       | \$ 2,853,445                  |
|              | 1980 General Certificate | 1999 First Series | 0.000%                  |                           |                  | 562,319                   |                          | 466,927                       |
| (4.2)        | Residential Revenue Bond | 1998 Series B     | 6.100%                  | 5.50%                     | 201              | 16,692,492                | 179                      | 14,064,183                    |
|              | 1980 General Certificate | 1999 First Series | 0.000%                  |                           |                  | 1,821,006                 |                          | 1,534,280                     |
| (4.3)        | Residential Revenue Bond | 1998 Series D     | 5.960%                  | 4.00%                     | 33               | 1,909,980                 | 32                       | 1,770,681                     |
|              | 1980 General Certificate | 1999 First Series | 0.000%                  |                           |                  | 935,890                   |                          | 867,634                       |
| (4.4)        | Residential Revenue Bond | 1998 Series D     | 5.960%                  | 5.50%                     | 647              | 56,978,406                | 607                      | 50,976,697                    |
|              | 1980 General Certificate | 1999 First Series | 0.000%                  |                           |                  | 4,765,453                 |                          | 4,263,493                     |
| (4.5)        | Residential Revenue Bond | 2000 Series G     | 6.750%, 7.500%          | 5.00%                     | 347              | 27,059,330                | 336                      | 25,526,870                    |
|              | 1980 General Certificate | 1999 First Series | 0.000%                  |                           |                  | 11,858,237                |                          | 11,194,404                    |
| (4.6)        | Residential Revenue Bond | 2001 Series B     | 6.625%                  | 5.875%                    | 117              | 10,873,159                | 116                      | 10,612,515                    |
|              | 1980 General Certificate | 1999 First Series | 0.000%                  |                           |                  | 1,388,069                 |                          | 1,354,795                     |
| (4.7)        | Residential Revenue Bond | 2001 Series F     | 6.625%                  | 6.00%                     | 58               | 5,690,025                 | 57                       | 5,489,551                     |
|              | 1980 General Certificate | 1999 First Series | 0.000%                  |                           |                  | 592,714                   |                          | 571,831                       |
| (4.8)        | Residential Revenue Bond | 2001 Series F     | 6.625%                  | 4.00%                     | 104              | 5,671,011                 | 104                      | 5,589,393                     |
|              | 1980 General Certificate | 1999 First Series | 0.000%                  |                           |                  | 3,721,595                 |                          | 3,673,939                     |
| (5.1)        | Residential Revenue Bond | 2001 Series F     | 6.625%                  | 5.75%                     | 287              | 24,782,543                | 287                      | 24,551,333                    |
|              | Residential Revenue Bond | 1999 Series E     | 0.000%                  |                           |                  | 3,771,241                 |                          | 3,736,057                     |
| (5.2)        | Residential Revenue Bond | 2001 Series H     | 6.750%                  | 4.00%                     | 354              | 19,105,861                | 354                      | 18,945,392                    |
|              | Residential Revenue Bond | 2001 Series A     | 0.000%                  |                           |                  | 13,135,257                |                          | 13,024,935                    |
| (5.3)        | Residential Revenue Bond | 2000 Series D     | 6.100%                  | 5.00%                     | 1                | 56,316                    | 1                        | 56,247                        |
|              | Residential Revenue Bond | 2000 Series B     | 0.000%                  |                           |                  | 12,390                    |                          | 12,374                        |

The following table sets forth as of September 30, 2002, the number, outstanding principal balance and percentage of the total outstanding balance of the Mortgage Loans (including participations in Mortgage Loans) which have been financed in each of the political subdivisions of the State:

| <u>County</u>          | <u>Current<br/>Number of<br/>Mortgage<br/>Loans</u> | <u>Current<br/>Outstanding<br/>Principal</u> | <u>Percent of<br/>Current Total<br/>Outstanding<br/>Principal</u> |
|------------------------|-----------------------------------------------------|----------------------------------------------|-------------------------------------------------------------------|
| Allegany County        | 96                                                  | \$ 5,371,680                                 | 0.73%                                                             |
| Anne Arundel County    | 575                                                 | 55,458,968                                   | 7.53%                                                             |
| Baltimore City         | 1,871                                               | 129,247,161                                  | 17.54%                                                            |
| Baltimore County       | 2,327                                               | 199,645,233                                  | 27.10%                                                            |
| Calvert County         | 41                                                  | 4,725,876                                    | 0.64%                                                             |
| Caroline County        | 64                                                  | 5,239,379                                    | 0.71%                                                             |
| Carroll County         | 90                                                  | 8,987,278                                    | 1.22%                                                             |
| Cecil County           | 124                                                 | 12,826,496                                   | 1.74%                                                             |
| Charles County         | 99                                                  | 9,792,470                                    | 1.33%                                                             |
| Dorchester County      | 46                                                  | 3,492,245                                    | 0.47%                                                             |
| Frederick County       | 311                                                 | 31,080,030                                   | 4.22%                                                             |
| Garrett County         | 0                                                   | -                                            | 0.00%                                                             |
| Harford County         | 580                                                 | 55,574,076                                   | 7.54%                                                             |
| Howard County          | 212                                                 | 20,229,400                                   | 2.75%                                                             |
| Kent County            | 21                                                  | 1,730,700                                    | 0.23%                                                             |
| Montgomery County      | 347                                                 | 40,232,221                                   | 5.46%                                                             |
| Prince George's County | 692                                                 | 82,327,986                                   | 11.18%                                                            |
| Queen Anne's County    | 16                                                  | 1,615,196                                    | 0.22%                                                             |
| Saint Mary's County    | 41                                                  | 4,165,958                                    | 0.57%                                                             |
| Somerset County        | 45                                                  | 3,091,999                                    | 0.42%                                                             |
| Talbot County          | 31                                                  | 2,951,501                                    | 0.40%                                                             |
| Washington County      | 420                                                 | 33,299,030                                   | 4.52%                                                             |
| Wicomico County        | 256                                                 | 19,551,632                                   | 2.65%                                                             |
| Worcester County       | 75                                                  | 6,043,815                                    | 0.82%                                                             |
|                        | 8,380                                               | \$ 736,680,330                               | 100.00%                                                           |

(1) Individual amounts may not add up to the total amount because of rounding.

As of September 30, 2002, the Mortgage Loans (including participations in Mortgage Loans) made or purchased by the Administration with proceeds of prior Series of Bonds were originally covered by primary mortgage insurance or guarantees as of the date of the origination thereof as follows:

| <u>Primary Mortgage<br/>Insurer or Guarantor</u> | <u>Current Number<br/>of Mortgage Loans</u> | <u>Current<br/>Principal<br/>Amount (1)</u> | <u>Percent of<br/>Current<br/>Principal<br/>Amount (1)</u> |
|--------------------------------------------------|---------------------------------------------|---------------------------------------------|------------------------------------------------------------|
| FHA                                              | 7,965                                       | \$694,017,206                               | 94.21%                                                     |
| VA                                               | 205                                         | 21,644,974                                  | 2.94%                                                      |
| USDA/RD (RHS)RHS                                 | 210                                         | 21,018,150                                  | 2.85%                                                      |
|                                                  | 8,380                                       | \$736,680,330                               | 100.00%                                                    |

(1) Individual amounts may not add up to the total amount because of rounding.

Based on reports to the Administration from Mortgage Agents and based on reports to the National Delinquency Survey prepared by the Economic and Research Department of the Mortgage Bankers Association of America, the following tables set forth information about delinquencies and foreclosures of mortgage loans, reported by certain mortgage servicers.

|                                                         | <u>National Delinquency<br/>Survey</u>   |                                            |                                          | <u>Residential Revenue<br/>Bond Program (1)(2)</u> |                 |
|---------------------------------------------------------|------------------------------------------|--------------------------------------------|------------------------------------------|----------------------------------------------------|-----------------|
|                                                         | <u>U.S.A.<br/>All Types<br/>06/30/02</u> | <u>Maryland<br/>All Types<br/>06/30/02</u> | <u>Maryland<br/>FHA (3)<br/>06/30/02</u> | <u>06/30/02</u>                                    | <u>09/30/02</u> |
| 30 days delinquent .....                                | 3.11%                                    | 3.49%                                      | 6.89%                                    | 5.17%                                              | 5.78%           |
| 60 days delinquent .....                                | 0.75%                                    | 0.91%                                      | 2.05%                                    | 1.42%                                              | 1.54%           |
| 90 days+ delinquent .....                               | 0.74%                                    | 1.08%                                      | 2.63%                                    | 1.90%                                              | 2.14%           |
| In foreclosure .....                                    | 1.23%                                    | 1.47%                                      | 3.01%                                    | 0.61%                                              | 0.61%           |
| Placed in foreclosure during last three<br>months ..... | 0.40%                                    | 0.42%                                      | 0.77%                                    | 0.45%                                              | 0.47%           |

| <u>Mortgages Sixty Days or More Delinquent or in Foreclosure</u> |                             |                               |                             |                       |
|------------------------------------------------------------------|-----------------------------|-------------------------------|-----------------------------|-----------------------|
| <u>Quarter<br/>Ended</u>                                         | <u>U.S.A.<br/>All Types</u> | <u>Maryland<br/>All Types</u> | <u>Maryland<br/>FHA (3)</u> | <u>Program (1)(2)</u> |
| 06/30/98 .....                                                   | 2.37%                       | 3.49%                         | 6.33%                       | 0.72%                 |
| 06/30/99 .....                                                   | 2.28%                       | 3.45%                         | 6.49%                       | 1.28%                 |
| 06/30/00 .....                                                   | 1.94%                       | 3.19%                         | 6.47%                       | 2.14%                 |
| 06/30/01 .....                                                   | 2.30%                       | 3.35%                         | 6.93%                       | 3.12%                 |
| 06/30/02 .....                                                   | 2.72%                       | 3.46%                         | 7.69%                       | 3.93%                 |

(1) The delinquency statistics in the tables above include both whole loans financed entirely from the Bond Resolution and participation loans financed from both the Bond Resolution and the 1980 General Certificate. For information on outstanding loans, see the table entitled "Whole Loans and Participation Loans as of September 30, 2002" in "Existing Portfolio and Available Funds Under the Bond Resolution – Participations in Mortgage Loans".

(2) The Program purchased the first Mortgage Loan on October 29, 1997.

(3) Includes all types of FHA mortgage loans.

## **APPENDIX C**

### **DEFINITIONS**

“Acquired Development” means a Development constructed, owned, operated or administered by reason of the Administration's obtaining title, possession or effective control 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 of Housing and Community Development, 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.

“Act” means Sections 2-201 to 2-208, inclusive, of Article 83B of the Annotated Code of Maryland, as amended from time to time, including, without limitation, future amendments or successor laws thereto.

“Additional Bonds” means bonds issued under the Bond Resolution after the Bonds issued in connection with this Official Statement.

“Administration” means the Community Development Administration, an agency in the Division of Development Finance of the Department of Housing and Community Development, a principal department of the government of the State of Maryland, and any successor entity thereto.

“Administration Request” means a written request or direction of the Administration signed by an Authorized Officer.

“Amortized Value” means the purchase price of securities, excluding accrued interest, plus an amortization of any discount or less an amortization of any premium on the purchase price.

“Authorized Officer” means the Secretary of Housing and Community Development, the Deputy Secretary of Housing and Community Development, the Director of the Administration, a Deputy Director of the Administration, any Director of any program or division of the Administration or any other person duly authorized by the Secretary of Housing and Community Development to perform such act or discharge such duty.

“Bond” or “Bonds” means any Bond or Bonds issued pursuant to the Bond Resolution.

“Bond Resolution” means the Residential Revenue Bond Resolution, dated as of August 1, 1997, adopted by the Administration.

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

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

“Cash Equivalent” means a letter of credit, insurance policy, surety, guarantee or other security arrangement upon which the Administration or Trustee may make a draw to provide funds as needed for any other Fund or Account or to provide Credit Enhancement or for any other purpose.

“Cash Flow Certificate” means the certification made by or for the Administration pursuant to Section 608(d) of the Bond Resolution.

“Cash Flow Statement” means the calculation made by or for the Administration pursuant to Section 608(c) of the Bond Resolution.

“Certificate” means a signed document either attesting to or acknowledging the circumstances, representations or other matters stated in it or setting forth matters to be determined pursuant to the Bond Resolution or a Series Resolution.

“Code” or “1986 Code” means applicable provisions of the Internal Revenue Code of 1986, as amended, and the applicable regulations under it, or predecessor or successor provisions, as applicable.

“Collateral Reserve Fund” means the fund so designated which is established by Section 401 of the Bond Resolution.

“Costs of Issuance” means items of expense payable or reimbursable directly or indirectly by the Administration and related to the authorization, sale, issuance and remarketing of the Bonds.

“Credit Enhancement” means any credit enhancement, insurance, guaranty, Cash Equivalent, risk-sharing arrangement or any other form of credit support for one or more Program Assets (or any portion or portions thereof) as provided in any Series Resolution or Supplemental Resolution.

“Credit Enhancer” means the issuer or provider of any Credit Enhancement.

“Credit Facility” means any credit facility which secures all or a portion of one or more Series of Bonds 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.

“Development” means any project, facility, undertaking or purpose which the Administration is authorized to undertake, finance or provide financing for pursuant to the Act as now or hereafter in effect, including, without limitation, a Single Family Residence, multi-family housing, group housing, shared living facilities, home improvements, housing rehabilitation and any undertaking or project, or portion thereof, which is defined as a “community development project”, a “public purpose project”, an “energy conservation project”, a “home improvement project”, an “infrastructure project” or a “special housing facility” by the Act.

“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.

“Expenses” means any money required by the Administration to pay the fees or expenses of the Trustee and any expenses which the Administration lawfully may pay relating to the Program including, without limitation, administrative and operating expenses of the Administration, servicing fees, Credit Enhancement, Credit Facilities, or the redemption of Bonds, or rebates of arbitrage as required by the Code, except as limited with respect to any Series of Bonds by the applicable Series Resolution.

“FHA” means the Federal Housing Administration of HUD.

“Fiscal Year” means the 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.

“Fund” or “Account” means a Fund or Account created by or pursuant to the Bond Resolution or a Series Resolution.

“Government 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.

“HUD” means the United States Department of Housing and Urban Development.

“Insurance Proceeds” means payments received with respect to the Program Assets under any insurance policy, guarantee or fidelity bond, including amounts available under any Credit Enhancement, less any expenses incurred in realizing such payments and less any reimbursements of advances due the insurer or provider of such guarantee or bond.

“Investment Obligations” means any of the following investments which at the same time are legal investments for moneys of the Administration which are then proposed to be invested therein:

- (1) Government 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): the Rural Housing Service, General Services Administration, U.S. Maritime Administration, Small Business Administration, Government National Mortgage Association, and U.S. Department of Housing and Urban Development;
- (3) Bonds, notes or other evidences of indebtedness having a rating at least comparable to a 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 (or the domestic agency or branch of foreign commercial banks) which have a rating in a long-term rating category at least comparable to the long-term rating on

the Bonds (other than Subordinated Bonds) or on their short term accounts or securities on the date of purchase not less than F-1/P1 or the comparable rating of a Rating Agency or 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) Interest bearing time or demand deposits, certificates of deposit or other similar banking arrangements with banks (which may include the Trustee) which are members of the Federal Deposit Insurance Corporation, provided that, to the extent such deposits exceed available federal deposit insurance, such deposits are fully collateralized and secured by obligations described in clauses (1) and (2) above which have a market value (exclusive of accrued interest) at least equal to such deposits so secured, including interest;

(6) Commercial paper which is rated at the time of purchase in a long-term rating category at least comparable to the long-term rating on the Bonds (other than Subordinate Bonds) and a rating on their short-term accounts or deposits not less than F-1/P1 or the comparable rating of a Rating Agency or of any other nationally recognized rating agency and which matures not more than 270 days after the date of purchase;

(7) Investments in a money market fund having a rating not less than F-1/P1 or the comparable rating of a Rating Agency or any other nationally recognized rating agency, which may be established by a Ratings Certificate;

(8) Pre-Refunded Municipal Obligations having a rating at least comparable to a Rating Agency's highest possible rating category or the comparable rating of any other nationally recognized rating agency;

(9) Investment agreements with any financial institution or other entity either (i) with debt rated at least comparable to a Rating Agency's existing rating on the Bonds (other than Subordinate Bonds) or the comparable rating of any other nationally recognized rating agency or (ii) if an investment agreement maintains only a short-term rating, a rating not less than F-1/P1 or the comparable rating of a Rating Agency or of any other nationally recognized rating agency, which may be established by a Ratings Certificate;

(10) Contracts for the purchase and sale of obligations described in clauses (1) through (8) 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 (8) above to such contracts as security or reserve therefor, such obligations are to be delivered to and held by a fiduciary during the term of such contracts, (ii) such obligations are to 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;

(11) Investments in any mutual fund the portfolio of which is limited to Investment Obligations, 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 Government Obligations, then such fund will constitute "Government Obligations" for the purposes of the Bond Resolution); and

(12) Any investments authorized in a Series Resolution authorizing the issuance of Bonds or a Supplemental Resolution.

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 is without regard to any refinement or gradation such as “+” or “-”.

The Trustee may purchase Investment Obligations that do not meet the requirements set forth in this definition, so long as the purchase of such Investment Obligations does not, as of the date of such investment, 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. If the rating of any Investment Obligation purchased by the Trustee changes adversely subsequent to the date of purchase, the Trustee is not required to sell such Investment Obligation.

The definition of Investment Obligation 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 which may be established by a Ratings Certificate.

“Liquidation Proceeds” means the net amounts (other than Insurance Proceeds) received in connection with the liquidation of a defaulted Program Asset, whether through foreclosure, trustee's sale, repurchase by a mortgage lender, or otherwise, less any costs and expenses incurred in realizing those amounts.

“Loan” means: (1) a loan, made or purchased or otherwise financed by the Administration; (2) a portion of, or participation in, a loan made or purchased or otherwise financed by the Administration; or (3) a mortgage-backed security, security or certificate in connection with a loan exchanged for or otherwise evidencing 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 relate to a Single Family Residence and may or may not be secured by a Mortgage, to the extent permitted by the Act.

“Mortgage” means a mortgage, deed of trust or other instrument securing a Program Asset.

“Mortgage Lender” means a bank, trust company, savings institution, savings and loan association, national bank association, mortgage banker or other financial institution that is approved by the Administration as an originator and that maintains an office in the State and engages in making or originating “residential mortgage loans,” as defined in the Act; any insurance company that is authorized to transact business in the State; the Maryland Home Financing Program established pursuant to Sections 2-601 through 2-617 of Article 83B of the Annotated Code of Maryland, as amended and supplemented from time to time; and any other program, instrumentality, fund, account, corporation or agency of the State from which the Administration may be authorized under the Act to purchase “residential mortgage loans,” as defined in the Act.

“Mortgage Loan” means a Loan relating to a Single Family Residence secured by a Mortgage, including a portion of or a participation in such Loan.

“Non-Conforming Loan” means a Loan which does not comply with the mortgage eligibility requirements of the Code.

“Outstanding” means, with respect to any Bonds as of any date, all Bonds authenticated and delivered by the Trustee under the Bond Resolution to that date, except:

3. any Bond (or portion thereof) deemed to be paid in accordance with the Bond Resolution;

4. any Bond canceled by, or delivered for cancellation to, the Trustee because of payment at maturity or redemption or purchase prior to maturity; and

5. any Bond in lieu of or in substitution for which another Bond has been authenticated and delivered pursuant to the Bond Resolution, unless proof satisfactory to the Trustee is presented that any Bond for which such Bond has been authenticated and delivered is held by a bona fide purchaser, as that term is defined in Article Eight of the Uniform Commercial Code of the State, as amended, in which case both the Bond so substituted and replaced and the Bond or Bonds authenticated and delivered in lieu of, or in substitution for, it shall be deemed outstanding.

“Pledged Property” means Revenues and all other money and property pledged to the payment of the Bonds as set forth in the Bond Resolution.

“Prepayment” means any money received from a payment of principal on a Loan in excess of the scheduled payments of principal then due.

“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 Government 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.

“Program” means the Administration's program of making or purchasing or otherwise financing Qualified Program Assets pursuant to the provisions of the Bond Resolution.

“Program Asset” means a Loan or a Development.

“Purchase Commitment” means a written commitment by the Administration, signed by an authorized Officer and accepted by the developer, as amended or supplemented from time to time, to purchase from a Mortgage Lender one or more Loans.

“Qualified Program Asset” means a Program Asset satisfying the conditions set forth in the Bond Resolution.

“Rating” means at any date the then existing rating of Bonds (other than Subordinate Bonds and other than any Series of Bonds which has a rating based on a Credit Facility) by a Rating Agency.

“Rating Agency” means any nationally recognized rating agency maintaining a rating of any Bonds (other than Subordinate Bonds), pursuant to a request for a rating by the Administration.

“Rating Certificate” means, in connection with certain actions to be taken by the Administration, a Certificate of an Authorized Officer filed with the Trustee that the Administration has been advised by each Rating Agency that the Rating of that Rating Agency will not be reduced as a result of the Administration taking that action. Published rating criteria by a Rating Agency shall also constitute advice of that Rating Agency.

“Recovery Payment” means any payment by a mortgagor or any other recovery of principal on a Loan not applied to scheduled installment of principal and interest on the Loan (including any deficiency in the payment of any scheduled installments of principal and interest then due and payable or interest paid in connection with a Prepayment of a Loan). A Recovery Payment includes, without limitation, (i) Prepayments, (ii) the portion of any Insurance Proceeds (to the extent not applied to the repair or restoration of any mortgaged premises), (iii) Liquidation Proceeds, and (iv) amounts from the sale, transfer or other disposition of a Program Asset, or net recovery from Credit Enhancement to the extent not included in Insurance Proceeds, in each case representing such principal amounts.

“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.

“Reserve Fund” means the Fund of that name established pursuant to Section 401 of the Bond Resolution.

“Reserve Requirement” means, as of any particular date of calculation, an amount equal to the sum of all amounts established as Series Reserve Requirements in the Series Resolutions for all Series of Bonds Outstanding authorizing the issuance of such Outstanding Bonds. The Trustee may rely upon a Certificate from an Authorized Officer of the Administration which states the Reserve Requirement as of the date of the Certificate.

“Revenue Fund” means the Fund of that name established pursuant to Section 401 of 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 described in Section 401 of the Bond Resolution subject to the lien of the Bond Resolution, including Recovery Payments 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 Project Assets 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 Program Asset. Any arbitrage rebate payable to the United States are not Revenues and are not subject to the lien of the Bond Resolution.

“Serial Bonds” means Bonds which are not Term Bonds.

“Series” means one of the Series of Bonds issued under the Bond Resolution pursuant to a Series Resolution.

“Series Program Determinations” means determinations by the Administration relating to Program Assets and certain other matters required to be set forth in connection with a Series of Bonds under the Program (or provision to be determined at certain specified times in the future), as provided in a Series Resolution. Series Program Determinations shall be consistent with the Bond Resolution. They may include, without limitation, (i) the security which may be provided for each Program Asset; (ii) the principal and interest payment provisions of Loans; (iii) the maximum term to maturity of Loans; (iv) the nature of the residences to which the Loans relate and limitations on who may be a mortgagor; (v) required credit standards and other terms of primary mortgage insurance or other credit support, if any, and the levels of coverage and applicable loan to value ratios, if appropriate; (vi) Credit Enhancement, if any; (vii) the application of a Credit Facility, if any; (viii) the manner and extent of funding, and provisions designating the use of, the Collateral Reserve Fund, if any, or any modification of the Collateral Reserve Funds; (ix) provisions for limiting or restricting use of Recovery Payments; and (x) limitations on Expenses.

“Series Reserve Requirement” means an amount established by a Series Resolution as a component of the Reserve Requirement while Bonds of the Series are Outstanding.

“Series Resolution” means a resolution of the Administration authorizing the issuance of a Series of Bonds and includes any determination with regard to that Series made by an Authorized Officer pursuant to the authority delegated by the Series Resolution, and executed prior to issuance of those Bonds. Series Resolution includes any resolution of the Administration amending a Series Resolution as provided in the Bond Resolution or the related Series Resolution.

“Single Family Residence” means a residential dwelling of one or more units located within the State, occupied or to be occupied within a reasonable period of time as a principal residence of the Borrower, including, without limitation, manufactured housing or mobile homes permanently affixed to the property, condominiums, and cooperative housing to the extent permitted by the Act.

“Sinking Fund Requirement” means, as of any particular date of calculation, with respect to the Term Bonds of any Series and maturity, the amount of money required to be applied on any applicable date to the redemption prior to maturity or the purchase of those Bonds. Sinking Fund Requirements may be established as fixed dollar amounts or by formula.

“State” means the State of Maryland.

“Subordinate Bond Accounts” means the Accounts of that name in the Revenue Fund established pursuant to Section 401 of the Bond Resolution.

“Subordinate Bonds” means Bonds authorized under the Bond Resolution and issued pursuant to the Bond Resolution.

“Supplemental Resolution” means any resolution of the Administration supplementing or amending the Bond Resolution.

“Term Bonds” means the Bonds of a Series with respect to which Sinking Fund Requirements have been established.

“Trustee” means any institution named in the Series Resolution related to the initial Series of Bonds and designated to act as trustee with respect to the Bonds and its successors and any consolidation or merger to which it or its successors may be a party.

“USDA/RD” means the United States Department of Agriculture, Rural Development Guaranteed Rural Housing Program.

“VA” means the United States Department of Veterans Affairs.

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## **APPENDIX D**

### **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**

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

- (a) for the making, purchasing or otherwise financing Program Assets;
- (b) for the refinancing of Program Assets (including, without limitation, Program Assets in default);
- (c) 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;
- (d) for the funding of reserves;
- (e) for the funding of costs of issuance, redemption premiums relating to Bonds and Administration expenses; or
- (f) achieving any other of the Administration's purposes, as described in the Act, as now or hereafter in effect. **[§101]**

#### **Contract with Trustee and Bondholders**

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

- (a) The provisions of the Bond Resolution and applicable Series Resolutions are contracts 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. **[§103]**

#### **Issuance of the Bonds**

Each Series of Bonds shall be authorized and issued under and secured by the Bond Resolution pursuant to the authorization contained in a Series Resolution. The Bonds of each Series shall be designated as provided by the Series Resolution. The Bonds shall be in such subseries (if any), shall be in such denominations, shall be dated, shall bear interest at a rate or rates not exceeding the maximum rate then permitted by law payable beginning on such date, shall be stated to mature on such dates, shall be made redeemable at such times and prices (subject to the provisions of the Bond Resolution), shall have such interest payment dates, shall be numbered and the Term Bonds of such Series shall have such

Sinking Fund Requirements, all as may be provided by the Series Resolution for such Bonds. Except as may otherwise be provided in the Series Resolution for Subordinate Bonds, and except as to any differences in the maturities or the interest payment dates or the rate or rates of interest or the provisions for redemption, such Bonds shall be on a parity with and shall be entitled to the same benefits and security under the Bond Resolution as all other Bonds issued under the Bond Resolution.

Each Series Resolution authorizing the issuance of a Series of Bonds shall include a determination by the Director of the Administration that the issuance of such Series of Bonds is necessary to achieve one or more purposes of the Administration, and may specify and determine such other details as may be required.

Before the Bonds of the Series shall be authenticated and delivered by the Trustee, there shall be on file with the Trustee the following: (i) a copy of the Bond Resolution and the Series Resolution duly certified by an Authorized Officer; (ii) a Bond Counsel's Opinion stating in the Opinion of such counsel that (A) the Bond Resolution and the applicable Series Resolution have been duly adopted and are valid and binding upon the Administration (subject to reasonable exceptions with respect to enforceability under bankruptcy laws, the police power of the State or other similar laws, and the availability of specific performance and other equitable remedies under State law) and (B) the Bonds being issued are valid and legally binding special limited obligations of the Administration secured in the manner and to the extent set forth in the Bond Resolution and the applicable Series Resolution and are entitled to the benefit, protection and security of the provisions, covenants and agreements contained in the Bond Resolution and the applicable Series Resolution; (iii) a Cash Flow Statement conforming to the requirements of the Bond Resolution, accompanied by a Rating Certificate with respect to Bonds other than Subordinate Bonds; and (iv) a request and authorization to the Trustee on behalf of the Administration, signed by an Authorized Officer, to authenticate and deliver the Bonds to the purchaser or purchasers identified in such request upon payment (or provision therefor) to the Trustee for the account of the Administration of the purchase price of the Bonds or, in the instance of Bonds purchased for delivery at a later date or dates, upon such later date(s) as specified in a Series Resolution. [§201]

#### **Authorization of Subordinate Bonds; Conditions Precedent to Delivery**

The Administration may issue from time to time Bonds to be secured by the Bond Resolution on a subordinated basis, subject to the conditions hereinafter provided.

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 certain provisions of the Bond Resolution, including Subordinated Bond Accounts, 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.

The Series Resolution authorizing a Series of Subordinate Bonds may provide that such Subordinate Bonds shall be secured solely by such proceeds or Revenues and not by any other moneys, funds or accounts held under the Bond Resolution, and that such proceeds or Revenues shall not constitute security for or a source of payment of any other Bonds outstanding or thereafter issued under the Bond Resolution. The Series Resolution authorizing a Series of Subordinate Bonds may establish different priorities of payment and security among different Series of Subordinate Bonds. [§202]

## **Purchase of Bonds**

Amounts on deposit in the Revenue Fund may be applied as applicable to the purchase of Bonds of each Series then Outstanding, whether or not such Bonds or portions thereof shall then be subject to redemption. The Trustee, upon Administration Request accompanied by a Cash Flow Certificate if required by the Bond Resolution, is required to purchase from such amounts such Bonds, whether they be Serial Bonds or Term Bonds, as specified in such Administration Request. The Trustee is required to pay the interest accrued on such Bonds or portions of Bonds to the date of settlement for the Bonds from the Revenue Fund. The Bond Resolution provides that no purchase of a Bond is to be made by the Trustee after the giving of notice of redemption as to that Bond by the Trustee. Purchased Bonds are required to be delivered to the Trustee for cancellation. **[§405]**

## **Funds and Accounts Established by the Bond Resolution**

The Bond Resolution establishes the following funds and accounts to be held by the Trustee in trust for application in accordance with the Bond Resolution;

- (i) Program Fund, which, for each Series of Bonds, will contain a Series Program Account;
- (ii) Revenue Fund, which will consist of:
  - (a) Debt Service Account,
  - (b) Recovery Payment Account,
  - (c) Redemption Account, and
  - (d) Subordinate Bond Accounts;
- (iii) Reserve Fund;
- (iv) Collateral Reserve Fund;
- (v) Acquired Development Fund; and
- (vi) Rebate Fund. **[§401]**

Additional Funds and Accounts (including for the purpose of depositing amounts required to be related to mortgagors or the United States) may be created and designated in Series Resolutions.

## **Program Fund**

Except as may be provided by a Series Resolution for Subordinate Bonds, amounts received upon the sale of a Series of Bonds are to be deposited in the Program Fund and credited to the related Series Program Account in the amount, if any, provided in the applicable Series Resolution. In addition, amounts are to be deposited in the Program Fund from the Revenue Fund as provided in the Bond Resolution and from any other source and are to be credited to the Series Program Account as specified in the Administration Request directing the transfer.

Amounts in a Series Program Account may be used to pay Costs of Issuance of the related Series of Bonds, or to reimburse the Administration for Costs of Issuance, in either case in the amount specified in or pursuant to the Series Resolution, upon a requisition stating generally the nature and amount of

those Costs of Issuance signed by an Authorized Officer. Amounts in Series Program Accounts other than amounts used or to be used to pay Costs of Issuance are to be applied by the Trustee upon Administrative Request: (i) to finance the making or acquisition of Program Assets, (ii) to pay costs of Credit Enhancement with regard to Program Assets or any Credit Facility with regard to Bonds, (iii) to pay costs of completing an Acquired Development as set forth in the Bond Resolution, and (iv) as otherwise provided in the Series Resolution. [§402]

## **Revenue Fund**

The Trustee is required to transfer to and deposit in the Revenue Fund all amounts transferred to it from the Program Fund as provided in the Bond Resolution or from the Reserve Fund as provided in the Bond Resolution and credit those amounts to the Accounts as specified in the Bond Resolution. Amounts received upon the sale of a Series of Bonds are to be deposited in the Revenue Fund in the amount, if any, provided in the applicable Series Resolution, for credit to the Debt Service Account to pay debt service as specified in the Series Resolution.

Recovery Payments are to be credited to the Recovery Payment Account. Except as may be limited by a Series Resolution, amounts in the Recovery Payment Account may be transferred at any time upon an Administration Request to the Redemption Account, the Debt Service Account or any Series Program Account.

At any time, upon Administration Request, the Trustee is required to apply amounts in the Revenue Fund not credited to any Account in the Fund to pay the accrued interest portion of the cost of acquiring any Loan consistent with the related Series Resolution.

Upon their receipt, the Administration is required to notify the Trustee as to any amounts which have been received for accrued interest with respect to Loans made or acquired from amounts which were expended from the Series Program Account (to the extent not so funded from a transfer from the Revenue Fund). The Trustee is required to transfer those amounts to the credit of the applicable Series Program Account.

On or prior to each debt service payment date for the Bonds the Trustee is required to transfer all amounts in the Revenue Fund not in any Account in the Revenue Fund to the credit of Funds and Accounts in the following priority:

(1) to the Debt Service Account, an amount sufficient, together with amounts on deposit in that Account, timely to pay interest and principal, at maturity or mandatory redemption, due on such debt service payment date on the Bonds, other than Subordinate Bonds, and to pay any fees in connection with any Credit Facility related to such Bonds, as set forth in the Series Resolution or a Supplemental Resolution;

(2) to the payment of Expenses specified in a Series Resolution, or such other Expenses provided in an Administration Request;

(3) to the Reserve Fund, an amount sufficient to cause the amount on deposit in that Fund, including Cash Equivalents permitted by a Series Resolution, to equal the Reserve Requirement;

(4) to the Redemption Account, an amount as specified in an Administration Request;

(5) to any Series Program Account in the Program Fund, an amount as specified in an Administration Request; or

(6) to any Subordinate Bond Accounts, an amount sufficient together with amounts on deposit in that Account, established by a Series Resolution for Subordinate Bonds, timely to pay interest and principal, at maturity or mandatory redemption, due on such succeeding debt service payment date on the Subordinate Bonds and to pay any fees in connection with any Credit Facility related to such Bonds, as set forth in the Series Resolution or a Supplemental Resolution or to provide any reserve with respect to Subordinate Bonds.

At any time the Trustee is required to, upon Administration Request, accompanied by a Cash Flow Certificate, release amounts on deposit in the Revenue Fund to the Administration for any lawful purpose free and clear of the pledge and lien of the Bond Resolution.

At any time the Trustee is required to, upon Administration Request, apply amounts in the Revenue Fund not credited to any Account in it or the Rebate Fund to make required rebates pursuant to the Code.

At any time the Trustee is required to apply, upon an Administration Request, amounts in the Revenue Fund and not credited to any Account in it to the purchase of Bonds at the times, in the manner and for the purposes set forth in the Bond Resolution.

At any time, upon Administration Request, amounts on deposit in the Revenue Fund may be applied to pay Expenses as specified in an Administration Request. **[§403]**

### **Reserve Fund**

The Administration is required to deposit amounts in the Reserve Fund as provided in the Series Resolutions and as provided in the Bond Resolution. The Trustee is required to transfer money held in the Reserve Fund to the Debt Service Account, pursuant to the Bond Resolution. Amounts held in the Reserve Fund as of any date in excess of the Reserve Requirement, taking into account any Cash Equivalents in the Reserve Fund, are required to, upon an Administration Request, be transferred to the Revenue Fund. A Series Resolution may provide that the Reserve Requirement or any excess balances in the Reserve Fund with respect to the applicable Series of Bonds may be funded in whole or in part through Cash Equivalents or other Program Assets. **[§408]**

### **Collateral Reserve Fund**

Moneys, Cash Equivalents, Program Assets, Non-Conforming Loans and other assets may 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, the making or purchase of loans or other Assets approved by the Administration, disbursement of moneys or Cash Equivalents and the sale, disposition or release of Program Assets, Non-Conforming Loans from such fund, and maintenance of moneys, Cash Equivalents, Program Assets or Non-Conforming Loans, or assets required to be held in such fund with respect to either a Series of Bonds or generally. Any moneys, Cash Equivalents, Program Assets, Non-Conforming Loans or other assets on deposit in the Collateral Reserve Fund may be transferred to any other Fund or Account or withdrawn by the Administration upon receipt by the Trustee of an Administrative Request.

The Trustee is required to transfer amounts from the Collateral Reserve Fund to the credit of the Debt Service Account as provided in the Bond Resolution. **[§409]**

## **Acquired Development Fund**

Acquired Development Receipts are required to be held by the Trustee in the Acquired Development Fund and are required to 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 is required to be transferred to the Revenue Fund.

Payments from the Acquired Development Fund are required to be made upon the direction of an Authorized Officer. Upon receipt of each such direction of an Authorized Officer, the Trustee is required to pay the amount stated therein to the Administration by check or draft or is required to arrange for the transfer, deposit or payment of such amounts as directed by the Authorized Officer.

The Administration is required to maintain on its books of account a separate account within the Acquired Development Fund for each Acquired Development, showing all disbursements of money withdrawn for it from the Acquired Development Fund, and is required to provide to the Trustee, at least quarterly, a report showing in reasonable detail the expenditures for each Acquired Development.

The Trustee is required to transfer amounts from the Acquired Development Fund to the credit of the Debt Service Account as provided in the Bond Resolution. **[§410]**

## **Sale of Program Assets; Release of Lien of Resolution**

The Administration is authorized to sell, assign or otherwise dispose of a Program Asset (and to release the same from the lien of the Bond Resolution), in addition to a sale, assignment or disposition pursuant to the Bond Resolution or any applicable Supplemental Resolution, provided that, with respect to any Program Asset not in default, the Administration files with the Trustee a Cash Flow Certificate taking into account such sale, assignment or disposition pursuant to the Bond Resolution.

The Administration is authorized to release a Program Asset secured by a Credit Facility or Credit Enhancement, reserves created or held with respect to such Program Asset or the Series of Bonds (or portion of such Series) issued to make, purchase or finance such Program Asset and any other moneys to be received with respect to such Program Asset 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 Program Asset or the Credit Enhancement securing the Program Asset, 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. **[§617]**

## **Cash Flow Statements and Certificates**

See the discussion of Cash Flow Statements and Certificates under the heading “SECURITY FOR THE BONDS – Cash Flow Statements and Certificates”.

The 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 initial interest rate shall be used so long as doing so does not adversely affect any of the Rating Agency's ratings on the Bonds. **[§608]**

## **Redemption of Bonds**

The Bonds issued under the provisions of the Bond Resolution are subject to redemption, both in whole and in part and at such times and Redemption Prices, as may be provided in the applicable Series Resolution. Term Bonds may be made subject to sinking fund redemption pursuant to their Sinking Fund Requirements on the dates and during the period during which such Sinking Fund Requirements are in effect, as established in the applicable Series Resolution.

The Trustee, at the direction of the Administration, is required to select the Bonds or portions of Bonds to be redeemed or purchased in accordance with the Bond Resolution and the applicable Series Resolution. Except as otherwise stated in the related Series Resolution, money is required to, upon an Administration Request to the Trustee accompanied by a Cash Flow Certificate, as may be required by the Bond Resolution, be applied by the Trustee to the purchase or the redemption of Bonds selected from among the Series (and subseries, if applicable), maturities and interest rates on the basis specified by the Administration in that Administration Request. Except as otherwise provided in a Series Resolution, the Administration Request relating to each redemption of Bonds is required to be filed with the Trustee at least fifteen (15) days prior to the date upon which notice of redemption is caused to be delivered by the Trustee to all registered owners of Bonds to be redeemed, or such lesser number of days as are acceptable to the Trustee.

Except as otherwise provided in a Series Resolution, if less than all of the Bonds of one Series (and subseries, if applicable) and one maturity bearing the same interest rate (and otherwise of like tenor) are called for redemption, the particular Bonds of such Series (and subseries if applicable) and maturity bearing the same rate of interest (and otherwise of like tenor) to be redeemed are to be selected not later than fifteen (15) days prior to the date upon which notice of redemption is caused to be delivered by the Trustee to all registered owners of Bonds to be redeemed, or such lesser number of days as are acceptable to the Trustee in such manner as directed by the Administration. If no such direction is received by the Trustee, the Trustee is required to select the Bonds to be redeemed by lot or in such other manner as it in its discretion may determine. The portion of Bonds of any Series (and subseries, if applicable) to be redeemed is required to be in the minimum principal amount or some integral multiple of such minimum principal amount established for such Bonds in the applicable Series Resolution, and in selecting Bonds for redemption, the Trustee is required to treat each Bond as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by such minimum principal amount.

If less than all of the Term Bonds Outstanding of any one maturity of a Series (or subseries, if applicable) are purchased for cancellation or called for redemption (other than in satisfaction of Sinking Fund Requirements), the principal amount of such Term Bonds that are so purchased or redeemed is to be credited, to the extent practicable, except as otherwise provided in an Administration Request, against all remaining Sinking Fund Requirements for the Term Bonds of such Series (and subseries, if applicable) and maturity in the proportion which the then remaining balance of each such Sinking Fund Requirement bears to the total of all Bonds of such Series (and subseries, if applicable) and maturity then Outstanding.

**[§301]**

## **Investment of Moneys Held by the Trustee**

Any and all money held by the Trustee under the Bond Resolution, except as otherwise expressly provided in the Bond Resolution, is to be held in trust, is to be applied only in accordance with provisions of the Bond Resolution and are not to be subject to any lien, charge or attachment by any creditor of the Administration.

Money deposited under the Bond Resolution is to, as nearly as is practicable, be fully and continuously invested or reinvested by the Trustee upon the direction of an Authorized Officer (promptly confirmed by delivery of an Administration Request) in Investment Obligations which are to be in such amounts and bear interest at such rates that sufficient money will be available to pay the principal and interest when due on the Bonds and which mature, or which are subject to redemption by the holder at the option of the holder, such that sufficient money will be available for the purposes intended.

Any Investment Obligations so purchased in any Account or Fund are to be deemed at all times to be part of such Account or Fund. Unless the Administration otherwise directs, any interest paid on the investment in any Account or Fund (except the Rebate Fund) is to be credited to the Revenue Fund and is to be treated as Revenues. Any interest paid on the investment of the Rebate Fund is required to be credited to the Rebate Fund. Any profit or loss resulting from an investment is to be credited to or charged against the applicable Account or Fund of which it is an investment. The Trustee is required to sell or present for redemption any obligations so purchased whenever it is necessary to do so in order to provide money to meet any payment or transfer from any such Account or Fund. The Trustee, when authorized by an Authorized Officer, may trade with itself in the purchase and sale of securities for such investment. Neither the Trustee nor the Administration is liable or responsible for any loss resulting from any such investment. **[§§501 and 502]**

### **Program Covenants; Enforcement of Mortgage Loans**

The Administration covenants in the Bond Resolution that:

(i) the Administration will use and apply the proceeds of the Bonds, to the extent not required by the Bond Resolution for other Program purposes, to make or purchase or otherwise finance Qualified Program Assets or otherwise apply such proceeds in accordance with the provisions and requirements of each applicable Series Resolution;

(ii) the Administration will do all such acts and things as are necessary to receive and collect Revenues and such payments for taxes, insurance and similar items as are normally escrowed by prudent mortgage servicing institutions in the State, consistent with sound practices and principles;

(iii) the Administration will diligently enforce and take all steps, actions and proceedings reasonably necessary, in the judgment of the Administration, for the enforcement of all terms, covenants and conditions of Mortgages and Loans;

(iv) the Administration will establish income and occupancy requirements to assure compliance with the Act for the Borrower for each Single Family Residence or Development financed with the proceeds of a Loan; and

(v) the Administration will 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. **[§615]**

### **Tax Covenants**

The Administration covenants in the Bond Resolution that it will comply with the applicable tax covenants contained in any applicable Series Resolution. **[§609]**

## **Events of Default**

Each of the following constitutes an Event of Default under the Bond Resolution:

(1) payment of interest on or the principal or Redemption Price of any of the Bonds is not made when due and payable; or

(2) default in the due and punctual performance of any other covenants or agreements contained in the Bonds or in the Bond Resolution or any Series Resolution and such default continues for ninety (90) days after written notice requiring the default to be remedied, has been given to the Administration by the Trustee. The Trustee may give such notice in its discretion and shall give such notice at the written request of the owners of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding. However, if such default can be remedied, so long as following such notice the Administration is diligently taking actions to remedy such default, such default is not an Event of Default under the Bond Resolution.

An Event of Default with respect to Subordinate Bonds is not an Event of Default on Bonds which are not Subordinate Bonds. For purposes of determining the percentages of Owners of Bonds as provided in the Bond Resolution, only Bonds other than Subordinate Bonds are to be taken into account unless the Event of Default relates only to Subordinate Bonds in which case the percentage relates only to Subordinate Bonds. In the case of an Event of Default relating only to Subordinate Bonds any acceleration or other remedy will relate only to Subordinate Bonds. **[§701]**

## **Remedies; Rights of Bondholders**

Upon the happening and continuance of any Event of Default, then and in every such case the Trustee may, and upon the written direction of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds is required to proceed, subject to the provisions of the Bond Resolution, to protect and enforce its rights and the rights of the Bondowners under applicable laws or under the Bond Resolution by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained in the Bond Resolution or in aid or execution of any power granted in the Bond Resolution or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, deems most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Bond Resolution the Trustee is entitled (1) to sue for, enforce payment of and recover judgment for, in its own name as Trustee of an express trust, any and all amounts then or after any default becoming, and at any time remaining, due from the Administration for unpaid principal, premium, if any, interest or otherwise under any of the provisions of the Bond Resolution or the Bonds, with, to the extent permitted by the applicable law, interest on overdue payments of principal of and interest at the rate or rates of interest specified in the Bonds, together with any and all costs and expenses of collection and of all proceedings under the Bond Resolution and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondowners, and (2) to recover and enforce any judgment or decree against the Administration, but solely as provided in the Bond Resolution, the Series Resolution, and in the Bonds, for any portion of such amounts remaining unpaid and interest, costs and expenses as above provided and to collect, in any manner provided by law, the money adjudged or decreed to be payable.

Regardless of the happening of an Event of Default, the Trustee may, and, subject to the Bond Resolution, if requested in writing by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds (other than Subordinate Bonds), is required to institute and

maintain such suits and proceedings as it may be advised are necessary or expedient (i) to prevent any impairment of the Pledged Property by any acts which may be unlawful or in violation of the Bond Resolution or of any Series Resolution or (ii) to preserve or protect the interest of the Bondowners, provided that such request is in accordance with law and the provisions of the Bond Resolution and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Owners of Bonds not making such request.

If a covenant is set forth in a Series Resolution, limitations on the remedies available upon an Event of Default related to such covenant may be set forth in such Series Resolution. **[\$703]**

### **Rights of Bondholders to Direct Proceedings**

Notwithstanding anything in the Bond Resolution to the contrary, the Owners of a majority in principal amount of the Bonds then Outstanding (other than Subordinate Bonds) shall have the right, subject to the provisions of the Bond Resolution, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee or exercising any trust or power conferred upon the Trustee, provided that such direction shall not be otherwise than in accordance with law, the provisions of the Bond Resolution and the Act and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of Bondowners not joining in such direction. **[\$707]**

### **Waiver of Events of Default**

The Trustee, upon written direction of the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds, is required to waive any Event of Default, which in the opinion of those Owners has been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by them under the provisions of the Bond Resolution or before the completion of the enforcement of any other remedy under the Bond Resolution, but no such waiver may extend to or affect any other existing or any subsequent Event or Events of Default or impair any rights or remedies consequent to it. **[\$713]**

### **Modification of Resolutions and Outstanding Bonds**

The Bond Resolution provides procedures whereby the Administration may amend the Bond Resolution or a Series Resolution by adoption of a Supplemental Resolution. Amendments that may be made without the consent of Bondholders may be only for certain purposes and include curing any ambiguity, defect or omission in the Bond Resolution or conferring upon the Trustee additional rights, remedies, powers, authority or security that may be lawfully granted. **[\$1001]**

Amendments of certain of the respective rights and obligations of the Administration and the Bondholders may be made with the written consent of the holders of greater than fifty percent (50%) in aggregate principal amount of the Outstanding Bonds; however, without the consent of all adversely affected Bondowners, no Supplemental Resolution may (a) change the terms of redemption or of the maturity of the principal of or the interest on any Bond, or (b) reduce the principal amount of any Bond or the redemption premium or the rate of interest on it, or (c) create or grant a pledge, assignment, lien or security interest of the Pledged Property, or any part of it, other than as created or permitted by the Bond Resolution without the Supplemental Resolution, or (d) create a preference or priority of any Bond or Bonds over any other Bond or Bonds, except as may be permitted by the Bond Resolution or (e) reduce the aggregate principal amount or classes of the Bonds required for consent to such Supplemental Resolution. If any such modification, supplement or amendment will by its terms, not take effect so long as any Bonds of any specified Series and maturity remain Outstanding, the consent of the Owners of those

Bonds are not required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the Bond Resolution. **[§1002]**

### **Defeasance**

If the Administration shall pay or cause to be paid, or there shall otherwise be paid, to the Registered Owners of the Bonds then Outstanding, the principal, redemption premium, if any, and interest to become due thereon, at the times and in the manner stipulated in the Bond Resolution and in the Series Resolutions, then the covenants, agreements and other obligations of the Administration to the Registered Owners of the Bonds shall be discharged and satisfied. In such event, the Trustee shall pay over or deliver to the Administration all money or securities held by it pursuant to the Bond Resolution which are no longer required for the payment or redemption of Bonds not already then surrendered for such payment or redemption. **[§1101(a)]**

Pursuant to the Bond Resolution, all Bonds will, prior to their maturity or redemption date, be deemed to have been paid pursuant to the Bond Resolution if, among other things, there is deposited with the Trustee either money in an amount which is sufficient, or Government Obligations the principal of and interest on which when due will provide money which, without reinvestment, when added to the money, if any, deposited with such Trustee at the same time, is sufficient to pay the principal of those Bonds at maturity, or on sinking fund installment dates for Term Bonds, or the principal, redemption premium, if any, and interest due and to become due on those Bonds on and prior to the redemption date or maturity date (or sinking fund installment dates for Term Bonds) of the Bonds, as the case may be. **[§1101(b)]**

### **Trustee**

The Trustee is required to undertake the duties and obligations imposed upon it under the Bond Resolution and each of the Series Resolutions. If an Event of Default has occurred and is continuing, the Trustee is required to exercise such of the rights and powers vested in it by the Bond Resolution, and is required to use the same degree of care that a prudent person would exercise in the circumstances in the conduct of such person's own affairs. However, the Trustee is 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 in accordance with the Bond Resolution. The Bond Resolution provides that the Trustee will not be liable in connection with the performance of its duties under the Bond Resolution, except for its own negligence or default. **[§§801-803]**

The Trustee may resign and thereby become discharged from the trusts, by notice in writing to be given to the Administration and mailed, first class, postage prepaid, to all Registered Owners of Bonds at their addresses as they appear on the registration books kept by the Trustee, not less than sixty (60) days before such resignation is to take effect, but such resignation will take effect immediately upon the appointment of a new Trustee, if such new Trustee is appointed before the time limited by such notice and then accepts the trusts. The Bond Resolution provides that no resignation of the Trustee is effective if an Event of Default, or any event which upon the passage of time would be an Event of Default has occurred and is continuing except upon the consent of Owners of a majority in principal amount of the Outstanding Bonds. **[§812]**

Subject to the Bond Resolution, the Trustee may be removed at any time by an instrument or concurrent instruments in writing executed by the Owners of not less than a majority in principal amount of the Outstanding Bonds and filed with the Administration. A facsimile copy of each such instrument is required to be delivered promptly by the Administration to the Trustee. The Trustee may also be removed

at any time for reasonable cause by any court of competent jurisdiction upon the application of Owners of not less than ten percent (10%) in aggregate principal amount of the Outstanding Bonds. The Trustee may be removed at any time by the Administration (provided that the Administration is not in default under the Bond Resolution) in its sole discretion by written notice to the Trustee. **[§813]**

## APPENDIX E

### OUTSTANDING INDEBTEDNESS OF THE ADMINISTRATION

#### Outstanding Residential Revenue Bonds

The following table sets forth certain information relating to Bonds issued by the Administration under the Bond Resolution outstanding as of October 1, 2002.

|                                      |        |   |       | <u>Effective</u>  | <u>Year</u>     | <u>Final</u>    | <u>Amount</u>           | <u>Amount</u>         |        |
|--------------------------------------|--------|---|-------|-------------------|-----------------|-----------------|-------------------------|-----------------------|--------|
|                                      |        |   |       | <u>Bond Yield</u> | <u>of Issue</u> | <u>Maturity</u> | <u>Issued</u>           | <u>Outstanding</u>    |        |
| Residential Revenue Bonds            |        |   |       |                   |                 |                 |                         |                       |        |
| 1997                                 | Series | A | ..... | 5.750520%         | 1997            | 03/01/2017      | \$ 17,325,000           | \$ 16,445,000         | (1)(3) |
| 1997                                 | Series | B | ..... | 5.781810%         | 1997            | 09/01/2029      | 82,675,000              | 64,035,000            | (1)(3) |
| 1998                                 | Series | A | ..... | 5.302760%         | 1998            | 09/01/2017      | 4,640,000               | 4,640,000             | (1)    |
| 1998                                 | Series | B | ..... | 5.363320%         | 1998            | 09/01/2030      | 75,565,000              | 63,465,000            | (1)(3) |
| 1998                                 | Series | D | ..... | 5.080895%         | 1998            | 09/01/2029      | 62,810,000              | 56,745,000            | (1)    |
| 1999                                 | Series | C | ..... | 4.981370%         | 1999            | 09/01/2015      | 2,665,000               | 2,665,000             | (1)    |
| 1999                                 | Series | D | ..... | 5.258230%         | 1999            | 09/01/2031      | 57,335,000              | 53,610,000            | (1)    |
| 1999                                 | Series | E | ..... | 5.561570%         | 1999            | 09/01/2017      | 22,780,000              | 21,965,000            | (1)    |
| 1999                                 | Series | F | ..... | 5.883350%         | 1999            | 09/01/2031      | 57,220,000              | 50,160,000            | (1)    |
| 1999                                 | Series | H | ..... | 6.185333%         | 1999            | 03/01/2031      | 60,000,000              | 53,480,000            |        |
| 2000                                 | Series | A | ..... | 5.463189%         | 2000            | 09/01/2012      | 7,965,000               | 7,750,000             | (1)    |
| 2000                                 | Series | B | ..... | 6.059197%         | 2000            | 09/01/2032      | 72,035,000              | 67,230,000            | (1)(3) |
| 2000                                 | Series | C | ..... | 5.726749%         | 2000            | 09/01/2013      | 6,090,000               | 5,555,000             | (3)    |
| 2000                                 | Series | D | ..... | 6.286454%         | 2000            | 09/01/2032      | 73,910,000              | 68,120,000            | (3)    |
| 2000                                 | Series | F | ..... | 4.996857%         | 2000            | 09/01/2014      | 15,190,000              | 14,960,000            |        |
| 2000                                 | Series | G | ..... | 5.991066%         | 2000            | 09/01/2032      | 64,810,000              | 62,495,000            | (3)    |
| 2000                                 | Series | H | ..... | 5.775438%         | 2000            | 09/01/2032      | 60,000,000              | 55,475,000            | (3)    |
| 2001                                 | Series | A | ..... | 4.689417%         | 2001            | 09/01/2017      | 18,885,000              | 18,885,000            | (1)    |
| 2001                                 | Series | B | ..... | 5.329877%         | 2001            | 09/01/2032      | 50,800,000              | 50,550,000            | (1)(3) |
| 2001                                 | Series | E | ..... | 4.428468%         | 2001            | 09/01/2012      | 13,775,000              | 13,775,000            |        |
| 2001                                 | Series | F | ..... | 5.623777%         | 2001            | 09/01/2032      | 66,225,000              | 66,090,000            | (3)    |
| 2001                                 | Series | G | ..... | 4.000795%         | 2001            | 09/01/2011      | 10,100,000              | 10,100,000            | (1)    |
| 2001                                 | Series | H | ..... | 5.246263%         | 2001            | 09/01/2033      | 49,900,000              | 49,900,000            | (1)    |
| 2002                                 | Series | A | ..... | 5.508142%         | 2002            | 09/01/2033      | 8,005,000               | 8,005,000             |        |
| 2002                                 | Series | B | ..... | 1.799401%         | 2002            | 12/19/2002      | 36,745,000              | 36,745,000            | (2)    |
| 2002                                 | Series | C | ..... | 1.849522%         | 2002            | 12/19/2002      | 60,530,000              | 60,530,000            | (2)    |
| Total Residential Revenue Bonds..... |        |   |       |                   |                 |                 | <u>\$ 1,057,980,000</u> | <u>\$ 983,375,000</u> |        |

## Other Outstanding Bonds of the Administration

The following tables set forth certain information relating to Bonds issued by the Administration under its other programs and outstanding as of October 1, 2002.

|                                        |        |       | <u>Effective<br/>Bond Yield</u> | <u>Year<br/>of Issue</u> | <u>Final<br/>Maturity</u> | <u>Amount<br/>Issued</u> | <u>Amount<br/>Outstanding</u> |     |
|----------------------------------------|--------|-------|---------------------------------|--------------------------|---------------------------|--------------------------|-------------------------------|-----|
| Single Family Program Bonds            |        |       |                                 |                          |                           |                          |                               |     |
| 1992 First                             | Series | ..... | 6.335030%                       | 1992                     | 04/01/2011                | \$ 7,260,000             | \$ 2,570,000                  |     |
| 1992 Second                            | Series | ..... | 6.560440%                       | 1992                     | 04/01/2011                | 37,740,000               | 1,545,000                     |     |
| 1992 Seventh                           | Series | ..... | 6.471600%                       | 1992                     | 04/01/2012                | 4,630,000                | 4,630,000                     |     |
| 1993 Third                             | Series | ..... | 4.910970%                       | 1993                     | 04/01/2017                | 82,000,000               | 35,710,000                    | (1) |
| 1994 First                             | Series | ..... | 5.655880%                       | 1994                     | 04/01/2017                | 100,000,000              | 39,190,000                    | (1) |
| 1994 Fourth                            | Series | ..... | 6.230810%                       | 1994                     | 04/01/2014                | 38,295,000               | 36,745,000                    |     |
| 1994 Fifth                             | Series | ..... | 6.515110%                       | 1994                     | 04/01/2026                | 86,705,000               | 41,140,000                    |     |
| 1994 Sixth                             | Series | ..... | 6.872360%                       | 1994                     | 04/01/2017                | 35,160,000               | 28,070,000                    |     |
| 1994 Seventh                           | Series | ..... | 7.301320%                       | 1994                     | 04/01/2025                | 44,840,000               | 12,225,000                    |     |
| 1994 Ninth                             | Series | ..... | 5.944930%                       | 1995                     | 04/01/2019                | 23,010,000               | 19,370,000                    |     |
| 1995 First                             | Series | ..... | 6.145040%                       | 1995                     | 04/01/2017                | 39,585,000               | 36,270,000                    |     |
| 1995 Second                            | Series | ..... | 6.487970%                       | 1995                     | 04/01/2026                | 60,415,000               | 30,145,000                    |     |
| 1995 Third                             | Series | ..... | 6.100200%                       | 1995                     | 04/01/2027                | 70,000,000               | 60,810,000                    |     |
| 1995 Fourth                            | Series | ..... | 6.147770%                       | 1995                     | 04/01/2017                | 5,790,000                | 5,790,000                     |     |
| 1995 Fifth                             | Series | ..... | 6.208630%                       | 1995                     | 04/01/2027                | 31,200,000               | 23,465,000                    |     |
| 1996 Third                             | Series | ..... | 6.052340%                       | 1996                     | 04/01/2017                | 13,455,000               | 11,380,000                    |     |
| 1996 Fourth                            | Series | ..... | 6.516090%                       | 1996                     | 04/01/2028                | 31,545,000               | 24,640,000                    |     |
| 1996 Fifth                             | Series | ..... | 5.815140%                       | 1996                     | 04/01/2016                | 30,735,000               | 29,660,000                    |     |
| 1996 Sixth                             | Series | ..... | 6.298720%                       | 1996                     | 04/01/2028                | 30,760,000               | 15,445,000                    |     |
| 1997 First                             | Series | ..... | 5.527870%                       | 1997                     | 04/01/2018                | 143,260,000              | 97,500,000                    |     |
| 1999 First                             | Series | ..... | 5.241844%                       | 1999                     | 04/01/2029                | 26,100,000               | 23,470,000                    | (1) |
| 1999 Second                            | Series | ..... | 4.940188%                       | 1999                     | 04/01/2017                | 53,205,000               | 53,205,000                    | (1) |
| 1999 Third                             | Series | ..... | 4.803280%                       | 1999                     | 04/01/2021                | 107,265,000              | 70,780,000                    | (1) |
| 2000 First                             | Series | ..... | 5.623890%                       | 2000                     | 04/01/2017                | 32,600,000               | 26,770,000                    |     |
| 2001 First                             | Series | ..... | 4.747525%                       | 2001                     | 04/01/2017                | 66,495,000               | 63,405,000                    | (1) |
| 2001 Second                            | Series | ..... | 4.475347%                       | 2001                     | 04/01/2023                | 21,260,000               | 16,870,000                    | (1) |
| 2002 First                             | Series | ..... | 4.659224%                       | 2002                     | 04/01/2013                | 4,495,000                | 4,495,000                     | (1) |
| 2002 Second                            | Series | ..... | 5.048609%                       | 2002                     | 04/01/2024                | 49,740,000               | 48,775,000                    | (1) |
| Total Single Family Program Bonds..... |        |       |                                 |                          |                           | <u>\$1,277,545,000</u>   | <u>\$864,070,000</u>          |     |

|                                               |   |       | <u>Year<br/>of Issue</u> | <u>Final<br/>Maturity</u> | <u>Amount<br/>Issued</u> | <u>Amount<br/>Outstanding</u> |
|-----------------------------------------------|---|-------|--------------------------|---------------------------|--------------------------|-------------------------------|
| Housing Revenue Bonds (4)                     |   |       |                          |                           |                          |                               |
| Series 1996                                   | A | ..... | 1996                     | 07/01/2023                | \$137,385,000            | \$ 87,915,000                 |
| Series 1996                                   | B | ..... | 1996                     | 07/01/2028                | 2,575,000                | 1,935,000                     |
| Series 1997                                   | A | ..... | 1997                     | 07/01/2039                | 37,135,000               | 36,305,000                    |
| Series 1997                                   | B | ..... | 1997                     | 07/01/2039                | 7,660,000                | 7,500,000                     |
| Series 1997                                   | C | ..... | 1997                     | 07/01/2039                | 14,075,000               | 13,750,000                    |
| Series 1998                                   | A | ..... | 1998                     | 01/01/2040                | 11,030,000               | 10,810,000                    |
| Series 1999                                   | A | ..... | 1999                     | 07/01/2041                | 16,345,000               | 16,200,000                    |
| Series 1999                                   | B | ..... | 1999                     | 07/01/2042                | 15,840,000               | 15,650,000                    |
| Series 1999                                   | C | ..... | 1999                     | 07/01/2040                | 520,000                  | 515,000                       |
| Series 1999                                   | D | ..... | 1999                     | 07/01/2042                | 14,565,000               | 14,045,000                    |
| Series 2000                                   | A | ..... | 2000                     | 07/01/2042                | 27,445,000               | 27,445,000                    |
| Series 2001                                   | A | ..... | 2001                     | 07/01/2043                | 29,645,000               | 29,645,000                    |
| Series 2001                                   | B | ..... | 2001                     | 07/01/2043                | 47,630,000               | 47,630,000                    |
| Series 2002                                   | A | ..... | 2002                     | 07/01/2043                | 9,500,000                | 9,500,000                     |
| Total Housing Revenue Bonds.....              |   |       |                          |                           | <u>\$371,350,000</u>     | <u>\$318,845,000</u>          |
| Multi-Family Housing Revenue Bonds            |   |       |                          |                           |                          |                               |
| 1992 Series                                   | C | ..... | 1992                     | 05/15/2033                | \$ 6,475,000             | \$ 6,085,000                  |
| 1992 Series                                   | F | ..... | 1992                     | 05/15/2024                | 7,745,000                | 7,005,000                     |
| 1993 Series                                   | A | ..... | 1992                     | 05/15/2031                | 17,050,000               | 3,620,000                     |
| 1993 Series                                   | B | ..... | 1992                     | 05/15/2034                | 24,740,000               | 20,480,000                    |
| 1993 Series                                   | C | ..... | 1993                     | 05/15/2024                | 8,420,000                | 7,405,000                     |
| 1993 Series                                   | D | ..... | 1993                     | 05/15/2024                | 57,000,000               | 45,025,000                    |
| 1993 Series                                   | E | ..... | 1993                     | 05/15/2028                | 2,500,000                | 1,505,000                     |
| 1993 Series                                   | F | ..... | 1993                     | 05/15/2020                | 4,510,000                | 3,630,000                     |
| 1993 Series                                   | G | ..... | 1993                     | 05/15/2024                | 2,000,000                | 1,825,000                     |
| 1993 Series                                   | H | ..... | 1993                     | 05/15/2026                | 23,895,000               | 20,190,000                    |
| 1993 Series                                   | I | ..... | 1993                     | 05/15/2023                | 1,535,000                | 1,130,000                     |
| 1993 Series                                   | J | ..... | 1993                     | 05/15/2024                | 2,380,000                | 2,055,000                     |
| 1993 Series                                   | K | ..... | 1993                     | 05/15/2025                | 2,790,000                | 455,000                       |
| 1994 Series                                   | A | ..... | 1994                     | 05/15/2024                | 1,770,000                | 1,515,000                     |
| 1994 Series                                   | B | ..... | 1994                     | 05/15/2025                | 13,915,000               | 11,515,000                    |
| 1994 Series                                   | C | ..... | 1994                     | 05/15/2036                | 11,890,000               | 11,020,000                    |
| 1994 Series                                   | D | ..... | 1994                     | 05/15/2025                | 2,450,000                | 1,990,000                     |
| 1994 Series                                   | E | ..... | 1994                     | 05/15/2025                | 13,380,000               | 11,615,000                    |
| 1994 Series                                   | F | ..... | 1994                     | 05/15/2026                | 14,955,000               | 14,105,000                    |
| 1995 Series                                   | A | ..... | 1995                     | 05/15/2036                | 16,345,000               | 15,715,000                    |
| 1995 Series                                   | B | ..... | 1995                     | 05/15/2026                | 11,630,000               | 10,435,000                    |
| 1995 Series                                   | C | ..... | 1995                     | 05/15/2026                | 1,855,000                | 1,685,000                     |
| 1995 Series                                   | D | ..... | 1995                     | 05/15/2027                | 2,550,000                | 2,355,000                     |
| 1998 Series                                   | A | ..... | 1998                     | 05/15/2029                | 13,260,000               | 9,740,000                     |
| 1998 Series                                   | B | ..... | 1998                     | 05/15/2028                | 8,615,000                | 7,890,000                     |
| 2001 Series                                   | A | ..... | 2001                     | 05/15/2028                | 11,285,000               | 10,860,000                    |
| 2001 Series                                   | B | ..... | 2001                     | 05/15/2032                | 32,905,000               | 27,925,000                    |
| 2002 Series                                   | A | ..... | 2002                     | 05/15/2033                | 20,360,000               | 20,360,000                    |
| 2002 Series                                   | B | ..... | 2002                     | 05/15/2033                | 12,945,000               | 12,945,000                    |
| Total Multi-Family Housing Revenue Bonds..... |   |       |                          |                           | <u>\$351,150,000</u>     | <u>\$292,080,000</u>          |

|                                                     | <u>Year<br/>of Issue</u> | <u>Final<br/>Maturity</u> | <u>Amount<br/>Issued</u> | <u>Amount<br/>Outstanding</u> |
|-----------------------------------------------------|--------------------------|---------------------------|--------------------------|-------------------------------|
| <b>Infrastructure Financing Bonds</b>               |                          |                           |                          |                               |
| 1992 Series A (AMBAC Insured).....                  | 1992                     | 06/01/2022                | \$ 9,045,000             | \$ 650,000                    |
| 1994 Series A (AMBAC Insured).....                  | 1994                     | 06/01/2024                | 8,030,000                | 6,000,000                     |
| 1995 Series A (AMBAC Insured).....                  | 1995                     | 06/01/2025                | 3,975,000                | 2,520,000                     |
| 1996 Series A (MBIA Insured).....                   | 1996                     | 06/01/2026                | 8,405,000                | 6,920,000                     |
| 1997 Series A (MBIA Insured).....                   | 1997                     | 06/01/2027                | 9,860,000                | 8,020,000                     |
| 1998 Series A (MBIA Insured).....                   | 1998                     | 06/01/2018                | 6,320,000                | 4,870,000                     |
| 1998 Series B (MBIA Insured).....                   | 1998                     | 06/01/2028                | 30,320,000               | 24,745,000                    |
| 1998 Series C (MBIA Insured).....                   | 1998                     | 12/01/2020                | 2,845,000                | 1,785,000                     |
| 1999 Series A (MBIA Insured).....                   | 1999                     | 06/01/2029                | 6,985,000                | 6,565,000                     |
| 2000 Series A (MBIA Insured).....                   | 2000                     | 06/01/2030                | 8,065,000                | 7,555,000                     |
| 2001 Series A (MBIA Insured).....                   | 2001                     | 06/01/2031                | 8,460,000                | 8,340,000                     |
| 2001 Series B (MBIA Insured).....                   | 2001                     | 06/01/2021                | 1,930,000                | 1,930,000                     |
| Total Infrastructure Financing Bonds.....           |                          |                           | <u>\$ 104,240,000</u>    | <u>\$ 79,900,000</u>          |
| <b>Local Government Infrastructure Bonds (5)</b>    |                          |                           |                          |                               |
| 2002 Series A (Ambac Insured).....                  | 2002                     | 06/01/2032                | \$ 11,790,000            | \$ 11,790,000                 |
| Total Local Government Infrastructure Bonds.....    |                          |                           | <u>\$ 11,790,000</u>     | <u>\$ 11,790,000</u>          |
| <b>Mortgage Revenue Obligations</b>                 |                          |                           |                          |                               |
| First Series (Storchwoods II).....                  | 1978                     | 01/01/2020                | \$ 1,544,400             | \$ 1,157,322                  |
| Total Mortgage Revenue Obligations.....             |                          |                           | <u>\$ 1,544,400</u>      | <u>\$ 1,157,322</u>           |
| <b>Multifamily Development Revenue Bonds</b>        |                          |                           |                          |                               |
| 1990 Issue A (College Estates).....                 | 1990                     | 02/01/2020                | \$ 6,750,000             | \$ 6,150,000                  |
| 1990 Issue B (Middle Branch Manor).....             | 1990                     | 06/01/2020                | 12,350,000               | 10,500,000                    |
| 1990 Issue C (Harbor City Townhomes).....           | 1990                     | 06/01/2020                | 4,150,000                | 3,550,000                     |
| Series 1998 A (Auburn Manor Project).....           | 1998                     | 10/01/2028                | 11,000,000               | 10,370,000                    |
| Series 1999 A (GNMA-Selborne House Project)...      | 1999                     | 12/20/2040                | 2,150,000                | 2,135,000                     |
| Series 2000 A (Waters Landing II Apartments).....   | 2000                     | 08/01/2033                | 11,000,000               | 11,000,000                    |
| Series 2000 B-1 (Edgewater Village Apartments)..... | 2000                     | 02/01/2033                | 7,640,000                | 7,530,000                     |
| Series 2000 B-2 (Edgewater Village Apartments)..... | 2000                     | 02/01/2033                | 3,125,000                | 3,125,000                     |
| Series 2000 C (Park Montgomery Apartments).....     | 2000                     | 02/01/2031                | 6,170,000                | 5,945,000                     |
| Series 2001 A (Heritage Crossing Project).....      | 2001                     | 05/01/2004                | 3,050,000                | 3,050,000                     |
| Series 2001 B (Heritage Crossing Project).....      | 2001                     | 05/01/2004                | 3,050,000                | 3,050,000                     |
| Series 2001 C (Parklane Apartments Project).....    | 2001                     | 02/15/2034                | 9,800,000                | 9,800,000                     |
| Series 2001 D (Princess Anne Townhouses).....       | 2001                     | 12/15/2033                | 4,350,000                | 4,335,000                     |
| Series 2001 E (Princess Anne Townhouses).....       | 2001                     | 12/15/2033                | 2,875,000                | 2,875,000                     |
| Series 2001 F (Waters Tower Senior Apts.).....      | 2001                     | 12/15/2033                | 7,570,000                | 7,535,000                     |
| Series 2001 G (Waters Tower Senior Apts.).....      | 2001                     | 12/15/2033                | 4,045,000                | 4,045,000                     |
| Series 2002 A (Broadway Homes Project).....         | 2002                     | 05/01/2005                | 8,100,000                | 8,100,000                     |
| Series 2002 B (Broadway Homes Project).....         | 2002                     | 05/01/2020                | 5,045,000                | 5,045,000                     |
| Series 2002 C (Orchard Mews Apartment Project).     | 2002                     | 05/01/2035                | 5,845,000                | 5,845,000                     |
| Total Multi-Family Development Revenue Bonds.....   |                          |                           | <u>\$ 118,065,000</u>    | <u>\$ 113,985,000</u>         |

|                                                                | <u>Year<br/>of<br/>Issue</u> | <u>Final<br/>Maturity</u> | <u>Amount<br/>Issued</u> | <u>Amount<br/>Outstanding</u> |
|----------------------------------------------------------------|------------------------------|---------------------------|--------------------------|-------------------------------|
| Multifamily Development Revenue Refunding Bonds                |                              |                           |                          |                               |
| Series 1997 (Avalon Lea Apartments Project) .....              | 1997                         | 06/15/2026                | \$ 16,835,000            | \$ 16,835,000                 |
| Series 1997 (Avalon Ridge Apartments Project).....             | 1997                         | 06/15/2026                | 26,815,000               | 26,815,000                    |
| Series 1999 C (Westerfield/Greens Projects) .....              | 1999                         | 12/01/2029                | 9,200,000                | 8,950,000                     |
| Total Multifamily Development Revenue Refunding Bonds.....     |                              |                           | <u>\$ 52,850,000</u>     | <u>\$ 52,600,000</u>          |
| Draw Down Mortgage Revenue Bonds                               |                              |                           |                          |                               |
| Series 2002-1 .....                                            | 2002                         | (6)                       | \$ 34,635,000            | \$ 34,635,000                 |
| Series 2002-2 .....                                            | 2002                         | (6)                       | 9,855,000                | 9,855,000                     |
| Total Draw Down Mortgage Revenue Bonds .....                   |                              |                           | <u>\$ 44,490,000</u>     | <u>\$ 44,490,000</u>          |
| Total Amount of Other Bonds Outstanding .....                  |                              |                           | <u>\$ 2,333,024,400</u>  | <u>\$ 1,778,917,322</u>       |
| Total Amount of Residential Revenue Bonds Outstanding (7)..... |                              |                           | <u>\$ 1,057,980,000</u>  | <u>\$ 983,375,000</u>         |
| Total Amount of All Bonds Outstanding .....                    |                              |                           | <u>\$ 3,391,004,400</u>  | <u>\$ 2,762,292,322</u>       |

- (1) 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.
- (2) Residential Revenue Bonds 2002 Series B and Series C are short-term notes which may be redeemed prior to their maturity date.
- (3) A portion of this series of bonds was redeemed on November 1, 2002.
- (4) On October 24, 2002, the Administration issued Housing Revenue Bonds, \$34,435,000 Series 2002 B, \$6,740,000 Series 2002 C, and \$8,280,000 Series 2002 D.
- (5) On October 2, 2002, the Administration issued Local Government Infrastructure Bonds (Ambac Insured) 2002 Series B in the amount of \$3,555,000.
- (6) Draw Down Mortgage Revenue Bonds Series 2002-1 and Series 2002-2 have a maturity date of October 1, 2036 with a mandatory tender date of September 26, 2005.
- (7) See information under caption "Outstanding Residential Revenue Bonds" above.

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## APPENDIX F

### COMMUNITY DEVELOPMENT ADMINISTRATION RESIDENTIAL REVENUE BONDS TEN YEAR RULE PERCENTAGES

| Bond Series     | Percentage |            |            |            |            |            |            |            |            |            |            |
|-----------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                 | 12/31/2002 | 12/31/2003 | 12/31/2004 | 12/31/2005 | 12/31/2006 | 12/31/2007 | 12/31/2008 | 12/31/2009 | 12/31/2010 | 12/31/2011 | 12/31/2012 |
| 1997 Series A/B | 71.01%     | 71.01%     | 71.10%     | 71.10%     | 71.10%     | 100.00%    | 100.00%    | 100.00%    | 100.00%    | 100.00%    | 100.00%    |
| 1998 Series A/B | 59.64%     | 59.64%     | 60.62%     | 63.40%     | 63.55%     | 64.53%     | 100.00%    | 100.00%    | 100.00%    | 100.00%    | 100.00%    |
| 1998 Series D   | 77.73%     | 77.73%     | 77.73%     | 77.73%     | 77.73%     | 77.73%     | 100.00%    | 100.00%    | 100.00%    | 100.00%    | 100.00%    |
| 1999 Series C/D | 43.86%     | 43.86%     | 43.86%     | 43.86%     | 43.86%     | 43.86%     | 44.33%     | 100.00%    | 100.00%    | 100.00%    | 100.00%    |
| 1999 Series E/F | 73.37%     | 73.37%     | 74.41%     | 75.27%     | 75.49%     | 75.60%     | 76.09%     | 100.00%    | 100.00%    | 100.00%    | 100.00%    |
| 1999 Series H   | 18.89%     | 18.89%     | 19.24%     | 19.24%     | 19.24%     | 19.51%     | 19.98%     | 100.00%    | 100.00%    | 100.00%    | 100.00%    |
| 2000 Series A/B | 61.72%     | 61.72%     | 62.74%     | 63.93%     | 64.01%     | 65.08%     | 65.08%     | 65.08%     | 100.00%    | 100.00%    | 100.00%    |
| 2000 Series C/D | 56.48%     | 56.48%     | 57.28%     | 57.82%     | 57.94%     | 58.55%     | 59.35%     | 72.60%     | 100.00%    | 100.00%    | 100.00%    |
| 2000 Series F/G | 34.69%     | 34.69%     | 35.24%     | 35.24%     | 35.24%     | 35.36%     | 35.89%     | 65.89%     | 100.00%    | 100.00%    | 100.00%    |
| 2000 Series H   | 3.38%      | 3.38%      | 3.38%      | 3.49%      | 3.49%      | 3.71%      | 4.01%      | 4.01%      | 100.00%    | 100.00%    | 100.00%    |
| 2001 Series A/B | 72.36%     | 72.36%     | 72.81%     | 73.38%     | 73.51%     | 74.18%     | 74.60%     | 78.17%     | 85.69%     | 100.00%    | 100.00%    |
| 2001 Series E/F | 20.55%     | 20.55%     | 20.57%     | 20.62%     | 20.62%     | 21.05%     | 21.97%     | 22.30%     | 22.31%     | 100.00%    | 100.00%    |
| 2001 Series G/H | 36.56%     | 36.56%     | 36.74%     | 36.97%     | 37.03%     | 37.40%     | 37.64%     | 39.37%     | 42.89%     | 100.00%    | 100.00%    |
| 2002 Series A   | 94.00%     | 94.00%     | 94.03%     | 94.53%     | 94.53%     | 94.56%     | 94.60%     | 97.50%     | 98.42%     | 98.57%     | 100.00%    |
| 2002 Series B/C | 81.56%     | 81.56%     | 82.83%     | 84.54%     | 85.23%     | 87.49%     | 88.87%     | 90.57%     | 94.92%     | 100.00%    | 100.00%    |

Percentages represent the amount of each repayment of principal and prepayment received in each series which must be used to pay the principal portion of debt service or redeem bonds of that series. Percentages are requirements as of December 31 of each year.

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## **APPENDIX G**

### **FHA MORTGAGE INSURANCE PROGRAM, VA HOME LOAN GUARANTY PROGRAM AND USDA/RD MORTGAGE GUARANTEE PROGRAM**

#### **Introduction**

**The Administration has prepared the following description of the FHA mortgage insurance program, the VA Home Loan Guaranty Program and the USDA/RD Mortgage Guaranty Program. This description is only a brief outline and does not purport to summarize or describe all of the provisions of these programs, and the Administration does not warrant or represent the accuracy or completeness of such description. For a more complete description of the terms of this program, reference is made to the provisions of the insurance and guaranty contracts embodied in the regulations of FHA, VA and USDA/RD, respectively, and of the regulations, master insurance contracts and other such applicable information.** Credit Enhancement for Mortgage Loans made or purchased by the Administration with the proceeds of the 2002 Series Bonds is limited by the Bond Resolutions to insurance under the FHA insurance program, the VA Home Loan Guaranty Program, and the USDA/RD Guarantee Program (described below). However, the Bond Resolution does *not* require that a Loan financed in the future be secured by Credit Enhancement. Credit Enhancement of all or a portion of a Loan, if any, 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 and it is possible that insurance benefits under other federal, State or private programs in which the Administration may participate could have different terms.

#### **FHA Mortgage Insurance Program**

Section 221 and Section 203 of the National Housing Act, as amended (the "Housing Act"), authorize the FHA to insure mortgage loans of up to 40 years for the purchase of one to four family dwelling units, or 30 years if the mortgage is not approved for insurance prior to construction. Section 234 of the Housing Act authorizes the FHA to insure mortgage loans of up to 35 years for the purchase of one-family dwelling units in multi-family condominium projects. The regulations promulgated to implement the Housing Act provide for insurance of mortgage loans for up to 30 years.

Mortgage Loans shall bear interest at a rate agreed upon by the mortgagee and Borrower. Mortgage Loans under any of the foregoing programs must be in conformity with the maximum mortgage loan amount limitations and minimum downpayment requirements specified in the Housing Act and the regulations promulgated thereunder. In addition, the Borrower must establish to the satisfaction of FHA that his or her income is adequate to meet the periodic payments required on the mortgage loan.

On October 27, 2000, HUD announced that mortgages insured under Section 203(b), will be eligible for a reduction in up-front mortgage insurance premiums to 1.50% of the insured mortgage amount, effective for all loans closed on or after January 1, 2001. In addition, borrowers who pay off (or refinance) FHA-insured mortgage loans within five years of the date of closing, if such closing occurs on or after January 1, 2001, are entitled to a partial refund of the up-front mortgage insurance premium paid at closing. HUD also announced that annual mortgage insurance premiums for all loans closed on or after such date will be automatically canceled when the loan-to-value ratio reaches 78%, provided that the

mortgagor has paid the annual mortgage insurance premiums for at least five years. (Different rules apply for loans with terms of 15 years or less.) Although the annual mortgage insurance premiums will be canceled as described, the contract of insurance will remain in force for the loan's full term.

Under the terms of the foregoing program, the mortgagee, upon a default by the Borrower, is required to take certain actions, and is subject to certain limitations, before the mortgagee is entitled to initiate foreclosure proceedings or to claim insurance benefits. The mortgagee is subject to certain requirements and limitations, including the following: (1) the mortgagee must give notice of default to the Borrower and make reasonable efforts to conduct a face-to-face interview with the Borrower; (2) the mortgagee is required to undertake a pre-foreclosure review to ensure compliance with applicable requirements; and (3) the mortgagee may not commence foreclosure until at least three full monthly installments are in default. In addition, various types of forbearance may be required, including a reduction in mortgage payments, recasting the mortgage to reduce payments, temporary mortgage assistance payments, or pre-foreclosure sale. The mortgage also is subject to reinstatement until completion of foreclosure proceedings. The Housing Act gives discretionary authority to the Secretary of the United States Department of Housing and Urban Development ("HUD") to settle claims for insurance benefits for insured mortgages either in cash or debentures; claim payments currently are being made in cash. HUD debentures bear interest at the rate in effect as of the time of origination of the mortgage loan or when the mortgage loan is endorsed, whichever rate is higher.

Insurance benefits are paid on foreclosure and conveyance of title. The amount of benefits paid by FHA on conveyed properties, except in certain circumstances as described below, is equal to the unpaid principal amount of the mortgage loan plus certain tax, insurance and other payments made by the mortgagee, a percentage of any foreclosure expenses incurred by the mortgagee, which percentage shall be determined in accordance with such terms as HUD shall prescribe, and reasonable expenses incurred by the mortgagee for the preservation, protection and operation of the properties prior to conveyance, as well as interest from date of default at a rate equivalent to the debenture interest rate (which may be less than the interest rate of the insured mortgage loan), less certain amounts received or retained by the mortgagee in respect of the mortgaged property.

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

### **VA Home Loan Guaranty Program**

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances, the veteran's spouse) to obtain a loan guarantee by the VA covering mortgage financing of the purchase of a one-to-four family dwelling unit at interest rates permitted by the VA. The program has no mortgage loan limits, requires no down payment from the purchaser and permits the guarantee of mortgage loans with terms of up to 30 years and 32 days. The maximum guarantee that may be issued by the VA under this program is based on the size of the mortgage loan which is, at present, as follows: (1) 50% of the original principal amount of the mortgage loan for a mortgage loan of not more than \$45,000; (2) \$22,500 for a mortgage loan greater than \$45,000 but not more than \$56,250; (3) the lesser of \$36,000 or 40% of the original principal amount of the mortgage loan for a mortgage loan greater than \$56,250 but not more than \$144,000; and (4) the lesser of \$50,750 or 25% of the original principal amount of the mortgage loan for a mortgage loan in excess of \$144,000. The liability on the guarantee is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness, but in no event will the amount payable on the guarantee exceed the amount of the original guarantee. Notwithstanding the dollar and percentage limitations of the guarantee, a mortgage lender will ordinarily suffer a monetary loss only where the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale

of a mortgaged premises is greater than the original guarantee, as adjusted. The VA may, at its option and without regard to the guarantee, make full payment to a mortgage lender of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

### **USDA/RD Mortgage Guarantee Program**

The Cranston-Gonzalez National Affordable Housing Act of 1990 authorized the establishment of the USDA/RD Guaranteed Rural Housing Loan Program. Households with annual incomes at or below one hundred fifteen percent (115%) of median area income are eligible for these loans, subject to the geographic restrictions described below. Households with annual incomes at or below eighty percent (80%) of the area median income may be eligible for interest assistance, in addition to the loan guarantee. The interest assistance paid monthly by USDA/RD to the loan servicer reduces the borrower's effective interest rate. The amount of interest rate reduction is dependant upon the households' annual income, which is re-certified by the loan servicer annually. No funds currently are available for interest assistance.

The USDA/RD Guaranteed Rural Housing Loan Program is limited to only certain rural areas of the State. Any city, place, town or village classified as rural prior to October 1, 1990 with a population exceeding 10,000 but not in excess of 25,000, which is rural in character, will be considered rural until the receipt of data from the year 2010 census. Any city, place, town or village with a population in excess of 10,000 and determined to be urban prior to August 2, 1991 will not be considered an eligible rural area.

The USDA/RD guarantee covers the lesser of (a) any loss equal to ninety percent (90%) of the original principal amount of the loan or (b) any loss in full up to thirty-five percent (35%) of the original principal amount of the loan plus any additional loss on the remaining sixty-five (65%) to be shared approximately eighty-five percent (85%) by USDA/RD and approximately fifteen percent (15%) by the mortgagee.

USDA/RD does not accept conveyance of the property, but rather pays the lender's claim upon foreclosure. The claim payment includes certain actual costs incurred by the lender prior to foreclosure, including interest expense, and an allowance for the costs associated with liquidating the property. The claim payment amount is based on the net sales proceeds if the property is sold within six (6) months, or if no sale occurs within six (6) months, the claim payment amount is determined according to a formula based upon an appraisal of the property performed by USDA/RD. The lender's actual disposition costs may be higher than the USDA/RD claim payment.

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**APPENDIX H**

**FINANCIAL STATEMENTS**

**COMMUNITY DEVELOPMENT ADMINISTRATION  
RESIDENTIAL REVENUE BONDS**

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COMMUNITY DEVELOPMENT ADMINISTRATION  
RESIDENTIAL REVENUE BONDS

Financial Statements

For the year ended June 30, 2002 with Report of Independent Auditors

Community Development Administration  
Residential Revenue Bonds

Financial Statements

June 30, 2002

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## Report of Independent Auditors

Office of the Secretary  
Department of Housing and Community Development:

We have audited the accompanying financial statements of the Community Development Administration Residential Revenue Bonds (the Fund) of the Department of Housing and Community Development of the State of Maryland as of and for the year ended June 30, 2002, as listed in the table of contents. 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Community Development Administration Residential Revenue Bonds and do not purport to, and do not, present fairly the financial position of the Department of Housing and Community Development of the State of Maryland, as of June 30, 2002, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Development Administration Residential Revenue Bonds of the Department of Housing and Community Development of the State of Maryland, at June 30, 2002, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the financial statements, the Community Development Administration Residential Revenue Bonds adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*—and GASB Statement No. 38, *Certain Financial Statement Disclosures*.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Disclosure of Change in Fair Value of Investments is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

*Ernst & Young LLP*

September 30, 2002

Community Development Administration  
Residential Revenue Bonds

Balance Sheet

June 30, 2002  
(in thousands)

**Restricted assets**

**Restricted current assets:**

|                                        |                |
|----------------------------------------|----------------|
| Cash on deposit with trustee           | \$ 75,997      |
| Investments                            | 186,243        |
| Single family mortgage loans           | 11,252         |
| Accrued interest and other receivables | 9,978          |
| <b>Total restricted current assets</b> | <u>283,470</u> |

**Restricted long-term assets:**

|                                                      |                |
|------------------------------------------------------|----------------|
| Investments, net of current portion                  | 67,258         |
| Single family mortgage loans, net of current portion | 704,777        |
| Deferred bond issuance costs                         | 8,269          |
| <b>Total restricted long-term assets</b>             | <u>780,304</u> |

**Total restricted assets**

\$ 1,063,774

**Liabilities and net assets**

**Current liabilities:**

|                                   |                |
|-----------------------------------|----------------|
| Accrued interest payable          | \$ 17,151      |
| Bonds payable and short-term debt | 107,150        |
| Due to other funds                | 305            |
| <b>Total current liabilities</b>  | <u>124,606</u> |

**Long-term liabilities:**

|                                       |                |
|---------------------------------------|----------------|
| Rebate liability                      | 2,272          |
| Bonds payable, net of current portion | 901,783        |
| <b>Total long-term liabilities</b>    | <u>904,055</u> |

**Total long-term liabilities**

1,028,661

**Total liabilities**

**Net assets:**

|            |        |
|------------|--------|
| Restricted | 35,113 |
|------------|--------|

**Total net assets**

35,113

**Total liabilities and net assets**

\$ 1,063,774

*See accompanying notes.*

Community Development Administration  
Residential Revenue Bonds

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30  
(in thousands)

**Operating revenues**

|                            |               |
|----------------------------|---------------|
| Interest on mortgage loans | \$ 42,458     |
| Fee income                 | 466           |
| Other operating revenues   | 74            |
|                            | <u>42,998</u> |

**Operating expenses**

|                                             |              |
|---------------------------------------------|--------------|
| Trustee, legal and mortgage servicing costs | 2,362        |
| Loss on foreclosure claims                  | 1            |
| Other operating expense                     | 4            |
|                                             | <u>2,367</u> |

|                  |               |
|------------------|---------------|
| Operating income | <u>40,631</u> |
|------------------|---------------|

**Nonoperating revenues (expenses)**

|                                                      |                 |
|------------------------------------------------------|-----------------|
| Interest income, net of rebate                       | 14,175          |
| Interest expense on bonds and short-term debt        | (51,637)        |
| Amortization of bond issuance costs                  | (443)           |
| Decrease in fair value of investments, net of rebate | (24)            |
|                                                      | <u>(37,929)</u> |

**Transfers of funds, net, as permitted by the  
various bond indentures**

|              |
|--------------|
| <u>(222)</u> |
|--------------|

|                                                |                 |
|------------------------------------------------|-----------------|
| Change in net assets before extraordinary item | 2,480           |
| Extraordinary loss on early retirement of debt | (266)           |
| Change in net assets                           | <u>\$ 2,214</u> |

**Changes in net assets**

|                                 |                  |
|---------------------------------|------------------|
| Net assets at beginning of year | \$ 32,899        |
| Change in net assets            | 2,214            |
| Net assets at end of year       | <u>\$ 35,113</u> |

*See accompanying notes.*

Community Development Administration  
Residential Revenue Bonds

Statement of Cash Flows

For the Year Ended June 30  
(in thousands)

**Operating activities**

|                                                   |                 |
|---------------------------------------------------|-----------------|
| Principal and interest received on mortgage loans | \$ 84,939       |
| Mortgage insurance claims received                | 3,310           |
| Foreclosure expenses paid                         | (160)           |
| Other income received                             | 74              |
| Loan fees received                                | 1,293           |
| Purchase of mortgage loans                        | (162,807)       |
| Trustee, legal and mortgage servicing costs       | (2,362)         |
| Other expenses paid                               | (4)             |
| Reimbursements among Funds                        | (14,215)        |
| Net cash from operating activities                | <u>(89,932)</u> |

**Investing activities**

|                                                  |                |
|--------------------------------------------------|----------------|
| Proceeds from maturities or sales of investments | 313,568        |
| Purchases of investments                         | (173,024)      |
| Transfers of investments                         | (42,760)       |
| Interest received on investments                 | 16,964         |
| Net cash from investing activities               | <u>114,748</u> |

**Noncapital financing activities**

|                                               |               |
|-----------------------------------------------|---------------|
| Proceeds from sale of bonds                   | 165,280       |
| Payments on bond principal                    | (91,195)      |
| Bond issuance costs                           | (906)         |
| Interest on bonds and short-term debt         | (49,969)      |
| Transfers among Funds                         | (222)         |
| Net cash from noncapital financing activities | <u>22,988</u> |

|                                              |        |
|----------------------------------------------|--------|
| Net increase in cash on deposit with trustee | 47,804 |
|----------------------------------------------|--------|

|                                                   |                         |
|---------------------------------------------------|-------------------------|
| Cash on deposit with trustee at beginning of year | 28,193                  |
| Cash on deposit with trustee at end of year       | <u><u>\$ 75,997</u></u> |

Community Development Administration  
Residential Revenue Bonds

Statement of Cash Flows (continued)

(in thousands)

**Reconciliation of operating income to net cash from operating activities**

|                                                                                  |                    |
|----------------------------------------------------------------------------------|--------------------|
| Operating income                                                                 | \$ 40,631          |
| Adjustments to reconcile operating income to net cash from operating activities: |                    |
| Increase in mortgage loans                                                       | (114,712)          |
| Increase in accrued interest and other receivables                               | (1,636)            |
| Decrease in due from other funds                                                 | 3,366              |
| Decrease in due to other funds                                                   | (17,581)           |
| Net cash from operating activities                                               | <u>\$ (89,932)</u> |

**Noncash investing and noncapital financing activities**

|                                                            |          |
|------------------------------------------------------------|----------|
| Amortization of investment discounts and premiums          | \$ (716) |
| Amortization of bond original issue discounts and premiums | (6)      |
| Decrease in fair value of investments, net of rebate       | 24       |
| Amortization of deferred bond issuance costs               | 443      |
| Loss on early retirement of bonds                          | 266      |

*See accompanying notes.*

Community Development Administration  
Residential Revenue Bonds

Notes to Financial Statements

June 30, 2002  
(in thousands)

**1. Authorizing Legislation and 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 Residential Revenue Bonds (the Fund). CDA's other Funds are not included. The Fund was established to issue bonds to primarily originate or purchase single family mortgage loans.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

The Fund is set up primarily in accordance with CDA's enabling legislation and the Residential Revenue Bond Resolution (Resolution). The Fund is an enterprise fund of the State of Maryland and uses the accrual basis of accounting.

**Generally Accepted Accounting Principles**

CDA reports its financial activities by applying Standards of Governmental Accounting and Financial Reporting as promulgated by the Governmental Accounting Standards Board (GASB). CDA has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Consequently, CDA applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and ARBS of the Committee on Accounting Procedure issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Community Development Administration  
Residential Revenue Bonds

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Recent Accounting Pronouncements**

Both GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and GASB Statement No. 37 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* were required to be adopted for the period ended June 30, 2002.

Adoption of these statements required the following principal changes from the prior year's presentations:

- Balance Sheet is now modified to a classified presentation;
- Fund Balances are now designated as Net Assets which are classified as Restricted or Unrestricted;
- Statement of Revenues, Expenses and Changes in Net Assets is now formatted to identify operating income and expenses;
- Statement of Cash Flows presentation is now based on the direct method; and
- the Annual Financial Report normally includes a Management's Discussion and Analysis. Since CDA is an enterprise fund included in the State of Maryland's Comprehensive Annual Financial Report, a separate Management's Discussion and Analysis is not required in these financial statements.

CDA has also adopted GASB Statement No. 38, *Certain Financial Note Disclosures*, which requires additional disclosure on debt. See Notes 6, 7, 8 and 9 for short-term debt, bonds payable, debt service requirements, and bond refundings, respectively. GASB Statement No. 38 also requires additional disclosures on interfund balances and transfers (Note 12) and receivables (Note 5).

The adoption of these GASB Statements for the period ended June 30, 2002 had no effect on the financial results of the Fund.

Community Development Administration  
Residential Revenue Bonds

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Recent Accounting Pronouncements (continued)**

Under implementation guidance for GASB Statement No. 34 and GASB Statement No. 38, the presentation of comparative statements would have necessitated restatement of the June 30, 2001 Balance Sheet on a classified basis and the June 30, 2001 Statement of Cash Flows using the direct method. Since the financial statements as of June 30, 2001 were audited by other auditors who have ceased operations, there was no practical means to obtain these audited restatements without performing a complete reaudit. Therefore, the June 30, 2002 financial statements have a single year presentation.

**Cash on Deposit with Trustee**

Cash on deposit is primarily cash equivalents. Cash equivalents may include money market funds, repurchase agreements, investment agreements and any other investments, primarily U.S. Treasuries and agencies, which have maturities of 90 or less days at the time of purchase. As of June 30, 2002, all of CDA's cash equivalents are invested in a money market mutual fund which is more fully described in Note 3.

**Investments**

Investments are principally governmental debt securities or investments collateralized by governmental debt securities. These securities are stated at fair value, based on quoted market prices. Investments are classified as current or long-term based on maturity date or call date, if exercise of the call within the next fiscal year is probable. Investments are more fully described in Note 3.

**Mortgage Loans**

Mortgage loans are carried at their unpaid principal balances, net of unamortized loan fees. Loan fees are deferred over the life of the related loans and amortized using the effective interest method. All mortgage loans in foreclosure with a pending insurance claim are recorded as other receivables. See Notes 4 and 13 for additional information on mortgage loans and mortgage insurance, respectively.

Community Development Administration  
Residential Revenue Bonds

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Allowance for Loan Losses**

Substantially all the mortgage loans of the Funds are insured or guaranteed by agencies of the U.S. Government or the Maryland Housing Fund. As such, no allowance for loan losses was necessary as of June 30, 2002.

**Accrued Interest and Other Receivables**

Accrued interest and other receivables include outstanding claims on insured mortgage loans and interest on investments. On insured single family loans, interest ceases to accrue after foreclosure. See Note 5 for additional information.

**Deferred Bond Issuance Costs**

Costs incurred in issuing bonds are capitalized and amortized using the effective interest method for each respective bond issue. When bonds are redeemed early with mortgage prepayments, a proportionate share of the remaining unamortized costs are recognized as an extraordinary loss on the Statement of Revenues, Expenses and Changes in Net Assets.

**Due from (to) Other Funds**

Due from (to) other funds records the pending transfers of cash between funds which is primarily a result of receipts due to one fund, but received by another, as more fully described in Note 12.

Community Development Administration  
Residential Revenue Bonds

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Bonds Payable**

Bonds payable are carried at their unpaid principal balances, net of unamortized deferred gain or loss for bonds refunded for economic purposes and original issue discounts/premiums. See Notes 7, 8 and 9 for more information.

**Rebate Liability**

Regulations governing the issuance of tax-exempt debt place limitations on permitted investment yield on borrowed funds. Based on these regulations, CDA is required to periodically rebate excess earnings from investments to the United States Treasury. In addition, the liability also includes an estimate of the rebate obligation related to unrealized gains as a result of recording investments at fair value. Rebate liability is more fully described in Note 10.

**Yield Limitations**

All mortgage loans are subject to yield limitations under the Internal Revenue Service Code (the Code) in order for the associated bonds to maintain their tax-exempt status. At the time of bond issuance, CDA determines the permitted mortgage yield on the loans. In certain bond refunding transactions, CDA transfers loans from prior series of bonds to the refunding series. CDA monitors the yield on these transferred loans to ensure that the composite yield over the term of the bonds is within the yield limitations of the Code. If at any time the composite yields on the transferred loans are out of compliance with the Code, CDA has certain remedies available to bring the yield into compliance. As of June 30, 2002, all mortgage loan yield calculations are in compliance with the Code.

**Restricted Net Assets**

Under GASB Statement No. 34, net assets should be reported as restricted when constraints placed on net asset use are either: externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or are imposed by law through constitutional provisions or enabling legislation. Accordingly, all net assets of the Fund are restricted as to their use.

Community Development Administration  
Residential Revenue Bonds

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Fee Income**

Single family commitment fees are deferred over the life of the loan.

**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 year ended June 30, 2002, the allocation to CDA's General Bond Reserve Fund was:

|                                     |                        |
|-------------------------------------|------------------------|
| Salaries and related costs          | \$ 5,646               |
| General and administrative expenses | <u>1,977</u>           |
|                                     | <u><u>\$ 7,623</u></u> |

The employees of CDA are covered by the Maryland State Retirement and Pension System (the System) and the costs of employees' retirement benefits are included in the salaries and related costs discussed above. See Note 14 for additional information.

Community Development Administration  
Residential Revenue Bonds

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**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.

**Revenues and Expenses**

CDA distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the mortgage loans purchased or originated by CDA in connection with CDA's principal ongoing operations. Operating revenues arise from the collection of interest and fees on mortgage loans. Operating expenses are those costs incurred in the collection of this income. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**3. Cash and Investments**

Proceeds from bonds are invested in authorized investments as defined in the Resolution 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, political subdivisions in the United States, 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, 2002, the Fund had \$75,997 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 Investors Services.

Community Development Administration  
Residential Revenue Bonds

Notes to Financial Statements (continued)

**3. Cash and Investments (continued)**

**Cash (continued)**

As of June 30, 2002, 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 U.S. Government agencies 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 or its agent. The agreements and contracts are at fixed interest rates, with maturities ranging from less than one year up to 30 years.

As of June 30, 2002, the amortized cost and fair value of the Fund's investments, by type of investment, were as follows:

|                                                                                   | <b>Fair<br/>Value</b> | <b>Amortized<br/>Cost</b> |
|-----------------------------------------------------------------------------------|-----------------------|---------------------------|
| Obligations of U.S. Government agencies                                           | \$ 101,149            | \$ 100,728                |
| Securities held under repurchase agreements or<br>guaranteed investment contracts | 152,352               | 152,352                   |
|                                                                                   | <u>\$ 253,501</u>     | <u>\$ 253,080</u>         |

**Category of Risk**

Investments 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.

Community Development Administration  
Residential Revenue Bonds

Notes to Financial Statements (continued)

**3. Cash and Investments (continued)**

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 of the Fund are classified as Category 1.

**4. Mortgage Loans**

Substantially all mortgage loans are secured by first liens on the related property and are credit enhanced through the FHA mortgage insurance programs, the Veterans Administration or USDA/RD guarantee programs. As of June 30, 2002, interest rates on such loans range from 4.0% to 7.5%, with remaining loan terms ranging from 22 to 30 years.

**5. Accrued Interest and Other Receivables**

Accrued interest and other receivables as of June 30, 2002 were as follows:

|                                   |          |
|-----------------------------------|----------|
| Accrued mortgage loan interest    | \$ 4,736 |
| Accrued investment interest       | 3,058    |
| Claims due from mortgage insurers | 2,184    |
|                                   | <hr/>    |
|                                   | \$ 9,978 |
|                                   | <hr/>    |

**6. Short-Term Debt**

CDA issues short-term debt to preserve volume cap when prepayments and payments from mortgages exceed the demand for new mortgages. Proceeds of the short-term debt are used to refund and to pay at maturity prior series of bonds. At the time of the refunding, prepayments and repayments of mortgage loans financed by these prior bonds are transferred to accounts in the short-term series. CDA expects to make these funds available to purchase mortgage loans upon the maturity or earlier redemption of the short-term bonds with proceeds of additional long-term bonds. By issuing the short-term debt, CDA more closely matches the rates on the short-term debt with the rates on short-term investments. When there is sufficient mortgage demand, CDA issues long-term refunding bonds to redeem the short-term debt and the prepayments and repayments are used to fund new mortgages.

Community Development Administration  
Residential Revenue Bonds

Notes to Financial Statements (continued)

**6. Short-Term Debt (continued)**

Short-term debt activity for the year ended June 30, 2002 was as follows:

|                           | Balance at<br>June 30, 2001 | Issued           | Matured/<br>Redeemed | Balance at<br>June 30, 2002 |
|---------------------------|-----------------------------|------------------|----------------------|-----------------------------|
| Residential Revenue Bonds |                             |                  |                      |                             |
| 2001 Series C             | \$ 11,220                   | \$ —             | \$ 11,220            | \$ —                        |
| 2001 Series D             | 47,960                      | —                | 47,960               | —                           |
| 2002 Series B             | —                           | 36,745           | —                    | 36,745                      |
| 2002 Series C             | —                           | 60,530           | —                    | 60,530                      |
| Totals                    | <u>\$ 59,180</u>            | <u>\$ 97,275</u> | <u>\$ 59,180</u>     | <u>\$ 97,275</u>            |

The short-term debt of \$97,275 plus the principal payments due within one year of \$9,875 equal the current portion of bonds payable and short-term debt of \$107,150 on the Balance Sheet.

**7. Bonds Payable**

The bonds and notes issued by CDA are special obligations of CDA and are payable from the revenues and special funds of the applicable programs. These bonds and notes do not constitute debt of and are not guaranteed by the State of Maryland or any other program of the State of Maryland or any political subdivision. The provisions of the Resolution 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. All outstanding bonds are subject to redemption at the option of CDA, in whole or in part at any time after certain dates, as specified in the respective series resolutions. The prescribed redemption prices range from 100% to 102% of the principal amount. All bonds have fixed interest rates.

Community Development Administration  
Residential Revenue Bonds

Notes to Financial Statements (continued)

**7. Bonds Payable (continued)**

The following is a summary of the bond activity for the year ended June 30, 2002 and the debt outstanding and bonds payable as of June 30, 2002:

|                              | Issue<br>Dated | Range of<br>Interest Rates | Range of<br>Maturities | Debt<br>Outstanding<br>at June 30,<br>2001 | Bond Activity       |                                   |             | Debt<br>Outstanding<br>at June 30,<br>2002 | Discounts/<br>Premiums<br>and Other<br>Deferred<br>Costs | Bonds<br>Payable at<br>June 30,<br>2002 |
|------------------------------|----------------|----------------------------|------------------------|--------------------------------------------|---------------------|-----------------------------------|-------------|--------------------------------------------|----------------------------------------------------------|-----------------------------------------|
|                              |                |                            |                        |                                            | New Bonds<br>Issued | Scheduled<br>Maturity<br>Payments | Redemptions |                                            |                                                          |                                         |
| Residential Revenue<br>Bonds |                |                            |                        |                                            |                     |                                   |             |                                            |                                                          |                                         |
| 1997 Series A                | 08/01/97       | 5.60%                      | 2017                   | \$ 17,325                                  | \$ —                | \$ —                              | \$ (385)    | \$ 16,940                                  | \$ —                                                     | \$ 16,940                               |
| 1997 Series B                | 08/01/97       | 4.70%-5.875%               | 2002-2029              | 73,545                                     | —                   | (1,620)                           | (5,025)     | 66,900                                     | —                                                        | 66,900                                  |
| 1998 Series A                | 01/01/98       | 4.70%-5.05%                | 2010-2017              | 4,640                                      | —                   | —                                 | —           | 4,640                                      | —                                                        | 4,640                                   |
| 1998 Series B                | 01/01/98       | 4.15%-5.35%                | 2002-2030              | 71,225                                     | —                   | (1,175)                           | (3,435)     | 66,615                                     | 55                                                       | 66,670                                  |
| 1998 Series D                | 12/01/98       | 3.95%-5.25%                | 2002-2029              | 60,765                                     | —                   | (1,085)                           | (1,550)     | 58,130                                     | —                                                        | 58,130                                  |
| 1999 Series C                | 05/01/99       | 4.70%-4.95%                | 2011-2015              | 2,665                                      | —                   | —                                 | —           | 2,665                                      | —                                                        | 2,665                                   |
| 1999 Series D                | 05/01/99       | 3.85%-5.40%                | 2002-2031              | 56,930                                     | —                   | (100)                             | (1,565)     | 55,265                                     | (40)                                                     | 55,225                                  |
| 1999 Series E                | 08/01/99       | 4.60%-5.70%                | 2005-2017              | 22,780                                     | —                   | —                                 | (175)       | 22,605                                     | —                                                        | 22,605                                  |
| 1999 Series F                | 08/01/99       | 4.50%-5.95%                | 2002-2031              | 56,380                                     | —                   | —                                 | (4,170)     | 52,210                                     | —                                                        | 52,210                                  |
| 1999 Series H                | 12/01/99       | 4.60%-6.25%                | 2002-2031              | 59,865                                     | —                   | —                                 | (3,095)     | 56,770                                     | (17)                                                     | 56,753                                  |
| 2000 Series A                | 03/01/00       | 5.15%-5.50%                | 2007-2012              | 7,965                                      | —                   | —                                 | —           | 7,965                                      | —                                                        | 7,965                                   |
| 2000 Series B                | 03/01/00       | 4.80%-6.15%                | 2002-2032              | 71,940                                     | —                   | —                                 | (2,540)     | 69,400                                     | —                                                        | 69,400                                  |
| 2000 Series C                | 06/01/00       | 5.45%-5.70%                | 2010-2013              | 6,090                                      | —                   | —                                 | (220)       | 5,870                                      | —                                                        | 5,870                                   |
| 2000 Series D                | 06/01/00       | 5.10%-6.25%                | 2002-2032              | 73,880                                     | —                   | —                                 | (3,215)     | 70,665                                     | —                                                        | 70,665                                  |
| 2000 Series F                | 08/01/00       | 4.35%-5.20%                | 2004-2014              | 15,190                                     | —                   | —                                 | —           | 15,190                                     | —                                                        | 15,190                                  |
| 2000 Series G                | 08/01/00       | 4.50%-5.95%                | 2002-2032              | 64,800                                     | —                   | —                                 | (930)       | 63,870                                     | —                                                        | 63,870                                  |
| 2000 Series H                | 12/01/00       | 4.60%-5.80%                | 2003-2032              | 60,000                                     | —                   | —                                 | (1,625)     | 58,375                                     | —                                                        | 58,375                                  |
| 2001 Series A                | 03/01/01       | 3.65%-5.00%                | 2003-2017              | 18,885                                     | —                   | —                                 | —           | 18,885                                     | —                                                        | 18,885                                  |
| 2001 Series B                | 03/01/01       | 4.65%-5.45%                | 2011-2032              | 50,800                                     | —                   | —                                 | (75)        | 50,725                                     | —                                                        | 50,725                                  |
| 2001 Series C                | 03/28/01       | 3.20%                      | 03/28/02               | 11,220                                     | —                   | (5,270)                           | (5,950)     | —                                          | —                                                        | —                                       |
| 2001 Series D                | 03/28/01       | 3.25%                      | 03/28/02               | 47,960                                     | —                   | (29,890)                          | (18,070)    | —                                          | —                                                        | —                                       |
| 2001 Series E                | 06/01/01       | 3.30%-4.65%                | 2003-2012              | 13,775                                     | —                   | —                                 | —           | 13,775                                     | —                                                        | 13,775                                  |
| 2001 Series F                | 06/01/01       | 3.50%-5.60%                | 2003-2032              | 66,225                                     | —                   | —                                 | (30)        | 66,195                                     | —                                                        | 66,195                                  |
| 2001 Series G                | 08/15/01       | 3.05%-4.20%                | 2004-2011              | —                                          | 10,100              | —                                 | —           | 10,100                                     | —                                                        | 10,100                                  |
| 2001 Series H                | 08/15/01       | 4.40%-5.35%                | 2011-2033              | —                                          | 49,900              | —                                 | —           | 49,900                                     | —                                                        | 49,900                                  |
| 2002 Series A                | 02/01/02       | 2.80%-5.45%                | 2004-2033              | —                                          | 8,005               | —                                 | —           | 8,005                                      | —                                                        | 8,005                                   |
| 2002 Series B                | 02/28/02       | 1.60%                      | 12/19/02               | —                                          | 36,745              | —                                 | —           | 36,745                                     | —                                                        | 36,745                                  |
| 2002 Series C                | 02/28/02       | 1.65%                      | 12/19/02               | —                                          | 60,530              | —                                 | —           | 60,530                                     | —                                                        | 60,530                                  |
| Totals                       |                |                            |                        | \$ 934,850                                 | \$ 165,280          | \$ (39,140)                       | \$ (52,055) | \$ 1,008,935                               | \$ (2)                                                   | \$ 1,008,933                            |

Community Development Administration  
Residential Revenue Bonds

Notes to Financial Statements (continued)

**8. Debt Service Requirements**

As of June 30, 2002, the required principal payments for short-term debt and bonds (including mandatory sinking fund payments) and interest payments for each of the next five years and in five-year increments thereafter, are as follows:

| <b>For the Year<br/>Ended June 30,</b> | <b>Interest</b>        | <b>Principal</b>         |
|----------------------------------------|------------------------|--------------------------|
|                                        | <hr/>                  | <hr/>                    |
| 2003                                   | \$ 50,869              | \$ 107,150               |
| 2004                                   | 49,044                 | 13,475                   |
| 2005                                   | 48,413                 | 15,315                   |
| 2006                                   | 47,721                 | 16,005                   |
| 2007                                   | 46,982                 | 16,735                   |
| 2008–2012                              | 221,997                | 94,925                   |
| 2013–2017                              | 194,333                | 126,935                  |
| 2018–2022                              | 156,499                | 158,975                  |
| 2023–2027                              | 105,539                | 211,015                  |
| 2028–2032                              | 40,195                 | 227,380                  |
| 2033–2037                              | 775                    | 21,025                   |
| Total                                  | <hr/> <hr/> \$ 962,367 | <hr/> <hr/> \$ 1,008,935 |

**9. Bond Refundings**

Certain refundings of debt are due to the prepayments of mortgage loans. In these cases, CDA transfers the proceeds of the refunding bonds to a redemption account to redeem previously issued bonds and, simultaneously, transfers the prepayments of single family mortgage loans financed by these prior bonds to the refunding bonds' accounts for the purpose of originating new loans. This recycling of prepayments enables CDA to originate new loans that are not subject to the limitations of the IRS volume cap. CDA does not pay call premiums on these special redemptions, and the refundings are not undertaken to reduce interest rates, revise payment schedules or modify restrictions. CDA writes off any unamortized deferred issuance costs or original issue discounts, net of unamortized original issue premiums, as an extraordinary loss in the accompanying Statement of Revenues, Expenses and Changes in Net Assets.

Community Development Administration  
Residential Revenue Bonds

Notes to Financial Statements (continued)

**10. Rebate Liability**

In accordance with the Internal Revenue Service Code (the Code), the Fund has recorded a rebate liability for excess investment earnings for tax-exempt bond and note issues sold after 1981. The excess investment earnings arise due to actual investment yields earned by the Fund being greater than yields permitted to be retained by the Fund under the Code. The Code requires 90% of such excess investment earnings to be remitted to the United States Treasury every five years and in full at the final redemption of the bonds. Interest income on the Statement of Revenues, Expenses and Changes in Net Assets is reduced by the rebate liability due to excess investment earnings. The increase/decrease in fair value of investments on the Statement of Revenues, Expenses and Changes in Net Assets is reduced by the estimated rebate liability due to unrealized investment gains.

Rebate liability activity for the year ended June 30, 2002 was as follows:

|                                                                                           |                 |
|-------------------------------------------------------------------------------------------|-----------------|
| Rebate liability as of June 30, 2001                                                      | \$ 505          |
| Increase due to excess investment earnings                                                | 1,458           |
| Increase due to unrealized gains on investments<br>(see supplemental schedule on page 22) | 309             |
| Rebate liability as of June 30, 2002                                                      | <u>\$ 2,272</u> |

**11. Long-Term Obligations**

Changes in long-term obligations for the year ended June 30, 2002 were as follows:

|                             | <b>Beginning<br/>Balance</b> | <b>Additions</b>  | <b>Reductions</b> | <b>Deferred<br/>Amounts<br/>for<br/>Issuance<br/>Discounts</b> | <b>Due<br/>Within<br/>One Year</b> | <b>Ending<br/>Balance</b> |
|-----------------------------|------------------------------|-------------------|-------------------|----------------------------------------------------------------|------------------------------------|---------------------------|
| Long-term bonds payable     | \$934,852                    | \$ 165,280        | \$(91,195)        | \$ (4)                                                         | \$ (107,150)                       | \$901,783                 |
| Rebate liability            | 505                          | 1,767             | —                 | —                                                              | —                                  | 2,272                     |
| Total long-term liabilities | <u>\$935,357</u>             | <u>\$ 167,047</u> | <u>\$(91,195)</u> | <u>\$ (4)</u>                                                  | <u>\$ (107,150)</u>                | <u>\$904,055</u>          |

Community Development Administration  
Residential Revenue Bonds

Notes to Financial Statements (continued)

**12. Interfund Activity**

In accordance with the Resolution, net assets in Residential Revenue Bonds are restricted and pledged to bondholders. However, restricted assets may be transferred to other funds, subject to the provisions of the Resolution. Generally, an officer of CDA must authorize such withdrawals and a cash flow analysis must demonstrate that sufficient monies remain in the Resolution to meet the obligations of the Fund in current and future years.

During the year ended June 30, 2002, the Fund transferred the following amounts, as permitted among Funds:

|                                                                               |            |
|-------------------------------------------------------------------------------|------------|
| Single family commitment fees transferred to the<br>General Bond Reserve Fund | \$ (1,252) |
| Cost of issuance on bonds transferred from Single<br>Family Program Bonds     | 1,071      |
| Interest income due to Single Family Program Bonds                            | (41)       |
|                                                                               | <hr/>      |
|                                                                               | \$ (222)   |
|                                                                               | <hr/>      |

As of June 30, 2002, due to other Funds consisted of the following:

|                                                                                 |          |
|---------------------------------------------------------------------------------|----------|
| Servicer receipts for participation loans due to<br>Single Family Program Bonds | \$ (305) |
|---------------------------------------------------------------------------------|----------|

**13. Mortgage Insurance**

Substantially all CDA's mortgage loans have mortgage insurance as described in Note 4.

FHA insured loans in Residential Revenue Bonds are insured in an amount equal to the unpaid principal amount of the loan. All other loans are insured by the VA or USDA/RD at various coverages. Premiums are paid by single family mortgagors and these coverage levels are sufficient so that no pool insurance or reserves are required.

Community Development Administration  
Residential Revenue Bonds

Notes to Financial Statements (continued)

**14. 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 was paid in full by CDA to the State of Maryland prior to year end. The System prepares a separate audited Comprehensive Annual Financial Report which can be obtained from the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202.

Community Development Administration  
Residential Revenue Bonds

Supplemental Disclosure of Change in Fair Value of Investments

June 30, 2002  
(in thousands)  
(unaudited)

During fiscal year 1997, CDA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31. This statement requires the financial statements of CDA to reflect investments at fair value and the increase or decrease in fair value is included on the Statement of Revenues, Expenses and Changes in Net Assets.

For investments held by CDA as of June 30, 2002, the following schedule summarizes the increase/decrease in fair value for each of these years and the cumulative difference between fair value and amortized cost:

|         |               |
|---------|---------------|
| FY 2000 | \$ (227)      |
| FY 2001 | 551           |
| FY 2002 | 97            |
|         | <u>\$ 421</u> |

Reconciliation to Statement of Revenues, Expenses and Changes in Net Assets:

|                                                                                                                 |                |
|-----------------------------------------------------------------------------------------------------------------|----------------|
| Increase in fair value of investments held at June 30, 2002                                                     | \$ 97          |
| Realized gains on investments sold                                                                              | 188            |
| Less—reduction due to rebate liability (See Note 10)                                                            | <u>(309)</u>   |
| Decrease in fair value of investments reported on the Statement of Revenues, Expenses and Changes in Net Assets | <u>\$ (24)</u> |

**COMMUNITY DEVELOPMENT ADMINISTRATION  
RESIDENTIAL REVENUE BONDS**

**UNAUDITED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTH PERIOD ENDED  
SEPTEMBER 30, 2002**

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Community Development Administration  
Residential Revenue Bonds

Balance Sheet

September 30, 2002  
(in thousands)

**Restricted assets**

**Restricted current assets:**

|                                        |           |
|----------------------------------------|-----------|
| Cash on deposit with trustee           | \$ 77,402 |
| Investments                            | 159,569   |
| Single family mortgage loans           | 11,653    |
| Accrued interest and other receivables | 9,669     |

|                                        |                |
|----------------------------------------|----------------|
| <b>Total restricted current assets</b> | <u>258,293</u> |
|----------------------------------------|----------------|

**Restricted long-term assets:**

|                                                      |         |
|------------------------------------------------------|---------|
| Investments, net of current portion                  | 57,626  |
| Single family mortgage loans, net of current portion | 719,582 |
| Deferred bond issuance costs                         | 8,142   |

|                                          |                |
|------------------------------------------|----------------|
| <b>Total restricted long-term assets</b> | <u>785,350</u> |
|------------------------------------------|----------------|

|                                |                            |
|--------------------------------|----------------------------|
| <b>Total restricted assets</b> | <u><u>\$ 1,043,643</u></u> |
|--------------------------------|----------------------------|

**Liabilities and net assets**

**Current liabilities:**

|                                   |          |
|-----------------------------------|----------|
| Accrued interest payable          | \$ 4,247 |
| Accounts payable                  | 56       |
| Rebate liability                  | 141      |
| Bonds payable and short-term debt | 129,100  |
| Due to other funds                | 777      |

|                                  |                |
|----------------------------------|----------------|
| <b>Total current liabilities</b> | <u>134,321</u> |
|----------------------------------|----------------|

**Long-term liabilities:**

|                                          |         |
|------------------------------------------|---------|
| Rebate liability, net of current portion | 2,427   |
| Bonds payable, net of current portion    | 871,385 |

|                                    |                |
|------------------------------------|----------------|
| <b>Total long-term liabilities</b> | <u>873,812</u> |
|------------------------------------|----------------|

|                          |                  |
|--------------------------|------------------|
| <b>Total liabilities</b> | <u>1,008,133</u> |
|--------------------------|------------------|

**Net assets:**

|            |        |
|------------|--------|
| Restricted | 35,510 |
|------------|--------|

|                         |               |
|-------------------------|---------------|
| <b>Total net assets</b> | <u>35,510</u> |
|-------------------------|---------------|

|                                         |                            |
|-----------------------------------------|----------------------------|
| <b>Total liabilities and net assets</b> | <u><u>\$ 1,043,643</u></u> |
|-----------------------------------------|----------------------------|

*See accompanying notes.*

Community Development Administration  
Residential Revenue Bonds

Statement of Revenues, Expenses and Changes in Net Assets

For the Period Ended September 30, 2002  
(in thousands)

|                                                                             |                  |
|-----------------------------------------------------------------------------|------------------|
| <b>Operating revenues</b>                                                   |                  |
| Interest on mortgage loans                                                  | \$ 11,560        |
| Fee income                                                                  | 208              |
| Other operating revenues                                                    | 10               |
|                                                                             | <u>11,778</u>    |
| <b>Operating expenses</b>                                                   |                  |
| Trustee, legal and mortgage servicing costs                                 | 648              |
| Other operating expense                                                     | 2                |
|                                                                             | <u>650</u>       |
| Operating income                                                            | <u>11,128</u>    |
| <b>Nonoperating revenues (expenses)</b>                                     |                  |
| Interest income, net of rebate                                              | 2,545            |
| Interest expense on bonds and short-term debt                               | (12,800)         |
| Amortization of bond issuance costs                                         | (127)            |
|                                                                             | <u>(10,382)</u>  |
| <b>Transfers of funds, net, as permitted by the various bond indentures</b> | (349)            |
| Change in net assets                                                        | <u>\$ 397</u>    |
| <b>Changes in net assets</b>                                                |                  |
| Net assets at beginning of period                                           | \$ 35,113        |
| Change in net assets                                                        | 397              |
| Net assets at end of period                                                 | <u>\$ 35,510</u> |

*See accompanying notes.*

Community Development Administration  
Residential Revenue Bonds

Statement of Cash Flows

For the Period Ended September 30, 2002  
(in thousands)

**Operating activities**

|                                                   |                |
|---------------------------------------------------|----------------|
| Principal and interest received on mortgage loans | \$ 31,747      |
| Mortgage insurance claims received                | 999            |
| Foreclosure expenses paid                         | (88)           |
| Other income received                             | 10             |
| Loan fees received                                | 289            |
| Purchase of mortgage loans                        | (38,502)       |
| Trustee, legal and mortgage servicing costs       | (592)          |
| Other expenses paid                               | (2)            |
| Reimbursements among Funds                        | 474            |
| Net cash from operating activities                | <u>(5,665)</u> |

**Investing activities**

|                                                  |               |
|--------------------------------------------------|---------------|
| Proceeds from maturities or sales of investments | 41,621        |
| Purchases of investments                         | (4,498)       |
| Interest received on investments                 | 4,449         |
| Net cash from investing activities               | <u>41,572</u> |

**Noncapital financing activities**

|                                               |                 |
|-----------------------------------------------|-----------------|
| Payments on bond principal                    | (8,445)         |
| Interest on bonds and short-term debt         | (25,708)        |
| Transfers among Funds                         | (349)           |
| Net cash from noncapital financing activities | <u>(34,502)</u> |

|                                                     |                  |
|-----------------------------------------------------|------------------|
| Net increase in cash on deposit with trustee        | 1,405            |
| Cash on deposit with trustee at beginning of period | <u>75,997</u>    |
| Cash on deposit with trustee at end of period       | <u>\$ 77,402</u> |

Community Development Administration  
Residential Revenue Bonds

Statement of Cash Flows

For the Period Ended September 30, 2002  
(in thousands)

**Reconciliation of operating income to net cash from operating activities**

|                                                                                     |                          |
|-------------------------------------------------------------------------------------|--------------------------|
| Operating income                                                                    | \$ 11,128                |
| Adjustments to reconcile operating income to net cash<br>from operating activities: |                          |
| Increase in mortgage loans                                                          | (15,206)                 |
| Increase in accrued interest and other receivables                                  | (2,117)                  |
| Increase in due from other funds                                                    | (97)                     |
| Increase in due to other funds                                                      | 571                      |
| Increase in accounts payable                                                        | 56                       |
| Net cash from operating activities                                                  | <u><u>\$ (5,665)</u></u> |

**Noncash investing and noncapital financing activities**

|                                                            |          |
|------------------------------------------------------------|----------|
| Amortization of investment discounts and premiums          | \$ (522) |
| Amortization of bond original issue discounts and premiums | (3)      |
| Amortization of deferred bond issuance costs               | 127      |

*See accompanying notes.*

Community Development Administration  
Residential Revenue Bonds  
Notes to Unaudited Interim Financial Statements  
September 30, 2002  
(in thousands)

**1. Basis of presentation:**

In the opinion of management, the accompanying interim financial statements of the Community Development Administration (CDA) Residential Revenue Bonds present fairly the financial position at September 30, 2002 and the results of its operations for the three months ended September 30, 2002. These interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position and results of operations. The September 30, 2002 financial statements are unaudited, and certain information and footnote disclosures normally included in the annual financial statements have been omitted. Readers of these statements should refer to the financial statements and notes thereto as of June 30, 2002 and for the year then ended, which have been included elsewhere in this disclosure. The results of operations presented in the accompanying financial statements are not necessarily representative of operations for the entire year.

**2. Investments:**

In accordance with GASB 31, CDA reflects investments at fair value. As of September 30, 2002, the fair value of the investments was \$217,195 of which \$216,479 was the cost of these investments and \$716 was the cumulative increase in fair value. The increase in fair value of investments for the period ending September 30, 2002 was \$296. The increase was reduced to zero by \$296 of estimated rebate liability due to unrealized investment gains.

**3. Mortgage loans:**

During the three months ended September 30, 2002, CDA purchased single family loans in the amount of \$38,502.

**4 Subsequent events:**

On October 1, 2002, CDA redeemed, prior to maturity, \$17,115 of Residential Revenue Bonds. Also, on November 1, 2002, CDA redeemed, prior to maturity, \$1,300 of Residential Revenue Bonds.

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## APPENDIX I

### INVESTMENTS HELD IN THE RESIDENTIAL REVENUE BOND FUNDS As of September 30, 2002

| <u>Account</u>                                 | <u>Principal<br/>Balance</u> | <u>Guaranteed Investment Contract<br/>Provider and Other Investments</u> | <u>Rate of<br/>Earnings</u> | <u>Maturity</u> |
|------------------------------------------------|------------------------------|--------------------------------------------------------------------------|-----------------------------|-----------------|
| <b><u>Program Fund</u></b>                     |                              |                                                                          |                             |                 |
| 1998 Residential Revenue Bonds, Series D       | \$880,832                    | Money Market Funds                                                       | Varies                      | On demand       |
| 1999 Residential Revenue Bonds, Series E       | \$70,991                     | Money Market Funds                                                       | Varies                      | On demand       |
| 1999 Residential Revenue Bonds, Series E       | \$1,627,000                  | Bayerische Hypo- Und Vereinsbank AG,<br>New York Branch                  | 6.015%                      | 04/01/03        |
| 2000 Residential Revenue Bonds, Series A and B | \$4,146,054                  | Money Market Funds                                                       | Varies                      | On demand       |
| 2000 Residential Revenue Bonds, Series C and D | \$7,003,241                  | Money Market Funds                                                       | Varies                      | On demand       |
| 2000 Residential Revenue Bonds, Series F and G | \$72,925                     | Money Market Funds                                                       | Varies                      | On demand       |
| 2000 Residential Revenue Bonds, Series F and G | \$3,852,000                  | Bayerische Hypo- Und Vereinsbank AG,<br>New York Branch                  | 6.61%                       | 10/01/02        |
| 2000 Residential Revenue Bonds, Series H       | \$12,881,000                 | Bayerische Hypo- Und Vereinsbank AG,<br>New York Branch                  | 6.015%                      | 04/01/03        |
| 2001 Residential Revenue Bonds, Series A and B | \$37,044,700                 | Trinity Plus Funding Company, LLC                                        | 4.695%                      | 08/01/04        |
| 2001 Residential Revenue Bonds, Series E and F | \$16,149,000                 | Trinity Plus Funding Company, LLC                                        | 4.203%                      | 08/01/04        |
| 2001 Residential Revenue Bonds, Series G and H | \$27,154,400                 | Trinity Plus Funding Company, LLC                                        | 3.457%                      | 06/01/05        |
| 2002 Residential Revenue Bonds, Series A       | \$7,848,000                  | Money Market Funds                                                       | Varies                      | On demand       |
| 2002 Residential Revenue Bonds, Series B and C | \$800,086                    | Money Market Funds                                                       | Varies                      | On demand       |
| 2002 Residential Revenue Bonds, Series B and C | \$97,793,214                 | Federal National Mortgage Assn.                                          | Discount<br>Notes           | 12/13/02        |
| <b><u>Revenue (Float) Fund</u></b>             |                              |                                                                          |                             |                 |
| 1997 Residential Revenue Bonds, Series A and B | \$96,916                     | Westdeutsche Landesbank Girozentrale,<br>New York Branch                 | 5.96%                       | 09/01/29        |

|                                                |             |                                                       |        |           |
|------------------------------------------------|-------------|-------------------------------------------------------|--------|-----------|
| 1998 Residential Revenue Bonds, Series A and B | \$1,893,381 | AIG Matched Funding Corp.                             | 5.30%  | 09/01/30  |
| <b><u>Reserve Fund</u></b>                     |             |                                                       |        |           |
| 1997 Residential Revenue Bonds, Series A and B | \$1,629,405 | AIG Matched Funding Corp.                             | 6.24%  | 09/01/29  |
| 1998 Residential Revenue Bonds, Series A and B | \$1,374,128 | AIG Matched Funding Corp.                             | 5.68%  | 09/01/30  |
| 1998 Residential Revenue Bonds, Series D       | \$1,231,569 | Westdeutsche Landesbank Girozentrale, New York Branch | 5.22%  | 09/01/29  |
| 1999 Residential Revenue Bonds, Series C and D | \$1,176,471 | Westdeutsche Landesbank Girozentrale, New York Branch | 5.82%  | 09/01/31  |
| 1999 Residential Revenue Bonds, Series E and F | \$1,923,900 | Federal Home Loan Mortgage Corp.                      | 6.75%  | 09/15/29  |
| 1999 Residential Revenue Bonds, Series H       | \$1,442,475 | Federal Home Loan Mortgage Corp.                      | 6.75%  | 09/15/29  |
| 2000 Residential Revenue Bonds, Series A and B | \$1,094,021 | AIG-MF L.L.C.                                         | 6.29%  | 09/01/32  |
| 2000 Residential Revenue Bonds, Series C and D | \$1,448,421 | AIG-MF L.L.C.                                         | 6.29%  | 09/01/32  |
| 2000 Residential Revenue Bonds, Series F and G | \$1,526,613 | AIG-MF L.L.C.                                         | 6.29%  | 09/01/32  |
| 2000 Residential Revenue Bonds, Series H       | \$1,063,957 | AIG Matched Funding Corp.                             | 5.94%  | 09/01/32  |
| 2001 Residential Revenue Bonds, Series A and B | \$1,358,627 | AIG Matched Funding Corp.                             | 5.94%  | 09/01/32  |
| 2001 Residential Revenue Bonds, Series E and F | \$1,559,306 | AIG Matched Funding Corp.                             | 5.94%  | 09/01/32  |
| 2001 Residential Revenue Bonds, Series G and H | \$1,176,600 | Money Market Funds                                    | Varies | On demand |
| 2002 Residential Revenue Bonds, Series A       | \$157,000   | Money Market Funds                                    | Varies | On demand |

**Collateral Reserve Fund (2)**

|                                |             |                                                       |       |          |
|--------------------------------|-------------|-------------------------------------------------------|-------|----------|
| 1997 Residential Revenue Bonds | \$1,874,995 | Westdeutsche Landesbank Girozentrale, New York Branch | 5.96% | 09/01/29 |
|--------------------------------|-------------|-------------------------------------------------------|-------|----------|

- (1) In keeping with the provisions of GASB 31, these investments are reported at fair value. The total book value at September 30, 2002 for the investments referenced was \$100,442,983, and the increase in fair value of these investments was \$716,606.
- (2) The Collateral Reserve Fund was established under the Bond Resolution at the time the 1997 Residential Revenue Bonds Series A and Series B were issued.

## **APPENDIX J**

### **PROPOSED FORMS OF OPINION OF BOND COUNSEL**

[Letterhead of Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania]

December \_\_, 2002

Community Development Administration  
Department of Housing and Community Development  
State of Maryland  
100 Community Place  
Crownsville, Maryland 21032

\$41,980,000  
Community Development Administration  
Maryland Department of Housing and Community Development  
Residential Revenue Bonds  
2002 Series D (Non-AMT)

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and 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 \$41,980,000 aggregate principal amount of its Residential Revenue Bonds, 2002 Series D (Non-AMT) (the "2002 Series D Bonds"). With the proceeds of the 2002 Series D Bonds, the Administration will refund and pay at maturity certain series of outstanding bonds (the "Prior Bonds") previously issued by the Administration, as a result of which \$41,980,000, representing prepayments and repayments of mortgage loans financed with proceeds of such Prior Bonds, will be transferred to the 2002 Series D Bond Program Account of the Program Fund under the Bond Resolution (defined hereafter) and are expected to be made available to make or purchase mortgage loans to persons and families of limited income to finance the acquisition of single family residences located in the State (the "Mortgage Loans") upon the refunding of the 2002 Series D Bonds at maturity or earlier redemption thereof with proceeds of long-term bonds issued under the Bond Resolution (as hereinafter defined).

The 2002 Series D 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 Residential Revenue Bond Resolution (the "Bond Resolution"), duly adopted by the Administration as of August 1, 1997 and accepted by Allfirst Bank, Baltimore, Maryland, as trustee (the "Trustee") and (3) the Series Resolution Providing for the Issuance and Sale of \$41,980,000 Aggregate Principal Amount of Residential Revenue Bonds, 2002 Series D (Non-AMT), adopted as of December 1, 2002 (the "2002 Series D Resolution"), pursuant to which the 2002 Series D Bonds are authorized to be issued. The Bond Resolution and the 2002 Series D Resolution are referred to collectively as the Bond Resolutions.

The 2002 Series D Bonds mature, bear interest and are subject to redemption as provided therein and in the Bond Resolutions. The 2002 Series D Bonds are issuable as fully registered bonds

without coupons in the denominations of \$5,000 each or any integral multiple thereof. Principal of, premium, if any, and interest on the 2002 Series D Bonds will be paid as provided in the Bond Resolutions by the Trustee to the persons in whose names the 2002 Series D Bonds are registered on the registration books of the Administration maintained by the Trustee.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met on a continuing basis subsequent to the delivery of the 2002 Series D Bonds for interest on the 2002 Series D Bonds to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the 2002 Series D Bonds to be subject to inclusion in gross income retroactively to the date of issuance of the 2002 Series D Bonds. We have examined the Bond Resolutions and other relevant single family housing program documents of the Administration which, in our opinion, establish procedures under which, if followed, such requirements would be met. The Administration has covenanted in the Bond Resolutions to comply with all of the applicable requirements of the Code.

In connection with the issuance of the 2002 Series D Bonds, we have examined and considered the Act, the Bond Resolutions, the Code, a specimen of the 2002 Series D Bonds and such other opinions, documents, certificates, letters and matters of law as we have deemed necessary to render the opinions set forth below.

Based upon the foregoing we are of the opinion that:

1. The Administration was duly created and validly exists under the provisions of the Act as an agency in the Division of Development Finance of the Department with full power to issue the 2002 Series D Bonds for the purpose of refunding and paying at maturity the Prior Bonds and financing the Mortgage Loans.

2. The Bond Resolutions have been duly adopted and executed by the Administration, are valid and binding upon the Administration, are in full force and effect and are enforceable in accordance with their terms. The 2002 Series D Bonds are entitled to the benefit and security of the Bond Resolutions for the payment thereof in accordance with the terms of the Bond Resolutions.

3. The 2002 Series D Bonds have been duly authorized, executed and issued in accordance with the Constitution and the laws of the State, including the Act now in force and represent valid and binding special obligations of the Administration, enforceable in accordance with their terms and the terms of the Bond Resolutions except to the extent enforcement may be limited by general principles of equity which may permit the exercise in the future by the State and its governmental bodies of the police power inherent in the sovereignty of the State, and applicable bankruptcy, insolvency or similar laws affecting creditors rights generally, now or hereafter in effect. The 2002 Series D Bonds are payable from the revenues and assets of the Administration pledged therefor pursuant to the Bond Resolutions.

4. The form of the specimen 2002 Series D Bonds is regular and proper.

5. The 2002 Series D Bonds, their transfer, the interest payable thereon and any income derived therefrom, including any profit realized in their sale or exchange, are exempt from taxation of every kind and nature whatsoever by the State or by its political subdivisions, municipal corporations or public units of any kind under existing law, except that no opinion is expressed as to such exemption from Maryland franchise taxes or estate or inheritance taxes.

6. Assuming continuing compliance by the Administration with its covenants in the Bond Resolutions to comply with the Code, interest on the 2002 Series D Bonds is excludable from the gross income of the holders thereof for federal income tax purposes. We are further of the opinion that interest on the 2002 Series D Bonds is not an item of preference for purposes of calculating the federal individual or corporate alternative minimum taxes, but such interest may be indirectly subject to corporate alternative minimum taxes because it is included in earnings and profits of corporations (other than S corporations, regulated investment companies, real estate investment trusts or real mortgage investment conduits).

Under certain circumstances interest on a 2002 Series D Bond held by a foreign corporation may be subject to the branch profits tax.

Ownership of tax-exempt obligations, including the 2002 Series D Bonds, may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, S corporations with “excess net passive income” and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry such obligations. We offer no opinion as to such collateral tax consequences. Prospective purchasers of the 2002 Series D Bonds should consult their own tax advisor as to such consequences.

In rendering the foregoing opinions, we have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities and have not verified the accuracy or truthfulness thereof. We have also assumed the genuineness of the signatures appearing upon such public records, certifications, documents and proceedings.

We call to your attention that the 2002 Series D Bonds are special obligations of the Administration and will be payable solely from the revenues and assets of the Administration pledged for the payment thereof under the Bond Resolutions, including the Mortgage Loans pledged thereunder, and the rights thereunder to any income, revenues, issues, profits and insurance proceeds and other sums of money payable thereunder. The Administration has no taxing power. The 2002 Series D 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.

We express no opinion herein with respect to the accuracy or completeness of the Official Statement prepared in respect of the 2002 Series D Bonds or as to any other matter not set forth herein.

December \_\_\_, 2002

Community Development Administration  
Department of Housing and Community Development  
State of Maryland  
100 Community Place  
Crownsville, Maryland 21032

\$67,965,000  
Community Development Administration  
Maryland Department of Housing and Community Development  
Residential Revenue Bonds  
2002 Series E (AMT)

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and 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 \$67,965,000 aggregate principal amount of its Residential Revenue Bonds, 2002 Series E (AMT) (the "2002 Series E Bonds"). With the proceeds of the 2002 Series E Bonds, the Administration will refund and pay at maturity certain series of outstanding bonds (the "Prior Bonds") previously issued by the Administration, as a result of which \$67,965,000, representing prepayments and repayments of mortgage loans financed with proceeds of such Prior Bonds, will be transferred to the 2002 Series E Bond Program Account of the Program Fund under the Bond Resolution (defined hereafter) and are expected to be made available to make or purchase mortgage loans to persons and families of limited income to finance the acquisition of single family residences located in the State (the "Mortgage Loans") upon the refunding of the 2002 Series E Bonds at maturity or earlier redemption thereof with proceeds of long-term bonds issued under the Bond Resolution (as hereinafter defined).

The 2002 Series E 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 Residential Revenue Bond Resolution (the "Bond Resolution"), duly adopted by the Administration as of August 1, 1997 and accepted by Allfirst Bank, Baltimore, Maryland, as trustee (the "Trustee") and (3) the Series Resolution Providing for the Issuance and Sale of \$67,965,000 Aggregate Principal Amount of Residential Revenue Bonds, 2002 Series E (AMT), adopted as of December 1, 2002 (the "2002 Series E Resolution"), pursuant to which the 2002 Series E Bonds are authorized to be issued. The Bond Resolution and the 2002 Series E Resolution are referred to collectively as the Bond Resolutions.

The 2002 Series E Bonds mature, bear interest and are subject to redemption as provided therein and in the Bond Resolutions. The 2002 Series E Bonds are issuable as fully registered bonds without coupons in the denominations of \$5,000 each or any integral multiple thereof. Principal of, premium, if any, and interest on the 2002 Series E Bonds will be paid as provided in the Bond Resolutions by the Trustee to the persons in whose names the 2002 Series E Bonds are registered on the registration books of the Administration maintained by the Trustee.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met on a continuing basis subsequent to the delivery of the 2002 Series E Bonds for interest on the 2002 Series E Bonds to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the 2002 Series E Bonds to be subject to inclusion in gross income retroactively to the date of issuance of the 2002 Series E Bonds. We have examined the Bond Resolutions and other relevant single family housing program documents of the Administration which, in our opinion, establish procedures under which, if followed, such requirements would be met. The Administration has covenanted in the Bond Resolutions to comply with all of the applicable requirements of the Code.

In connection with the issuance of the 2002 Series E Bonds, we have examined and considered the Act, the Bond Resolutions, the Code, a specimen of the 2002 Series E Bonds and such other opinions, documents, certificates, letters and matters of law as we have deemed necessary to render the opinions set forth below.

Based upon the foregoing we are of the opinion that:

1. The Administration was duly created and validly exists under the provisions of the Act as an agency in the Division of Development Finance of the Department with full power to issue the 2002 Series E Bonds for the purpose of refunding and paying at maturity the Prior Bonds and financing the Mortgage Loans.

2. The Bond Resolutions have been duly adopted and executed by the Administration, are valid and binding upon the Administration, are in full force and effect and are enforceable in accordance with their terms. The 2002 Series E Bonds are entitled to the benefit and security of the Bond Resolutions for the payment thereof in accordance with the terms of the Bond Resolutions.

3. The 2002 Series E Bonds have been duly authorized, executed and issued in accordance with the Constitution and the laws of the State, including the Act now in force and represent valid and binding special obligations of the Administration, enforceable in accordance with their terms and the terms of the Bond Resolutions except to the extent enforcement may be limited by general principles of equity which may permit the exercise in the future by the State and its governmental bodies of the police power inherent in the sovereignty of the State, and applicable bankruptcy, insolvency or similar laws affecting creditors rights generally, now or hereafter in effect. The 2002 Series E Bonds are payable from the revenues and assets of the Administration pledged therefor pursuant to the Bond Resolutions.

4. The form of the specimen 2002 Series E Bonds is regular and proper.

5. The 2002 Series E Bonds, their transfer, the interest payable thereon and any income derived therefrom, including any profit realized in their sale or exchange, are exempt from taxation of every kind and nature whatsoever by the State or by its political subdivisions, municipal corporations or public units of any kind under existing law, except that no opinion is expressed as to such exemption from Maryland franchise taxes or estate or inheritance taxes.

6. Assuming continuing compliance by the Administration with its covenants in the Bond Resolutions to comply with the Code, interest on the 2002 Series E Bonds is excludable from the gross income of the holders thereof for federal income tax purposes. We are further of the opinion that interest on the 2002 Series E Bonds is an item of preference for purposes of calculating the federal individual or corporate alternative minimum taxes.

Under certain circumstances interest on a 2002 Series E Bond held by a foreign corporation may be subject to the branch profits tax.

Ownership of tax-exempt obligations, including the 2002 Series E Bonds, may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, S corporations with “excess net passive income” and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry such obligations. We offer no opinion as to such collateral tax consequences. Prospective purchasers of the 2002 Series E Bonds should consult their own tax advisor as to such consequences.

In rendering the foregoing opinions, we have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities and have not verified the accuracy or truthfulness thereof. We have also assumed the genuineness of the signatures appearing upon such public records, certifications, documents and proceedings.

We call to your attention that the 2002 Series E Bonds are special obligations of the Administration and will be payable solely from the revenues and assets of the Administration pledged for the payment thereof under the Bond Resolutions, including the Mortgage Loans pledged thereunder, and the rights thereunder to any income, revenues, issues, profits and insurance proceeds and other sums of money payable thereunder. The Administration has no taxing power. The 2002 Series E 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.

We express no opinion herein with respect to the accuracy or completeness of the Official Statement prepared in respect of the 2002 Series E Bonds or as to any other matter not set forth herein.

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