

## NEW ISSUES — BOOK-ENTRY ONLY

*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 2006 Series Bonds is excludable from gross income for federal income tax purposes under existing laws, regulations, rulings and judicial decisions. Interest on the 2006 Series A Bonds and the 2006 Series C Bonds is not, and interest on the 2006 Series B Bonds and the 2006 Series D 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 exceptions to such exclusion is contained under “Tax Exemption and Related Considerations” herein. In the opinion of Bond Counsel, the 2006 Series 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 of Maryland or by any of 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.*



**\$180,000,000**  
**COMMUNITY DEVELOPMENT ADMINISTRATION**  
**MARYLAND DEPARTMENT OF HOUSING**  
**AND COMMUNITY DEVELOPMENT**  
**Residential Revenue Bonds**  
**\$12,020,000 2006 Series A (Non-AMT)**  
**\$47,980,000 2006 Series B (AMT)**  
**\$95,120,000 2006 Series C (Non-AMT)**  
**\$24,880,000 2006 Series D (AMT)**

**Dated:** Date of Delivery

**Due:** As shown on inside cover

The 2006 Series A Bonds, the 2006 Series B Bonds, the 2006 Series C Bonds and the 2006 Series D Bonds (collectively, the “2006 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 2006 Series Bonds.

Purchases of the 2006 Series Bonds will be in book-entry form only, in principal amounts of \$5,000, or any integral multiple thereof. Interest on the 2006 Series Bonds is payable semiannually on March 1 and September 1 of each year, commencing on September 1, 2006, by the Trustee to DTC. DTC is to remit such payments to participating financial organizations for subsequent disbursement to beneficial owners of the 2006 Series Bonds.

The 2006 Series Bonds are subject to redemption prior to maturity at par, plus interest accrued to the date of redemption, at the times and under the conditions set forth herein.

Additional information is contained under the caption “THE 2006 SERIES BONDS”. Manufacturers and Traders Trust Company, a New York banking corporation with trust powers and having a corporate trust office in Baltimore, Maryland, is the Trustee.

**The 2006 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 (the “Department”), payable solely from the revenues and assets of the Administration pledged therefor under the Bond Resolution. The Administration has no taxing power. The 2006 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.**

*The 2006 Series Bonds are offered for delivery when, as and if issued, subject to the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Washington, D.C., Bond Counsel, as to the validity of the 2006 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 their counsel, Katten Muchin Rosenman LLP. It is expected that the 2006 Series Bonds will be available for delivery through the facilities of DTC in New York, New York on or about February 23, 2006.*

**Ferris, Baker Watts**  
**Incorporated†**

**Bear, Stearns & Co. Inc. †**

**UBS Investment Bank †**

**Citigroup††**

**Loop Capital Markets, L.L.C. ††**

**M.R. Beal & Company††**

**Merrill Lynch & Co. ††**

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.

February 8, 2006

† Underwriters with respect to the 2006 Series Bonds.

†† Underwriters only with respect to the 2006 Series A Bonds and 2006 Series B Bonds.

## MATURITY SCHEDULE

### \$12,020,000 2006 Series A Bonds (Non-AMT)

#### \$12,020,000 Serial Bonds

| <b>Due<br/>(September 1)</b> | <b>Amount</b> | <b>Interest<br/>Rate</b> | <b>Price</b> |
|------------------------------|---------------|--------------------------|--------------|
| 2008                         | \$1,025,000   | 3.300%                   | 100%         |
| 2009                         | 1,065,000     | 3.375                    | 100          |
| 2010                         | 1,095,000     | 3.500                    | 100          |
| 2011                         | 1,130,000     | 3.600                    | 100          |
| 2012                         | 1,170,000     | 3.700                    | 100          |
| 2013                         | 1,215,000     | 3.800                    | 100          |
| 2014                         | 1,255,000     | 3.900                    | 100          |
| 2015                         | 1,305,000     | 4.000                    | 100          |
| 2016                         | 1,355,000     | 4.050                    | 100          |
| 2017                         | 1,405,000     | 4.100                    | 100          |

### \$47,980,000 2006 Series B Bonds (AMT)

\$13,035,000 – 4.750% Term Bonds due September 1, 2025 – Price: 100%  
\$15,525,000 – 5.500% Term Bonds due September 1, 2031 – Price: 106.049%  
\$19,420,000 – 4.900% Term Bonds due September 1, 2037 – Price: 100%

### 2006 Series C Bonds (Non-AMT)

\$95,120,000 – 3.375% 2006 Series C Bonds due March 7, 2007 – Price: 100%

### 2006 Series D Bonds (AMT)

\$24,880,000 – 3.400% 2006 Series D Bonds due March 7, 2007 – Price: 100%

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 2006 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 THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 2006 SERIES BONDS OR OF ANY OTHER BONDS OF THE ADMINISTRATION AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

## TABLE OF CONTENTS

|                                                | <u>Page</u> |
|------------------------------------------------|-------------|
| INTRODUCTION .....                             | 1           |
| Authorization .....                            | 1           |
| Bonds Issued Under Bond Resolution .....       | 2           |
| Purpose of Bond Resolution .....               | 2           |
| The 1980 General Certificate .....             | 2           |
| Draw Down Mortgage Revenue Bonds .....         | 3           |
| Use of Proceeds of the Bonds .....             | 3           |
| THE 2006 SERIES BONDS .....                    | 5           |
| General Description .....                      | 5           |
| Application of 2006 Series Bond Proceeds ..... | 5           |
| Redemption Provisions .....                    | 7           |
| DTC and Book-Entry .....                       | 13          |
| Definitive Bonds .....                         | 15          |
| SECURITY FOR THE BONDS .....                   | 16          |
| Provisions of Bond Resolution .....            | 16          |
| Program Assets .....                           | 17          |
| Reserve Fund .....                             | 19          |
| Collateral Reserve Fund .....                  | 19          |
| Cash Flow Statements and Certificates .....    | 20          |
| Investment of Funds .....                      | 22          |
| Credit Facilities .....                        | 22          |
| Credit Enhancement .....                       | 23          |
| General Bond Reserve Fund .....                | 23          |
| Additional Bonds .....                         | 24          |
| Interest Rate Swap .....                       | 25          |
| TAX EXEMPTION AND RELATED CONSIDERATIONS ..... | 27          |
| Federal Law .....                              | 27          |
| State and Local Tax Exemption .....            | 29          |
| FINANCIAL STATEMENTS FOR THE PROGRAM .....     | 29          |
| LITIGATION .....                               | 29          |

|                                                                                           |      |
|-------------------------------------------------------------------------------------------|------|
| LEGAL MATTERS.....                                                                        | 29   |
| LEGALITY FOR INVESTMENT.....                                                              | 30   |
| UNDERWRITING .....                                                                        | 30   |
| RATINGS.....                                                                              | 30   |
| SECONDARY MARKET DISCLOSURE.....                                                          | 31   |
| MISCELLANEOUS.....                                                                        | 32   |
| Summaries and Descriptions in Official Statement.....                                     | 32   |
| Financial Advisor.....                                                                    | 33   |
| Selection and Compensation of Professionals.....                                          | 33   |
| APPENDIX A THE DEPARTMENT AND ADMINISTRATION.....                                         | A-1  |
| General Information.....                                                                  | A-1  |
| Principal Executive Officers .....                                                        | A-2  |
| Senior Staff of the Administration .....                                                  | A-3  |
| Other Housing Programs of the Department.....                                             | A-4  |
| Infrastructure Financing Programs.....                                                    | A-5  |
| APPENDIX B THE PROGRAM.....                                                               | B-1  |
| Existing Portfolio and Available Funds Under the Bond Resolution.....                     | B-1  |
| Eligible Mortgage Loans.....                                                              | B-3  |
| Mortgage Loans Purchased from Mortgage Lenders .....                                      | B-6  |
| Homeownership Initiatives and Developer Reservations.....                                 | B-8  |
| Status of Funds Under the 1980 General Certificate.....                                   | B-9  |
| Mortgage Loans Made by the Administration.....                                            | B-9  |
| Servicing of Mortgage Loans.....                                                          | B-10 |
| Estimated Revenues of Program .....                                                       | B-11 |
| Repurchase of Mortgage Loans .....                                                        | B-11 |
| Certain Information Relating to Mortgage Loans .....                                      | B-11 |
| APPENDIX C DEFINITIONS .....                                                              | C-1  |
| APPENDIX D SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION .....                     | D-1  |
| Purposes for Which Bonds May be Issued.....                                               | D-1  |
| Contract with Trustee and Bondholders.....                                                | D-1  |
| Issuance of the Bonds .....                                                               | D-1  |
| Authorization of Subordinate Contract Obligations; Conditions Precedent to Delivery ..... | D-2  |
| Qualified Hedges .....                                                                    | D-3  |
| Purchase of Bonds.....                                                                    | D-3  |
| Funds and Accounts Established by the Bond Resolution .....                               | D-3  |
| Program Fund .....                                                                        | D-4  |
| Revenue Fund .....                                                                        | D-4  |
| Reserve Fund .....                                                                        | D-5  |
| Collateral Reserve Fund.....                                                              | D-5  |
| Acquired Development Fund.....                                                            | D-6  |
| Sale of Program Assets; Release of Lien of Resolution .....                               | D-6  |
| Cash Flow Statements and Certificates .....                                               | D-7  |
| Redemption of Bonds.....                                                                  | D-7  |
| Investment of Moneys Held by the Trustee .....                                            | D-8  |
| Program Covenants; Enforcement of Mortgage Loans .....                                    | D-8  |
| Tax Covenants .....                                                                       | D-9  |
| Events of Default .....                                                                   | D-9  |
| Remedies; Rights of Bondholders.....                                                      | D-9  |
| Rights of Bondholders to Direct Proceedings .....                                         | D-10 |
| Waiver of Events of Default .....                                                         | D-10 |
| Modification of Resolutions and Outstanding Bonds.....                                    | D-10 |
| Defeasance.....                                                                           | D-11 |
| Trustee .....                                                                             | D-11 |
| APPENDIX E OUTSTANDING INDEBTEDNESS OF THE ADMINISTRATION .....                           | E-1  |
| Outstanding Residential Revenue Bonds.....                                                | E-1  |
| Other Outstanding Bonds of the Administration.....                                        | E-2  |

|                                                                                                                                                       |      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| APPENDIX F COMMUNITY DEVELOPMENT ADMINISTRATION RESIDENTIAL REVENUE BONDS TEN YEAR RULE PERCENTAGES .....                                             | F-1  |
| APPENDIX G MORTGAGE INSURANCE AND GUARANTEE PROGRAMS .....                                                                                            | G-1  |
| FHA MORTGAGE INSURANCE PROGRAM, VA HOME LOAN GUARANTY PROGRAM, USDA/RD MORTGAGE GUARANTEE PROGRAM AND PRIVATE MORTGAGE INSURANCE PROGRAM .....        | G-1  |
| Introduction.....                                                                                                                                     | G-1  |
| FHA Mortgage Insurance Program .....                                                                                                                  | G-1  |
| VA Home Loan Guaranty Program.....                                                                                                                    | G-2  |
| USDA/RD Mortgage Guarantee Program .....                                                                                                              | G-3  |
| Private Mortgage Insurance.....                                                                                                                       | G-3  |
| Homeowners Protection Act .....                                                                                                                       | G-4  |
| THE MHF INSURANCE PROGRAM.....                                                                                                                        | G-5  |
| Management's Presentation of the MHF Program .....                                                                                                    | G-6  |
| Single Family Information .....                                                                                                                       | G-11 |
| Multi-Family Information .....                                                                                                                        | G-14 |
| APPENDIX H FINANCIAL STATEMENTS OF THE COMMUNITY DEVELOPMENT ADMINISTRATION RESIDENTIAL REVENUE BONDS.....                                            | H-1  |
| APPENDIX I FINANCIAL STATEMENTS OF THE MARYLAND HOUSING FUND .....                                                                                    | I-1  |
| APPENDIX J INVESTMENTS HELD IN THE RESIDENTIAL REVENUE BOND FUNDS.....                                                                                | J-1  |
| APPENDIX K RESIDENTIAL REVENUE BOND PROGRAM LOAN PORTFOLIO BY BOND SERIES AND INTEREST RATE AS OF SEPTEMBER 30, 2005 .....                            | K-1  |
| APPENDIX L RESIDENTIAL REVENUE BOND PROGRAM PREPAYMENT SPEED OF MORTGAGE LOAN PORTFOLIO BY BOND ISSUANCE .....                                        | L-1  |
| APPENDIX M PROPOSED FORMS OF OPINIONS OF BOND COUNSEL FOR 2006 SERIES A BONDS, 2006 SERIES B BONDS, 2006 SERIES C BONDS AND 2006 SERIES D BONDS ..... | M-1  |

[THIS PAGE INTENTIONALLY LEFT BLANK]

**OFFICIAL STATEMENT**  
**of the**  
**COMMUNITY DEVELOPMENT ADMINISTRATION**  
**MARYLAND DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**

**Relating to**

**\$180,000,000**

**Residential Revenue Bonds**

**\$12,020,000 2006 Series A (Non-AMT)**

**\$47,980,000 2006 Series B (AMT)**

**\$95,120,000 2006 Series C (Non-AMT)**

**\$24,880,000 2006 Series D (AMT)**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover page, the inside cover page (including the maturity schedule) and the Appendices, is to set forth information in connection with the sale by the Community Development Administration (the “Administration”), an agency in the Division of Development Finance of the Department of Housing and Community Development (the “Department”), a principal department of the government of the State of Maryland (the “State”), of its Residential Revenue Bonds, 2006 Series A (the “2006 Series A Bonds”), Residential Revenue Bonds, 2006 Series B (the “2006 Series B Bonds”), Residential Revenue Bonds, 2006 Series C (the “2006 Series C Bonds”) and Residential Revenue Bonds, 2006 Series D (the “2006 Series D Bonds”). The 2006 Series A Bonds, 2006 Series B Bonds, 2006 Series C Bonds, and 2006 Series D Bonds are collectively called the “2006 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” or in the Bond Resolutions (as hereinafter defined).

**Authorization**

The Administration is authorized to issue the 2006 Series Bonds pursuant to Sections 4-101 through 4-255 of the Housing and Community Development Article of the Annotated Code of Maryland, as amended (the “Act”), and a Residential Revenue Bond Resolution providing for the issuance of Residential Revenue Bonds originally adopted by the Administration as of August 1, 1997 and amended and restated as of July 15, 2005 (the “Bond Resolution”), for the benefit of Manufacturers and Traders Trust Company, as trustee (the “Trustee”). The 2006 Series A Bonds will be issued pursuant to a Series Resolution Providing for the Issuance and Sale of Residential Revenue Bonds, 2006 Series A (Non-AMT) that will be adopted by the Administration prior to the issuance of the 2006 Series A Bonds (the “2006 Series A Resolution”). The 2006 Series B Bonds will be issued pursuant to a Series Resolution Providing for the Issuance and Sale of Residential Revenue Bonds, 2006 Series B (AMT) that will be adopted by the Administration prior to the issuance of the 2006 Series B Bonds (the “2006 Series B Resolution”). The 2006 Series C Bonds will be issued pursuant to a Series Resolution Providing for the Issuance and Sale of Residential Revenue Bonds, 2006 Series C (Non-AMT) that will be adopted by the Administration prior to the issuance of the 2006 Series C Bonds (the “2006 Series C Resolution”). The 2006 Series D Bonds

will be issued pursuant to a Series Resolution Providing for the Issuance and Sale of Residential Revenue Bonds, 2006 Series D (AMT) that will be adopted by the Administration prior to the issuance of the 2006 Series D Bonds (the “2006 Series D Resolution” and, together with the 2006 Series A Resolution, the 2006 Series B Resolution and the 2006 Series C Resolution, the “Series Resolutions”). The Bond Resolution and the Series Resolutions are collectively called the “Bond Resolutions.”

### **Bonds Issued Under Bond Resolution**

As of October 1, 2005, the Administration had issued 55 prior Series of Bonds under the Bond Resolution. As of October 1, 2005, \$859,160,000 in aggregate principal amount comprising 36 Series of Bonds were outstanding under the Bond Resolution. All prior Series of Bonds, are collectively referred to herein as the “Prior Bonds”. The Bond Resolution provides for the issuance of Additional Bonds, which will be on a parity with the Prior Bonds and the 2006 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 2006 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. The Administration may, from time to time, enter into Qualified Hedges which may be secured on a parity basis with the Bonds. See “SECURITY FOR THE BONDS - Interest Rate Swap” and Appendix D - “SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION.”

**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.**

### **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. In addition to whole single family housing loans, other types of loans and other kinds of housing that may be financed by the Administration under the Bond Resolution include 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 and participations in single family housing loans and to fund 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, 2005, \$309,995,000 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.

### **Draw Down Mortgage Revenue Bonds**

The Administration issued its Draw Down Mortgage Revenue Bonds, Series 2005-1 and Series 2005-2, in an aggregate principal amount not to exceed \$600,000,000 (collectively, the “Draw Down Bonds”), pursuant to an Indenture of Trust, dated as of September 1, 2005, (the “Draw Down Indenture”) between the Administration and Manufacturers and Traders Trust Company, as Trustee. The initial drawing by the Administration provided funds, in part, to finance the retirement of the Administration’s Draw Down Mortgage Revenue Bonds, Series 2002-1 and Series 2002-2. The remaining portion of the initial drawing and each subsequent drawing by the Administration provides funds to be used to pay at maturity or redeem prior to maturity certain Prior 1980 General Certificate Bonds (as defined below) and certain Prior Bonds. As a result of the foregoing, funds representing prepayments and repayments of mortgage loans financed with such Prior 1980 General Certificate Bonds and Prior Bonds are transferred and deposited into a bond escrow fund established under the Draw Down Indenture as security for such principal amount of Draw Down Bonds as has been drawn down by the Administration until such time as all or a portion of the Draw Down Bonds are redeemed or purchased in accordance with the Draw Down Indenture. The Draw Down Bonds are not secured by the Bond Resolution.

### **Use of Proceeds of the Bonds**

The Bond Resolution authorizes the Administration to issue Bonds to provide funds to finance or refinance any loan, project, facility, undertaking or purpose that 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), to fund reserves, to pay Costs of Issuance or to achieve 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 also must meet the requirements set forth in the Bond Resolution. Program Assets may include, without limitation, whole loans (with or without Credit Enhancement), including Mortgage Loans, and mortgage-backed securities.

The funds made available from the issuance of the 2006 Series A Bonds will be used to refund a portion of the Administration’s Draw Down Bonds, as a result of which amounts on deposit in the escrow fund established under the Draw Down Indenture representing prepayments and repayments of mortgage loans financed with proceeds of Prior 1980 General Certificate Bonds and Prior Bonds will be made available to (a) make or purchase Mortgage Loans and (b) provide funds to be deposited into the Reserve Fund.

The funds made available from the issuance of the 2006 Series B Bonds will be used to (a) make or purchase new mortgage loans and (b) provide funds to be deposited into the Reserve Fund.

The funds made available from the issuance of the 2006 Series C Bonds will be used to (i) refund a portion of the Administration's Draw Down Bonds and (ii) refund or pay at maturity all or a portion of certain series of Single Family Program Bonds previously issued under the 1980 General Certificate (the "Prior 1980 General Certificate Bonds"), as a result of which amounts on deposit in the escrow fund established under the Draw Down Indenture and funds representing prepayments and repayments of mortgage loans financed with proceeds of certain Prior 1980 General Certificate Bonds will be made available to make or purchase Mortgage Loans.

The funds made available from the issuance of the 2006 Series D Bonds will be used to refund or pay at maturity certain Prior 1980 General Certificate Bonds and certain Prior Bonds, as a result of which funds representing prepayments and repayments of mortgage loan financed with proceeds of such certain Prior 1980 General Certificate Bonds and funds related to such certain Prior 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 2006 Series C Bonds or the 2006 Series D Bonds to the making or purchase of Mortgage Loans until on or after the payment at maturity of the 2006 Series C Bonds or the 2006 Series D Bonds with proceeds of additional Bonds bearing fixed interest rates to their maturities. If the 2006 Series C Bonds and the 2006 Series D Bonds are not refunded with additional Bonds, funds made available from the issuance of the 2006 Series C Bonds and the 2006 Series D bonds will be applied to the payment at maturity of the 2006 Series C Bonds and the 2006 Series D Bonds.**

See "THE 2006 SERIES BONDS — Application of 2006 Series Bond Proceeds" and Appendix D — SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION".

The Series Resolutions will contain Series Program Determinations for the 2006 Series Bonds, which limit the Loans to be financed to Mortgage Loans on Single Family Residences and require all such Mortgage Loans to be insured by FHA or guaranteed by the United States Department of Veteran Affairs ("VA"), the United States Department of Agriculture, Rural Development (the "USDA/RD") Guaranteed Rural Housing Loan Program, private mortgage insurance acceptable to the Administration or mortgage insurance provided by the Maryland Housing Fund ("MHF"). See Appendix B – "THE PROGRAM," and Appendix G – "MORTGAGE INSURANCE AND GUARANTEE PROGRAMS."

The Bond Resolution does not require that Loans be secured by Credit Enhancement. In addition, the Bond Resolution permits the Administration to require Loans to be secured by Credit Enhancement other than FHA mortgage insurance, private mortgage insurance, MHF mortgage insurance, or VA or USDA/RD guarantees. Such Credit Enhancement may include a variety of forms and may be provided by a variety of Credit Enhancers. See the definitions of Credit Enhancement and Credit Enhancer in Appendix C – "DEFINITIONS" and Appendix D – "SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION".

Brief descriptions of the 2006 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, the USDA/RD Mortgage Guarantee Program, the private mortgage insurance acceptable to the Administration and the MHF Insurance Program is included as Appendix G. The financial statements of the Program, investments held in the Residential Revenue Bond Funds, information concerning Mortgage Loans financed under the Program, information

concerning the prepayment speeds of Mortgage Loans under the Program and the proposed forms of the opinions of Bond Counsel are included as Appendices H, J, K, L and M, respectively. The financial statements of the Maryland Housing Fund are included in Appendix I. **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 2006 Series Bonds, the Administration and the Program and descriptions of certain provisions of the Act, the 2006 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 2006 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 Investor Relations at (410) 514-7326 or by e-mail at [cda\\_bonds@dhcd.state.md.us](mailto:cda_bonds@dhcd.state.md.us).

## **THE 2006 SERIES BONDS**

### **General Description**

The 2006 Series Bonds are dated the date of delivery thereof. The 2006 Series Bonds will bear interest from the date of delivery until their maturity or earlier redemption. Interest on the 2006 Series Bonds will be payable semiannually on March 1 and September 1 of each year (each an “Interest Payment Date”) commencing September 1, 2006. If any such dates are not business days, then such payments will be made on the next business day. Interest on the 2006 Series Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. 2006 Series Bonds subsequently issued in exchange for or upon the registration or transfer of 2006 Series Bonds will be dated the date of authentication thereof and will bear interest from the Interest Payment Date next preceding the date of the authentication thereof, unless the date of such authentication is after a Record Date and on or prior to the next succeeding Interest Payment Date, in which case they will bear interest from such Interest Payment Date; provided, however, that if interest on the 2006 Series Bonds is in default, the 2006 Series Bonds issued in place of 2006 Series Bonds surrendered for transfer or exchange will bear interest from the date to which interest has been paid in full on the 2006 Series Bonds, or made available for payment in full on Outstanding Bonds. The 2006 Series Bonds will be issuable only as fully registered bonds and 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 2006 Series Bonds. Purchases of the 2006 Series Bonds will be in book-entry form only, in minimum principal amounts of \$5,000 or any integral multiple thereof. The 2006 Series Bonds mature on the dates and in the amounts set forth on the inside cover page of this Official Statement subject to earlier redemption as hereinafter described.

### **Application of 2006 Series Bond Proceeds**

*2006 Series A Bond Proceeds.* The Administration will deposit from the proceeds of the sale of the 2006 Series A Bonds \$12,020,000 into a Redemption Account established pursuant to the 2006 Series A Resolution for the purpose of transferring such funds to the Draw Down Indenture to be applied to the refunding within 90 days of delivery of the 2006 Series A Bonds a portion of the outstanding principal amount of the Administration’s Draw Down Bonds. As a result of the foregoing, (a) \$11,784,300 on deposit in the escrow fund established under the Draw Down Indenture will be transferred and deposited into the 2006 Series A Program Account of the Program Fund and made available to make or purchase

Mortgage Loans and (b) \$235,700 will be transferred and deposited into the Reserve Fund under the Bond Resolution.

The costs of issuance, including underwriters' compensation, relating to the 2006 Series A Bonds will be funded by the Administration from available moneys not included in the amounts set forth below. The application of proceeds of the 2006 Series A Bonds is summarized below:

|                                                                                             |                     |
|---------------------------------------------------------------------------------------------|---------------------|
| Transfer of money as a result of current refunding of a portion of Draw<br>Down Bonds into: |                     |
| 2006 Series A Program Account.....                                                          | \$11,784,300        |
| Reserve Fund.....                                                                           | 235,700             |
| Gross Proceeds of 2006 Series A Bonds.....                                                  | <u>\$12,020,000</u> |

*2006 Series B Bond Proceeds.* The Administration will deposit from the proceeds of the sale of the 2006 Series B Bonds \$47,959,907.25 into the 2006 Series B Program Account of the Program Fund to provide funds to make or purchase Mortgage Loans and \$959,200 into the Reserve Fund.

The costs of issuance, including underwriters' compensation, relating to the 2006 Series B Bonds will be funded by the Administration from available moneys not included in the amounts set forth below. The application of proceeds of the 2006 Series B Bonds is summarized below:

|                                              |                        |
|----------------------------------------------|------------------------|
| Deposit of 2006 Series B Bond Proceeds into: |                        |
| 2006 Series B Program Account.....           | \$47,959,907.25        |
| Reserve Fund.....                            | 959,200.00             |
| Gross Proceeds of 2006 Series B Bonds.....   | <u>\$48,919,107.25</u> |

*2006 Series C Bond Proceeds.* The Administration will deposit from the proceeds of the sale of the 2006 Series C Bonds, \$95,120,000 into a Redemption Account established pursuant to the 2006 Series C Resolution for the purpose of (i) transferring such funds to the Draw Down Indenture to be applied to the refunding within 90 days of delivery of the 2006 Series C Bonds a portion of the outstanding principal amount of the Administration's Draw Down Bonds; and (ii) transferring the remaining amount of such funds to the 1980 General Certificate to be applied to the payment at maturity or refunding within 90 days of delivery of the 2006 Series C Bonds of all or a portion of certain issues of Prior 1980 General Certificate Bonds. As a result of the foregoing, (a) \$74,385,000 on deposit in the escrow fund established under the Draw Down Indenture and (b) \$20,735,000 of prepayments and repayment of mortgage loans financed with the proceeds of the Prior 1980 General Certificate Bonds will be transferred and deposited into the 2006 Series C Program Account of the Program Fund and made available to make or purchase Mortgage Loans upon payment at maturity of the 2006 Series C Bonds with proceeds of additional Bonds bearing fixed interest rates to their maturities.

The costs of issuance, including underwriters' compensation, relating to the 2006 Series C Bonds will be funded by the Administration from available moneys not included in the amounts set forth below. The application of proceeds of the 2006 Series C Bonds is summarized below:

|                                                                                                                                                                                                 |                     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Transfer of money as a result of payment at maturity or refunding of certain<br>Draw Down Bonds and certain Prior 1980 General Certificate Bonds into<br>the 2006 Series C Program Account..... |                     |
|                                                                                                                                                                                                 | \$95,120,000        |
| Gross Proceeds of 2006 Series C Bonds.....                                                                                                                                                      | <u>\$95,120,000</u> |

*2006 Series D Bond Proceeds.* The Administration will deposit from the proceeds of the sale of the 2006 Series D Bonds, \$24,880,000 into a Redemption Account established pursuant to the 2006 Series D Resolution for the purposes of (i) paying at maturity or refunding within 90 days of delivery of

the 2006 Series D Bonds, all or a portion of certain series of Prior Bonds and (ii) transferring the remaining portion of such funds to the 1980 General Certificate to be applied to the payment at maturity or refunding within 90 days of delivery of the 2006 Series D Bonds of all or a portion of certain series of Prior 1980 General Certificate Bonds. As a result of the foregoing \$24,880,000 of prepayments and repayments of mortgage loans financed with proceeds of Prior Bonds and Prior 1980 General Certificate Bonds will be transferred and deposited into the 2006 Series D Program Account of the Program Fund and made available to make or purchase Mortgage Loans upon payment at maturity of the 2006 Series D Bonds with proceeds of additional Bonds bearing fixed interest rates to their maturities.

The costs of issuance, including underwriters' compensation, relating to the 2006 Series D Bonds will be funded by the Administration from available moneys not included in the amounts set forth below. The application of proceeds of the 2006 Series D Bonds is summarized below:

|                                                                                                                                                                                       |              |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| Transfer of money as a result of current refunding or payment at maturity of<br>Prior Bonds and Prior 1980 General Certificate Bonds into the 2006 Series D<br>Program Account: ..... | \$24,880,000 |
| Gross Proceeds of 2006 Series D Bonds.....                                                                                                                                            | \$24,880,000 |

## Redemption Provisions

### *Sinking Fund Redemption.*

The 2006 Series B Bonds maturing on September 1, 2025 are subject to mandatory redemption in part by lot on March 1, 2018, and on each September 1 and March 1 thereafter to and including September 1, 2025, at the principal amount thereof plus accrued interest to the redemption date, on the dates and in the amounts as follows:

| <u>Year</u><br><u>(March 1)</u> | <u>Principal</u><br><u>Amount</u> | <u>Year</u><br><u>(September 1)</u> | <u>Principal</u><br><u>Amount</u> |
|---------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| 2018                            | \$ 730,000                        | 2018                                | \$ 750,000                        |
| 2019                            | 765,000                           | 2019                                | 785,000                           |
| 2020                            | 805,000                           | 2020                                | 820,000                           |
| 2021                            | 840,000                           | 2021                                | 860,000                           |
| 2022                            | 880,000                           | 2022                                | 900,000                           |
| 2023                            | 925,000                           | 2023                                | 945,000                           |
| 2024                            | 970,000                           | 2024                                | 990,000                           |
| 2025                            | 1,010,000                         | 2025                                | 60,000                            |
| <hr/> Final maturity.           |                                   |                                     |                                   |

The 2006 Series B Bonds maturing on September 1, 2031, are subject to mandatory redemption in part by lot on September 1, 2025 and on each March 1 and September 1 thereafter to and including September 1, 2031, at the principal amount thereof plus accrued interest to the redemption date, on the dates and in the amounts as follows:

| <u>Year</u><br><u>(March 1)</u> | <u>Principal</u><br><u>Amount</u> | <u>Year</u><br><u>(September 1)</u> | <u>Principal</u><br><u>Amount</u> |
|---------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| 2026                            | \$1,060,000                       | 2025                                | \$ 975,000                        |
| 2027                            | 1,110,000                         | 2026                                | 1,085,000                         |
| 2028                            | 1,165,000                         | 2027                                | 1,135,000                         |
| 2029                            | 1,225,000                         | 2028                                | 1,195,000                         |
| 2030                            | 1,285,000                         | 2029                                | 1,250,000                         |
| 2031                            | 1,345,000                         | 2030                                | 1,315,000                         |
|                                 |                                   | 2031                                | 1,380,000                         |

---

Final maturity.

The 2006 Series B Bonds maturing on September 1, 2037 are subject to mandatory redemption in part by lot on March 1, 2032, and on each September 1 and March 1 thereafter to and including September 1, 2037, at the principal amount thereof plus accrued interest to the redemption date, on the dates and in the amounts as follows:

| <u>Year</u><br><u>(March 1)</u> | <u>Principal</u><br><u>Amount</u> | <u>Year</u><br><u>(September 1)</u> | <u>Principal</u><br><u>Amount</u> |
|---------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| 2032                            | \$1,410,000                       | 2032                                | 1,450,000                         |
| 2033                            | 1,480,000                         | 2033                                | 1,520,000                         |
| 2034                            | 1,555,000                         | 2034                                | 1,595,000                         |
| 2035                            | 1,630,000                         | 2035                                | 1,670,000                         |
| 2036                            | 1,715,000                         | 2036                                | 1,755,000                         |
| 2037                            | 1,800,000                         | 2037                                | 1,840,000                         |

---

Final maturity.

*Optional Redemption.*

The 2006 Series A Bonds and the 2006 Series B Bonds are subject to redemption at the option of the Administration, in whole or in part at any time, on or after September 1, 2015, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest thereon to but not including the date of redemption.

The 2006 Series C Bonds and the 2006 Series D Bonds are not subject to redemption prior to maturity.

*Special Redemption.* The 2006 Series A Bonds and the 2006 Series B Bonds are subject to special redemption, at the option of the Administration, in whole or in part, at any time and at the redemption prices available below, from:

- (1) Recovery Payments from any Series of Bonds;

(2) amounts on deposit in the Program Fund relating to the 2006 Series A Bonds and the 2006 Series B Bonds not expended for the purposes of financing Loans (see Appendix B – “THE PROGRAM – Existing Portfolio and Available Funds Under the Bond Resolution”); and

(3) excess Revenues from any Series of Bonds, including without limitation, amounts resulting from any reduction in the Reserve Fund from any Series of Bonds.

2006 Series A Bonds and 2006 Series B Bonds redeemed pursuant to such special redemption provision shall be redeemed at a price equal to the principal amount thereof, plus accrued interest thereon; provided, however, that September 1, 2031 Bonds redeemed pursuant to paragraph (2) above shall be redeemed at a price equal to the principal amount thereof plus a premium that maintains the same yield as the original purchase price thereof (as more fully set forth in the 2006 Series B Resolution), plus accrued interest to the date of redemption.

**As a result of the special redemption provisions, the Administration can make no assurance that a particular Bond will not be redeemed prior to its maturity. The Administration cannot accurately predict the volume of Recovery Payments, including Prepayments, or other moneys which will be available for the special redemption of Bonds in the future. See “Risks of Redemption as a Result of Nonorigination” and “Risks of Redemption as a Result of Prepayment and Other Excess Revenues” below.**

*PAC Bond Redemption.* An amount equal to 100% of the Prepayments of Mortgage Loans financed from the proceeds of the 2006 Series A Bonds and 2006 Series B Bonds (the “2006 Series Prepayments”) will be applied first to the redemption of the 2006 Series B Bonds maturing on September 1, 2031 (the “September 1, 2031 Bonds”), in an amount up to the cumulative amounts set forth in the following table, prior to the redemption of other Bonds. Such redemption shall be made so that the cumulative amount of such redemptions shall not exceed the cumulative amount shown as of each date set forth in the table below. Such redemptions may occur at such times and with such frequency as the Administration elects, but at least once in each semiannual period, commencing with the semiannual period ending September 1, 2006. Such cumulative amounts are derived from certain assumptions related to such Mortgage Loans including the assumption that all such Mortgage Loans are purchased as expected and that 2006 Series Prepayments on such Mortgage Loans are received at a rate equal to 75% of the Bond Market Association standard prepayment model (“BMA”, formerly known as “PSA”, the Public Securities Association) and that 100% of such amounts will be used to redeem September 1, 2031 Bonds. If the 2006 Series A Bonds and the 2006 Series B Bonds are redeemed from the proceeds of the 2006 Series A Bonds and the 2006 Series B Bonds not used to finance Mortgage Loans, the amount of the September 1, 2031 Bonds redeemed will be proportional to the total amount of the 2006 Series A Bonds and the 2006 Series B Bonds being redeemed, and the cumulative amounts set forth in the table below will be reduced on a proportional basis.

| Payment Date      | Cumulative Amount | Payment Date                 | Cumulative Amount |
|-------------------|-------------------|------------------------------|-------------------|
| September 1, 2006 | \$ 80,000         | March 1, 2011                | \$8,550,000       |
| March 1, 2007     | 405,000           | September 1, 2011            | 9,585,000         |
| September 1, 2007 | 985,000           | March 1, 2012                | 10,585,000        |
| March 1, 2008     | 1,810,000         | September 1, 2012            | 11,555,000        |
| September 1, 2008 | 2,865,000         | March 1, 2013                | 12,495,000        |
| March 1, 2009     | 4,060,000         | September 1, 2013            | 13,400,000        |
| September 1, 2009 | 5,235,000         | March 1, 2014                | 14,275,000        |
| March 1, 2010     | 6,375,000         | September 1, 2014            | 15,120,000        |
| September 1, 2010 | 7,480,000         | March 1, 2015 and thereafter | 15,525,000        |

If the amount available for such redemption is less than \$100,000, the Administration may delay redemption of the September 1, 2031 Bonds until the amount available for such redemption totals \$100,000 or more.

2006 Series Prepayments in excess of the amounts set forth in the above table and up to the cumulative amounts set forth in the following table, may be applied to the redemption of Bonds other than the September 1, 2031 Bonds; provided that such 2006 Series Prepayments may be used to redeem the September 1, 2031 Bonds if there are no other 2006 Series A Bonds and 2006 Series B Bonds Outstanding or if such redemption is necessary to preserve the tax-exempt status of the 2006 Series A Bonds and 2006 Series B Bonds. One hundred percent (100%) of the 2006 Series Prepayments in excess of cumulative amounts set forth in the following table, may be applied by the Administration to the redemption of Bonds, including the September 1, 2031 Bonds. The cumulative amounts in the following table are derived from certain assumptions related to such Mortgage Loans including the assumption that 2006 Series Prepayments are received at a rate equal to 400% of the BMA. If 2006 Series A Bonds and 2006 Series B Bonds are redeemed from the proceeds of the 2006 Series A Bonds and 2006 Series B Bonds not used to finance Mortgage Loans, the amount of the September 1, 2031 Bonds redeemed will be proportional to the total amount of the 2006 Series A Bonds and 2006 Series B Bonds being redeemed, and the cumulative amounts set forth in the table below will be reduced on a proportional basis.

| Payment Date      | Cumulative Amount | Payment Date                 | Cumulative Amount |
|-------------------|-------------------|------------------------------|-------------------|
| September 1, 2006 | \$ 425,000        | March 1, 2011                | \$33,345,000      |
| March 1, 2007     | 2,125,000         | September 1, 2011            | 35,955,000        |
| September 1, 2007 | 5,075,000         | March 1, 2012                | 38,240,000        |
| March 1, 2008     | 9,060,000         | September 1, 2012            | 40,245,000        |
| September 1, 2008 | 13,795,000        | March 1, 2013                | 42,000,000        |
| March 1, 2009     | 18,720,000        | September 1, 2013            | 43,540,000        |
| September 1, 2009 | 23,120,000        | March 1, 2014                | 44,885,000        |
| March 1, 2010     | 26,980,000        | September 1, 2014            | 46,065,000        |
| September 1, 2010 | 30,370,000        | March 1, 2015 and thereafter | 47,095,000        |

Prepayments on mortgage loans are commonly measured relative to a prepayment standard model. The BMA represents an assumed monthly rate of prepayment of the then outstanding principal balance of a pool of new mortgage loans. BMA does not purport to be either an historic description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans. One hundred percent (100%) BMA assumes prepayment rates of 0.2 percent per year of the then-unpaid principal balance of such mortgage loans in the first months of the life of the mortgage loans and an additional 0.2 percent per year in each month thereafter (for example, 0.4 percent per year in the second month) until the 30<sup>th</sup> month. Beginning in the 30<sup>th</sup> month

and in each month thereafter during the life of the mortgage loans, 100% BMA assumes a constant prepayment rate of six percent per year. Multiples of BMA will be calculated from this prepayment rate series. For example, 200% BMA assumes prepayment rates will be 0.4 percent per year in month one, 0.8 percent per year in month two, reaching 12% per year in month 30 and remaining constant at 12% per year thereafter.

The following table sets forth the last year and weighted average number of years that the September 1, 2031 Bonds will be Outstanding (“Average Life”) based on the receipt of 2006 Series Prepayments at certain percentages of the BMA and certain assumptions related to the Mortgage Loans financed from the proceeds of the 2006 Series A Bonds and 2006 Series B Bonds, including the assumptions that (1) all such Mortgage Loans are purchased at the times currently anticipated by the Administration, (2) 2006 Series Prepayments in amounts in excess of 75% BMA and not exceeding a cumulative percentage of 400% of the BMA are applied when received to redeem 2006 Series A Bonds and the 2006 Series B Bonds other than the September 1, 2031 Bonds and (3) 2006 Series Prepayments in excess of 400% of the BMA are applied proportionally to the redemption of all 2006 Series A Bonds and 2006 Series B Bonds then Outstanding, including the September 1, 2031 Bonds.

| Percent of BMA<br>Standard<br>Prepayment<br>Model | Last Year<br>Outstanding | Average Life |
|---------------------------------------------------|--------------------------|--------------|
| 0%                                                | 2031                     | 22.70        |
| 25%                                               | 2031                     | 12.86        |
| 50%                                               | 2019                     | 6.88         |
| 75%                                               | 2015                     | 5.00         |
| 100%                                              | 2015                     | 5.00         |
| 200%                                              | 2015                     | 5.00         |
| 300%                                              | 2015                     | 5.00         |
| 400%                                              | 2015                     | 5.00         |
| 500%                                              | 2015                     | 4.94         |

However, 2006 Series Prepayments in excess of 400% of the BMA are not required to be applied proportionally to the redemption of all 2006 Series A Bonds and 2006 Series B Bonds then Outstanding. Actual events, including, among others, the actual receipt of 2006 Series Prepayments and the application of such 2006 Series Prepayments in excess of 400% of the BMA to the redemption of September 1, 2031 Bonds in amounts that are less than or greater than an amount that is proportional to all 2006 Series A Bonds and 2006 Series B Bonds then Outstanding, will likely be different than the events assumed in determining the above table. Therefore, the actual last year and weighted average number of years that the September 1, 2031 Bonds will be Outstanding may differ from any of the years or percentages stated above.

***Cross-Call Practices.*** Unless otherwise provided in a Series Resolution, or required by the 1986 Code, excess Revenues and Prepayments of Mortgage Loans financed with proceeds of any Series of Bonds, to the extent transferred to the Redemption Fund, may be applied to the redemption of the Series having the highest effective bond yield unless otherwise directed by the Administration. As a result, the 2006 Series A Bonds and 2006 Series B Bonds may be redeemed from excess Revenues and Prepayments of Mortgage Loans financed with the proceeds of other Series of Bonds, except that the September 1, 2031 Bonds shall not be so redeemed until no other 2006 Series B Bonds remain Outstanding. Excess Revenues and Prepayments generated from the 2006 Series A Bonds and 2006 Series B Bonds may be applied to the redemption of other Series of Bonds, except as described above under the heading “PAC Bond Redemption.”

Before June 2, 2003, Bonds redeemed by the Administration under the Bond Resolution were redeemed with prepayments attributable to the same Series of Bonds or other Series of Bonds with the same date of issuance. Going forward, the Administration generally expects to apply Excess Revenues or Prepayments to the redemption of the Series having the highest effective bond yield. The Administration reserves the right to redeem Bonds, including the 2006 Series A Bonds and 2006 Series B Bonds, that do not have the highest effective bond yield under the terms and conditions described in the previous paragraph.

*“Ten-Year Rule” Requirements.* The 2006 Series Bonds are being issued under a common plan of finance. From the issue date of the 2006 Series A Bonds and the 2006 Series B Bonds to the tenth anniversary of such issue date, the 1986 Code requires that an increasing portion of repayments of principal and Prepayments of Mortgage Loans attributable to the proceeds of the 2006 Series Bonds be applied to pay the principal portion of debt service or to redeem the 2006 Series A Bonds and the 2006 Series B Bonds (the “Ten Year Rule”). From and after the tenth anniversary of such issue date, the Ten Year Rule requires that all of the repayments of principal and Prepayments of Mortgage Loans attributable to the proceeds of the 2006 Series A Bonds and the 2006 Series B Bonds be applied to pay the principal portion of debt service or to redeem the 2006 Series A Bonds and the 2006 Series B Bonds. A table showing the percentages of repayments of principal and Prepayments received from each Series of Bonds previously issued under the Bond Resolution which are required to be applied in this manner is included as Appendix F hereto.

*Risks of Redemption as a Result of Nonorigination.* Subject to a *de minimis* exception, proceeds relating to the 2006 Series A Bonds and the 2006 Series B Bonds deposited directly to the Program Fund to make or purchase Mortgage Loans and not used to finance Mortgage Loans within 42 months of the date of issuance will be used to redeem the 2006 Series A Bonds and the 2006 Series B Bonds as required by the 1986 Code. See Appendix B – “THE PROGRAM – Existing Portfolio and Available Funds Under the Bond Resolution.”

On October 20, 2003, the Administration made an unused proceeds call from certain Prior Bonds in the amount of \$32,400,000. For more detail, refer to the filing with the National Recognized Municipal Securities Repositories on October 7, 2003 and see the Department’s website, [www.dhcd.state.md.us](http://www.dhcd.state.md.us), CDA Bonds – Investor Information.

*Risks of Redemption as a Result of Prepayments and Other Excess Revenues.* All Mortgage Loans permit partial or complete prepayment without penalty. Mortgage Loans also may be terminated prior to their respective final maturities as a result of events such as default, sale (including potentially a sale of all or part of the Mortgage Loan portfolio), condemnation or casualty loss. A number of factors, including general economic conditions, homeowner mobility and mortgage market interest rates, will affect the rate of actual prepayments for a particular portfolio of mortgage loans. Therefore, it is difficult to predict prepayments for the Administration’s portfolio from available data about other pools of mortgage loans. For information concerning the prepayment speeds of Mortgage Loans under the Program, see Appendix L – “RESIDENTIAL REVENUE BOND PROGRAM PREPAYMENT SPEED OF MORTGAGE LOAN PORTFOLIO BY BOND ISSUANCE.”

The investment of funds held under the 1980 General Certificate, which has been used to finance the Administration’s Single Family Program since 1980, have historically generated significant revenues in excess of the amount necessary to pay scheduled principal of and interest on bonds and required bond redemptions. If, in the future, the Administration receives excess Revenues under the Bond Resolution and determines not to make or purchase new Mortgage Loans with excess Revenues, the Administration will apply such excess Revenues (together with funds made available as a result of the reduction in

reserve fund requirements) in accordance with the provisions of the Bond Resolutions and federal tax laws, which provisions may require the special redemption of Bonds from such excess Revenues.

*General Provisions.* If fewer than all of the 2006 Series Bonds of like Series and maturity are to be redeemed and are no longer held in book-entry form, the Administration will determine the particular 2006 Series Bonds or portions thereof to be called for redemption. The Trustee will mail notice of the redemption to the registered owners of any 2006 Series Bonds or portions thereof to be redeemed not less than 15 days (or, in the case of 2006 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 2006 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 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 2006 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 2006 Series Bonds will cease to bear interest and such 2006 Series Bonds will no longer be considered as outstanding under the Bond Resolution.

### **DTC and Book-Entry**

At the time of delivery of the 2006 Series Bonds, DTC will act as securities depository for the 2006 Series Bonds. The ownership of one fully registered 2006 Series Bond for each Series and maturity, in the aggregate principal amount of such maturity, initially will be registered in the name of Cede & Co., as nominee for DTC, or such other name as may be requested by an authorized representative of DTC, and deposited with DTC or its designated custodian. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust and 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, GSCC, MBSCC and EMCC are 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"). DTC has S&P's highest rating: AAA. 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) and [www.dtc.org](http://www.dtc.org).

Purchases of 2006 Series Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2006 Series Bonds on DTC's records. The ownership interest of each actual purchaser of each 2006 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 2006 Series Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2006 Series Bonds, except in the event that use of the book-entry system for the 2006 Series Bonds is discontinued.

To facilitate subsequent transfers, all 2006 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 2006 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 2006 Series Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2006 Series Bonds are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

The Trustee will make payments of principal of, redemption premium, if any, and interest on the 2006 Series Bonds to Cede & Co., or such other DTC nominee as may be requested by an authorized representative of DTC. DTC's current practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Administration or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium (if any) and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Administration or the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners entitled thereto is the responsibility of Direct and Indirect Participants. DTC, the Trustee and the Administration are not responsible for and make no representations concerning the manner of, or any charges that may be associated with, payments by Direct Participants or Indirect Participants to Beneficial Owners.

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.

Redemption notices shall be sent to DTC. If less than all of the 2006 Series Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

DTC, Cede & Co. or such other DTC nominee will not consent or vote with respect to the 2006 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 for any consent or vote. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2006 Series Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

**Neither the Administration nor the Trustee will have any responsibility or obligation to the Direct Participants or the Beneficial Owners with respect to (A) the accuracy of any records maintained by DTC or any Participant; (B) the payment by any Participant of any amount due to any Beneficial Owner in respect of the principal of and premium, if any, and interest on the 2006 Series Bonds; (C) the delivery or timeliness of delivery by any Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Bond Resolutions to be given to Bondholders; or (D) any other action taken by DTC, or its nominee, Cede & Co., as Bondholder, including the effectiveness of any action taken pursuant to an Omnibus Proxy.**

The Administration and the Trustee cannot give any assurances that DTC will distribute payments of principal of, redemption premium, if any, and interest on the 2006 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 payments or notices received by them or do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement.

So long as Cede & Co. is the registered owner of the 2006 Series Bonds, as nominee of DTC, references in this Official Statement to the owners of the 2006 Series Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners and Cede & Co. will be treated as the only Bondholder of 2006 Series Bonds for all purposes under the Bond Resolutions.

The Administration may enter into amendments to the agreement with DTC or successor agreements with a successor securities depository, relating to the book-entry system to be maintained with respect to 2006 Series Bonds without the consent of Beneficial Owners or Bondholders.

DTC may discontinue providing its services as a depository with respect to the 2006 Series Bonds at any time by giving reasonable notice to the Administration or Trustee. Under such circumstances, in the event that a successor depository is not obtained bond certificates will 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, bond certificates will be printed and delivered.

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.

## **Definitive Bonds**

DTC (or a successor securities depository) may discontinue providing its service with respect to the 2006 Series Bonds at any time by giving notice to the Administration and discharging its responsibilities with respect thereto under applicable law. In addition, the Administration, in its sole discretion and without the consent of any other person, may elect not to use or may terminate the services of DTC (or a successor securities depository). Under such circumstances, 2006 Series Bonds in definitive form will be delivered as provided in the Bond Resolutions and registered in accordance with the instructions of the purchasers, and the following requirements of the Bond Resolutions will apply. Interest on the 2006 Series Bonds will be payable by check or draft mailed by the Trustee to the registered owner thereof or, upon the request of a registered owner of 2006 Series Bonds having a principal amount of \$1,000,000 or more, by wire transfer from the Trustee to the registered owner thereof. The principal of and redemption premium, if any, are payable at the corporate trust office of the Trustee upon presentation of the 2006 Series Bonds on or after the date of maturity or redemption. Each exchange or transfer of the 2006 Series Bonds may require the payment by the owner of any tax, fee or other charge imposed by law and a reasonable transfer fee of the Trustee.

## SECURITY FOR THE BONDS

### Provisions of 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 Administration may, from time to time, enter into Qualified Hedges which may be secured on a parity basis with the Bonds. See "SECURITY FOR THE BONDS - Interest Rate Swap" and Appendix D - "SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION."

**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.* The Mortgage Loans expected to be financed with the proceeds of the 2006 Series 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 the 2006 Series Bonds will be pledged as Program Assets under the Bond Resolution, and the Trustee will retain all right, title and interest in each such Mortgage Loan or participation interest for the equal and ratable security of the Bonds.

Pursuant to a Mortgage Participation Agreement, dated December 1, 1998, as amended (the "Mortgage Participation Agreement"), among the Administration, Manufacturers and Traders Trust Company (successor by merger to 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 or 40 years, with equal monthly payments of principal and interest. In addition, the Administration offers loan products with a five-year interest-only payment period followed by a 30-year period of principal and interest payments; and a seven-year period of interest-only payments followed by a 23- or 33-year period of principal and interest payments. 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. Loans have been and may be insured by FHA or private mortgage insurance, acceptable to the Administration, or guaranteed by VA or USDA/RD. In addition, Loans may be insured by the Maryland Housing Fund, and Loans with a loan-to-value ratio of 75% or less may be uninsured if

certain requirements of the Administration are met. See Appendix G – “MORTGAGE INSURANCE AND GUARANTEE PROGRAMS – The MHF Insurance Program.” Proceeds of mortgage insurance or a 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 and each of the Mortgage Loans expected to be financed with the proceeds of the 2006 Series Bonds will be 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 2006 Series 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 that 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, 2005, includes investments at fair value. As of September 30, 2005, the available balance in the Reserve Fund was \$22,467,636, of which \$2,450,628 was cash equivalents. The fair value of investments was \$20,017,008, of which \$18,950,186 was the book value of investments and \$1,066,822 was the increase in fair value of investments. See Appendix J – “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 2006 Series A Proceeds Account and the 2006 Series B Proceeds Account of the Program Fund relating to the 2006 Series A Bonds and the 2006 Series B 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 that 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. As of September 30, 2005, the fund had purchased Mortgage Loans with an original principal balance of \$8,764,712. As of September 30, 2005, the Collateral Reserve Fund held Mortgage Loans with an outstanding principal balance of \$5,452,192, and Investment Obligations in the amount of \$5,492,361. See Appendix J – “INVESTMENTS HELD IN THE RESIDENTIAL REVENUE BOND FUNDS” herein.

In February of 2004, the Administration made a contribution of \$45,000,000 to a new account called the Warehouse Loan Fund, established under the Collateral Reserve Fund of the Bond Resolution, for purchasing loans until a subsequent issuance is closed. Program Funds from a new issuance may be used to purchase loans from the Warehouse Loan Fund and return proceeds to the Warehouse Loan Fund. The Administration expects to apply certain amounts deposited into the Program Fund from proceeds of the 2006 Series Bonds to purchase Mortgage Loans from the Warehouse Loan Fund. For information on the status of the Warehouse Loan Fund, see Appendix B – “THE PROGRAM – Existing Portfolio and Available Funds Under the Bond Resolution – Status of Available Funds” and Appendix J – “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 Parity Obligations 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 Parity Obligations,

will be sufficient, in the judgment of an Authorized Officer of the Administration, to pay the principal of and interest on all Outstanding Bonds and other Parity Obligations described in the calculation in the current and in each succeeding Bond Year. A Cash Flow Statement shall include all Outstanding Bonds and other Parity Obligations, 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

Contract Obligations. 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 and other Parity Obligations, will equal or exceed the aggregate principal amount of and accrued but unpaid interest on Outstanding Bonds and other Parity Obligations; 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 that 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 that 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". The Administration expects that moneys held in the Program Account for the 2006 Series C Bonds and the 2006 Series D Bonds will be invested in Investment Obligations selected by the Administration. As of September 30, 2005, 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 J – "INVESTMENTS HELD IN THE RESIDENTIAL REVENUE BOND FUNDS".

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 a 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, private mortgage insurance, the VA and the USDA/RD guarantee programs, private mortgage insurance policies and the Maryland Housing Fund (“MHF”) mortgage insurance program. 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. Except for Loans with a loan-to-value ratio of 75% or less, each of the Loans expected to be financed with the proceeds of the 2006 Series Bonds will be secured by Credit Enhancement in the form of FHA mortgage insurance, private mortgage insurance, a VA or USDA/RD guarantee, or MHF insurance. Uninsured Loans with a loan-to-value ratio of 75% or less must be supported by secondary financing acceptable to the Administration, which may include certain grants, and loans from governmental or non-profit organization that are non-amortizing or that amortize but at an interest rate that is below market. In the future, Loans may be, 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 2006 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 Manufacturers and Traders Trust Company, Baltimore, Maryland, as successor trustee, originally adopted as of June 29, 1984, and amended and restated as of November 18, 2003 between the Administration and Manufacturers and Traders Trust Company as trustee. 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, an 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, 2005, includes investments at fair market value. As of September 30, 2005, the available balance in the General Bond Reserve Fund was \$37,112,239, of which \$7,851,206 was cash equivalents. The fair value of investments was \$29,261,033, of which \$29,658,373 was the book value of investments and (\$397,340) was the decrease 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 30 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, 2005, 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) \$658,548 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 that 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 2006 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.

### **Interest Rate Swap**

The Administration has entered into a master swap agreement (the “Master Swap Agreement”) with Bear Stearns Financial Products Inc. (the “Swap Provider”). The Administration has entered into an interest rate swap under the Master Swap Agreement in connection with the 2004 Series I Bonds to attain a synthetic fixed rate with respect to all of the 2004 Series I Bonds. The summary below sets forth major terms of this interest rate swap transaction.

**Interest Rate Swap  
(In Thousands)**

| <u>Series of Bonds</u> | <u>Initial Notional Amount</u> | <u>Aggregate Outstanding Notional Amount</u> | <u>Effective Date</u> | <u>Fixed Rate Paid by Administration</u> | <u>Variable Rate Received by Administration</u> <sup>(1)</sup> | <u>Termination Date</u> |
|------------------------|--------------------------------|----------------------------------------------|-----------------------|------------------------------------------|----------------------------------------------------------------|-------------------------|
| 2004 Series I          | \$20,000                       | \$20,000                                     | 09/01/05              | 3.8525%                                  | 64% of LIBOR plus .29%                                         | 09/01/35 <sup>(2)</sup> |

(1) “LIBOR” means the monthly London Inter Bank Offering Rate.

(2) The Administration has the option to terminate this Swap Agreement in whole or in part without any Termination Payment on September 1, 2014 and on each March 1 and September 1 thereafter. If the option is exercised in part, the applicable Notional Amounts shall be reduced pro rata.

In furtherance of the Administration’s general objectives for overall debt management as set forth in the Administration’s Interest Rate Exchange Agreement Policy, the Administration may enter into additional interest rate swaps with the Swap Provider under the Master Swap Agreement or with other swap providers pursuant to master swap agreements.

Scheduled payments made to the Administration by the Swap Provider under the Master Swap Agreement constitute Hedge Receipts under the Resolution and are pledged as security for the Bonds. The requirement to make scheduled payments to the Swap Provider by the Administration under the Master Swap Agreement is entitled to the lien created by the pledge under the Resolution and is therefore on a parity with the Bonds. The Administration’s rights and obligations under the Master Swap Agreement does not alter the Administration’s obligation to pay the principal of, premium, if any, and interest on the Bonds.

Under certain circumstances (including certain events of default with respect to the Administration or the Swap Provider), an interest rate swap pursuant to the Master Swap Agreement may be terminated in whole or in part prior to the maturity of the Bonds in connection with which the interest rate swap was entered into. Following any termination of an interest rate swap, either the Administration or the Swap Provider may owe a Termination Payment to the other party, depending upon market conditions. Under certain conditions, the Administration could owe a Termination Payment to the Swap Provider, which could be substantial. Such Termination Payment would be payable on a basis subordinate to the payment of principal of and interest on the Bonds, other than any Subordinate Bonds (the Administration, to date, has not issued Subordinate Bonds). The Administration has agreed with the Swap Provider that, for so long as the Administration owes a Termination Payment to the Swap Provider, it will not direct the Trustee to deposit “Excess Revenues” into the Redemption Account of the Redemption Fund for the purpose of redeeming Bonds. “Excess Revenues” for this purpose means Revenues in excess of amounts needed, or reasonably anticipated to be needed as shown in the Administration’s most recent Cash Flow Statement, (1) to make payments of interest and principal, at maturity or mandatory redemption due on the Bonds, to pay expenses in connection with any Credit Facility relating to the Bonds or as specified by the Administration and to fund the Reserve Fund in an amount sufficient to cause the amount on deposit in the Reserve Fund to equal the Reserve Requirement; (2) to be applied to the redemption of Bonds or to make or finance mortgage loans or participations in mortgage loans that do not bear interest in order to maintain the tax-exempt status of the Bonds; and (3) to be applied to the redemption of Bonds pursuant to specific undertakings to Owners of Bonds of a Series in a Series Resolution. Notwithstanding the foregoing, the Administration is not required to apply Revenues to such a Termination Payment if such payment would prevent the Administration from filing an acceptable Cash Flow Statement with the Trustee pursuant to the Resolution.

The swap under the Master Swap Agreement contains specific collateral requirements that are in effect with respect to the Administration and the Swap Provider. The swap requires a specific collateral level based on the respective credit rating of each Swap Provider and the Administration, and the value of such swap. Generally, the value threshold levels decline as the credit ratings of each party decline.

## **TAX EXEMPTION AND RELATED CONSIDERATIONS**

### **Federal Law**

The proceeds from the 2006 Series A Bonds and 2006 Series B Bonds will be used to finance Loans on Single Family Residences. The proceeds of the 2006 Series C Bonds and the 2006 Series D Bonds will be used to finance Loans on Single Family Residences on or after the payment at maturity of the 2006 Series C Bonds and the 2006 Series D Bonds. 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 2006 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 2006 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, or 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 2006 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. The Administration intends to make or purchase the Mortgage Loans financed with the proceeds of the 2006 Series Bonds and any other Series of Bonds which may be designated by the Administration at interest rates that comply with such requirements. Pursuant to the 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 2006 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 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 2006 Series Bonds issued to finance such Mortgage Loans are outstanding. See Appendix B – “THE PROGRAM – Eligible Mortgage Loans”. Noncompliance with the requirements in the Program documents and the Series Resolutions would cause interest on the 2006 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 2006 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, Washington, D.C., Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the 2006 Series Bonds is excludable from gross income of the holders thereof for federal income tax purposes. Bond Counsel is further of the opinion that interest on the 2006 Series A Bonds and the 2006 Series C Bonds is not, and interest on the 2006 Series B Bonds and the 2006 Series D Bonds is, a tax preference item for purposes of the alternative minimum tax imposed on individuals and corporations under the 1986 Code. However, interest on the 2006 Series A Bonds or the 2006 Series C Bonds held by a corporation (other than an S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to federal alternative minimum tax because of its inclusion in the adjusted current earnings of a corporate holder. Interest on the 2006 Series Bonds held by foreign corporations may be subject to the branch profits tax imposed by the 1986 Code.

Ownership of the 2006 Series Bonds may result in other 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, certain S corporations and taxpayers who may be deemed to have incurred or continued debt to purchase or carry the 2006 Series Bonds. Bond Counsel expresses no opinion as to these matters.

The September 1, 2031 Bonds are being sold at a premium. An amount equal to the excess of the issue price of a September 1, 2031 Bond over its stated redemption price at maturity constitutes original issue premium on such September 1, 2031 Bond. An initial purchaser of a September 1, 2031 Bond must generally amortize any premium periodically over the term of a September 1, 2031 Bond in accordance with Section 171 of the Code. Purchasers of the September 1, 2031 Bonds should consult with their tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to the state and local tax consequences of owning a September 1, 2031 Bond.

*The above summary of possible indirect tax consequences may not be exhaustive. All purchasers of the 2006 Series Bonds should consult their tax advisors regarding the possible federal income tax consequences of ownership of the 2006 Series Bonds.*

The opinions referred to herein as to the treatment of interest on the 2006 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 2006 Series Bonds so as to affect adversely the exclusion from gross income for federal income tax purposes applicable to the 2006 Series Bonds. Under such circumstances, the Administration has no obligation to redeem or to increase the rate of interest paid on the 2006 Series Bonds. Each purchaser of the 2006 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 2006 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 2006 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 2006 Series Bonds should consult their tax advisors regarding the tax status of the 2006 Series Bonds in a particular state or local jurisdiction other than the State.

### **FINANCIAL STATEMENTS FOR THE PROGRAM**

The financial statements for the years ended June 30, 2005 and June 30, 2004 of the Community Development Administration Residential Revenue Bonds (the "Fund") have been audited by Reznick Group, P.C. as described in the Independent Auditor's Report of Reznick Group, P.C. accompanying the financial statements in Appendix H to this Official Statement. As indicated in the report of the auditors, such financial statements have been prepared in conformity with accounting principles generally accepted in the United States and audited in accordance with auditing standards generally accepted in the United States. Unaudited financial statements for the Residential Revenue Bonds of the Administration for the three-month period ending September 30, 2005 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 2006 Series Bonds or in any way contesting or affecting the validity of the 2006 Series Bonds, the Bond Resolutions or other proceedings of the Secretary taken with respect to the authorization, issuance or sale of the 2006 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 2006 Series Bonds are subject to receipt of the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Washington, D.C. Bond Counsel, which will be in substantially the form set forth in Appendix M. 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, Katten Muchin Rosenman LLP, Washington, D.C.

## **LEGALITY FOR INVESTMENT**

Under the Act, the 2006 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 2006 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 2006 Series A Bonds and the 2006 Series B Bonds are being purchased by Ferris, Baker Watts, Incorporated, Bear, Stearns & Co. Inc., UBS Securities LLC, Citigroup Global Markets Inc., Loop Capital Markets, L.L.C., M.R. Beal & Company and Merrill Lynch & Co. (collectively, the “Series A and B Underwriters”) on a negotiated basis. The Series A and B Underwriters have jointly and severally agreed to purchase all but not less than all of the 2006 Series A Bonds and the 2006 Series B Bonds from the Administration at the prices set forth on the inside cover page hereof. The Series A and B Underwriters will receive compensation in the form of an underwriting fee aggregating \$441,731.25 with respect to the 2006 Series A Bonds and the 2006 Series B Bonds.

The 2006 Series C Bonds and the 2006 Series D Bonds are being purchased by Ferris, Baker Watts, Incorporated, Bear, Stearns & Co. Inc. and UBS Securities LLC (collectively, the “Series C and D Underwriters”) on a negotiated basis. The Series C and D Underwriters have jointly and severally agreed to purchase all but not less than all of the 2006 Series C Bonds and the 2006 Series D Bonds from the Administration at the prices set forth on the inside cover page hereof. The Series C and D Underwriters will receive compensation in the form of an underwriting fee aggregating \$113,900 with respect to the 2006 Series C Bonds and the 2006 Series D Bonds.

The obligation of the related Underwriters to purchase the 2006 Series Bonds will be subject to certain terms and conditions, including the approval of certain legal matters by counsel and certain other conditions. The initial public offering prices of the applicable 2006 Series Bonds may be changed, from time to time, by the related Underwriters. The related Underwriters may offer and sell the 2006 Series Bonds to certain dealers (including dealers depositing 2006 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 inside cover page hereof.

## **RATINGS**

Fitch Ratings (“Fitch”) has assigned to the 2006 Series A Bonds and the 2006 Series B Bonds the rating of “AA” and to the 2006 Series C Bonds and the 2006 Series D Bonds the rating of “AA/F1+”. Moody’s Investors Service (“Moody’s”) has assigned to the 2006 Series A Bonds and the 2006 Series B Bonds the rating of “Aa2” and to the 2006 Series C Bonds and the 2006 Series D Bonds the rating of “Aa2/MIG1”. Each rating reflects only the view of Fitch and Moody’s, respectively, and an explanation of 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 2006 Series Bonds. The

Administration has no obligation or duty to provide Owners of the 2006 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 (which ends June 30), the following annual financial information and operating data:

- (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 2006 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 2006 Series Bonds,
- vii. modifications to rights of Bondholders,
- viii. bond calls,
- ix. defeasances,
- x. release, substitution, or sale of property securing repayment of the 2006 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 2006 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 2006 Series Bonds, and will be enforceable by any holder of 2006 Series Bonds. Such holders' rights to enforce the provisions of this undertaking are limited to a right to obtain specific performance 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 applicable Series Resolution.

The provisions of the undertaking with respect to the Rule described above may be amended, without the consent of the holders of the 2006 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 2006 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. The descriptions of the FHA insurance program, the VA mortgage guaranty program, the USDA/RD mortgage guarantee program, private mortgage insurance, and the MHF insurance program do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the applicable statutes and regulations; and the description of private mortgage insurance does not purport to be comprehensive or definitive and is qualified by reference to applicable insurance policies and other such applicable information.

**Financial Advisor**

Caine Mitter & Associates Incorporated has served as financial advisor to the Administration in connection with the sale of the 2006 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 2006 Series Bonds. The Financial Advisor is selected by the Administration through a competitive process in accordance with State procurement law. Compensation of the Financial Advisor is not contingent on the sale of the 2006 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 2006 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 2006 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 2006 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  
MARYLAND DEPARTMENT OF HOUSING AND  
COMMUNITY DEVELOPMENT

By: /s/ Mary A. Burkholder  
Mary A. Burkholder, Director

February 8, 2006

## **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. The Administration’s finance office reports directly to the Director of the Administration, and receives oversight, advice, and guidance from the Chief Financial Officer of the Department as it relates to financial matters. MHF’s finance function is a part of the Division of Finance and Administration under the direction of the Chief Financial Officer. The

Department's Chief Financial Officer provides advice and guidance 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 CDA Bonds - Investor Relations at (410) 514-7326 or by e-mail at [cda-bonds@mdhousing.org](mailto:cda-bonds@mdhousing.org).

### **Principal Executive Officers**

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

*Victor L. Hoskins* was appointed by the Governor as Secretary of the Department on January 15, 2003, and duly commissioned as of February 28, 2003. Mr. Hoskins has over 20 years of experience in real estate and economic development in both the public and private sectors. Prior to his appointment, he was a Senior Vice President of Strategic Alliances for UrbanAmerica, L.P., a real estate investment company focusing on acquiring and developing commercial real estate in inner city communities. Mr. Hoskins also served as Deputy Commissioner of Housing and Community Development for Baltimore City and before that as Assistant Secretary for Marketing for the Maryland Department of Business and Economic Development. Mr. Hoskins received a B.A. in Psychology/Urban Studies from Dartmouth College and a Master in City Planning from the Massachusetts Institute of Technology.

*Shawn S. Karimian* was appointed by the Secretary, with the approval of the Governor, as Deputy Secretary of the Department effective March 17, 2003. Most recently, Mr. Karimian was a Technical Manager for Lucent Technologies. Previously, he served as Director of Construction and Building Inspection for the Baltimore City Department of Housing and Community Development. Mr. Karimian holds a Bachelor of Science, Mechanical Engineering (BSME) and a Master of Science, Mechanical Engineering (MSME) from the University of Tulsa. In addition, he holds a Master of Business Administration from the University of Phoenix.

*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.

*Mary A. Burkholder* was appointed by the Secretary, with the approval of the Governor, as an Assistant Secretary of the Department and Director of the Administration, effective February 2, 2004. Prior to joining the Department, Ms. Burkholder served as Senior Associate with the economic consulting firm, ZHA, Inc. Ms. Burkholder also served as Deputy Director of the Illinois Department of Commerce and Community Affairs and as Assistant Secretary of Marketing for the Maryland Department of Business and Economic Development. Ms. Burkholder holds a Bachelor of Arts degree from the University of Michigan and a Master of Community Planning from the University of Maryland.

*Roy A. Westlund* was appointed Deputy Director, Bond Finance, for the Administration, effective as of January 1, 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.

*Edward G. Landon* was appointed Deputy Director, Community Development, for the Administration, effective September 7, 2004. Prior to joining the Department, Mr. Landon worked with the Housing Authority of Baltimore City for 18 years, serving as Associate Deputy Director for Engineering and Construction. Mr. Landon received a B.S. in Engineering from the University of Maryland and an M.B.A. degree from the University of Baltimore.

### **Senior Staff of the Administration**

Senior staff members of the Administration are as follows:

| <u>Name</u>           | <u>Position</u>                 |
|-----------------------|---------------------------------|
| Vacant                | Director, Finance               |
| Tonna Phelps          | Director, Single Family Housing |
| Patricia R. Sylvester | Director, Multi-Family Housing  |

As of September 30, 2005, the staff of the Administration consists of approximately 116 positions and an additional 11 vacancies, including more than 110 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, 29 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.

*Tonna Phelps* was appointed Director of Single Family Housing, effective August 11, 2003, having served as Acting Director since January 2003. Ms. Phelps has been with the Administration since 1977. For the ten years preceding her appointment as Acting Director, she was the Administrator for Development Assistance Programs under the Administration's Multifamily Programs, managing federal HOME funds, the Maryland Affordable Housing Trust, and other federal and State programs. She has also served as Administrator for Mortgage Purchase under Single Family Housing. In addition, Ms. Phelps currently represents the Administration on various interagency committees throughout State government. Ms. Phelps holds a B.S. in Business Administration from the University of Baltimore.

*Patricia Rynn Sylvester*, Director, Multi-Family Housing has been with the Department since October 1997. She served as Deputy Director of Multifamily Housing - Housing Development Programs from September 1999 until her appointment as Director of Single Family Housing in August 2002. She returned to Multifamily Housing as Director in January 2003. 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. 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.

*Multi-Family Housing.* Multi-Family Housing includes the Department's Housing Production Programs and Rental Service Programs. The Department's Housing Production Programs encompass a

number of finance programs which support the production, rehabilitation 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.

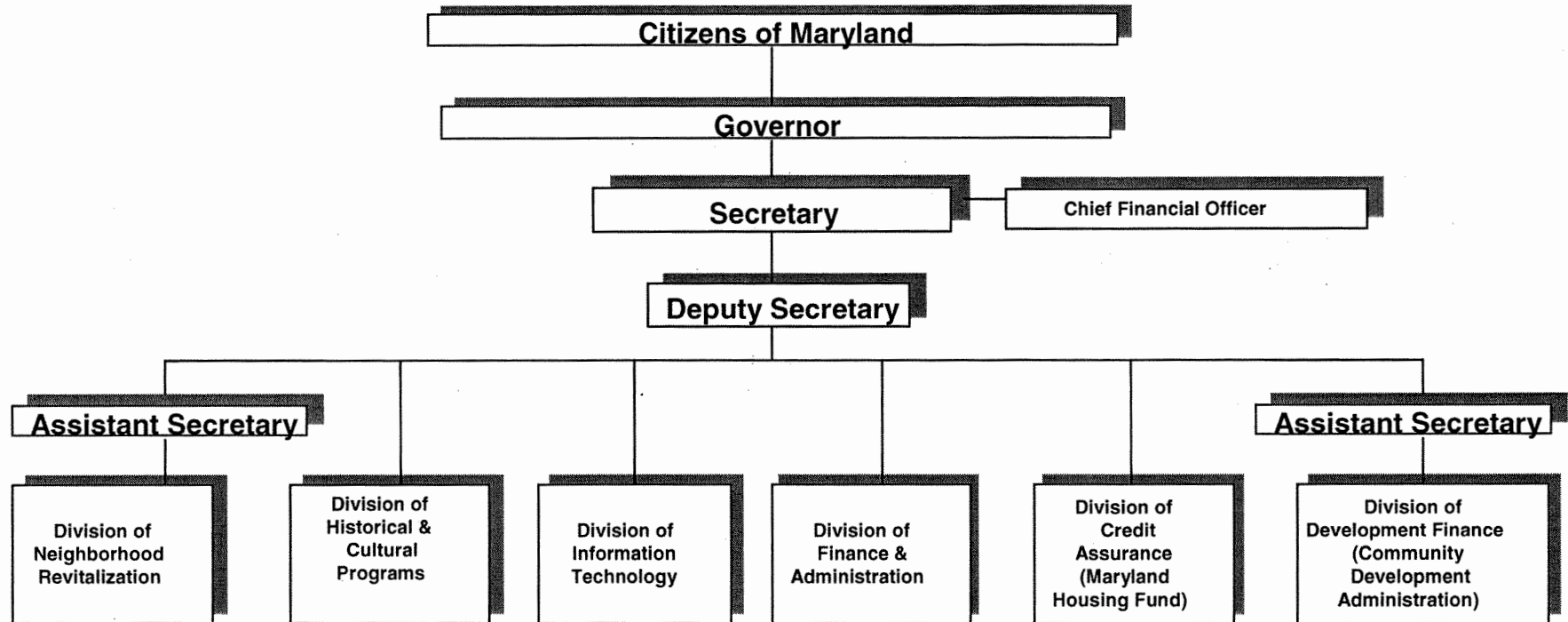
In addition, the Department was selected by HUD as the Contract Administrator for Project-Based Section 8 Housing Assistance Payment ("HAP") Contracts for the State of Maryland. As Contract Administrator, the Department makes payments to each property owner with the terms of the HAP Contracts and HUD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

### **Infrastructure Financing Programs**

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. More information on the Administration's outstanding infrastructure bonds can be found in Appendix E. 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, 2005, the Mortgage Loan portfolio of the Administration under the Bond Resolution consisted of 6,841 Mortgage Loans with an aggregate principal amount outstanding of \$620,023,094.

*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 one or more series of bonds which were issued under the 1980 General Certificate.

In addition, the following table sets forth, as of September 30, 2005, 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, 2005 (1)**

|                                                                                                  | Current Number<br>of<br><u>Mortgage Loans</u> | Original<br><u>Principal Amount</u> | Outstanding<br>Principal Balance<br><u>09/30/05</u> |
|--------------------------------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------|-----------------------------------------------------|
| Loans financed entirely under the Bond Resolution                                                | 6,016                                         | \$589,700,622                       | \$560,977,071                                       |
| Participation loans financed under both the Bond Resolution and the 1980 General Certificate (2) | <u>825</u>                                    | <u>65,183,686</u>                   | <u>59,046,024</u>                                   |
| <b>TOTAL</b>                                                                                     | <u><b>6,841</b></u>                           | <u><b>\$654,884,308</b></u>         | <u><b>\$620,023,094</b></u>                         |

(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 General Certificate. The participation loans are equally counted both in the Bond Resolution and the 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 December 11, 2005.

**Residential Revenue Bond Program  
Status of Available Proceeds (in thousands)<sup>(1)</sup>  
as of December 11, 2005**

| <u>Source of Funds</u>             | <u>Date of<br/>Issuance</u> | <u>Total<br/>Available for<br/>Mortgage<br/>Loans</u> | <u>Amount of<br/>Loans<br/>Purchased<sup>(2)</sup></u> | <u>Amount of<br/>Unused<br/>Proceeds<br/>Call<sup>(3)</sup></u> | <u>Amount<br/>Available for<br/>Commitment</u> | <u>Reservations<br/>Against<br/>Available<br/>Funds<sup>(4)</sup></u> |
|------------------------------------|-----------------------------|-------------------------------------------------------|--------------------------------------------------------|-----------------------------------------------------------------|------------------------------------------------|-----------------------------------------------------------------------|
| 2001 Series G & H                  | 09/25/2001                  | \$ 58,823                                             | \$ 47,029                                              | \$10,200                                                        | \$ 1,594                                       | \$ 1,594                                                              |
| 2002 Series A                      | 02/26/2002                  | 7,848                                                 | 4,152                                                  | -                                                               | 3,696                                          | -                                                                     |
| 2005 Series A, B & C               | 03/28/2005                  | 59,731                                                | 59,684                                                 | -                                                               | 47                                             | 47                                                                    |
| 2005 Series D, E                   | 11/10/2005                  | <u>59,827</u>                                         | <u>30,920</u>                                          | -                                                               | <u>28,907</u>                                  | <u>25,746</u>                                                         |
| Total of All Series                |                             | \$186,229                                             | \$141,785                                              | \$10,200                                                        | \$34,244                                       | \$27,387                                                              |
| Warehouse Loan Fund <sup>(5)</sup> |                             | \$45,000                                              | -                                                      | -                                                               | \$45,000                                       | \$23,515                                                              |

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

(2) In the context of this chart Amount of Loans Purchased includes loan origination fees paid to the Originating Lenders on 0 point loans and de minimus amounts of remaining proceeds transferred or to be transferred to corresponding revenue accounts.

(3) On October 20, 2003, the Administration made an unused proceeds call from certain Prior Bonds in the amount of \$32,400,000. The call included 2001 Series G and Series H. For more detail, refer to the filing with the Nationally Recognized Municipal Securities Repositories on October 7, 2003 and see the Department’s website, [www.dhcd.state.md.us](http://www.dhcd.state.md.us), CDA Bonds – Investor Information.

(4) 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 or for other reasons, loans may be purchased into other series in a manner consistent with federal law.

(5) The Warehouse Loan Fund is funded from excess revenues and is intended to provide an interim funding source for loans purchased in between the bond issuance dates.

The chart above sets forth the Status of Funds as of December 11, 2005. Funds have been reserved as of that date for loans at interest rates ranging from 4.875% to 5.95%. For information on interest rates for purchased loans, see Appendix K. As a result of economic refundings and management of bond proceeds, the Administration has been able to generate funds for the purchase of Mortgage Loans, or portions thereof, which bear an interest rate of 0%. In addition, the Administration has issued several series of variable rate bonds. Through the issuance of variable rate Bonds and the availability of 0% funds, the Administration has increased flexibility in setting lending rates for the general program. On

December 11, 2005, the interest rates for general program loans with a 30 or 35-year term were 5.875% with zero points and a 2% grant, 5.500% with zero points, 5.250% with one point, and 4.875% with two points. The interest rates for loans with a 40-year term were 6.000% with zero points and a 2% grant, 5.625% with zero points, 5.375% with one point, and 5.000% with two points. Interest rates for new loans are subject to change, depending upon available funds and market conditions.

*Use of Funds from the Sale of 2006 Series Bonds.* The Administration expects to apply all or a portion of the \$58,823,500 of 2006 Series Bond proceeds made available for the purchase of Mortgage Loans to reimburse amounts on deposit in its Warehouse Loan Fund established under the Collateral Reserve Fund of the Bond Resolution previously applied to purchase Mortgage Loans. Origination fees (including discount points) for the Mortgage Loans shall be 2% (or as otherwise permitted by the Administration). A Mortgage Loan may have an original term of 30 to 40 years with equal payments of principal and interest, or the loan may have interest-only payments for the first several years, followed by equal amortizing payments of principal and interest. The Administration currently offers a five-year interest-only payment period followed by a 30-year period of principal and interest payments; and a seven-year period of interest-only payments followed by a 23- or 33-year period of principal and interest payments. Pending application to the purposes of each fund or account, moneys held in various funds and accounts under the Bond Resolution will be invested in Investment Obligations.

All Mortgage Loans allocable to the 2006 Series Bonds have been, or are expected to be purchased primarily from Mortgage Lenders to finance the acquisition of existing, newly constructed or substantially rehabilitated Single Family Residences located throughout the State, including Targeted Areas. For reasons discussed in “‘Smart Growth’ Requirements” below, all newly constructed homes financed by Mortgage Loans will be located in priority funding areas.

The Administration may use all or a portion of proceeds available for Mortgage Loan to finance Mortgage Loans on behalf of the Participating Counties (described below) for Single Family Residences located in those counties, where the Participating Counties have requested the Administration to issue their allocable portion of qualified mortgage bonds. The participating counties are the Counties of Allegany, Anne Arundel, Baltimore, Calvert, Caroline, Carroll, Cecil, Charles, Dorchester, Frederick, Garrett, Harford, Howard, Kent, Queen Anne’s, St. Mary’s, Somerset, Talbot, Washington, Wicomico, Worcester and the City of Baltimore (the “Participating Counties”). If the Participating County does not use some or all of its allocation within any required period, the Administration may reallocate the funds to another Participating County or use the funds to purchase Mortgage Loans that finance the acquisition of Single Family Residences located in other jurisdictions of the State.

A portion of the funds relating to the Bonds may be made available (1) for Mortgage Loans pursuant to special initiatives or to commitments for eligible community development projects of Single Family Residences or (2) for Mortgage Loans made by the Administration. See “Homeownership Initiatives and Developer Reservations” and “Mortgage Loans Made by the Administration” below.

### **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) unless the Mortgage Loan has a loan-to-value ratio of 75% or less and meets other requirements of the Administration, the Mortgage Loan must be subject to FHA mortgage insurance, a VA or USDA/RD guarantee, private mortgage insurance acceptable to the Administration, or insurance through the Maryland Housing Fund; (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 – “MORTGAGE INSURANCE AND GUARANTEE PROGRAMS” herein.

*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 \$237,032 in Talbot County (all of which is a Non-Targeted Area under the Code) and non-Targeted Areas in Wicomico and Worcester Counties, to \$525,091 for homes in 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 \$200,160 for Allegany, Caroline, Dorchester, Garrett, Kent, Talbot and Worcester Counties, to \$362,790 for the Washington, D.C. primary metropolitan statistical area, which includes Calvert, Charles, Frederick, Montgomery and Prince Georges Counties. 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 or for other programmatic reasons. 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, the maximum loan amount guaranteed by VA or USDA/RD or insured under private mortgage insurance, 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 \$75,250 for a one- or two-person household in certain non-Targeted Areas of the State to \$125,020 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 or for other programmatic reasons. 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.” 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 2006 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.

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. 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. Under the two-point program, the Mortgage Lenders pay the Administration a fee ranging between zero 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 one percent of the original loan balance and 0 percent, depending on when the purchase file is approved. Such fees paid to the Administration are not revenues under the Bond Resolution. Under the one-point program, the Mortgage Lender receives a one-point origination fee and the Administration pays the Mortgage Lender a fee of up to one percent, depending on when the purchase file is approved. Under the zero-point program, the Administration pays the Mortgage Lender a fee ranging between one percent and two percent, depending on when the purchase file is approved.

*Eligibility of Mortgage Lenders.* Each Mortgage Lender must be (1) a "mortgage lender" within the meaning of the Act, (2) an approved seller of mortgage loans to Freddie Mac or Fannie Mae or who otherwise meets origination requirements of the Administration, 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 with a loan-to-value ratio greater than seventy-five percent is subject to mortgage insurance from FHA, a mortgage guarantee from VA or USDA/RD, the Maryland Housing Fund or private mortgage insurance acceptable to the Administration. 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, provided that the Mortgage Lenders meet origination and other requirements of the Administration, which include experience in residential mortgage lending and in working with governmental or private mortgage insurance programs approved for Mortgage Loans.

*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.

*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, 2005, no original issuance 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, USDA/RD or privately insured loans unless it becomes an FHA, VA or USDA/RD lender or a lender authorized by a private mortgage issuer. The Administration may originate loans eligible for insurance through the Maryland Housing Fund, with Maryland Housing Fund approval. The Administration also may originate uninsured loans that have acceptable secondary financing from the Department, a governmental agency or a non-profit. If the Administration becomes such a 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. 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 2006 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

*Master Servicer Agreement.* All Mortgage Loans are serviced by Bogman, Inc., the master servicer (the “Master Servicer”).

The agreement with the Master Servicer (the “Master Servicer Agreement”) requires the Master Servicer 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 Master Servicer 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 Master Servicer Agreement. The Master Servicer is required to remit to the Trustee all Mortgage Repayments, Prepayments and curtailments it receives with respect to Mortgage Loans serviced under the Master Servicer Agreement. In addition, the Master Servicer Agreement requires the Master Servicer to have in effect (and maintain during the term of the related Master Servicer 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 Master Servicer.

If any default occurs on a Mortgage Loan covered by the Master Servicer Agreement, the Master Servicer 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 Master Servicer 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 Master Servicer being required to compensate the Administration.

The Master Servicer is required to comply with detailed requirements set forth in the Department’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 Master Servicer for compliance with the requirements of the Master Servicer Agreement and the Department’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 Master Servicer is complying with the Master Servicer Agreement and the Department’s servicing manual;

(2) directs and reviews Master Servicer’s handling of Mortgage Loan delinquencies;

(3) directs and evaluates Master Servicer’s actions in connection with foreclosure proceedings;

and

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

The Division of Credit Assurance has contracted with a private sector realty company which provides REO management and disposition services for properties in the REO portfolio. Asset Management staff monitors these services.

### **Estimated Revenues of Program**

Under Section 143 of the Code, the yield of the Mortgage Loans or participations therein allocable to each Series of federally tax-exempt 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 2006 Series 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, 2005, thirty-one Mortgage Loans had been repurchased by the Mortgage Lender or servicer as required by the Administration. Five repurchase demands remain outstanding as of September 30, 2005.

### **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, 2005, is set forth in Appendix K.

The following table sets forth as of September 30, 2005, 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 Number<br/>of<br/>Mortgage Loans</u> | <u>Current<br/>Outstanding<br/>Principal<sup>(1)</sup></u> | <u>Percent of Current<br/>Total Outstanding<br/>Principal<sup>(1)</sup></u> |
|---------------------|-------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------------------------|
| Allegany County     | 127                                             | \$ 7,500,857                                               | 1.21%                                                                       |
| Anne Arundel County | 303                                             | 30,344,823                                                 | 4.89%                                                                       |
| Baltimore City      | 2,370                                           | 182,518,437                                                | 29.44%                                                                      |
| Baltimore County    | 1,821                                           | 166,668,452                                                | 26.88%                                                                      |
| Calvert County      | 22                                              | 2,711,958                                                  | 0.44%                                                                       |
| Caroline County     | 57                                              | 5,879,708                                                  | 0.95%                                                                       |
| Carroll County      | 50                                              | 6,429,267                                                  | 1.04%                                                                       |

| <u>County</u>          | <u>Current Number<br/>of<br/>Mortgage Loans</u> | <u>Current<br/>Outstanding<br/>Principal<sup>(1)</sup></u> | <u>Percent of Current<br/>Total Outstanding<br/>Principal<sup>(1)</sup></u> |
|------------------------|-------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------------------------|
| Cecil County           | 103                                             | 11,539,884                                                 | 1.86%                                                                       |
| Charles County         | 51                                              | 5,897,232                                                  | 0.95%                                                                       |
| Dorchester County      | 37                                              | 3,368,126                                                  | 0.54%                                                                       |
| Frederick County       | 108                                             | 12,089,269                                                 | 1.95%                                                                       |
| Garrett County         | 0                                               | 0                                                          | 0.00%                                                                       |
| Harford County         | 460                                             | 47,513,984                                                 | 7.66%                                                                       |
| Howard County          | 90                                              | 9,477,546                                                  | 1.53%                                                                       |
| Kent County            | 5                                               | 440,891                                                    | 0.07%                                                                       |
| Montgomery County      | 114                                             | 12,283,686                                                 | 1.98%                                                                       |
| Prince George's County | 400                                             | 50,011,132                                                 | 8.07%                                                                       |
| Queen Anne's County    | 10                                              | 1,023,283                                                  | 0.17%                                                                       |
| Saint Mary's County    | 22                                              | 2,495,709                                                  | 0.40%                                                                       |
| Somerset County        | 47                                              | 3,831,020                                                  | 0.62%                                                                       |
| Talbot County          | 18                                              | 1,666,626                                                  | 0.27%                                                                       |
| Washington County      | 339                                             | 29,363,717                                                 | 4.74%                                                                       |
| Wicomico County        | 247                                             | 23,817,449                                                 | 3.84%                                                                       |
| Worcester County       | 40                                              | 3,150,038                                                  | 0.51%                                                                       |
|                        | 6,841                                           | \$620,023,094                                              | 100.00%                                                                     |

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

As of September 30, 2005, 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 Principal<br/>Amount (1)</u> | <u>Percent of Current<br/>Principal<br/>Amount (1)</u> |
|--------------------------------------------------|---------------------------------------------|-----------------------------------------|--------------------------------------------------------|
| FHA                                              | 6,393                                       | \$565,590,823                           | 91.22%                                                 |
| VA                                               | 169                                         | 20,560,770                              | 3.32%                                                  |
| USDA/RD (RHS)                                    | 196                                         | 21,148,805                              | 3.41%                                                  |
| Privately Insured                                | 83                                          | 12,722,697                              | 2.05%                                                  |
|                                                  | 6,841                                       | \$620,023,094                           | 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.

|                                                         | National Delinquency Survey     |                                   |                                 | Residential Revenue Bond Program (1)(2) |
|---------------------------------------------------------|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------------|
|                                                         | U.S.A.<br>All Types<br>09/30/05 | Maryland<br>All Types<br>09/30/05 | Maryland<br>FHA (3)<br>09/30/05 | 09/30/05                                |
| 30 days delinquent .....                                | 2.96%                           | 2.20%                             | 7.09%                           | 6.39%                                   |
| 60 days delinquent .....                                | 0.80%                           | 0.59%                             | 2.46%                           | 1.51%                                   |
| 90 days+ delinquent.....                                | 0.85%                           | 0.70%                             | 3.25%                           | 3.44%                                   |
| In foreclosure.....                                     | 0.97%                           | 0.49%                             | 1.96%                           | 0.18%                                   |
| Placed in foreclosure during last<br>three months ..... | 0.41%                           | 0.22%                             | 0.68%                           | 0.45%                                   |

| Mortgages Sixty Days or More Delinquent or in Foreclosure |                     |                       |                     |                |
|-----------------------------------------------------------|---------------------|-----------------------|---------------------|----------------|
| Quarter<br>Ended                                          | U.S.A.<br>All Types | Maryland<br>All Types | Maryland<br>FHA (3) | Program (1)(2) |
| 09/30/01 .....                                            | 3.03%               | 3.57%                 | 7.58%               | 3.99%          |
| 09/30/02 .....                                            | 3.29%               | 3.48%                 | 8.15%               | 4.29%          |
| 09/30/03 .....                                            | 2.91%               | 3.04%                 | 8.64%               | 5.51%          |
| 09/30/04 .....                                            | 2.73%               | 2.44%                 | 8.36%               | 5.81%          |
| 09/30/05 .....                                            | 2.62%               | 1.78%                 | 7.67%               | 5.13%          |

- (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, 2005" 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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

## **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 4-101 to 4-255, inclusive, of the Housing and Community Development Article 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, originally adopted by the Administration as of August 1, 1997 and amended and restated as of July 15, 2005.

“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, a Parity Obligation, a Subordinate Bond or a Subordinate Contract Obligation.

“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.

“Hedge Receipt” means, if and to the extent designated as such pursuant to the Series Resolution or Supplemental Resolution authorizing the related Qualified Hedge, the amount required to be paid to the Administration under a Qualified Hedge.

“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 4-801 through 4-816 of the Housing and Community Development Article 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:

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

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

3. 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.

“Parity Bonds” means Bonds which have a first priority pledge of, lien on, and security interest in, the trust estate established by the granting clauses of the Bond Resolution.

“Parity Hedge Obligation” has the meaning provided in the Bond Resolution.

“Parity Obligations” means Parity Bonds and Parity Hedge Obligations.

“Parties” or “Party” means any person(s), other than the Administration, that is/are party(ies) to a Parity Obligation other than Bonds or to a Subordinated Contract Obligation.

“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 Hedge” means, to the extent from time to time permitted by law, any financial arrangement (i) which is entered into by the Administration with an entity that is a Qualified Hedge Provider at the time the arrangement is entered into; (ii) which is a cap, floor or collar; forward rate; future rate; swap; asset, index, price or market-linked transaction or agreement; other interest rate exchange or rate protection transaction agreement; other similar transaction (however designated); or any combination thereof; or any option with respect thereto; or any similar arrangement; and (iii) which has been designated in writing to the Trustee by an Authorized Officer as a Qualified Hedge.

“Qualified Hedge Provider” means a provider of a Qualified Hedge as determined in a Certificate of the Administration.

“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, Hedge Receipts and Termination Receipts, 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 this Resolution and issued pursuant to the Bond Resolution.

“Subordinate Contract Obligation” means (a) Subordinate Bonds, (b) any payment obligation of the Administration (other than a payment obligation constituting a Parity Obligation) arising under any Qualified Hedge, or portion of a Qualified Hedge, which has been designated as constituting a “Subordinated Contract Obligation” pursuant to the Series Resolution or Supplemental Resolution authorizing such Qualified Hedge, and (c) any other contract, agreement or other obligation authorized by a Series Resolution or Supplemental Resolution and designated as constituting a “Subordinate Contract Obligation” in such authorizing Series Resolution or Supplemental Resolution. Each Subordinate Contract Obligation shall be payable from Revenues subject and subordinate to the payments to be made with respect to the Parity Obligations, and shall be secured by a lien on and pledge of Revenues junior and inferior to the lien on and pledge of the Revenues pursuant to the Bond Resolution created for the payment of the Parity Obligations, all as set forth in the Bond Resolution.

“Subordinate Contract Obligation Accounts” means the Accounts of that name in the Revenue Fund established 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.

“Termination Receipt” means an amount required to be paid to the Administration under a Qualified Hedge by the Qualified Hedge Provider as a result of the termination of such a Qualified Hedge.

“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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

## **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 (i) the acceptance by the Trustee of the trusts created, (ii) the purchase and acceptance of Bonds of any Series issued thereunder by any who shall from time to time be holders thereof and (iii) the entering into of other Parity Obligations or Subordinate Contract Obligations:

- (a) The provisions of the Bond Resolution and applicable Series Resolutions are contracts of the Administration with the Trustee, the Parties 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 Parity Obligations 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. **[§209]**

#### **Authorization of Subordinate Contract Obligations; Conditions Precedent to Delivery**

The Administration may from time to time enter into Subordinate Contract Obligations to be secured by the Bond Resolution on a subordinated basis, subject to the conditions hereinafter provided.

Payment of Subordinate Contract Obligations, including 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 Subordinate Contract Obligation Accounts, to the extent specified in the Series Resolution, subordinate, however, to the pledge securing Parity Obligations, and upon such terms and conditions set forth in the Series Resolution authorizing such Subordinate Contract Obligations. Subordinate Contract Obligations may be payable from Revenues derived under the Bond Resolution, but only after payment of all other amounts payable from Revenues with respect to Parity Obligations and with respect to any Subordinate Contract Obligations having a higher priority to payment from such Revenues.

The Series Resolution authorizing a Subordinate Contract Obligation may provide that such Subordinate Contract Obligation 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 or other Subordinate Contract Obligations outstanding or thereafter issued or entered into in accordance with the Bond Resolution. The Series Resolution authorizing a Subordinate Contract Obligation may establish different priorities of payment and security among different Subordinate Contract Obligations. **[§210]**

## **Qualified Hedges**

The Administration may, to the extent from time to time permitted pursuant to law, enter into Qualified Hedges. The Administration's obligation to pay any amount under any Qualified Hedge may be secured by a pledge of, and a lien on, Revenues on a parity with the lien securing the Parity Obligations (a "Parity Hedge Obligation"), or may constitute a Subordinate Contract Obligation, as determined by the Administration in the Series Resolution authorizing the related issue of Bonds or in a Supplemental Resolution. Parity Hedge Obligations shall not include any payments of any termination (including Termination Payments) or other fees, expenses, indemnification or other similar obligations to a Party to a Qualified Hedge, which payments shall be Subordinate Contract Obligations payable from Revenues deposited into a Subordinate Contract Obligation Account in the order of priority set forth in the Bond Resolution.

## **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 Contract Obligation 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 payment date for the following obligations 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 Parity Bonds, and any other payments due on such payment date on other Parity

Obligations, and to pay any Expenses in connection with any Credit Facility related to such Parity Obligations, 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 Contract Obligation Accounts, an amount sufficient together with amounts on deposit in that Account, established by a Series Resolution for Subordinate Contract Obligations, timely to pay when due, any Subordinate Contract Obligation and to pay any Expenses in connection with any Credit Facility related to such Subordinate Contract Obligations, as set forth in the Series Resolution or a Supplemental Resolution or to provide any reserve with respect to Subordinate Contract Obligations.

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 the other obligations permitted under the Bond Resolution 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.

Except as expressly provided above, under no circumstances shall the Administration's failure to pay (i) Parity Hedge Obligations, (ii) Termination Payments or (iii) Subordinate Contract Obligations constitute an Event of Default under the Bond Resolution. **[§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 Parity 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 Parity Bonds then Outstanding 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. If the Administration pays or cause to be paid, or there is otherwise paid, to a Party to a Parity Obligation, other than Parity Bonds, or to a Subordinated Contract Obligation, other than Subordinate Bonds, at the times and in the manner stipulated in the Bond Resolution and in the Series Resolution, then the obligations of the Administration to such Parties 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 or for the payment of Parity Obligations, other than Parity Bonds, and Subordinate Contract Obligations, other than Subordinate Bonds, which are no longer required for such payments. **[§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, 2005.

|                                      | <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> |     |
|--------------------------------------|---------------------------------|--------------------------|---------------------------|--------------------------|-------------------------------|-----|
| Residential Revenue Bonds            |                                 |                          |                           |                          |                               |     |
| 1997 Series A.....                   | 5.750520%                       | 1997                     | 3/1/2017                  | \$17,325,000             | \$16,235,000                  | (1) |
| 1997 Series B.....                   | 5.781810%                       | 1997                     | 9/1/2029                  | 82,675,000               | 18,820,000                    | (1) |
| 1998 Series A.....                   | 5.302760%                       | 1998                     | 9/1/2017                  | 4,640,000                | 4,640,000                     | (1) |
| 1998 Series B.....                   | 5.363320%                       | 1998                     | 9/1/2030                  | 75,565,000               | 40,990,000                    | (1) |
| 1998 Series D.....                   | 5.080895%                       | 1998                     | 9/1/2029                  | 62,810,000               | 39,480,000                    | (1) |
| 1999 Series C.....                   | 4.981370%                       | 1999                     | 9/1/2015                  | 2,665,000                | 2,665,000                     | (1) |
| 1999 Series D.....                   | 5.258230%                       | 1999                     | 9/1/2031                  | 57,335,000               | 37,315,000                    | (1) |
| 1999 Series E.....                   | 5.561570%                       | 1999                     | 9/1/2017                  | 22,780,000               | 20,630,000                    | (1) |
| 1999 Series H.....                   | 6.185333%                       | 1999                     | 3/1/2031                  | 60,000,000               | 11,405,000                    |     |
| 2000 Series A.....                   | 5.463189%                       | 2000                     | 9/1/2012                  | 7,965,000                | 1,770,000                     | (1) |
| 2000 Series F.....                   | 4.996857%                       | 2000                     | 9/1/2014                  | 15,190,000               | 12,915,000                    |     |
| 2000 Series H.....                   | 5.775438%                       | 2000                     | 9/1/2032                  | 60,000,000               | 42,560,000                    |     |
| 2001 Series A.....                   | 4.689417%                       | 2001                     | 9/1/2017                  | 18,885,000               | 13,475,000                    | (1) |
| 2001 Series B.....                   | 5.329877%                       | 2001                     | 9/1/2032                  | 50,800,000               | 32,775,000                    | (1) |
| 2001 Series E.....                   | 4.428468%                       | 2001                     | 9/1/2012                  | 13,775,000               | 10,765,000                    |     |
| 2001 Series F.....                   | 5.623777%                       | 2001                     | 9/1/2032                  | 66,225,000               | 60,460,000                    |     |
| 2001 Series G.....                   | 4.000795%                       | 2001                     | 9/1/2011                  | 10,100,000               | 6,645,000                     | (1) |
| 2001 Series H.....                   | 5.246263%                       | 2001                     | 9/1/2033                  | 49,900,000               | 38,195,000                    | (1) |
| 2002 Series A.....                   | 5.508142%                       | 2002                     | 9/1/2033                  | 8,005,000                | 7,390,000                     |     |
| 2003 Series A.....                   | 3.642019%                       | 2003                     | 9/1/2015                  | 9,550,000                | 8,790,000                     | (1) |
| 2003 Series B.....                   | 4.650537%                       | 2003                     | 9/1/2026                  | 15,450,000               | 14,060,000                    | (1) |
| 2003 Series C.....                   | (3)                             | 2003                     | 9/1/2035                  | 20,000,000               | 20,000,000                    | (1) |
| 2004 Series A.....                   | 3.806300%                       | 2004                     | 9/1/2016                  | 10,710,000               | 10,710,000                    | (1) |
| 2004 Series B.....                   | 4.799120%                       | 2004                     | 9/1/2028                  | 19,290,000               | 18,105,000                    | (1) |
| 2004 Series C.....                   | (3)                             | 2004                     | 9/1/2035                  | 20,000,000               | 20,000,000                    | (1) |
| 2004 Series D.....                   | 4.029268%                       | 2004                     | 9/1/2016                  | 12,960,000               | 12,960,000                    | (1) |
| 2004 Series E.....                   | 5.081152%                       | 2004                     | 3/1/2030                  | 27,040,000               | 25,945,000                    | (1) |
| 2004 Series F.....                   | (3)                             | 2004                     | 9/1/2035                  | 20,000,000               | 20,000,000                    | (1) |
| 2004 Series G.....                   | 3.310198%                       | 2004                     | 9/1/2016                  | 13,445,000               | 13,445,000                    | (1) |
| 2004 Series H.....                   | 4.621570%                       | 2004                     | 9/1/2029                  | 26,555,000               | 26,000,000                    | (1) |
| 2004 Series I.....                   | (3)                             | 2004                     | 9/1/2035                  | 20,000,000               | 20,000,000                    | (1) |
| 2004 Series J.....                   | 2.05%                           | 2004                     | 12/5/2005                 | 91,795,000               | 91,795,000                    | (2) |
| 2004 Series K.....                   | 2.10%                           | 2004                     | 12/5/2005                 | 78,260,000               | 78,260,000                    | (2) |
| 2005 Series A.....                   | 3.655208%                       | 2005                     | 9/1/2016                  | 12,640,000               | 12,640,000                    | (1) |
| 2005 Series B.....                   | 4.792302%                       | 2005                     | 9/1/2029                  | 27,360,000               | 27,320,000                    | (1) |
| 2005 Series C.....                   | (3)                             | 2005                     | 9/1/2035                  | 20,000,000               | 20,000,000                    | (1) |
| Total Residential Revenue Bonds..... |                                 |                          |                           | <u>\$1,131,695,000</u>   | <u>\$859,160,000</u>          |     |

## Other Outstanding Bonds of the Administration

The following table sets forth certain information relating to Bonds issued by the Administration under its other programs and outstanding as of October 1, 2005.

|                                        | <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            |                                 |                          |                           |                          |                               |     |
| 1993 Third Series.....                 | 4.910970%                       | 1993                     | 4/1/2017                  | \$82,000,000             | \$10,610,000                  | (1) |
| 1994 First Series .....                | 5.655880%                       | 1994                     | 4/1/2017                  | 100,000,000              | 3,555,000                     | (1) |
| 1997 First Series .....                | 5.527870%                       | 1997                     | 4/1/2018                  | 143,260,000              | 67,520,000                    |     |
| 1999 First Series .....                | 5.241844%                       | 1999                     | 4/1/2029                  | 26,100,000               | 18,140,000                    | (1) |
| 1999 Second Series.....                | 4.940188%                       | 1999                     | 4/1/2017                  | 53,205,000               | 53,205,000                    | (1) |
| 1999 Third Series.....                 | 4.803280%                       | 1999                     | 4/1/2021                  | 107,265,000              | 51,220,000                    | (1) |
| 2000 First Series .....                | 5.623890%                       | 2000                     | 4/1/2017                  | 32,600,000               | 18,100,000                    |     |
| 2001 First Series .....                | 4.747525%                       | 2001                     | 4/1/2017                  | 66,495,000               | 45,775,000                    | (1) |
| 2001 Second Series.....                | 4.475347%                       | 2001                     | 4/1/2023                  | 21,260,000               | 5,370,000                     | (1) |
| 2002 First Series .....                | 4.659224%                       | 2002                     | 4/1/2013                  | 4,495,000                | 4,495,000                     | (1) |
| 2002 Second Series.....                | 5.048609%                       | 2002                     | 4/1/2024                  | 49,740,000               | 32,005,000                    | (1) |
| Total Single Family Program Bonds..... |                                 |                          |                           | <u>\$686,420,000</u>     | <u>\$309,995,000</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             |                          |                           |                          |                               |
| Series 1996 A.....                | 1996                     | 7/1/2023                  | \$137,385,000            | \$53,885,000                  |
| Series 1996 B.....                | 1996                     | 7/1/2028                  | 2,575,000                | 1,800,000                     |
| Series 1997 A.....                | 1997                     | 7/1/2039                  | 37,135,000               | 35,385,000                    |
| Series 1997 B.....                | 1997                     | 7/1/2039                  | 7,660,000                | 7,310,000                     |
| Series 1997 C.....                | 1997                     | 7/1/2039                  | 14,075,000               | 13,385,000                    |
| Series 1998 A.....                | 1998                     | 1/1/2040                  | 11,030,000               | 10,505,000                    |
| Series 1999 A.....                | 1999                     | 7/1/2041                  | 16,345,000               | 15,775,000                    |
| Series 1999 B.....                | 1999                     | 7/1/2042                  | 15,840,000               | 15,115,000                    |
| Series 1999 C.....                | 1999                     | 7/1/2040                  | 520,000                  | 505,000                       |
| Series 1999 D.....                | 1999                     | 7/1/2042                  | 14,565,000               | 13,105,000                    |
| Series 2000 A.....                | 2000                     | 7/1/2042                  | 27,445,000               | 26,825,000                    |
| Series 2001 A.....                | 2001                     | 7/1/2043                  | 29,645,000               | 29,430,000                    |
| Series 2001 B.....                | 2001                     | 7/1/2043                  | 47,630,000               | 45,990,000                    |
| Series 2002 A.....                | 2002                     | 7/1/2043                  | 9,500,000                | 9,340,000                     |
| Series 2002 B.....                | 2002                     | 7/1/2045                  | 34,435,000               | 33,390,000                    |
| Series 2002 C.....                | 2002                     | 7/1/2035                  | 6,740,000                | 6,660,000                     |
| Series 2002 D.....                | 2002                     | 7/1/2035                  | 8,280,000                | 8,240,000                     |
| Series 2003 A.....                | 2003                     | 7/1/2045                  | 24,730,000               | 24,730,000                    |
| Series 2003 B.....                | 2003                     | 7/1/2045                  | 17,660,000               | 17,660,000                    |
| Series 2003 C.....                | 2003                     | 7/1/2045                  | 10,735,000               | 10,735,000                    |
| Series 2003 D.....                | 2003                     | 7/1/2045                  | 12,080,000               | 12,080,000                    |
| Series 2004 A.....                | 2004                     | 7/1/2045                  | 11,130,000               | 10,865,000                    |
| Series 2004 B.....                | 2004                     | 7/1/2046                  | 20,320,000               | 20,320,000                    |
| Series 2004 C.....                | 2004                     | 1/1/2047                  | 36,515,000               | 36,515,000                    |
| Series 2004 D.....                | 2004                     | 7/1/2037                  | 3,270,000                | 3,255,000                     |
| Series 2005 A.....                | 2005                     | 1/1/2047                  | 6,385,000                | 6,385,000                     |
| Series 2005 B.....                | 2005                     | 1/1/2047                  | 19,355,000               | 19,355,000                    |
| Total Housing Revenue Bonds ..... |                          |                           | <u>\$582,985,000</u>     | <u>\$488,545,000</u>          |

## Other Outstanding Bonds of the Administration

|                                                     | <u>Year<br/>of Issue</u> | <u>Final<br/>Maturity</u> | <u>Amount<br/>Issued</u> | <u>Amount<br/>Outstanding</u> |        |
|-----------------------------------------------------|--------------------------|---------------------------|--------------------------|-------------------------------|--------|
| <b>Multifamily Housing Revenue Bonds</b>            |                          |                           |                          |                               |        |
| 1998 Series A                                       | 1998                     | 5/15/2029                 | 13,260,000               | \$6,180,000                   |        |
| 2001 Series A .....                                 | 2001                     | 5/15/2028                 | 11,285,000               | 1,875,000                     |        |
| 2001 Series B.....                                  | 2001                     | 5/15/2032                 | 32,905,000               | 15,330,000                    |        |
| 2002 Series A .....                                 | 2002                     | 5/15/2033                 | 20,360,000               | 8,840,000                     |        |
| 2002 Series B.....                                  | 2002                     | 5/15/2033                 | 12,945,000               | 12,075,000                    |        |
| 2003 Series A .....                                 | 2003                     | 5/15/2034                 | 80,525,000               | 20,985,000                    |        |
| 2003 Series B.....                                  | 2003                     | 5/15/2023                 | 2,005,000                | 1,855,000                     |        |
| 2003 Series C.....                                  | 2003                     | 5/15/2033                 | 20,000,000               | 18,690,000                    | (3)(4) |
| 2004 Series A .....                                 | 2004                     | 5/15/2036                 | 25,175,000               | 24,455,000                    | (3)(4) |
| Total Multi-Family Housing Revenue Bonds .....      |                          |                           | <u>\$218,460,000</u>     | <u>\$110,285,000</u>          |        |
| <b>Infrastructure Financing Bonds</b>               |                          |                           |                          |                               |        |
| 1994 Series A (AMBAC Insured).....                  | 1994                     | 6/1/2024                  | \$8,030,000              | \$3,500,000                   |        |
| 1995 Series A (AMBAC Insured).....                  | 1995                     | 6/1/2025                  | 3,975,000                | 1,960,000                     |        |
| 1996 Series A (MBIA Insured).....                   | 1996                     | 6/1/2026                  | 8,405,000                | 5,940,000                     |        |
| 1997 Series A (MBIA Insured).....                   | 1997                     | 6/1/2027                  | 9,860,000                | 6,730,000                     |        |
| 1998 Series A (MBIA Insured).....                   | 1998                     | 6/1/2018                  | 6,320,000                | 3,745,000                     |        |
| 1998 Series B (MBIA Insured).....                   | 1998                     | 6/1/2028                  | 30,320,000               | 20,345,000                    |        |
| 1998 Series C (MBIA Insured).....                   | 1998                     | 12/1/2020                 | 2,845,000                | 1,240,000                     |        |
| 1999 Series A (MBIA Insured).....                   | 1999                     | 6/1/2029                  | 6,985,000                | 5,995,000                     |        |
| 2000 Series A (MBIA Insured).....                   | 2000                     | 6/1/2030                  | 8,065,000                | 6,675,000                     |        |
| 2001 Series A (MBIA Insured).....                   | 2001                     | 6/1/2031                  | 8,460,000                | 7,560,000                     |        |
| 2001 Series B (MBIA Insured).....                   | 2001                     | 6/1/2021                  | 1,930,000                | 1,805,000                     | (4)    |
| Total Infrastructure Financing Bonds .....          |                          |                           | <u>\$95,195,000</u>      | <u>\$65,495,000</u>           |        |
| <b>Local Government Infrastructure Bonds</b>        |                          |                           |                          |                               |        |
| 2002 Series A (Ambac Insured).....                  | 2002                     | 6/1/2032                  | \$11,790,000             | \$10,800,000                  |        |
| 2002 Series B (Ambac Insured).....                  | 2002                     | 6/1/2022                  | 3,555,000                | 3,200,000                     |        |
| 2003 Series A (Ambac Insured).....                  | 2003                     | 6/1/2023                  | 14,560,000               | 13,395,000                    |        |
| 2004 Series A (Ambac Insured).....                  | 2004                     | 6/1/2034                  | 16,375,000               | 15,620,000                    |        |
| 2004 Series B (Ambac Insured).....                  | 2004                     | 6/1/2034                  | 4,735,000                | 4,680,000                     |        |
| 2005 Series A (Ambac Insured).....                  | 2005                     | 6/1/2030                  | 9,345,000                | 9,345,000                     |        |
| Total Local Government Infrastructure Bonds.....    |                          |                           | <u>\$60,360,000</u>      | <u>\$57,040,000</u>           |        |
| <b>Multifamily Development Revenue Bonds</b>        |                          |                           |                          |                               |        |
| 1990 Issue B (Middle Branch Manor) .....            | 1990                     | 6/1/2020                  | \$12,350,000             | \$9,850,000                   | (3)    |
| 1990 Issue C (Harbor City Townhomes) .....          | 1990                     | 6/1/2020                  | 4,150,000                | 3,350,000                     | (3)    |
| Series 1998 A (Auburn Manor Project) .....          | 1998                     | 10/1/2028                 | 11,000,000               | 9,815,000                     |        |
| Series 1999 A (GNMA-Selborne House Project) ...     | 1999                     | 12/20/2040                | 2,150,000                | 2,090,000                     |        |
| Series 2000 A (Waters Landing II Apartments) .....  | 2000                     | 8/1/2033                  | 11,000,000               | 10,715,000                    |        |
| Series 2000 B-1 (Edgewater Village Apartments) ..   | 2000                     | 2/1/2033                  | 7,640,000                | 7,045,000                     |        |
| Series 2000 B-2 (Edgewater Village Apartments) ..   | 2000                     | 2/1/2033                  | 3,125,000                | 3,125,000                     |        |
| Series 2000 C (Park Montgomery Apartments).....     | 2000                     | 2/1/2031                  | 6,170,000                | 5,495,000                     |        |
| Series 2001 C (Parklane Apartments Project).....    | 2001                     | 2/15/2034                 | 9,800,000                | 9,800,000                     | (3)    |
| Series 2001 D (Princess Anne Townhouses) .....      | 2001                     | 12/15/2033                | 4,350,000                | 4,155,000                     |        |
| Series 2001 E (Princess Anne Townhouses).....       | 2001                     | 12/15/2033                | 2,875,000                | 2,830,000                     | (3)    |
| Series 2001 F (Waters Tower Senior Apts.) .....     | 2001                     | 12/15/2033                | 7,570,000                | 7,185,000                     |        |
| Series 2001 G (Waters Tower Senior Apts.).....      | 2001                     | 12/15/2033                | 4,045,000                | 3,975,000                     | (3)    |
| Series 2002 B (Broadway Homes Project) .....        | 2002                     | 5/1/2020                  | 5,045,000                | 2,400,000                     |        |
| Series 2002 C (Orchard Mews Apartment Project)      | 2002                     | 5/1/2035                  | 5,845,000                | 5,845,000                     |        |
| Series 2003 A (Barrington Apartments Project) ..... | 2003                     | 6/15/2037                 | 40,000,000               | 40,000,000                    | (3)    |
| Total Multi-Family Development Revenue Bonds .....  |                          |                           | <u>\$137,115,000</u>     | <u>\$127,675,000</u>          |        |

## Other Outstanding Bonds of the Administration

|                                                                 | <u>Year<br/>of 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                     | 6/15/2026                 | \$16,835,000             | \$16,835,000                  | (3) |
| Series 1997 (Avalon Ridge Apartments Project) ....              | 1997                     | 6/15/2026                 | 26,815,000               | 26,815,000                    | (3) |
| Series 1999 C (Westfield/Greens Projects).....                  | 1999                     | 12/1/2029                 | 9,200,000                | 8,550,000                     |     |
| Total Multifamily Development Revenue Refunding Bonds .....     |                          |                           | <u>\$52,850,000</u>      | <u>\$52,200,000</u>           |     |
| Draw Down Mortgage Revenue Bonds                                |                          |                           |                          |                               |     |
| Series 2005-1 (AMT).....                                        | 2005                     | (5)                       | \$50,000                 | \$50,000                      |     |
| Series 2005-2 (Non-AMT).....                                    | 2005                     | (5)                       | 131,315,000              | 131,315,000                   |     |
| Total Draw Down Mortgage Revenue Bonds .....                    |                          |                           | <u>\$131,365,000</u>     | <u>\$131,365,000</u>          |     |
| Capital Fund Securitization Revenue Bonds                       |                          |                           |                          |                               |     |
| Series 2003                                                     | 2003                     | 7/1/2021                  | \$94,295,000             | \$93,480,000                  |     |
| Total Capital Fund Securitization Revenue Bonds.....            |                          |                           | <u>\$94,295,000</u>      | <u>\$93,480,000</u>           |     |
| Total Amount of Other Bonds Outstanding .....                   |                          |                           | <u>\$2,059,045,000</u>   | <u>\$1,436,080,000</u>        |     |
| Total Amount of Residential Revenue Bonds Outstanding (6) ..... |                          |                           | <u>\$1,131,695,000</u>   | <u>\$859,160,000</u>          |     |
| Total Amount of All Bonds Outstanding .....                     |                          |                           | <u>\$3,190,740,000</u>   | <u>\$2,295,240,000</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 2004 Series J and Series K are short-term notes which may be redeemed prior to their date of maturity at the option of the Administration. The rates shown in the schedule are the actual coupon rates.
- (3) These are variable rate bonds that are repriced according to the terms in the respective Official Statements.
- (4) These bonds are taxable. All other CDA bonds are tax-exempt.
- (5) Draw Down Mortgage Revenue Bonds Series 2005-1 and Series 2005-2 have a maturity date of October 1, 2039 with a mandatory tender date of October 1, 2010.
- (6) See information under caption "Outstanding Residential Revenue Bonds" above.

**For updated information on issuances and/or redemptions after October 1, 2005, please refer to the website [www.dhcd.state.md.us](http://www.dhcd.state.md.us), CDA Bonds - Investor Information.**

## APPENDIX F

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

| Bond Series       | 12/31/2005    | 12/31/2006    | 12/31/2007    | 12/31/2008    | 12/31/2009    | 12/31/2010    | 12/31/2011    | 12/31/2012    | 12/31/2013    | 12/31/2014    | 12/31/2015 |
|-------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------------|
| 1997 Series A/B   | <b>71.10%</b> | <b>71.10%</b> | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%    |
| 1998 Series A/B   | <b>63.40%</b> | <b>63.55%</b> | <b>64.53%</b> | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%    |
| 1998 Series D     | <b>77.73%</b> | <b>77.73%</b> | <b>77.73%</b> | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%    |
| 1999 Series C/D   | <b>43.86%</b> | <b>43.86%</b> | <b>43.86%</b> | <b>44.33%</b> | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%    |
| 1999 Series E/F   | <b>75.27%</b> | <b>75.49%</b> | <b>75.60%</b> | <b>76.09%</b> | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%    |
| 1999 Series H     | <b>19.24%</b> | <b>19.24%</b> | <b>19.51%</b> | <b>19.98%</b> | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%    |
| 2000 Series A/B   | <b>63.93%</b> | <b>64.01%</b> | <b>65.08%</b> | <b>65.08%</b> | <b>65.08%</b> | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%    |
| 2000 Series F/G   | <b>35.24%</b> | <b>35.24%</b> | <b>35.36%</b> | <b>35.89%</b> | <b>65.89%</b> | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%    |
| 2000 Series H     | <b>3.49%</b>  | <b>3.49%</b>  | <b>3.71%</b>  | <b>4.01%</b>  | <b>4.01%</b>  | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%    |
| 2001 Series A/B   | <b>73.38%</b> | <b>73.51%</b> | <b>74.18%</b> | <b>74.60%</b> | <b>78.17%</b> | <b>85.69%</b> | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%    |
| 2001 Series E/F   | <b>20.62%</b> | <b>20.62%</b> | <b>21.05%</b> | <b>21.97%</b> | <b>22.30%</b> | <b>22.31%</b> | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%    |
| 2001 Series G/H   | <b>36.97%</b> | <b>37.03%</b> | <b>37.40%</b> | <b>37.64%</b> | <b>39.37%</b> | <b>42.89%</b> | 100.00%       | 100.00%       | 100.00%       | 100.00%       | 100.00%    |
| 2002 Series A     | <b>94.53%</b> | <b>94.53%</b> | <b>94.56%</b> | <b>94.60%</b> | <b>97.50%</b> | <b>98.42%</b> | <b>98.57%</b> | 100.00%       | 100.00%       | 100.00%       | 100.00%    |
| 2003 Series A/B/C | <b>44.03%</b> | <b>44.16%</b> | <b>45.11%</b> | <b>46.17%</b> | <b>49.34%</b> | <b>53.70%</b> | <b>54.68%</b> | <b>54.69%</b> | 100.00%       | 100.00%       | 100.00%    |
| 2004 Series A/B/C | <b>42.69%</b> | <b>43.18%</b> | <b>45.42%</b> | <b>45.77%</b> | <b>48.61%</b> | <b>50.82%</b> | <b>52.87%</b> | <b>52.87%</b> | <b>52.87%</b> | 100.00%       | 100.00%    |
| 2004 Series D/E/F | <b>40.33%</b> | <b>40.46%</b> | <b>41.06%</b> | <b>41.39%</b> | <b>44.09%</b> | <b>45.77%</b> | <b>49.75%</b> | <b>49.76%</b> | <b>49.76%</b> | 100.00%       | 100.00%    |
| 2004 Series G/H/I | <b>41.24%</b> | <b>41.63%</b> | <b>43.46%</b> | <b>43.76%</b> | <b>46.23%</b> | <b>48.10%</b> | <b>49.85%</b> | <b>49.85%</b> | <b>49.85%</b> | 100.00%       | 100.00%    |
| 2004 Series J/K   | <b>78.53%</b> | <b>78.98%</b> | <b>80.93%</b> | <b>81.97%</b> | <b>90.53%</b> | <b>95.10%</b> | <b>99.99%</b> | 100.00%       | 100.00%       | 100.00%       | 100.00%    |
| 2005 Series A/B/C | <b>20.54%</b> | <b>20.54%</b> | <b>20.57%</b> | <b>20.57%</b> | <b>20.61%</b> | <b>20.73%</b> | <b>20.75%</b> | <b>20.75%</b> | <b>20.75%</b> | <b>20.75%</b> | 100.00%    |

Percentage represents 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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

## **APPENDIX G**

### **MORTGAGE INSURANCE AND GUARANTEE PROGRAMS**

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

##### **Introduction**

The Administration has prepared the following description of the FHA mortgage insurance program, the VA Home Loan Guaranty Program, the USDA/RD Mortgage Guaranty Program, and private mortgage insurance. 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 for those programs and for applicable private mortgage insurance. Credit Enhancement for Mortgage Loans made or purchased by the Administration with the proceeds of the 2006 Series Bonds is limited by the Bond Resolutions to insurance under the FHA insurance program, the VA Home Loan Guaranty Program, the USDA/RD Guarantee Program, and private mortgage insurance (described below). In addition, Mortgage Loans may be insured by the Maryland Housing Fund. See THE MHF INSURANCE PROGRAM below. Moreover, Mortgage Loans with a loan-to-value ratio of 75% or less may be uninsured, provided that the loans are supported by secondary financing acceptable to the Administration, which may include certain grants, and loans from governmental or non-profit organizations that are non-amortizing or that amortize but at an interest rate that is below market. 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.

FHA permits the fully insured Mortgage 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.

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. 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. On January 6, 2005, HUD announced the elimination of refunds of upfront mortgage insurance premiums (except for a mortgage refinanced with another FHA mortgage) for mortgages endorsed for insurance on or after December 8, 2004.

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. VA will guarantee up to 50 percent of a home loan up to \$45,000. For loans between \$45,000 and \$144,000, the minimum guaranty amount is \$22,500; and the maximum guaranty is up to 40 percent of the loan, up to \$36,000, subject to the amount of entitlement a veteran has available. For loans of more than \$144,000 the maximum guaranty is 25 percent of the loan, up to \$60,000. 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.

### **Private Mortgage Insurance**

Each private mortgage insurance policy with respect to a Mortgage Loan must contain provisions substantially as follows: (a) the mortgage insurer must pay a claim, including unpaid principal, accrued interest, the amounts equal to deferred interest in connection with Mortgage Loans with graduated

payments schedules, if any, and expenses, within sixty days of presentation of the claim by the Administration; (b) when a claim for the outstanding principal amount, accrued interest and expenses is presented, the mortgage insurer must either (i) pay such claim in full and take title to the mortgaged property and arrange for its sale or (ii) pay the insured percentage of such claim and allow the Administration to retain title to the mortgaged property or (iii) settle a claim for actual losses where such losses are less than the insured percentage of the claim. (See the “Homeowners Protection Act” below for a discussion of federal legislation that affects private mortgage insurance.)

### **Homeowners Protection Act**

The Homeowners Protection Act of 1998 (the “Homeowners Protection Act”) permits a borrower to cancel private mortgage insurance (for which the borrower pays the premium) on the date on which the principal balance of the mortgage loan is scheduled to reach 80% of the original value of the residence or on the date on which the principal balance actually reaches 80% of the original value of the residence. The original value is the lesser of the sales price or the appraised value at the time the mortgage loan transaction was consummated. In order to effect such cancellation, the borrower must request in writing that the cancellation be initiated, must have a good payment history with respect to the mortgage loan (i.e., no mortgage payment was, during the year beginning two years prior to cancellation, 60 or more days delinquent, and no mortgage payment was, during the year beginning one year prior to cancellation, 30 or more days delinquent), and must satisfy any requirements of the lender for evidence that the value of the residence has not declined below its original value and for certification that the borrower’s equity in the residence is not encumbered by a subordinate loan. This Homeowners Protection Act further provides for automatic termination of mortgage insurance on the date on which the principal balance of the mortgage loan is scheduled to reach 78% of the original value of the residence, or if the borrower is not then current on his mortgage loan payments, on the date on which the borrower subsequently becomes current on such payments. These termination and cancellation provisions do not apply to mortgage loans characterized as high risk loans. Even if the private mortgage insurance is not canceled or terminated as described above, private mortgage insurance must be terminated on the first day of the month immediately following the date that is the midpoint of the amortization period of the mortgage loan if the mortgagor is then current on his mortgage loan payments. This Homeowners Protection Act also requires that borrowers be provided with certain disclosures and notices regarding termination and cancellation of private mortgage insurance. This Homeowners Protection Act applies to mortgage loans closed on or after July 29, 1999.

This Homeowners Protection Act applies to insurance provided by the Maryland Housing Fund as well as private mortgage insurance described below.

In addition to termination and cancellation rights available to the borrower under the Homeowners Protection Act, the Administration also permits a borrower to request cancellation of private mortgage insurance or insurance through the Maryland Housing Fund for loans made after January 1, 2005, provide that: (1) the loan balance is 75% or less of the current value of the home as established by a new appraisal acceptable to the Administration; (2) none of the borrower’s payments were 30 days or more past due within the 12-month period before the mortgage insurance will be cancelled; (3) none of the borrower’s payments were 60 days or more past due during the 24-month period before the mortgage insurance will be cancelled; and (4) the loan is between two and five years old. If the loan is more than five years old, the loan balance may be 80% (instead of 75%) or less of the current value of the home as established by a new appraisal acceptable to the Administration; conditions (2) and (3) also apply.

## **THE MHF INSURANCE PROGRAM**

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

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

In early 1997, the Department suspended all new insurance activity of MHF (except for pool insurance for certain single family loans), partly as a result of concerns expressed by Moody’s during 1996 and 1997. The Department responded to the concerns and took appropriate steps. Since that time, MHF has opened new programs.

In 2002, the Department re-opened a limited program of MHF insuring mortgage loans known as “SHOP” (Special Housing Opportunity Program) that finance or refinance the acquisition, construction or rehabilitation of shared living and related facilities for the special needs population which are owned by and sponsored by nonprofit organizations. Moody’s advised the Administration that such a re-opened program, implemented in the limited manner proposed by the Administration, would not affect the Moody’s rating on the Administration’s Bonds.

In March 2004, enacted Legislation allocated up to \$1.6 million of Revitalization Reserves to insure loans made to victims of Hurricane Isabel. No insurance had been written under this program as of September 30, 2005. This Legislation expires May 31, 2006.

The Administration has been designated as a participant in HUD’s Risk-Sharing Program (the “Risk-Sharing Program”) for multi-family loans. Under the Risk-Sharing Program, upon payment of a claim by FHA, the Administration would be responsible for reimbursement to FHA of up to 50% of such claim. The Administration expects that MHF would reimburse the Administration for its share of such losses. Subsequent to 1997, the Administration participated in the Risk-Sharing Program only in connection with the refinancing of loans currently insured by MHF where the Administration expected that risk-sharing will decrease the dollar amount of MHF’s insurance exposure with respect to such loans. In 2004, the Department expanded its MHF insurance program to authorize MHF insurance on a case-by-case basis for new loans financed by Bonds, including loans with Credit Enhancement under the Risk-Sharing Program. Moody’s advised the Administration that such a re-opened program, implemented in the limited manner proposed by the Administration, would not affect Moody’s rating on the Administration’s Bonds.

In addition, in June of 2005, the Department opened a program of MHF to insure 40-year single family mortgage loans being purchased by the Administration.

Because of a decrease in revenues for fiscal year 2003, the Maryland Department of Legislative Services asked MHF and the Administration whether, consistent with contractual obligations with

bondholders, there were funds available for transfer to the State. The Administration reviewed the appropriate documents and had discussions with representatives of Moody's. The Administration was advised by Moody's that a transfer, in and of itself, would not have an adverse effect on the rating of the Administration's outstanding parity debt, including the Bonds. Accordingly, MHF transferred \$10,000,000 of Unallocated Reserve to the State in June 2003. There was no transfer in 2004 or 2005. For more information, see "MANAGEMENT'S PRESENTATION OF THE MHF PROGRAM – Operating Income and Reserves" below.

### **Management's Presentation of the MHF Program**

The following information is management's presentation of the MHF Program.

### **Financial Statements and Information**

Audited financial statements of MHF for the years ended June 30, 2004 and June 30, 2005, and unaudited financial statements for the three-month period ending September 30, 2005 are included in the Appendix I – "FINANCIAL STATEMENTS OF THE MARYLAND HOUSING FUND." The financial statements for the fiscal years ended June 30, 2004 and June 30, 2005 have been audited by Reznick Group, P.C. As indicated in the report of the auditors, such financial statements have been prepared in conformity with accounting principles and the audits conducted in accordance with auditing standards generally accepted in the United States. The financial statements of MHF are reported on a consolidated basis combining results of operations for MHF's Multi-Family, Single Family, Revitalization, and Home and Energy Mortgage Insurance Programs.

### **Operating Income and Reserves**

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

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

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

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

## **Balance Sheet Discussion**

During the fiscal year ended June 30, 2005, the overall equity increased from \$86,361,339 at the close of June 30, 2004 to \$91,884,940 at June 30, 2005. The increase of \$5,523,601 is primarily due to allowance reductions in both the single family and multi-family portfolios. During the three-month period ended September 30, 2005, the overall equity decreased from \$91,884,940 at June 30, 2005 to \$91,859,545 at September 30, 2005. The decrease of \$(25,395) is primarily due to an increase in the single family allowance provision.

The Unrestricted Accumulated Deficit is a part of the overall equity. The Unrestricted Accumulated Deficit - which decreases when claims are paid from the insurance reserves - represents the cumulative net income (loss) of MHF since its inception less any investment income earned on the insurance reserves. When MHF's insurance reserves are greater than its net assets, there will be an accumulated deficit in the equity section of the MHF Balance Sheet.

During the fiscal year ended June 30, 2005, the Unrestricted Accumulated Deficit decreased by an additional \$3,323,723 to a deficit of \$6,403,765 at the close of June 30, 2005. The \$3,323,723 is a net gain of income from operating activities (income net of interest earned on investments held by the State Treasurer). During the three-month period ended September 30, 2005, the Unrestricted Accumulated Deficit increased from a deficit of \$6,403,765 to a deficit of \$7,276,813. This was due to a \$(873,048) net loss of income from operating activities (income net of interest earned on investments held by the State Treasurer).

## **Discussion of Changes in Net Assets**

During the fiscal year ended June 30, 2005, MHF reported a Change in Net Assets of \$5,523,601. The improved performance for the period was primarily due to reductions in both the single and multi-family allowances. Investment earnings for the fiscal year ended June 30, 2005, in the amount of \$2,199,878 flowed directly to the Unallocated Reserves.

During the three-month period ended September 30, 2005, MHF reported a Change in Net Assets of \$(25,395). The negative performance for the period was primarily due to an increase in the single family allowances. Investment earnings for the three-month period ended September 30, 2005 in the amount of \$847,653 flowed directly to the Unallocated Reserves.

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

## Discussion of Operating Cash Account

### Selected Activity in MHF's Operating Cash Account

The following table is management's presentation of activity in MHF's operating cash account as of September 30, 2005.

|                                        | <u>Single Family</u> | <u>Multi-Family</u> | <u>Total</u>      |
|----------------------------------------|----------------------|---------------------|-------------------|
| Premiums Collected <sup>(1)</sup>      | \$ 251,935           | \$245,409           | \$497,344         |
| Operating Expenses Paid <sup>(2)</sup> | <u>(47,775)</u>      | <u>(65,975)</u>     | <u>(113,750)</u>  |
| Premiums Net of Operating Expenses     | 204,160              | 179,434             | 383,594           |
| Claims <sup>(3)</sup>                  | (748,685)            | (7,536)             | (756,221)         |
| Recoveries <sup>(4)</sup>              | <u>537,507</u>       | <u>196,574</u>      | <u>734,081</u>    |
| Net Claim Activity                     | (211,178)            | 189,038             | (22,140)          |
| Other <sup>(5)</sup>                   | <u>0</u>             | <u>(76,313)</u>     | <u>(76,313)</u>   |
| Net Cash from Operating Activities     | <u>\$ (7,018)</u>    | <u>\$ 292,159</u>   | <u>\$ 285,141</u> |

<sup>(1)</sup> Premiums collected as stated in the Statement of Cash Flows.

<sup>(2)</sup> Operating expenses include salaries and benefits, general and administrative, and intradepartmental expenses.

<sup>(3)</sup> Includes principal, interest, and supplemental expenses incurred on claims, and carrying costs on acquired properties.

<sup>(4)</sup> Includes proceeds collected on the sale of loans or acquired properties.

<sup>(5)</sup> Includes changes in other assets and liabilities such as mortgage receivables, notes payables and escrows.

During the fiscal year ended June 30, 2005, MHF's net operating cash activity was \$1,088,662 for Single Family and \$(88,949) for Multi-Family. The change in Single Family and Multi-Family was primarily due to a decrease in claims paid and decrease in recoveries received, respectively. During the three-month ended September 30, 2005, the net cash activity in MHF's operating cash was \$(7,018) for Single Family and \$292,159 for Multi-Family. The change in Single Family and Multi-Family was primarily due to a decrease in recoveries and decrease in operating expenses paid, respectively.

## Liquidity

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

Besides these proceeds from the sale of assets acquired through the payment of claims, MHF's primary sources of funds result from mortgage insurance premiums paid by the borrowers and investment earnings on funds in insurance reserves. These assets, together with the corpus of the reserves held by MHF, are available to pay insurance claims and related expenses. The available reserves are leveraged against insurance commitments outstanding. Calculations for the leverage ratios are shown in "Discussion of Leverage Ratios" below.

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

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

### **Discussion of Leverage Ratios**

For loans made before 2005, MHF operates its single family insurance in accordance with, *inter alia*, an insurance agreement dated as of May 14, 1980, with the Administration (the "Single Family Insurance Agreement"). For loans financed after June 20, 2005 under the Administration's Residential Revenue Bond Resolution (the "Resolution"), MHF operates its single family insurance in accordance with, *inter alia*, an insurance agreement dated as of June 20, 2005 with the Administration (the "2005 Single Family Insurance Agreement"). Claims under the Single Family Insurance Agreement and the 2005 Single Family Insurance Agreement may be paid from the Single Family Program Reserve.

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

Under the Insurance Agreement, MHF has contracted with the Administration that, except as necessary to pay claims or advances on claims, MHF will not permit the ratio of multi-family insurance to assets in the Multi-Family Reserve (as may be reduced as described below) to exceed 10 to 1, and that no new insurance payable from the Multi-Family Reserve shall be issued or committed to if upon such issuance or commitment and subsequent issuance the ratio would exceed 10 to 1. (Under the terms of the Insurance Agreement, loans insured by MHF that are reinsured without contingent liability on the part of MHF are not taken into account in determining MHF's compliance with the maximum 10 to 1 ratio of amounts insured to assets in the Multi-Family Reserve.)

Under the Single Family Insurance Agreement, MHF has contracted with the Administration that, except as necessary to pay claims or advances on claims, MHF will not permit the ratio of the aggregate dollar amount of the single family insurance to assets in the Single Family Reserve (as may be reduced as described below) to exceed 25 to 1 and the ratio of the aggregate dollar amount of the single family pool insurance to assets in the Single Family Reserve (as may be reduced as described above) to exceed 7 to 1, and that no new insurance payable from the Single Family Reserve shall be issued or committed to if, upon such issuance or commitment and subsequent issuance, either ratio would be exceeded.

Under the 2005 Single Family Insurance Agreement, MHF will not permit the ratio of the aggregate dollar amount of the single family insurance to assets in the Single Family Reserve (as may be reduced as described below) to exceed 25 to 1 as specified in the Single Family Insurance Agreement, and

no new insurance payable from the Single Family Reserve shall be issued or committed to if upon such issuance or commitment and subsequent issuance either ratio would be exceeded. There is no pool insurance coverage for loans insured under the 2005 Single Family Insurance Agreement.

### **Selected Information About the Single Family Reserve Ratios**

|                                                                                              | <u>06/30/04</u> | <u>06/30/05</u> | <u>09/30/05</u> |
|----------------------------------------------------------------------------------------------|-----------------|-----------------|-----------------|
| Single Family Regular Program Reserve <sup>(1)(2)</sup>                                      | \$ 32,273,875   | \$ 32,273,875   | \$ 32,273,875   |
| Amount Available for Calculation of "Ratio of Insurance to Available Reserve" <sup>(3)</sup> | 32,273,875      | 32,273,875      | 32,273,875      |
| Primary Insurance coverage in force <sup>(4)</sup>                                           | 67,492,253      | 48,655,049      | 44,485,884      |
| Pool Insurance coverage in force <sup>(5)</sup>                                              | 160,384,837     | 160,384,837     | 160,384,837     |
| Ratio of Mortgage Loans to the Regular Reserve <sup>(6)</sup>                                | 7.06 to 1       | 6.48 to 1       | 6.35 to 1       |

- 
- (1) The Single Family Regular Program Reserve does not include amounts, if any, which have been restricted for possible additional insurance coverage in the Unallocated Reserve.
- (2) Fund balances for MHF reserves are calculated in the same manner as in the financial statements of MHF and include investment income earned and allocated by the Secretary to the Single Family Regular Program Reserve.
- (3) In order to determine the leverage ratios, if the Unrestricted Accumulated Deficit exceeds the Unallocated Reserve, the Single Family Reserve or the Multi-Family Reserve may be reduced in a manner determined by MHF to be appropriate.
- (4) The primary insurance coverage is 25% of the allowable claim for loans insured under the Single Family Insurance Agreement (\$177,943,536 at 09/30/2005). The primary insurance coverage is 35% of the allowable claim for loans insured under the 2005 Single Family Insurance Agreement (\$0 at 09/30/2005).
- (5) This coverage represents the 10% stop-loss on pool insurance for loans financed under the Single Family Program Bond General Certificate (prior to 1997). Wisconsin Mortgage Assurance Corporation, formerly Mortgage Guaranty Insurance Corporation ("MGIC"), has provided reinsurance for \$43,025,000 of the mortgage loans financed by one series of the Administration's Bonds. Notwithstanding the reinsurance provided by MGIC, the MHF pool insurance coverage in force also includes coverage for mortgage loans financed by the series.
- (6) The ratio in the table is computed based on the maximum amount of risk rather than the aggregate amount of mortgage loans insured, where the maximum amount of risk is calculated by taking (i) the aggregate amount of pool insurance issued for the Administration; and then adding to that product (ii) the maximum amount of risk on loans insured under the Single Family Regular Program (see 3 above), and then dividing the sum of those two amounts by (iii) the amount of the Single Family Regular Program Reserve.

### **Selected Information About the Multi-Family Reserve Ratio**

|                                                                                              | <u>06/30/04</u>             | <u>06/30/05</u>             | <u>09/30/05</u>              |
|----------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|------------------------------|
| Total Multi-Family Reserve                                                                   | \$ 44,698,739               | \$ 44,698,739               | \$ 44,698,739                |
| Amount Available for Calculation of "Ratio of Insurance to Available Reserve" <sup>(1)</sup> | 44,698,739                  | 44,698,739                  | 44,698,739                   |
| Insurance Outstanding                                                                        |                             |                             |                              |
| Multi-Family mortgage insurance in force                                                     | 181,521,338                 | 159,989,624                 | 158,142,142                  |
| <b>TOTAL</b>                                                                                 | <u><b>\$181,521,338</b></u> | <u><b>\$159,989,624</b></u> | <u><b>\$ 158,142,142</b></u> |
| <br>Ratio of Insurance to Available Reserve                                                  | <br>4.06 to 1               | <br>3.58 to 1               | <br>3.54 to 1                |

- 
- <sup>(1)</sup> In order to determine the leverage ratios, if the Unrestricted Accumulated Deficit exceeds the Unallocated Reserve, the Single Family Reserve or the Multi-Family Reserve may be reduced in a manner determined by MHF to be appropriate.

The total amount of the Multi-Family Reserve is available to pay multi-family insurance claims. In addition, to the extent available, MHF could elect to pay all or part of any multi-family claim from the Unallocated Reserve or from operating funds. MHF maintains other reserves that are not available to pay such claims (e.g., the Single Family, Revitalization, and Home and Energy Loan Reserves).

### **Single Family Information**

#### **Certain Additional Expected Single Family Claims**

Under its single family insurance program, MHF is not obligated to pay claims on single family insurance until after the insured lender has completed foreclosure, evicted the occupants of the properties (if necessary) and restored the property to a condition satisfactory to MHF. As a result, at any time there are a number of mortgages that have been foreclosed and which are likely to result in payment of claims but which have not yet reached the point where MHF recognizes them as liabilities in its financial statements. The total principal amount of such potential claims was \$599,428 as of September 30, 2005. On a quarterly basis, MHF includes its projection of net losses with respect to these potential claims in its financial statements as part of the allowance for single family insurance losses. Although these amounts are not payable from the Multi-Family Reserve, they are potentially payable from other resources of MHF, including operating cash, the Unallocated Reserve and the Single Family Reserve.

#### **Discussion of Single Family Operations**

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

MHF is also managing its sales of units acquired through foreclosure or similar action to improve overall returns by employing a private sector real estate broker to perform repairs, listings and sales of all REO units.

#### **Single Family Claims Experience**

The following chart sets forth information about claims on mortgage loans insured under the Single Family Regular Program Reserve, the Revitalization Reserve, and the Home and Energy Loan Reserve. This data includes net claim activity for properties sold during fiscal years ended June 30, 2004, June 30, 2005, and the three-month period ended September 30, 2005. The data for all of these reporting periods are subject to adjustment due to additional expenses paid and proceeds received after September 30, 2005.

### Single Family Claims Experience

|                                                                                  | <u>06/30/04</u>       | <u>06/30/05</u>     | <u>09/30/05</u>     |
|----------------------------------------------------------------------------------|-----------------------|---------------------|---------------------|
| Recoveries on Sales of Properties Acquired Through Claims During the Fiscal Year | \$ 5,177,732          | \$ 3,709,961        | \$ 510,939          |
| Claims Paid on Acquired Properties Sold During the Fiscal Year                   |                       |                     |                     |
| Principal                                                                        | (5,404,340)           | (3,139,684)         | (717,807)           |
| Interest                                                                         | (432,409)             | (265,791)           | (48,872)            |
| Expenses and Carrying Costs                                                      | <u>(1,339,913)</u>    | <u>(831,156)</u>    | <u>(140,257)</u>    |
| Total Claims Paid                                                                | (7,176,662)           | (4,236,631)         | (906,936)           |
| Net Loss on Acquired Properties Sold During the Fiscal Year                      | <u>\$ (1,998,930)</u> | <u>\$ (526,670)</u> | <u>\$ (395,997)</u> |

### Single Family Insurance Agreement and the 2005 Single Family Insurance Agreement

The Single Family Insurance Agreement and the 2005 Single Family Insurance Agreement provide as follows:

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

(2) Except as necessary to pay claims and advances on claims and except for expenditures with respect to properties acquired by MHF as a result of payment of such claims, MHF will not exceed certain leverage ratios. See “MANAGEMENT’S PRESENTATION OF THE MHF PROGRAM –Discussion of Leverage Ratios.”

(3) MHF will take all actions necessary for the qualification of Single Family Program insurance as mortgage insurance from a qualified insurer within the meaning of Section 302(b)(2) of the Fannie Mae Charter Act.

### Terms of Single Family Insurance Coverage

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

*Primary Insurance.* Historically, under the Single Family Insurance Agreement, MHF issued Primary Insurance that covered up to 25% of the total claims depending upon initial loan-to-value ratio. Under the 2005 Single Family Insurance Agreement, MHF issues Primary Insurance that covers the top 35% of the total claim. MHF Regulations provide that mortgage insurance may be terminated if: (1) the lender requests cancellation; (2) a claim is satisfied; (3) the mortgage is paid off; (4) a renewal premium is not paid by the mortgagee after its receipt of final notice from the MHF; or (5) the mortgage terms are modified without MHF approval.

*Pool Insurance.* MHF issued a pool insurance policy endorsement to the Administration at the time of delivery of each series of Single Family Program Bonds issued under the Administration’s Single Family Program Bond General Certificate (prior to 1997). The endorsement covered the total amount of lendable proceeds generated with respect to the series. MHF reserved funds in its Single Family Regular Reserve (in accordance with the applicable leverage ratio) and does not reduce the amount reserved as

mortgages amortize. Coverage continues so long as any bonds of the series, or bonds issued to refund such bonds, remain outstanding. For each applicable series of bonds, MHF computed a stop loss equal to 10% of the amount of proceeds of the series of bonds. The obligation of MHF to pay losses is subject to a loss limit aggregating the total stop loss amounts for the policy.

No pool insurance is required for loans financed under the Residential Revenue Bond Resolution.

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

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

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

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

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

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

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

## Multi-Family Information

### Multi-Family Insurance in Force and Available Reserves

The following table sets forth information about outstanding insurance on mortgage loans under MHF's multi-family program as of September 30, 2005. The amounts shown are net of debt service claim payments. The amounts shown do not include insurance on mortgage loans insured by MHF and reinsured by FHLMC. See "The FHLMC Reinsurance Agreement" below. The reinsured mortgage loans had an aggregate principal balance at September 30, 2005, of \$31,322,181.

In addition to the loans listed below, as of September 30, 2005, 24 single family loans financed with the proceeds of Housing Revenue Bonds of the Administration, with outstanding principal balances in the aggregate amount of \$554,172, are insured under the multi-family reserves.

### Outstanding Multi-Family Insurance as of September 30, 2005

| LOAN CATEGORY                                                                                       | Loans with<br>Outstanding<br><u>Insurance</u> | Original<br>Insured<br>Principal<br><u>Amount</u> | Outstanding<br>Insured<br>Principal<br><u>Amount</u> |
|-----------------------------------------------------------------------------------------------------|-----------------------------------------------|---------------------------------------------------|------------------------------------------------------|
| Housing Revenue Bonds of the Administration <sup>(1)</sup>                                          |                                               |                                                   |                                                      |
| Multi-Family Projects                                                                               | 23                                            | \$ 60,863,534                                     | \$ 38,092,734                                        |
| Other                                                                                               | 21                                            | 1,986,373                                         | 1,594,549                                            |
| Multi-Family Housing Revenue Bonds (Insured<br>Mortgage Loans) of the Administration <sup>(2)</sup> |                                               |                                                   |                                                      |
| Multi-Family Projects                                                                               | 31                                            | 107,946,653                                       | 95,692,591                                           |
| Other                                                                                               | 89                                            | 9,006,735                                         | 7,390,125                                            |
| HELP Program <sup>(3)</sup>                                                                         | 1                                             | 507,000                                           | 220,790                                              |
| Housing Opportunities Commission of<br>Montgomery County <sup>(4)</sup>                             | 4                                             | 17,043,000                                        | 10,314,969                                           |
| Other Financial Institutions <sup>(5)</sup>                                                         | <u>2</u>                                      | <u>8,599,079</u>                                  | <u>4,836,384</u>                                     |
| TOTAL                                                                                               | <u>171</u>                                    | <u>\$205,952,374</u>                              | <u>\$158,142,142</u>                                 |

- (1) Loans financed with proceeds of the Administration's Housing Revenue Bonds. The Loans provided permanent financing or construction and permanent financing for developments located in 12 counties and the City of Baltimore. These Developments (not including Group Homes) contain 2,350 units of which 1,041 units in 14 Developments are assisted under the Section 8 Program. The 21 projects in the "Other" category represent 68 units for Group Home Loans under \$262,500.
- (2) Loans financed with proceeds of the Administration's Multi-Family Housing Revenue Bonds (Insured Mortgage Loans). The Loans provided permanent financing or construction and permanent financing for developments located in 15 counties and the City of Baltimore. The Developments (not including Group Homes) contain 3,226 of which 667 units in 10 Developments are assisted under the Section 8 Program. The mortgage loans were initially endorsed for insurance between 1982 and December 31, 1997. The 31 Multi-Family Projects include Group Home Loans over \$262,500; the 89 projects in the "Other" category represent 307 units for Group Home Loans under \$262,500.
- (3) Loan financed with proceeds of the Administration's Home and Energy Loan Bond. The mortgage loan provided energy conservation and rehabilitation financing for the development located in the City of Baltimore. The development contains 304 units. The mortgage loan was initially endorsed for insurance in 1987.
- (4) Insurance issued to the Housing Opportunities Commission of Montgomery County ("HOC") to insure loans financed with proceeds of bonds issued by HOC. The mortgage loans provided financing for developments containing 427 units. The mortgage loans were initially endorsed for insurance between 1980 and 1996.
- (5) Insurance issued to a private financial institution to insure 2 mortgage loans providing financing for two developments containing 501 units. One mortgage loan was initially endorsed for insurance in 1994 in the amount of \$4,000,000, and one mortgage loan was initially endorsed for insurance in 1993 in the amount of \$4,599,079.

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

### **Certain Additional Expected Multi-Family Claims**

MHF Regulations provide that after a mortgage loan insured by MHF has been in default for six months, the Administration or any other public agency that is an insured lender may require that the mortgage loan be assigned to MHF and an insurance claim paid by MHF to the Administration or such public agency. MHF currently has no loans in financial default.

Woodbourne Center Project which has an outstanding balance of \$685,181 as of September 30, 2005, is not in financial default. However, the borrower, Woodbourne Centers, Inc., filed Chapter 11 bankruptcy on June 23, 2000. The bankruptcy court has confirmed the bankruptcy plan.

### **Discussion of Multi-Family Operations**

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

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

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

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

### **MHF's Risk Rating of the Multi-Family Projects as of September 30, 2005**

|                   | <u>Current<br/>Principal Balances</u> | <u>Percentage of<br/>Total Principal</u> | <u>Number<br/>of Loans</u> | <u>Number<br/>of Projects</u> |
|-------------------|---------------------------------------|------------------------------------------|----------------------------|-------------------------------|
| "A" Loans:        | \$ 90,849,895                         | 57.45%                                   | 31                         | 28                            |
| "B" Loans:        | \$ <u>67,292,247</u>                  | <u>42.55%</u>                            | <u>30</u>                  | <u>27</u>                     |
| Portfolio Totals: | \$ <u>158,142,142</u>                 | <u>100.00%</u>                           | <u>61</u>                  | <u>55</u>                     |

(1) Included in the 'A' Loans, in the 'Current Principal Balance' column, is \$8,984,674 for 110 group home loans which are not reflected in the 'Number of Loans' or 'Number of Projects' columns.

*Portfolio Management.* The Division is evaluating each of the Loans in the "B" category to develop a plan for stabilizing the loans and reducing its potential for default. Strategies may include loan

modification, use of additional resources, adjustments to funding of reserves for replacement going forward, and replacement of management agents.

### **Multi-Family Claims Experience**

The following chart describes claims paid by MHF on loans insured under the Multi-Family Reserve as of September 30, 2005.

In the column entitled “Claims Net of Cash Recoveries,” the figures show the result as of September 30, 2005. Workouts are in progress. See the individual footnotes below for further information.

**MULTI-FAMILY CLAIMS PAID BY MHF**  
**As of September 30, 2005**

| <u>Development/Claim Status</u>                 | <u>Principal</u> | <u>Interest &amp;<br/>Carrying<br/>Costs</u> | <u>Total</u> | <u>Recoveries</u> | <u>Claims Net<br/>of Cash<br/>Recoveries</u> | <u>Date<br/>Claim<br/>Paid</u> |
|-------------------------------------------------|------------------|----------------------------------------------|--------------|-------------------|----------------------------------------------|--------------------------------|
| <u>Closed Claims</u>                            |                  |                                              |              |                   |                                              |                                |
| Single Family Mortgage Loans <sup>(1)</sup>     | \$ 309,392       | \$ -                                         | \$ 309,392   | \$ 346,620        | \$ 37,228                                    | Various                        |
| Beethoven Apartments                            | 40,000           | -                                            | 40,000       | 40,000            | -                                            |                                |
| Douglynne Woods & Rhoda's                       | 566,658          | -                                            | 566,658      | 566,658           | -                                            | 04/1982                        |
| Legacy                                          |                  |                                              |              |                   |                                              |                                |
| Bond Street <sup>(2)</sup>                      | 543,940          | 71,711                                       | 615,651      | 408,859           | (206,792)                                    | 08/1989                        |
| Bellevue-Manchester <sup>(3)</sup>              | 288,333          | -                                            | 288,333      | -                 | (288,333)                                    | 10/1990                        |
| Strathdale Manor Apartments <sup>(4)</sup>      | 10,700,000       | 2,376,830                                    | 13,076,830   | -                 | (13,076,830)                                 | 05/1994                        |
| Walker Mill <sup>(5)</sup>                      | 3,346,441        | 1,229,080                                    | 4,575,521    | 2,314,817         | (2,260,704)                                  | 01/1997                        |
| Edmondale <sup>(6)</sup>                        | 457,739          | 24,206                                       | 481,945      | -                 | (481,945)                                    | 04/1997                        |
| Town Properties <sup>(7)</sup>                  | 819,111          | 12,493                                       | 831,604      | 582,989           | (248,615)                                    | 07/1997                        |
| Loch Raven <sup>(8)</sup>                       | 12,103,623       | 1,065,472                                    | 13,169,095   | 9,080,444         | (4,088,651)                                  | 02/1998                        |
| Village Home Apartments <sup>(9)</sup>          | 954,202          | 55,182                                       | 1,009,384    | 649,523           | (359,861)                                    | 12/1998                        |
| Regent Apartments <sup>(10)</sup>               | 1,227,455        | 72,446                                       | 1,299,901    | 860,603           | (439,298)                                    | 01/1999                        |
| Maple Avenue <sup>(11)</sup>                    | 3,053,892        | 211,540                                      | 3,265,432    | 1,748,397         | (1,517,035)                                  | 06/1999                        |
| Westfield Apartments <sup>(12)</sup>            | 4,401,438        | 390,924                                      | 4,792,362    | 2,910,539         | (1,881,823)                                  | 11/1999                        |
| Westfield Gardens <sup>(13)</sup>               | 496,757          | 1,735                                        | 498,492      | 279,435           | (219,057)                                    | 11/1999                        |
| Apartments at the Greens <sup>(14)</sup>        | 6,337,284        | 21,927                                       | 6,359,211    | 6,010,026         | (349,185)                                    | 11/1999                        |
| Stewarttown <sup>(15)</sup>                     | 2,543,590        | -                                            | 2,543,590    | 2,150,000         | (393,590)                                    | 12/1999                        |
| Telephone Apartments <sup>(16)</sup>            | 1,030,275        | 33,569                                       | 1,063,844    | 773,833           | (290,011)                                    | 01/2001                        |
| Robinwood Townhomes <sup>(17)</sup>             | 2,451,741        | 218,057                                      | 2,669,798    | 2,630,807         | (38,991)                                     | 11/2001                        |
| North Avenue Terraces <sup>(18)</sup>           | 1,155,285        | 48,762                                       | 1,204,047    | 750,000           | (454,047)                                    | 07/2002                        |
| Group Home Loans <sup>(19)</sup>                | 772,987          | 78,925                                       | 851,912      | 725,068           | (126,844)                                    | 03/2001                        |
| Bell Haven Apartments <sup>(20)</sup>           | 5,856,640        | 2,449,128                                    | 8,305,768    | 5,842,157         | (2,463,611)                                  | 03/1996                        |
| Quail Run/Bay Street Properties <sup>(21)</sup> | 1,182,578        | 37,677                                       | 1,220,255    | 1,186,575         | (33,680)                                     | 03/2003                        |
| Tomall Apartments <sup>(22)</sup>               | 152,885          | 994                                          | 153,879      | 75,000            | (78,879)                                     | 06/2004                        |
| <u>Claims where debt is outstanding</u>         |                  |                                              |              |                   |                                              |                                |
| Renaissance Plaza <sup>(23)</sup>               | \$6,907,349      | \$4,680,554                                  | \$11,587,903 | \$4,150,883       | \$(7,437,020)                                | 02/1991                        |
| Mount Pleasant <sup>(24)</sup>                  | 3,506,595        | 601,296                                      | 4,107,891    | 3,960,421         | (147,470)                                    | 02/1996                        |
| Villages of Laurel <sup>(25)</sup>              | 5,036,854        | 607,133                                      | 5,643,987    | 3,652,185         | (1,991,802)                                  | 11/1999                        |
| Eastdale <sup>(26)</sup>                        | 3,302,667        | 320,060                                      | 3,622,727    | 2,834,431         | (788,296)                                    | 11/1999                        |
| <u>Claims where REO is held</u>                 |                  |                                              |              |                   |                                              |                                |
| Market Mews <sup>(27)</sup>                     | \$1,700,014      | \$ 1,559,119                                 | \$3,259,133  | \$1,950,730       | \$(1,308,403)                                | 12/1985                        |
| Hollins Townhouses <sup>(28)</sup>              | 2,445,475        | 1,001,774                                    | 3,447,249    | 1,778,791         | (1,668,458)                                  | 10/1990                        |
| Lease-Purchase <sup>(29)</sup>                  | 1,534,088        | 78,322                                       | 1,612,410    | 450,261           | (1,162,149)                                  | 05/1996                        |

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

(2) Bond Street Deed of Trust Note in the original principal amount of \$543,940.

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

(4) Strathdale Manor Apartments Deed of Trust Note in the original principal amount of \$14,285,000. Claim amount paid by MHF included \$10,700,000 of original principal on the Note and \$145,139 in interest. MHF paid \$2,205,204 of operating deficits for the project. The proceeds of a letter of credit in the amount of \$3,585,000 provided by Maryland National Bank were used to cover the rest of the original principal portion of the Note. As required by an intercreditor agreement between MHF and Maryland National Bank, MHF filed for foreclosure on August 4, 1994, and after prolonged negotiations with

Baltimore City, the project developer, and other developers interested in further renovating the project proved unsuccessful, the property was sold to Baltimore City at foreclosure on April 15, 1997. The property was sold for an amount that was insufficient to provide any recovery to MHF.

- (5) Walker Mill Deed of Trust Note in the original principal amount of \$4,400,000, as modified by an allonge dated November 5, 1987, reducing the principal amount of the note to \$3,400,000. The Deed of Trust Note was sold and assigned to an unrelated third party purchaser on February 6, 1997.
- (6) Edmondale Deed of Trust Note in the original principal amount of \$508,000.
- (7) Town Properties Deed of Trust Note in the original principal amount of \$884,984. The property was sold to an unrelated third party at foreclosure on August 7, 1997.
- (8) Loch Raven Deed of Trust and two Deed of Trust Notes in the original principal amounts, as amended, of \$9,765,000 and \$2,785,000, respectively. In return, the Administration accepted a demand note from MHF in the principal amount of \$11,782,615, the amount of the outstanding indebtedness net of the non-refundable deposit for the sale of the deed of trust notes bearing interest at 8.25%. The Deed of Trust Notes were sold and assigned to an affiliate of the borrower on February 3, 1998. MHF received net sale proceeds in the amount of \$8,900,000, which were combined with additional claim payments totaling \$2,890,216 to repay the claim note and accrued interest. The net loss on the transaction was paid from the Unallocated Reserve.
- (9) Village Home Apartments Deed of Trust Note in the original principal amount of \$986,856, dated September 30, 1993. The property was sold for \$640,000. The Administration accepted a claim note from MHF for \$1,009,109. MHF paid \$318,664 plus \$50,720 paid previously as pre-claim payments and \$275 per diem interest and then signed over the proceeds to repay the claim note in December 1999.
- (10) Regent Apartments Deed of Trust Note in the original principal amount of \$1,255,000 dated September 16, 1994. The property was sold for \$860,603. The Administration accepted a claim note from MHF for \$1,299,265. MHF paid \$383,187 plus \$55,475 paid previously as pre-claim payments and \$636 per diem interest and then signed over the proceeds to repay the claim note in January 1999.
- (11) Maple Avenue Deed of Trust Note in the original principal amount of \$3,150,000 dated March 12, 1992. The property was sold for \$1,700,000 less settlement charges. The Administration accepted a claim note from MHF for \$2,953,878. MHF paid \$1,288,286 plus \$310,294 paid previously as pre-claim payments, \$1,259 per diem interest, signed over the proceeds, and, with \$10,000 received directly by the Administration, repaid the claim note in June 1999.
- (12) Westfield Apartments Deed of Trust Note in the original principal amount of \$4,600,000 dated April 12, 1983. The property was sold for \$2,910,539. MHF paid a partial claim in the amount of \$1,433,520 that includes \$390,924 of accrued interest plus \$448,303 paid previously as pre-claim payments.
- (13) Westfield Gardens Deed of Trust Notes in the original principal amounts of \$498,908 and \$28,150 dated September 21, 1983. The property was sold for \$279,435. MHF paid a partial claim in the amount of \$180,318, which included \$1,735 of accrued interest, plus \$38,739 paid previously as pre-claim payments.
- (14) Apartments at the Greens Deed of Trust Notes in the original principal amounts of \$6,348,627 and \$341,850 dated April 21, 1983. The property was sold for \$6,010,026. MHF paid a partial claim in the amount of \$302,222, which included \$21,927 of accrued interest, plus \$46,963 paid previously as pre-claim payments.
- (15) Stewarttown Deed of Trust Note in the original principal amount of \$3,136,100 dated July 18, 1975. The property was sold for \$2,150,000. MHF paid a partial claim payment in the amount of \$393,590.
- (16) In May 1993, MHF paid a partial claim on a project called Telephone Apartments, in the amount of \$291,487 for which a promissory note has been received. On February 8, 2001, MHF sold the Deed of Trust Note. The proceeds of the sale exceeded the claim paid to the Administration by MHF by \$1,477. The partial claim of \$291,487 will not be repaid. MHF had an allowance for loan loss for the full amount of this note.
- (17) Robinwood Townhomes Deed of Trust Note in the original principal amount of \$2,641,750. MHF paid a claim in full in the amount of \$2,653,883 on November 9, 2001. MHF foreclosed on this property on November 15, 2001. MHF sold the property for the purchase amount of \$2,410,000. The circuit court of Baltimore City ratified the sale on January 10, 2002. On June 24, 2002, MHF collected \$2,330,331 in net sales proceed.

- (18) In July 2002, MHF issued a claim note to CDA and accepted assignment of an insured Deed of Trust and Deed of Trust Note in the original principal amount of \$1,350,000 that financed a project known as North Avenue Terrace. MHF sold the Deed of Trust Note and received sales proceeds in the amount of \$750,000 on July 25, 2002. MHF paid the claim note in full with payment to CDA in the amount of \$1,145,826 on July 30, 2002.
- (19) Nine Deed of Trust Notes in the original principal amounts of \$833,650 for the various Group Home Loans. MHF paid full claim payments on the nine loans in the amounts of \$824,224. In March 2001, MHF accepted five loan assignments in the original principal amount of \$502,950. MHF paid full claims on the five loans for \$491,062 and received full recovery on the first and fourth loans by virtue of third party sales at foreclosure on June 7, 2001. MHF realized losses on the sale of second and third loans of approximately \$27,000 and \$22,000, respectively. MHF realized a loss of approximately \$40,000 on the fifth loan by virtue of third party purchasing on June 7, 2001. In August 2001, MHF accepted one assignment in the principal amount of \$108,000. MHF paid a full claim on the loan for \$106,372 and realized full recovery at a third party foreclosure sale on August 16, 2001. In October 2001, MHF accepted another three assignments in the original principal amount of \$222,700. MHF paid full claims on the three loans for \$226,790 and received full recovery on one loan at the third party foreclosure sale on June 13, 2002. MHF realized losses of approximately \$18,000 and \$16,000 on the two loans at the third party foreclosure sale on June 13, 2002. The court ratified the foreclosure sales on July 26, 2002.
- (20) In June 1996, MHF accepted assignment of a Deed of Trust and Deed of Trust Note, for a project named Belle Haven, in the original amount of \$6,186,990. MHF paid a claim in full for the project in the amount of \$7,995,330 on June 26, 1996. MHF received partial recovery of this amount upon disposition of the underlying collateral. The property was brought-in by MHF with a bid of \$5,100,000 at a foreclosure auction held on July 25, 2000. The Circuit Court of Prince George's County ratified the foreclosure sale on January 25, 2001. A contract for the sale of the property was executed on February 7, 2001, and sold on August 30, 2001, in the amount of \$5,100,000. MHF received net proceeds from the sale in the amount of \$4,844,394 and a Note in the remaining amount of \$210,000 payable by February 1, 2004. The purchaser made payments on the MHF Note totaling \$232,981, including the final payment in the amount of \$130,772 which was received on May 21, 2003.
- (21) In March 2003, MHF accepted assignment of an insured Deed of Trust and Deed of Trust Note in the original principal amount of \$1,276,037 that financed a project known as Quail Run Apartments (Bay Street Properties). MHF paid the claim note in full on March 13, 2003 with a payment to CDA in the amount of \$1,058,783. The property was sold at a foreclosure auction on June 27, 2003 for \$1,160,000. Settlement of the transaction occurred on November 5, 2003. On December 2, 2003, the Circuit Court for Worcester County ratified the auditors' report of the transaction. On December 4, 2003, after payment of the auctioneer's commission and advertising expenses, sales proceeds in the amount of \$1,174,575 were collected with additional interest received.
- (22) On September 19, 1984, the administration made a loan in the principal amount of \$250,000 (the "Loan") to Ronald H. Thomas (the "Borrower") in connection with a project called Tomall Apartments (the "Project"). MHF paid the claim note in full on June 28, 2004 with a payment to CDA in the amount of \$153,879. On June 30, 2004, MHF collected \$75,000 which represents a partial recovery. The property was sold to a new owner who plans to rehabilitate the project.
- (23) Renaissance Plaza Deed of Trust Note in the original principal amount of \$7,000,000. MHF paid all amounts in arrears totaling \$428,052 in February 1991. In connection with the default, MHF also paid additional principal of \$6,880,050; interest totaling \$1,498,664, and operating deficits in the amount of \$2,781,137. The Renaissance Plaza project, which consists of three buildings, has been sold pursuant to the orders of a judicial receivership. Closing on the sale of one building occurred on December 30, 1993. MHF received two notes in payment of the purchase price: a first lien mortgage in the amount of \$2,722,544 at 6.22% interest, \$365,000 of which is an amortizing loan, the balance to be paid out of cash flow, if any, from the properties; and a second lien gap note in the amount of \$512,404 at 0% interest until maturity. The gap note was paid in full at the closing of financing for rehabilitation of the building on February 18, 1994. The closing of the other two buildings occurred on December 14, 1994. MHF received three notes in payment of the purchase price for the two buildings: a first lien mortgage in the amount of \$2,600,000 at 7.4% interest to begin amortizing on January 1, 1997; a second lien mortgage in the amount of \$4,450,000 at 8.23% interest to be paid out of cash flow, if any, from the properties; and a third lien gap note in the amount of \$500,000 at 0% interest until maturity (April 13, 1995), and a default rate of 7.4% interest. The gap note was paid in full at the closing of financing for rehabilitation of the two buildings on February 14, 1995. The \$2,600,000 deed of trust note was sold at par and assigned to the Administration on September 24, 1996, in connection with an issuance of bonds by the Administration.
- (24) In February 1996, MHF accepted assignment of a Deed of Trust and Deed of Trust Note in the original principal amount of \$3,900,000 for a project called Mount Pleasant. MHF paid a claim for the project in the amount of \$4,107,891 on February 15, 1996. The property was sold to new ownership who planned to rehabilitate the project using a combination of new equity funds and State and City of Baltimore financing in combination with proceeds of the CDA Multi-Family 1995 December Bond Issue in the amount of \$2,550,000. New CDA and MHF loan documents were executed in conjunction

with a loan closing in July 1996. MHF received a Deed of Trust Note in the amount of \$1,087,259 of which \$293,770 is an amortizing 0% interest loan, and the balance is a cash flow loan with interest accruing at 2% per annum. MHF received partial recovery of \$2,450,000 at the time of closing and \$1,066,720 in September 1996. Reserves for construction contingencies and various operating expenses, in the amount of \$460,305, were funded from the recovery proceeds. In June 1998, a construction reserve held by MHF in the amount of \$198,000 and cost certification savings received from CDA in the amount of \$100,513 were applied to reduce the outstanding principal balance of the Deed of Trust note held by MHF.

- (25) Villages of Laurel Deed of Trust Note in the original amount of \$5,140,000. The loan was refunded with \$3,173,200 in new bond proceeds. MHF made a partial claim payment in the amount of \$1,645,098 and pre-claim payments in the amount of \$825,689. MHF received cash of \$54,023 and a cash flow note in the amount of \$2,416,765, equal to the net claim paid. The MHF Note is secured by a second deed of trust lien on the land and improvements on which the project is located. To date the project has made net payments on the MHF Note of \$424,963.
- (26) Eastdale Deed of Trust Note in the original amount of \$3,401,000. The loan was refunded with \$2,450,000 in new bond proceeds. MHF made a partial claim payment in the amount of \$746,513 and pre-claim payments in the amount of \$426,214. MHF received cash of \$54,324 and a cash flow Note in the amount of \$1,118,403, equal to the net claim paid. The MHF Note is secured by a second deed of trust lien on the land and improvements on which the project is located. To date the project has made net payments on the MHF Note of \$330,106.
- (27) Market Mews Deed of Trust Note in the original principal amount of \$1,700,000. MHF paid all amounts in arrears totaling \$151,733. Administration accepted a promissory note from MHF in the total principal amount of \$1,693,568, with interest at the annual rate of 7%, which had a maturity date of December 31, 1995. MHF paid the claim note in full as of February 22, 1995. To date, MHF has paid principal and interest on the claim note and operating deficits in the total amount of \$3,259,133. MHF foreclosed on this development in an uncontested foreclosure proceeding held on July 14, 1995. The original collateral for the loan consisted of 31 scattered site units of which 2 units remain unsold.
- (28) Hollins Townhouses Deed of Trust Note in the original principal amount of \$2,300,000. MHF paid all amounts in arrears totaling \$176,025, and the Administration accepted a promissory note from MHF in the total principal amount of \$2,427,094, with interest at the annual rate of 7%, which had a maturity date of December 31, 1995. MHF paid the claim note in full as of February 22, 1995. To date, MHF has paid principal and interest on the claim note and operating deficits in the total amount of \$3,447,249. MHF foreclosed on this development in an uncontested foreclosure proceeding held on July 14, 1995. The original collateral for the loan consisted of 48 scattered site units of which 5 units remain unsold.
- (29) In May, 1996, MHF accepted assignment of a Deed of Trust and Deed of Trust Note in the original amount of \$2,000,000 which financed a project known as Lease Purchase. MHF paid a claim for the project in the amount of \$1,587,498 on May 15, 1996. MHF received partial recovery of this amount upon disposition of the underlying collateral. MHF accepted a deed of assignment on this project on July 12, 1996. Fourteen of the original 40 units have been sold and the majority of the remaining units are occupied by tenants, some of whom are candidates to purchase their properties.

## **Actuarial Study**

The Insurance Agreement requires MHF to undertake periodic actuarial studies. The most recent study (the “2005 Study”), which was prepared by KPMG LLP (“KPMG”), dated June 27, 2005, and was performed using information as of June 30, 2004. The main purpose of the 2005 Study was to estimate the capital position of the multi-family portfolio and its future compliance with the capitalization requirements set forth in the Insurance Agreement.

The 2005 Study concluded that the MHF multi-family insurance program contained sufficient assets to meet its future obligations and maintain levels of capital to meet its insurance requirements under the Insurance Agreement. The 2005 Study further found that the insurance premiums generated from the multi-family bond program alone may not be adequate to cover the cost of future loan defaults and expenses associated with administering the multi-family bond program, but that investment income generated from current fund assets would be sufficient to cover the shortfall. In so doing, the 2005 Study assumed that investment income generated by assets within the Multi-Family Reserve would be available to pay claims on multi-family insured loans, although investment income generated by assets within the Multi-Family Reserve is credited to the Unallocated Reserve and is not specifically assigned to the multi-

family portfolio. Thus, losses in other categories of insurance could be paid from this investment income, reducing or eliminating the amount available to pay claims on multi-family reserves.

KPMG advised that the 2005 Study must be read in its entirety to fully understand the conclusions and must be read in the context of a number of limitations. The 2005 Study used claim and prepayment patterns based on the FHA 221(d)(4) (OMI) program, because, in KPMG's view, statistically credible default and prepayment patterns were not readily available from MHF experience and the number of multi-family loans insured by MHF was statistically insufficient to produce credible claim and prepayment patterns. The 2005 Study cautioned that, while the risk profiles of the MHF and FHA portfolios are similar, the possibility exists that actual MHF claim and prepayment experience may differ, perhaps significantly, from the historical FHA experience.

In preparing the 2005 Study, KPMG assumed the FHA claim and prepayment experience discussed above, an average loss rate on claims of 45%, a premium equal to 0.5% of the average annual outstanding loan balance, an annual expense ratio of 0.37% of the average outstanding loan balance, and an expected investment yield of 2.5%. Additional scenarios provided sensitivity analyses by modifying the baseline assumptions as follows:

- Rate of claims of 200% of FHA experience;
- A loss rate on claims of 65% instead of 45%;
- A rate of claims at 200% of FHA experience and a loss rate on claims of 65%;
- An investment yield of 1.5% instead of 2.5%; and
- A rate of claims at 200% of FHA experience, a loss rate on claims of 65%, and an investment yield of 1.5%.

In only the final scenario did the results of the simulation indicate a greater than 1% probability that total future cash flows would be insufficient to pay for losses and expenses.

A copy of the 2005 Study is available upon request. See "Additional Information" below.

### **FHLMC Reinsurance Agreement**

On December 28, 1994, MHF, the Department, the Administration, and the Federal Home Loan Mortgage Corporation ("FHLMC") entered into a Reinsurance Agreement (the "Reinsurance Agreement"). The purpose of the Reinsurance Agreement was to cede to and fully reinsure with FHLMC, MHF's mortgage insurance obligations with respect to certain loans insured by MHF. Under the Reinsurance Agreement, FHLMC has agreed to fully reinsure, without any contingent liability for MHF, 17 loans insured by MHF having an original unpaid principal balance of \$70,346,036 and, as of September 30, 2005, an aggregate unpaid principal balance of \$31,322,181. Nine of these loans were financed originally with the Administration's Multi-Family Housing Revenue Bonds (Insured Mortgage Loans) and acquired with proceeds of the Administration's Housing Revenue Bonds Series 1996 A Bonds, and are identified in APPENDIX D – "DESCRIPTION OF LOANS AND DEVELOPMENTS" in the Official Statement for the Administration's Housing Revenue Bonds, Series 1999 D. The remainder of these loans was financed with the proceeds of the Administration's Multi-Family Housing Revenue Bonds (Insured Mortgage Loans).

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

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

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

## **Staff**

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

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

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

| Name                    | Position                                         |
|-------------------------|--------------------------------------------------|
| George Eaton            | Director, Division of Credit Assurance and MHF   |
| Norman Swoboda          | Deputy Director, Division of Credit Assurance    |
| Jolly Burks             | Director, Division of Finance and Administration |
| Ruth Putnam             | Director, MHF Finance and State Funded Loans     |
| Bill Beans              | Director, Multi-Family Operations                |
| Stanley H. Sanders, Jr. | Director, Single Family Operations               |

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

*Norman Swoboda* joined the staff of the Division of Credit Assurance as Deputy Director in September 2004. Prior to joining DCA, Mr. Swoboda was a Senior Finance Executive in the Division of Business Development, within the Department of Business and Economic Development. Prior to State service, Mr. Swoboda worked as a Senior Credit Analyst and Commercial Lender with the First National Bank of Maryland.

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

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

*Bill Beans* was named Director of Multi-Family Asset Management in November 2004. He has been with the Department since 1987 and has previously served as the Director of Homeownership Programs, Deputy Director of the Community Assistance Administration and Director of Single Family Asset Management. Prior to coming to the Department, Mr. Beans worked in various housing related positions for local governments in Maryland.

*Stanley H. Sanders, Jr.* has served as Director of Single Family Operations since May 1994. From 1985 until May 1994, he was a Senior Underwriter and Administrator for Single Family Programs for MHF. Prior to joining MHF, Mr. Sanders worked for the Administration for over five years and worked for two private banks.

#### **Additional Information**

For additional information, please contact Investor Relations at (410) 514-7326 or [cda\\_bonds@mdhousing.org](mailto:cda_bonds@mdhousing.org).

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX H**

**FINANCIAL STATEMENTS OF THE  
COMMUNITY DEVELOPMENT ADMINISTRATION  
RESIDENTIAL REVENUE BONDS**

[THIS PAGE INTENTIONALLY LEFT BLANK]

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

**COMMUNITY DEVELOPMENT ADMINISTRATION  
RESIDENTIAL REVENUE BONDS**

JUNE 30, 2005 AND 2004

Community Development Administration  
Residential Revenue Bonds

TABLE OF CONTENTS

|                                                                    | PAGE |
|--------------------------------------------------------------------|------|
| INDEPENDENT AUDITORS' REPORT                                       | 3    |
| FINANCIAL STATEMENTS                                               |      |
| STATEMENTS OF NET ASSETS                                           | 5    |
| STATEMENTS OF REVENUE, EXPENSES AND<br>CHANGES IN NET ASSETS       | 6    |
| STATEMENTS OF CASH FLOWS                                           | 7    |
| NOTES TO FINANCIAL STATEMENTS                                      | 9    |
| SUPPLEMENTAL DISCLOSURES OF CHANGE IN FAIR VALUE OF<br>INVESTMENTS | 29   |

## INDEPENDENT AUDITORS' REPORT

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 years ended June 30, 2005 and 2004, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2005 and 2004, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph 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 as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



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

*Reznick Group, P.C.*

Baltimore, Maryland  
September 15, 2005

Community Development Administration  
Residential Revenue Bonds

STATEMENTS OF NET ASSETS  
(in thousands)

June 30, 2005 and 2004

|                                                      | <u>2005</u>         | <u>2004</u>       |
|------------------------------------------------------|---------------------|-------------------|
| <b>RESTRICTED ASSETS</b>                             |                     |                   |
| Restricted current assets                            |                     |                   |
| Cash and cash equivalents on deposit with trustee    | \$ 123,890          | \$ 104,153        |
| Investments                                          | 200,578             | 209,317           |
| Single family mortgage loans                         | 11,377              | 10,655            |
| Accrued interest and other receivables               | <u>8,768</u>        | <u>12,785</u>     |
| Total restricted current assets                      | <u>344,613</u>      | <u>336,910</u>    |
| Restricted long-term assets                          |                     |                   |
| Investments, net of current portion                  | 31,448              | 28,613            |
| Single family mortgage loans, net of current portion | 628,844             | 625,105           |
| Deferred bond issuance costs                         | <u>6,180</u>        | <u>5,875</u>      |
| Total restricted long-term assets                    | <u>666,472</u>      | <u>659,593</u>    |
| Total restricted assets                              | <u>\$ 1,011,085</u> | <u>\$ 996,503</u> |
| <b>LIABILITIES AND NET ASSETS</b>                    |                     |                   |
| Current liabilities                                  |                     |                   |
| Bonds payable and short-term debt                    | \$ 217,145          | \$ 246,280        |
| Accrued interest payable                             | 12,481              | 11,916            |
| Rebate liability                                     | 360                 | 251               |
| Accounts payable                                     | -                   | 632               |
| Due to other Funds                                   | <u>312</u>          | <u>937</u>        |
| Total current liabilities                            | <u>230,298</u>      | <u>260,016</u>    |
| Long-term liabilities                                |                     |                   |
| Bonds payable, net of current portion                | 691,264             | 653,925           |
| Rebate liability, net of current portion             | <u>934</u>          | <u>1,683</u>      |
| Total long-term liabilities                          | <u>692,198</u>      | <u>655,608</u>    |
| Total liabilities                                    | 922,496             | 915,624           |
| <b>COMMITMENTS AND CONTINGENCIES</b>                 | -                   | -                 |
| <b>NET ASSETS</b>                                    |                     |                   |
| Restricted                                           | <u>88,589</u>       | <u>80,879</u>     |
| Total liabilities and net assets                     | <u>\$ 1,011,085</u> | <u>\$ 996,503</u> |

See notes to financial statements

Community Development Administration  
Residential Revenue Bonds

STATEMENTS OF REVENUE, EXPENSES AND  
CHANGES IN NET ASSETS  
(in thousands)

Years ended June 30, 2005 and 2004

|                                                                         | <u>2005</u>      | <u>2004</u>      |
|-------------------------------------------------------------------------|------------------|------------------|
| Operating revenue                                                       |                  |                  |
| Interest on mortgage loans                                              | \$ 37,102        | \$ 37,749        |
| Interest income on investments, net of rebate                           | 8,988            | 5,188            |
| Decrease in fair value of investments, net of rebate                    | (180)            | (116)            |
| Fee income                                                              | 986              | 1,329            |
| Gain on foreclosure claims                                              | 355              | 195              |
|                                                                         | <u>47,251</u>    | <u>44,345</u>    |
| Operating expenses                                                      |                  |                  |
| Interest expense on bonds and short-term debt                           | 38,564           | 40,429           |
| Amortization of bond issuance costs                                     | 581              | 534              |
| Professional fees and other operating expenses                          | 1,060            | 1,979            |
| Loss on early retirement of debt                                        | 921              | 2,092            |
| Origination expenses                                                    | 270              | 35               |
|                                                                         | <u>41,396</u>    | <u>45,069</u>    |
| Operating income (loss)                                                 | 5,855            | (724)            |
| Transfers of funds, net, as permitted by the various<br>bond indentures | <u>1,855</u>     | <u>45,961</u>    |
| CHANGES IN NET ASSETS                                                   | 7,710            | 45,237           |
| Net assets - restricted at beginning of year                            | <u>80,879</u>    | <u>35,642</u>    |
| Net assets - restricted at end of year                                  | <u>\$ 88,589</u> | <u>\$ 80,879</u> |

See notes to financial statements

Community Development Administration  
Residential Revenue Bonds

STATEMENTS OF CASH FLOWS  
(in thousands)

Years ended June 30, 2005 and 2004

|                                                                                 | 2005       | 2004       |
|---------------------------------------------------------------------------------|------------|------------|
| Cash flows from operating activities                                            |            |            |
| Principal and interest received on mortgage loans                               | \$ 177,615 | \$ 204,219 |
| Mortgage insurance claims received                                              | 8,600      | 7,730      |
| Foreclosure expenses paid                                                       | (736)      | (641)      |
| Loan fees received                                                              | 95         | 125        |
| Loan fees disbursed                                                             | (1,740)    | (1,766)    |
| Purchase of mortgage loans                                                      | (146,492)  | (136,584)  |
| Professional fees and other operating expenses                                  | (1,092)    | (1,947)    |
| Other reimbursements                                                            | (600)      | 600        |
| Net cash provided by operating activities                                       | 35,650     | 71,736     |
| Cash flows from investing activities                                            |            |            |
| Proceeds from maturities or sales of investments                                | 386,430    | 258,524    |
| Purchases of investments                                                        | (379,316)  | (308,681)  |
| Arbitrage rebates paid                                                          | (751)      | (204)      |
| Interest received on investments                                                | 7,471      | 5,958      |
| Net cash provided by (used in) investing activities                             | 13,834     | (44,403)   |
| Cash flows from noncapital financing activities                                 |            |            |
| Proceeds from sale of bonds                                                     | 352,620    | 316,698    |
| Payments on bond principal                                                      | (344,250)  | (356,855)  |
| Bond issuance costs                                                             | (1,899)    | (1,143)    |
| Interest on bonds and short-term debt                                           | (38,073)   | (44,312)   |
| Transfers among Funds                                                           | 1,855      | 45,961     |
| Net cash used in noncapital financing activities                                | (29,747)   | (39,651)   |
| NET INCREASE (DECREASE) IN CASH AND CASH<br>EQUIVALENTS ON DEPOSIT WITH TRUSTEE | 19,737     | (12,318)   |
| Cash and cash equivalents on deposit with trustee<br>at beginning of year       | 104,153    | 116,471    |
| Cash and cash equivalents on deposit with trustee<br>at end of year             | \$ 123,890 | \$ 104,153 |

(continued)

Community Development Administration  
Residential Revenue Bonds

STATEMENTS OF CASH FLOWS - CONTINUED  
(in thousands)

Years ended June 30, 2005 and 2004

|                                                                                               | <u>2005</u>      | <u>2004</u>      |
|-----------------------------------------------------------------------------------------------|------------------|------------------|
| Reconciliation of operating income (loss) to net cash from operating activities               |                  |                  |
| Operating income (loss)                                                                       | \$ 5,855         | \$ (724)         |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities |                  |                  |
| (Increase) decrease in assets                                                                 |                  |                  |
| Mortgage loans                                                                                | (2,100)          | 35,377           |
| Accrued interest and other receivables                                                        | 4,017            | 989              |
| (Decrease) increase in liabilities                                                            |                  |                  |
| Accounts payable                                                                              | (632)            | 632              |
| Rebate liability                                                                              | (640)            | (384)            |
| Accrued interest payable                                                                      | 565              | (3,864)          |
| Due to other Funds                                                                            | (625)            | 791              |
| Amortizations                                                                                 |                  |                  |
| Deferred income and expense on loans                                                          | (716)            | (1,305)          |
| Investment discounts and premiums                                                             | (807)            | 16               |
| Bond original issue discounts and premiums                                                    | (74)             | (20)             |
| Deferred bond issuance costs                                                                  | 581              | 534              |
| (Increase) decrease in fair value of investments                                              | (403)            | 674              |
| Loan fees and expenses deferred                                                               | (1,645)          | (1,630)          |
| Arbitrage rebates paid                                                                        | 751              | 204              |
| Loss on early retirement of debt                                                              | 921              | 2,092            |
| Interest received on investments                                                              | (7,471)          | (5,958)          |
| Interest on bonds and short-term debt                                                         | 38,073           | 44,312           |
|                                                                                               | <u>38,073</u>    | <u>44,312</u>    |
| Net cash provided by operating activities                                                     | <u>\$ 35,650</u> | <u>\$ 71,736</u> |

See notes to financial statements

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS  
(in thousands)

June 30, 2005 and 2004

NOTE 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 primarily to originate or purchase single family mortgage loans.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Fund is accounted for as an enterprise fund. Accordingly, the accompanying financial statements have been prepared using the accrual method of accounting and on the basis of accounting principles generally accepted in the United States of America (GAAP).

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  
(in thousands)

June 30, 2005 and 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CDA has adopted GASB Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis*. 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 as all net assets are pledged to bondholders.

The Annual Financial Report may include 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 prepares a Management's Discussion and Analysis for the General Accounting Division of the State of Maryland that is not part of these financial statements.

Recent Accounting Pronouncements

Effective July 1, 2004, CDA adopted GASB Statement No. 40 *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. GASB Statement No. 40 requires disclosure of information regarding investments: credit risk, interest rate risk, concentration of credit risk and custodial credit risk. This new statement does not have any impact on the Fund's financial position or results of operations. The disclosures are in Note 3.

Cash and Cash Equivalents on Deposit with Trustee

Cash equivalents may include money market funds, repurchase agreements, investment agreements and any other investments, primarily obligations of the U.S. Treasury and U.S. Government Agencies, which have maturities of 90 or less days at the time of purchase. As of June 30, 2005 and 2004, all of CDA's cash equivalents are invested in a money market mutual fund which is more fully described in Note 3.

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are principally governmental debt securities or investment agreements collateralized by governmental debt securities. Debt securities are stated at fair value, based on quoted market prices. Investments are classified as current or long-term based on the 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 and expenses. Loan fees and expenses are deferred over the life of the related loans and amortized using the effective interest method. Any mortgage loan in foreclosure with a pending insurance claim is recorded as other receivables. See Notes 4 and 13 for additional information on mortgage loans and mortgage insurance, respectively.

Allowance for Loan Losses

Approximately 99% of the mortgage loans of the Fund are insured or guaranteed by agencies of the U.S. Government. No allowance for loan losses was necessary as of June 30, 2005 and 2004. See Notes 4 and 13 for additional information.

Accrued Interest and Other Receivables

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

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 is recognized as a loss on the Statements of Revenue, 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.

Bonds Payable

Bonds payable are carried at their unpaid principal balances, net of original issue discounts or premiums. See Notes 6, 7, 8 and 9 for more information.

Rebate Liability on Investments

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.

Mortgage 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

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2005 and 2004, all mortgage loan yield calculations are in compliance with the Code.

Interest on Mortgage Loans

Interest on mortgage loans is calculated using the effective interest method.

Fee Income

CDA earns single family commitment fees at loan origination. These fees are deferred and amortized over the life of the loan.

Origination Expenses

CDA pays originators of its single family loans an origination fee and a servicer release fee. These CDA expenses are deferred and amortized 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. Support services and the operating expenses of CDA have been allocated to CDA's General Bond Reserve Fund and reported in the financial statements of CDA's Revenue Obligation Funds. The General Bond Reserve Fund records these expenses as invoiced by DHCD for the fiscal year.

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 charged to CDA's General Bond Reserve Fund. See Note 14 for additional information.

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Expenses

CDA distinguishes operating revenue and expenses from nonoperating items in conformity with GASB Statement No. 34. Operating revenue and expenses are identified as those activities that are directly related to financing affordable housing in the State of Maryland. All of CDA's activities are considered to be operating.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue, expenses, gains and losses during the reporting period. Actual results could differ from these estimates.

Reclassifications

Certain 2004 amounts have been reclassified to conform to 2005 financial statement presentation.

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Bond proceeds and revenues from mortgages and investments are invested in authorized investments as defined in the Residential Revenue Bond Resolution (the Resolution) and in CDA's Investment Policy until required for purchasing or originating mortgage loans, funding reserves, paying bond debt service or redeeming outstanding bonds and notes, and funding program expenses. Authorized investments include obligations of the U.S. Treasury, U.S. Government Agencies, repurchase agreements, investment agreements, money market funds and certificates of deposit.

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

The following assets, reported at fair value and held by CDA at June 30, 2005, are evaluated in accordance with GASB 40 for interest rate risk, credit risk, concentration of credit risk and custodial credit risk.

| <u>Assets</u>                           | <u>Fair Value</u>        |
|-----------------------------------------|--------------------------|
| Cash and cash equivalents               |                          |
| Federated Treasury Obligations Fund     | \$ 123,890               |
| Investments                             |                          |
| Obligations of U.S. Government Agencies | 209,147                  |
| Repurchase and Investment Agreements    | <u>22,879</u>            |
| Total                                   | <u><u>\$ 355,916</u></u> |

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses from rising interest rates, CDA's Investment Policy requires that the maturities of the investment portfolio are scheduled to meet the cash requirements for bond debt service, projected loan originations and ongoing operations.

As of June 30, 2005, the amortized cost, fair value and maturities for these assets were as follows:

| Asset                                           | Amortized<br>Cost        | Fair<br>Value            | Maturities (in years)    |                    |                    |                        |                         |
|-------------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------|--------------------|------------------------|-------------------------|
|                                                 |                          |                          | Less<br>than 1           | 1 - 5              | 6 - 10             | 11 - 15                | More<br>than 15         |
| Federated Treasury<br>Obligations Fund          | \$ 123,890               | \$ 123,890               | \$ 123,890               | \$ -               | \$ -               | \$ -                   | \$ -                    |
| Obligations of U.S.<br>Government Agencies      | 208,453                  | 209,147                  | 200,577                  | -                  | -                  | 2,311                  | 6,259                   |
| Repurchase agreements/<br>Investment agreements | <u>22,879</u>            | <u>22,879</u>            | <u>-</u>                 | <u>-</u>           | <u>-</u>           | <u>-</u>               | <u>22,879</u>           |
| Total                                           | <u><u>\$ 355,222</u></u> | <u><u>\$ 355,916</u></u> | <u><u>\$ 324,467</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 2,311</u></u> | <u><u>\$ 29,138</u></u> |

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

The Federated Treasury Obligations Fund invests exclusively in U.S. Treasuries and in repurchase agreements collateralized by Treasury securities. It is operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. It can reasonably be expected to have a fair value that will be unaffected by interest rate changes because the interest rates are variable and the principal can be recovered on demand. As noted above, as of June 30, 2005, the cost of this money market mutual fund approximated fair value.

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither CDA's Investment Policy nor the Resolution require investment agreements or deposits to be collateralized. CDA's Investment Policy places no limit on the amount that CDA may invest in any one issuer or counterparty. According to the Resolution and CDA's Investment Policy, securities must be at a rating no lower than the rating on the bonds or F1/P-1 and financial institutions who are a counterparty to CDA in investment agreements must be rated at least comparable to the existing rating on the bonds unless counterparty ratings lower than the bond ratings are permitted and do not affect the ratings on the bonds. In addition, certain investment and repurchase agreements require counterparty ratings no less than the ratings on the bonds. As of June 30, 2005, all counterparty ratings were at least equal to the ratings on the bonds. The ratings on Residential Revenue Bonds as of June 30, 2005, were Aa2 by Moody's Investors Service and AA by Fitch.

As of June 30, 2005, credit ratings and allocation by type of investments for the following assets were:

| Asset                                                           | Fair Value        | Percentage of total investments | Money market fund rating | Securities credit rating            | Rating agency |
|-----------------------------------------------------------------|-------------------|---------------------------------|--------------------------|-------------------------------------|---------------|
| Federated Treasury Obligations Fund                             | \$ 123,890        | 34.81%                          | Aaa                      |                                     | Moody's       |
| Obligations of U.S. Government Agencies                         | 209,147           | 58.76%                          |                          | Aaa                                 | Moody's       |
| Collateralized repurchase agreements and investment agreements: |                   |                                 |                          | Underlying securities credit rating |               |
| Counterparties rated Aa2                                        | 22,879            | 6.43%                           |                          | Aaa                                 | Moody's       |
| Total                                                           | <u>\$ 355,916</u> | <u>100.00%</u>                  |                          |                                     |               |

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

The market value of the underlying collateralized securities in repurchase agreements and investment agreements is maintained at a minimum of 102 percent of the principal of and accrued interest on the invested funds by marking to market at least weekly and using an immediate under value cure provision.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or counterparty failure, CDA will not be able to recover its deposits or the value of its collateral securities that are in the possession of an outside party. Investments and collateralized securities are held in trust by the trustee or the trustee's agent, kept separate from the assets of the bank and from other trust accounts and are held in CDA's name.

NOTE 4 - MORTGAGE LOANS

Primarily 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, USDA/RD guarantee programs, or by private mortgage insurers. Interest rates on such loans ranged from 4.0% to 7.5%. Remaining loan terms ranged from 18 to 35 years, and 20 to 30 years, for the years ended June 30, 2005 and June 30, 2004, respectively.

NOTE 5 - ACCRUED INTEREST AND OTHER RECEIVABLES

Accrued interest and other receivables as of June 30, 2005 and 2004 were as follows:

|                                   | 2005            | 2004             |
|-----------------------------------|-----------------|------------------|
| Accrued mortgage loan interest    | \$ 5,235        | \$ 5,914         |
| Accrued investment interest       | 1,195           | 958              |
| Claims due from mortgage insurers | 2,336           | 5,913            |
| Miscellaneous loan billings       | 2               | -                |
|                                   | <u>\$ 8,768</u> | <u>\$ 12,785</u> |

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 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.

Short-term debt activity for the year ended June 30, 2005 was as follows:

|                           | Balance at<br>June 30,<br>2004 | Bond Activity     |                      | Balance at<br>June 30,<br>2005 |
|---------------------------|--------------------------------|-------------------|----------------------|--------------------------------|
|                           |                                | Issued            | Matured/<br>redeemed |                                |
| Residential Revenue Bonds |                                |                   |                      |                                |
| 2003 Series D             | \$ 91,795                      | \$ -              | \$ 91,795            | \$ -                           |
| 2003 Series E             | 128,515                        | -                 | 128,515              | -                              |
| 2004 Series J             | -                              | 91,795            | -                    | 91,795                         |
| 2004 Series K             | -                              | 78,260            | -                    | 78,260                         |
| Total                     | <u>\$ 220,310</u>              | <u>\$ 170,055</u> | <u>\$ 220,310</u>    | <u>\$ 170,055</u>              |

The outstanding short-term debt of \$170,055 plus the principal payments due within one year of \$47,090 equal the current portion of bonds payable and short-term debt of \$217,145 on the Statements of Net Assets.

Short-term debt activity for the year ended June 30, 2004 was as follows:

|                           | Balance at<br>June 30,<br>2003 | Bond Activity     |                      | Balance at<br>June 30,<br>2004 |
|---------------------------|--------------------------------|-------------------|----------------------|--------------------------------|
|                           |                                | Issued            | Matured/<br>redeemed |                                |
| Residential Revenue Bonds |                                |                   |                      |                                |
| 2002 Series D             | \$ 41,980                      | \$ -              | \$ 41,980            | \$ -                           |
| 2002 Series E             | 67,965                         | -                 | 67,965               | -                              |
| 2003 Series D             | -                              | 91,795            | -                    | 91,795                         |
| 2003 Series E             | -                              | 128,515           | -                    | 128,515                        |
| Total                     | <u>\$ 109,945</u>              | <u>\$ 220,310</u> | <u>\$ 109,945</u>    | <u>\$ 220,310</u>              |

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 6 - SHORT-TERM DEBT (Continued)

The outstanding short-term debt of \$220,310 plus the principal payments due within one year of \$25,970 equal the current portion of bonds payable and short-term debt of \$246,280 on the Statements of Net Assets.

NOTE 7 - BONDS PAYABLE

The bonds and notes issued by CDA are special obligations of CDA and are payable from the revenue and special funds of the Resolution. 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 special 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 optional redemption, in whole or in part at any time, after certain dates, as specified in the respective series resolutions. The prescribed optional redemption premiums range from 0% to 1.5% of the principal amount.

The following lists those bonds which are at variable rates and the terms by which the variable rate changes. All other bonds have fixed interest rates. All bonds are tax-exempt.

2003 Series C; 2004 Series C, F and I; and 2005 Series C

The rate is set weekly by the remarketing agent so that the market value of the bonds is as close as possible to 100% of the principal amount of the bonds. In no event will the bonds bear interest at a rate in excess of 12%.

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 7 - BONDS PAYABLE (Continued)

The following is a summary of the bond activity for the year ended June 30, 2005, and the debt outstanding and bonds payable as of June 30, 2005:

|                           | Issue dated | Range of interest rates | Range of maturities | Debt                         | Bond Activity    |                             |                | Debt                         | Discounts/<br>premiums and other deferred costs | Bonds payable at June 30, 2005 |
|---------------------------|-------------|-------------------------|---------------------|------------------------------|------------------|-----------------------------|----------------|------------------------------|-------------------------------------------------|--------------------------------|
|                           |             |                         |                     | Outstanding at June 30, 2004 | New bonds issued | Scheduled maturity payments | Bonds redeemed | Outstanding at June 30, 2005 |                                                 |                                |
| Residential Revenue Bonds |             |                         |                     |                              |                  |                             |                |                              |                                                 |                                |
| 1997 Series A             | 8/1/1997    | 5.60%                   | 2017                | \$ 16,295                    | \$ -             | \$ -                        | \$ (60)        | \$ 16,235                    | \$ -                                            | \$ 16,235                      |
| 1997 Series B             | 8/1/1997    | 4.90% - 5.875%          | 2004 - 2029         | 44,155                       | -                | (1,865)                     | (6,850)        | 35,440                       | -                                               | 35,440                         |
| 1998 Series A             | 1/1/1998    | 4.70% - 5.05%           | 2010 - 2017         | 4,640                        | -                | -                           | -              | 4,640                        | -                                               | 4,640                          |
| 1998 Series B             | 1/1/1998    | 4.35% - 5.35%           | 2004 - 2030         | 48,275                       | -                | (1,335)                     | (4,555)        | 42,385                       | 32                                              | 42,417                         |
| 1998 Series D             | 12/1/1998   | 4.20% - 5.25%           | 2004 - 2029         | 43,835                       | -                | (1,225)                     | (2,500)        | 40,110                       | -                                               | 40,110                         |
| 1999 Series C             | 5/1/1999    | 4.70% - 4.95%           | 2011 - 2015         | 2,665                        | -                | -                           | -              | 2,665                        | -                                               | 2,665                          |
| 1999 Series D             | 5/1/1999    | 4.10% - 5.40%           | 2004 - 2031         | 41,845                       | -                | (915)                       | (2,660)        | 38,270                       | (17)                                            | 38,253                         |
| 1999 Series E             | 8/1/1999    | 4.60% - 5.70%           | 2005 - 2017         | 21,965                       | -                | -                           | -              | 21,965                       | -                                               | 21,965                         |
| 1999 Series F             | 8/1/1999    | 4.70% - 5.95%           | 2004 - 2029         | 25,285                       | -                | (1,280)                     | (9,525)        | 14,480                       | -                                               | 14,480                         |
| 1999 Series H             | 12/1/1999   | 6.15%                   | 2025                | 12,715                       | -                | -                           | (1,085)        | 11,630                       | -                                               | 11,630                         |
| 2000 Series A             | 3/1/2000    | 5.15% - 5.50%           | 2007 - 2012         | 7,360                        | -                | -                           | (4,600)        | 2,760                        | -                                               | 2,760                          |
| 2000 Series B             | 3/1/2000    | 5.10% - 6.05%           | 2004 - 2025         | 22,485                       | -                | (1,055)                     | (21,430)       | -                            | -                                               | -                              |
| 2000 Series C             | 6/1/2000    | 5.45%                   | 2010                | 670                          | -                | -                           | (670)          | -                            | -                                               | -                              |
| 2000 Series F             | 8/1/2000    | 4.35% - 5.20%           | 2004 - 2014         | 14,825                       | -                | (400)                       | (65)           | 14,360                       | -                                               | 14,360                         |
| 2000 Series G             | 8/1/2000    | 4.60% - 5.95%           | 2004 - 2032         | 49,005                       | -                | (710)                       | (48,295)       | -                            | -                                               | -                              |
| 2000 Series H             | 12/1/2000   | 4.65% - 5.80%           | 2004 - 2032         | 44,455                       | -                | (785)                       | (285)          | 43,385                       | -                                               | 43,385                         |
| 2001 Series A             | 3/1/2001    | 3.75% - 5.00%           | 2004 - 2017         | 15,110                       | -                | (785)                       | (35)           | 14,290                       | -                                               | 14,290                         |
| 2001 Series B             | 3/1/2001    | 4.65% - 5.45%           | 2011 - 2032         | 35,075                       | -                | -                           | (2,270)        | 32,805                       | -                                               | 32,805                         |
| 2001 Series E             | 6/1/2001    | 3.55% - 4.65%           | 2004 - 2012         | 13,315                       | -                | (1,250)                     | -              | 12,065                       | -                                               | 12,065                         |
| 2001 Series F             | 6/1/2001    | 5.30% - 5.60%           | 2016 - 2032         | 62,655                       | -                | -                           | (2,065)        | 60,590                       | -                                               | 60,590                         |
| 2001 Series G             | 8/15/2001   | 3.05% - 4.20%           | 2004 - 2011         | 8,385                        | -                | (855)                       | -              | 7,530                        | -                                               | 7,530                          |
| 2001 Series H             | 8/15/2001   | 4.40% - 5.35%           | 2011 - 2033         | 40,505                       | -                | -                           | (2,030)        | 38,475                       | -                                               | 38,475                         |
| 2002 Series A             | 2/1/2002    | 2.80% - 5.45%           | 2004 - 2033         | 7,980                        | -                | (125)                       | (340)          | 7,515                        | -                                               | 7,515                          |
| 2003 Series A             | 11/1/2003   | 1.35% - 4.05%           | 2005 - 2015         | 9,550                        | -                | -                           | -              | 9,550                        | -                                               | 9,550                          |
| 2003 Series B             | 11/1/2003   | 1.65% - 5.00%           | 2005 - 2026         | 15,450                       | -                | -                           | (1,060)        | 14,390                       | 632                                             | 15,022                         |
| 2003 Series C             | 12/9/2003   | Variable rate           | 2035                | 20,000                       | -                | -                           | -              | 20,000                       | -                                               | 20,000                         |
| 2003 Series D             | 12/9/2003   | 1.17%                   | 12/21/04            | 91,795                       | -                | (91,795)                    | -              | -                            | -                                               | -                              |
| 2003 Series E             | 12/9/2003   | 1.25%                   | 12/21/04            | 128,515                      | -                | (95,195)                    | (33,320)       | -                            | -                                               | -                              |
| 2004 Series A             | 5/13/2004   | 1.80% - 4.20%           | 2006 - 2016         | 10,710                       | -                | -                           | -              | 10,710                       | -                                               | 10,710                         |
| 2004 Series B             | 5/13/2004   | 2.20% - 5.00%           | 2006 - 2028         | 19,290                       | -                | -                           | (755)          | 18,535                       | 622                                             | 19,157                         |
| 2004 Series C             | 5/13/2004   | Variable rate           | 2035                | 20,000                       | -                | -                           | -              | 20,000                       | -                                               | 20,000                         |
| 2004 Series D             | 8/12/2004   | 2.20% - 4.40%           | 2006 - 2016         | -                            | 12,960           | -                           | -              | 12,960                       | -                                               | 12,960                         |
| 2004 Series E             | 8/12/2004   | 2.45% - 5.25%           | 2006 - 2030         | -                            | 27,040           | -                           | (160)          | 26,880                       | 681                                             | 27,561                         |
| 2004 Series F             | 8/12/2004   | Variable rate           | 2035                | -                            | 20,000           | -                           | -              | 20,000                       | -                                               | 20,000                         |
| 2004 Series G             | 11/10/2004  | 1.70% - 3.65%           | 2006 - 2016         | -                            | 13,445           | -                           | -              | 13,445                       | -                                               | 13,445                         |
| 2004 Series H             | 11/10/2004  | 1.95% - 5.00%           | 2006 - 2029         | -                            | 26,555           | -                           | (60)           | 26,495                       | 925                                             | 27,420                         |
| 2004 Series I             | 11/10/2004  | Variable rate           | 2035                | -                            | 20,000           | -                           | -              | 20,000                       | -                                               | 20,000                         |
| 2004 Series J             | 11/10/2004  | 2.05%                   | 12/5/05             | -                            | 91,795           | -                           | -              | 91,795                       | -                                               | 91,795                         |
| 2004 Series K             | 11/10/2004  | 2.10%                   | 12/5/05             | -                            | 78,260           | -                           | -              | 78,260                       | -                                               | 78,260                         |
| 2005 Series A             | 3/30/2005   | 2.60% - 3.90%           | 2007 - 2016         | -                            | 12,640           | -                           | -              | 12,640                       | -                                               | 12,640                         |
| 2005 Series B             | 3/30/2005   | 4.55% - 5.25%           | 2023 - 2029         | -                            | 27,360           | -                           | -              | 27,360                       | 919                                             | 28,279                         |
| 2005 Series C             | 3/30/2005   | Variable rate           | 2035                | -                            | 20,000           | -                           | -              | 20,000                       | -                                               | 20,000                         |
| Total                     |             |                         |                     | \$ 898,810                   | \$ 350,055       | \$ (199,575)                | \$ (144,675)   | \$ 904,615                   | \$ 3,794                                        | \$ 908,409                     |

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 7 - BONDS PAYABLE (Continued)

The following is a summary of the bond activity and short-term debt for the year ended June 30, 2004, and the debt outstanding and bonds payable as of June 30, 2004:

|                           | Issue dated | Range of interest rates | Range of maturities | Debt Outstanding at June 30, 2003 | Bond Activity     |                             |                     | Debt Outstanding at June 30, 2004 | Discounts/ premiums and other deferred costs | Bonds payable at June 30, 2004 |
|---------------------------|-------------|-------------------------|---------------------|-----------------------------------|-------------------|-----------------------------|---------------------|-----------------------------------|----------------------------------------------|--------------------------------|
|                           |             |                         |                     |                                   | New bonds issued  | Scheduled maturity payments | Bonds redeemed      |                                   |                                              |                                |
| Residential Revenue Bonds |             |                         |                     |                                   |                   |                             |                     |                                   |                                              |                                |
| 1997 Series A             | 8/1/1997    | 5.60%                   | 2017                | \$ 16,355                         | \$ -              | \$ -                        | \$ (60)             | \$ 16,295                         | \$ -                                         | \$ 16,295                      |
| 1997 Series B             | 8/1/1997    | 4.80% - 5.875%          | 2003 - 2029         | 58,705                            | -                 | (1,780)                     | (12,770)            | 44,155                            | -                                            | 44,155                         |
| 1998 Series A             | 1/1/1998    | 4.70% - 5.05%           | 2010 - 2017         | 4,640                             | -                 | -                           | -                   | 4,640                             | -                                            | 4,640                          |
| 1998 Series B             | 1/1/1998    | 4.25% - 5.35%           | 2003 - 2030         | 59,380                            | -                 | (1,280)                     | (9,825)             | 48,275                            | 40                                           | 48,315                         |
| 1998 Series D             | 12/1/1998   | 4.05% - 5.25%           | 2003 - 2029         | 54,525                            | -                 | (1,170)                     | (9,520)             | 43,835                            | -                                            | 43,835                         |
| 1999 Series C             | 5/1/1999    | 4.70% - 4.95%           | 2011 - 2015         | 2,665                             | -                 | -                           | -                   | 2,665                             | -                                            | 2,665                          |
| 1999 Series D             | 5/1/1999    | 3.95% - 5.40%           | 2003 - 2031         | 51,610                            | -                 | (875)                       | (8,890)             | 41,845                            | (19)                                         | 41,826                         |
| 1999 Series E             | 8/1/1999    | 4.60% - 5.70%           | 2005 - 2017         | 21,965                            | -                 | -                           | -                   | 21,965                            | -                                            | 21,965                         |
| 1999 Series F             | 8/1/1999    | 4.60% - 5.95%           | 2003 - 2029         | 42,245                            | -                 | (1,220)                     | (15,740)            | 25,285                            | -                                            | 25,285                         |
| 1999 Series H             | 12/1/1999   | 4.70% - 6.25%           | 2003 - 2031         | 46,065                            | -                 | (870)                       | (32,480)            | 12,715                            | -                                            | 12,715                         |
| 2000 Series A             | 3/1/2000    | 5.15% - 5.50%           | 2007 - 2012         | 7,750                             | -                 | -                           | (390)               | 7,360                             | -                                            | 7,360                          |
| 2000 Series B             | 3/1/2000    | 5.00% - 6.15%           | 2003 - 2032         | 59,935                            | -                 | (1,050)                     | (36,400)            | 22,485                            | -                                            | 22,485                         |
| 2000 Series C             | 6/1/2000    | 5.45% - 5.70%           | 2010 - 2013         | 5,535                             | -                 | -                           | (4,865)             | 670                               | -                                            | 670                            |
| 2000 Series D             | 6/1/2000    | 5.20% - 6.25%           | 2003 - 2032         | 59,640                            | -                 | (1,040)                     | (58,600)            | -                                 | -                                            | -                              |
| 2000 Series F             | 8/1/2000    | 4.35% - 5.20%           | 2004 - 2014         | 14,960                            | -                 | -                           | (135)               | 14,825                            | -                                            | 14,825                         |
| 2000 Series G             | 8/1/2000    | 4.55% - 5.95%           | 2003 - 2032         | 56,135                            | -                 | (1,065)                     | (6,065)             | 49,005                            | -                                            | 49,005                         |
| 2000 Series H             | 12/1/2000   | 4.60% - 5.80%           | 2003 - 2032         | 51,495                            | -                 | (845)                       | (6,195)             | 44,455                            | -                                            | 44,455                         |
| 2001 Series A             | 3/1/2001    | 3.65% - 5.00%           | 2003 - 2017         | 18,885                            | -                 | (1,075)                     | (2,700)             | 15,110                            | -                                            | 15,110                         |
| 2001 Series B             | 3/1/2001    | 4.65% - 5.45%           | 2011 - 2032         | 50,435                            | -                 | -                           | (15,360)            | 35,075                            | -                                            | 35,075                         |
| 2001 Series E             | 6/1/2001    | 3.30% - 4.65%           | 2003 - 2012         | 13,775                            | -                 | (460)                       | -                   | 13,315                            | -                                            | 13,315                         |
| 2001 Series F             | 6/1/2001    | 3.50% - 5.60%           | 2003 - 2032         | 65,720                            | -                 | (745)                       | (2,320)             | 62,655                            | -                                            | 62,655                         |
| 2001 Series G             | 8/15/2001   | 3.05% - 4.20%           | 2004 - 2011         | 10,100                            | -                 | -                           | (1,715)             | 8,385                             | -                                            | 8,385                          |
| 2001 Series H             | 8/15/2001   | 4.40% - 5.35%           | 2011 - 2033         | 49,885                            | -                 | -                           | (9,380)             | 40,505                            | -                                            | 40,505                         |
| 2002 Series A             | 2/1/2002    | 2.80% - 5.45%           | 2004 - 2033         | 8,005                             | -                 | -                           | (25)                | 7,980                             | -                                            | 7,980                          |
| 2002 Series D             | 2/28/2002   | 1.20%                   | 12/18/03            | 41,980                            | -                 | (41,980)                    | -                   | -                                 | -                                            | -                              |
| 2002 Series E             | 2/28/2002   | 1.25%                   | 12/18/03            | 67,965                            | -                 | (67,965)                    | -                   | -                                 | -                                            | -                              |
| 2003 Series A             | 11/1/2003   | 1.35% - 4.05%           | 2005 - 2015         | -                                 | 9,550             | -                           | -                   | 9,550                             | -                                            | 9,550                          |
| 2003 Series B             | 11/1/2003   | 1.65% - 5.00%           | 2005 - 2026         | -                                 | 15,450            | -                           | -                   | 15,450                            | 703                                          | 16,153                         |
| 2003 Series C             | 12/9/2003   | Variable rate           | 2035                | -                                 | 20,000            | -                           | -                   | 20,000                            | -                                            | 20,000                         |
| 2003 Series D             | 12/9/2003   | 1.17%                   | 12/21/04            | -                                 | 91,795            | -                           | -                   | 91,795                            | -                                            | 91,795                         |
| 2003 Series E             | 12/9/2003   | 1.25%                   | 12/21/04            | -                                 | 128,515           | -                           | -                   | 128,515                           | -                                            | 128,515                        |
| 2004 Series A             | 5/13/2004   | 1.80% - 4.20%           | 2006 - 2016         | -                                 | 10,710            | -                           | -                   | 10,710                            | -                                            | 10,710                         |
| 2004 Series B             | 5/13/2004   | 2.20% - 5.00%           | 2006 - 2028         | -                                 | 19,290            | -                           | -                   | 19,290                            | 671                                          | 19,961                         |
| 2004 Series C             | 5/13/2004   | Variable rate           | 2035                | -                                 | 20,000            | -                           | -                   | 20,000                            | -                                            | 20,000                         |
| Total                     |             |                         |                     | <u>\$ 940,355</u>                 | <u>\$ 315,310</u> | <u>\$ (123,420)</u>         | <u>\$ (233,435)</u> | <u>\$ 898,810</u>                 | <u>\$ 1,395</u>                              | <u>\$ 900,205</u>              |

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 8 - DEBT SERVICE REQUIREMENTS

As of June 30, 2005, the required principal payments for short-term debt and bonds (including mandatory sinking fund payments and special and optional redemptions that occurred subsequent to year end and excluding the effect of unamortized discounts/premiums and other deferred costs as shown in Note 7) and interest payments for each of the next five years and in 5-year increments thereafter, are as follows:

| Years ended June 30, | Interest          | Principal         |
|----------------------|-------------------|-------------------|
| 2006                 | \$ 35,491         | \$ 217,145        |
| 2007                 | 31,463            | 17,030            |
| 2008                 | 30,783            | 18,490            |
| 2009                 | 29,989            | 20,065            |
| 2010                 | 29,164            | 18,880            |
| 2011-2015            | 131,738           | 110,420           |
| 2016-2020            | 104,820           | 108,530           |
| 2021-2025            | 74,287            | 136,930           |
| 2026-2030            | 38,439            | 121,245           |
| 2031-2035            | 14,576            | 35,880            |
| 2036-2040            | 1,150             | 100,000           |
| Totals               | <u>\$ 521,900</u> | <u>\$ 904,615</u> |

The interest calculations on outstanding variable rate bonds in the amount of \$100,000 are based on the variable rates in effect on June 30, 2005 and are not indicative of the actual interest expense that will be incurred in future years. As rates vary, variable rate bond interest payments will vary.

As of June 30, 2004, the required principal payments for short-term debt and bonds (including mandatory sinking fund payments and special and option redemptions that occurred subsequent to year end and excluding the effect of unamortized discounts/premiums and other deferred costs as shown in Note 7) and interest payments for each of the next five years and in five-year increments thereafter, are as follows:

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 8 - DEBT SERVICE REQUIREMENTS (Continued)

| Years ended June 30, | Interest          | Principal         |
|----------------------|-------------------|-------------------|
| 2005                 | \$ 35,206         | \$ 246,280        |
| 2006                 | 32,493            | 13,945            |
| 2007                 | 31,903            | 14,385            |
| 2008                 | 31,281            | 15,265            |
| 2009                 | 30,579            | 16,765            |
| 2010-2014            | 140,160           | 95,185            |
| 2015-2019            | 115,195           | 104,930           |
| 2020-2024            | 83,020            | 147,910           |
| 2025-2029            | 40,506            | 141,010           |
| 2030-2034            | 9,423             | 63,135            |
| 2035-2039            | 785               | 40,000            |
| Totals               | <u>\$ 550,551</u> | <u>\$ 898,810</u> |

The interest calculations on outstanding variable rate bonds in the amount of \$40,000 are based on the variable rates in effect on June 30, 2004, and are not indicative of the actual interest expense that will be incurred in future years. As rates vary, variable rate bond interest payments will vary.

NOTE 9 - BOND REFUNDINGS

Certain refundings of debt are due to the prepayments of single family 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 a loss in the accompanying Statements of Revenue, Expenses and Changes in Net Assets.

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 10 - REBATE LIABILITY

In accordance with the Internal Revenue Service Code (the Code), the Fund has recorded a rebate liability for excess investment earnings in tax-exempt bond and note issues. 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 Statements of Revenue, 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 Statements of Revenue, Expenses and Changes in Net Assets is adjusted by the change in the estimated rebate liability due to change in fair value of investments.

Rebate liability activity for the year ended June 30, 2005 was as follows:

|                                                                          |                        |
|--------------------------------------------------------------------------|------------------------|
| Rebate liability as of June 30, 2004                                     | \$ 1,934               |
| Change in estimated liability due to excess investment earnings          | (472)                  |
| Change in estimated liability due to change in fair value of investments | 583                    |
| Less - payments made                                                     | <u>(751)</u>           |
| Rebate liability as of June 30, 2005                                     | <u><u>\$ 1,294</u></u> |

Total rebate liability is allocated as follows:

|                                                                |                        |
|----------------------------------------------------------------|------------------------|
| Estimated liability due to excess investment earnings          | \$ 360                 |
| Estimated liability due to change in fair value of investments | <u>934</u>             |
| Rebate liability as of June 30, 2005                           | <u><u>\$ 1,294</u></u> |

Rebate liability activity for the year ended June 30, 2004 was as follows:

|                                                                          |                        |
|--------------------------------------------------------------------------|------------------------|
| Rebate liability as of June 30, 2003                                     | \$ 2,318               |
| Change in estimated liability due to excess investment earnings          | 321                    |
| Change in estimated liability due to change in fair value of investments | (501)                  |
| Less - payments made                                                     | <u>(204)</u>           |
| Rebate liability as of June 30, 2004                                     | <u><u>\$ 1,934</u></u> |

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 10 - REBATE LIABILITY (Continued)

Total rebate liability is allocated as follows:

|                                                                |                        |
|----------------------------------------------------------------|------------------------|
| Estimated liability due to excess investment earnings          | \$ 1,582               |
| Estimated liability due to change in fair value of investments | <u>352</u>             |
| Rebate liability as of June 30, 2004                           | <u><u>\$ 1,934</u></u> |

NOTE 11 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended June 30, 2005 were as follows:

|                             | Beginning<br>balance     | Additions                | Reductions                | Change in<br>deferred<br>amounts<br>for issuance<br>discounts/<br>premiums | Due within<br>one year     | Ending<br>balance        |
|-----------------------------|--------------------------|--------------------------|---------------------------|----------------------------------------------------------------------------|----------------------------|--------------------------|
| Long-term bonds payable     | \$ 653,925               | \$ 352,620               | \$ (97,970)               | \$ (166)                                                                   | \$ (217,145)               | \$ 691,264               |
| Rebate liability            | <u>1,683</u>             | <u>583</u>               | <u>(972)</u>              | <u>-</u>                                                                   | <u>(360)</u>               | <u>934</u>               |
| Total long-term liabilities | <u><u>\$ 655,608</u></u> | <u><u>\$ 353,203</u></u> | <u><u>\$ (98,942)</u></u> | <u><u>\$ (166)</u></u>                                                     | <u><u>\$ (217,505)</u></u> | <u><u>\$ 692,198</u></u> |

Changes in long-term obligations for the year ended June 30, 2004 were as follows:

|                             | Beginning<br>balance     | Additions                | Reductions                 | Change in<br>deferred<br>amounts<br>for issuance<br>discounts/<br>premiums | Due within<br>one year     | Ending<br>balance        |
|-----------------------------|--------------------------|--------------------------|----------------------------|----------------------------------------------------------------------------|----------------------------|--------------------------|
| Long-term bonds payable     | \$ 769,624               | \$ 315,310               | \$ (186,130)               | \$ 1,401                                                                   | \$ (246,280)               | \$ 653,925               |
| Rebate liability            | <u>2,200</u>             | <u>321</u>               | <u>(587)</u>               | <u>-</u>                                                                   | <u>(251)</u>               | <u>1,683</u>             |
| Total long-term liabilities | <u><u>\$ 771,824</u></u> | <u><u>\$ 315,631</u></u> | <u><u>\$ (186,717)</u></u> | <u><u>\$ 1,401</u></u>                                                     | <u><u>\$ (246,531)</u></u> | <u><u>\$ 655,608</u></u> |

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 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 years ended June 30, 2005 and 2004, the Fund transferred the following amounts, as permitted among Funds:

|                                                                               | <u>2005</u>     | <u>2004</u>      |
|-------------------------------------------------------------------------------|-----------------|------------------|
| Single family commitment fees transferred to the General Bond Reserve Fund    | \$ (84)         | \$ (140)         |
| Cost of issuance on bonds transferred from Single Family Program Bonds        | 1,939           | 1,101            |
| Transfer surplus funds for loan originations from Single Family Program Bonds | <u>-</u>        | <u>45,000</u>    |
|                                                                               | <u>\$ 1,855</u> | <u>\$ 45,961</u> |

As of June 30, 2005 and 2004, due to other Funds consisted of the following:

|                                                                              | <u>2005</u>   | <u>2004</u>   |
|------------------------------------------------------------------------------|---------------|---------------|
| Servicer receipts for participation loans due to Single Family Program Bonds | <u>\$ 312</u> | <u>\$ 937</u> |

NOTE 13 - MORTGAGE INSURANCE

All mortgage loans in the Fund have mortgage insurance as described in Note 4.

FHA insured loans are insured in an amount equal to the unpaid principal amount of the loan. Less than 10% of all other loans are insured by the VA, USDA/RD, or private mortgage insurers at various coverages. In the opinion of management, these coverage levels are sufficient so that no pool insurance or reserves are required and no allowance for loans losses has been recorded. Premiums are paid by single family mortgagors.

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 14 - PENSION AND OTHER POST-RETIREMENT 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 obligation for retirement and post-employment 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 or by visiting the website at [www.sra.state.md.us](http://www.sra.state.md.us).

NOTE 15 - SUBSEQUENT EVENTS

Subsequent to the year ended June 30, 2005, the following bond activity took place:

On July 8, 2005, CDA redeemed the following bonds:

|               |          |
|---------------|----------|
| 1999 Series F | \$10,335 |
| 1999 Series H | \$35     |
| 2001 Series H | \$75     |
| 2003 Series B | \$80     |
| 2004 Series E | \$420    |
| 2004 Series H | \$185    |

On August 26, 2005, CDA redeemed the following bonds:

|               |          |
|---------------|----------|
| 1997 Series B | \$15,655 |
| 1999 Series F | \$4,145  |
| 1999 Series H | \$190    |
| 2000 Series A | \$990    |
| 2000 Series F | \$275    |
| 2001 Series B | \$30     |
| 2001 Series F | \$130    |
| 2001 Series H | \$205    |
| 2003 Series B | \$210    |
| 2004 Series B | \$430    |
| 2004 Series E | \$515    |
| 2004 Series H | \$310    |
| 2005 Series B | \$40     |

Community Development Administration  
Residential Revenue Bonds

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
(in thousands)

June 30, 2005 and 2004

NOTE 15 - SUBSEQUENT EVENTS (Continued)

Effective September 1, 2005, CDA entered into an Interest Rate Exchange Agreement or interest rate "swap". This agreement, a synthetic fixed rate contract with a Aaa rated counterparty will hedge \$20,000 in variable rate debt in the Fund's 2004 Series I.

NOTE 16 - COMMITMENTS

As of June 30, 2005, CDA had approximately \$29,627 in reservations for single family mortgages at interest rates ranging from 4.875% to 5.95%. CDA plans to purchase these loans with proceeds from the Fund.

Community Development Administration  
Residential Revenue Bonds

SUPPLEMENTAL DISCLOSURES OF CHANGE  
IN FAIR VALUE OF INVESTMENTS  
(in thousands)  
(unaudited)

June 30, 2005 and 2004

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 Statements of Revenue, Expenses and Changes in Net Assets.

For investments (obligations of U.S. Government Agencies) held by CDA as of June 30, 2005, 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       |
| FY 2003          | 544      |
| FY 2004          | (674)    |
| FY 2005          | 403      |
|                  | <hr/>    |
| Cumulative total | \$ 694   |
|                  | <hr/>    |

Reconciliation to Statements of Revenue, Expenses and Changes in Net Assets:

|                                                                                                                                                                           |          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Increase in fair value of investments held<br>at June 30, 2005                                                                                                            | \$ 403   |
| Adjustment due to rebate liability (see Note 10)                                                                                                                          | (583)    |
|                                                                                                                                                                           | <hr/>    |
| Decrease in fair value of investments, net of rebate, as<br>reported on the Statements of Revenue, Expenses and<br>Changes in Net Assets for the year ended June 30, 2005 | \$ (180) |
|                                                                                                                                                                           | <hr/>    |

Community Development Administration  
Residential Revenue Bonds

SUPPLEMENTAL DISCLOSURES OF CHANGE  
IN FAIR VALUE OF INVESTMENTS - CONTINUED  
(in thousands)  
(unaudited)

June 30, 2005 and 2004

For investments (obligations of U.S. Government Agencies) held by CDA as of June 30, 2004, 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                   |
| FY 2003          | 544                  |
| FY 2004          | <u>(674)</u>         |
| Cumulative total | <u><u>\$ 291</u></u> |

Reconciliation to Statements of Revenue, Expenses and Changes in Net Assets:

|                                                                                                                                                                           |                        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| Decrease in fair value of investments held<br>at June 30, 2004                                                                                                            | \$ (674)               |
| Increase in fair value of matured investments                                                                                                                             | 57                     |
| Adjustment due to rebate liability (see Note 10)                                                                                                                          | <u>501</u>             |
| Decrease in fair value of investments, net of rebate, as<br>reported on the Statements of Revenue, Expenses and<br>Changes in Net Assets for the year ended June 30, 2004 | <u><u>\$ (116)</u></u> |

**COMMUNITY DEVELOPMENT ADMINISTRATION  
RESIDENTIAL REVENUE BONDS**

**Unaudited Interim Financial Statements  
For the three month period ended  
September 30, 2005**

[THIS PAGE INTENTIONALLY LEFT BLANK]

Community Development Administration  
Residential Revenue Bonds

Balance Sheets  
(in thousands)

As of September 30, 2005 and June 30, 2005

|                                                      | 9/30/2005<br>(Unaudited) | 6/30/2005<br>(Audited)     |
|------------------------------------------------------|--------------------------|----------------------------|
| <b>Restricted assets</b>                             |                          |                            |
| <b>Restricted current assets:</b>                    |                          |                            |
| Cash on deposit with trustee                         | \$ 85,086                | \$ 123,890                 |
| Investments                                          | 210,064                  | 200,578                    |
| Single family mortgage loans                         | 11,592                   | 11,377                     |
| Accrued interest and other receivables               | 7,718                    | 8,768                      |
| <b>Total restricted current assets</b>               | <u>314,460</u>           | <u>344,613</u>             |
| <b>Restricted long-term assets:</b>                  |                          |                            |
| Investments, net of current portion                  | 29,589                   | 31,448                     |
| Single family mortgage loans, net of current portion | 609,308                  | 628,844                    |
| Deferred bond issuance costs                         | 5,825                    | 6,180                      |
| <b>Total restricted long-term assets</b>             | <u>644,722</u>           | <u>666,472</u>             |
| <b>Total restricted assets</b>                       | <u><u>\$ 959,182</u></u> | <u><u>\$ 1,011,085</u></u> |
| <b>Liabilities and net assets</b>                    |                          |                            |
| <b>Current liabilities:</b>                          |                          |                            |
| Bonds payable and short-term debt                    | \$ 228,380               | \$ 217,145                 |
| Accrued interest payable                             | 2,983                    | 12,481                     |
| Rebate liability                                     | 360                      | 360                        |
| Accounts payable                                     | 93                       | -                          |
| Due to other Funds                                   | 1,283                    | 312                        |
| <b>Total current liabilities</b>                     | <u>233,099</u>           | <u>230,298</u>             |
| <b>Long-term liabilities:</b>                        |                          |                            |
| Bonds payable, net of current portion                | 634,522                  | 691,264                    |
| Rebate liability, net of current portion             | -                        | 934                        |
| <b>Total long-term liabilities</b>                   | <u>634,522</u>           | <u>692,198</u>             |
| <b>Total liabilities</b>                             | <u>867,621</u>           | <u>922,496</u>             |
| <b>Net assets:</b>                                   |                          |                            |
| Restricted                                           | <u>91,561</u>            | <u>88,589</u>              |
| <b>Total net assets</b>                              | <u>91,561</u>            | <u>88,589</u>              |
| <b>Total liabilities and net assets</b>              | <u><u>\$ 959,182</u></u> | <u><u>\$ 1,011,085</u></u> |

*See accompanying notes.*

Community Development Administration  
Residential Revenue Bonds

Statements of Revenue, Expenses and Changes in Net Assets  
(in thousands)

For the three months ended September 30, 2005 and September 30, 2004

|                                                                                 | 9/30/2005<br>(Unaudited) | 9/30/2004<br>(Unaudited) |
|---------------------------------------------------------------------------------|--------------------------|--------------------------|
| <b>Operating revenue</b>                                                        |                          |                          |
| Interest on mortgage loans                                                      | \$ 8,770                 | \$ 9,288                 |
| Interest income on investments, net of rebate                                   | 2,870                    | 2,088                    |
| Increase in fair value of investments, net of rebate                            | 877                      | 87                       |
| Fee income                                                                      | 260                      | 264                      |
| Gain on foreclosure claims                                                      | 152                      | 36                       |
|                                                                                 | <u>12,929</u>            | <u>11,763</u>            |
| <b>Operating expenses</b>                                                       |                          |                          |
| Interest expense on bonds and short-term debt                                   | 9,159                    | 9,363                    |
| Amortization of bond issuance costs                                             | 118                      | 141                      |
| Professional fees and other operating expenses                                  | 324                      | 291                      |
| Loss on early retirement of debt                                                | 254                      | 136                      |
| Origination expenses                                                            | 132                      | 31                       |
|                                                                                 | <u>9,987</u>             | <u>9,962</u>             |
| Operating income                                                                | <u>2,942</u>             | <u>1,801</u>             |
| <b>Transfers of funds, net, as permitted by the<br/>various bond indentures</b> | 30                       | 587                      |
| Changes in net assets                                                           | <u>\$ 2,972</u>          | <u>\$ 2,388</u>          |
| <b>Changes in net assets</b>                                                    |                          |                          |
| Net assets - restricted at beginning of period                                  | \$ 88,589                | \$ 80,879                |
| Changes in net assets                                                           | <u>2,972</u>             | <u>2,388</u>             |
| Net assets - restricted at end of period                                        | <u>\$ 91,561</u>         | <u>\$ 83,267</u>         |

*See accompanying notes.*

Community Development Administration  
Residential Revenue Bonds

Statements of Cash Flows  
(in thousands)

For the three months ended September 30, 2005 and September 30, 2004

|                                                        | 9/30/2005<br>(Unaudited) | 9/30/2004<br>(Unaudited) |
|--------------------------------------------------------|--------------------------|--------------------------|
| <b>Cash flows from operating activities</b>            |                          |                          |
| Principal and interest received on mortgage loans      | \$ 53,882                | \$ 44,548                |
| Mortgage insurance claims received                     | 1,460                    | 2,280                    |
| Foreclosure expenses paid                              | (113)                    | (140)                    |
| Loan fees received                                     | 15                       | 12                       |
| Loan fees disbursed                                    | (319)                    | (747)                    |
| Purchase of mortgage loans                             | (23,784)                 | (52,147)                 |
| Professional fees and other operating expenses         | (231)                    | (274)                    |
| Other reimbursements                                   | -                        | (600)                    |
| Net cash from operating activities                     | <u>30,910</u>            | <u>(7,068)</u>           |
| <b>Cash flows from investing activities</b>            |                          |                          |
| Proceeds from maturities or sales of investments       | 65,700                   | 51,815                   |
| Purchases of investments                               | (73,003)                 | (58,774)                 |
| Arbitrage rebates paid                                 | -                        | (19)                     |
| Interest received on investments                       | 1,740                    | 1,179                    |
| Net cash from investing activities                     | <u>(5,563)</u>           | <u>(5,799)</u>           |
| <b>Cash flows from noncapital financing activities</b> |                          |                          |
| Proceeds from sale of bonds                            | -                        | 60,697                   |
| Payments on bond principal                             | (45,455)                 | (40,485)                 |
| Bond issuance costs                                    | (45)                     | (594)                    |
| Interest on bonds and short-term debt                  | (18,681)                 | (18,054)                 |
| Transfers among Funds                                  | 30                       | 587                      |
| Net cash from noncapital financing activities          | <u>(64,151)</u>          | <u>2,151</u>             |
| Net decrease in cash on deposit with trustee           | (38,804)                 | (10,716)                 |
| Cash on deposit with trustee at beginning of period    | <u>123,890</u>           | <u>104,153</u>           |
| Cash on deposit with trustee at end of period          | <u>\$ 85,086</u>         | <u>\$ 93,437</u>         |

Community Development Administration  
Residential Revenue Bonds

Statements of Cash Flows  
(in thousands)

For the three months ended September 30, 2005 and September 30, 2004

|                                                                                    | 9/30/2005<br>(Unaudited) | 9/30/2004<br>(Unaudited) |
|------------------------------------------------------------------------------------|--------------------------|--------------------------|
| <b>Reconciliation of operating income to net cash from operating activities</b>    |                          |                          |
| Operating income                                                                   | \$ 2,942                 | \$ 1,801                 |
| Adjustments to reconcile operating income to net cash from operating activities -- |                          |                          |
| Decrease (increase) in assets                                                      |                          |                          |
| Mortgage loans                                                                     | 19,753                   | (16,847)                 |
| Accrued interest and other receivables                                             | 1,050                    | 1,431                    |
| Due from other Funds                                                               | -                        | (9)                      |
| Increase (decrease) in liabilities                                                 |                          |                          |
| Accounts payable                                                                   | 93                       | (583)                    |
| Rebate liability                                                                   | (934)                    | (377)                    |
| Accrued interest payable                                                           | (9,498)                  | (8,679)                  |
| Due to other Funds                                                                 | 971                      | 354                      |
| Amortizations                                                                      |                          |                          |
| Deferred income and expense on loans                                               | (128)                    | (233)                    |
| Investment discounts and premiums                                                  | (381)                    | (61)                     |
| Bond original issue discounts and premiums                                         | (24)                     | (12)                     |
| Deferred bond issuance costs                                                       | 118                      | 141                      |
| Decrease (increase) in fair value of investments                                   | 57                       | (289)                    |
| Loan fees and expenses deferred                                                    | (304)                    | (735)                    |
| Arbitrage rebates paid                                                             | -                        | 19                       |
| Loss on early retirement of debt                                                   | 254                      | 136                      |
| Interest received on investments                                                   | (1,740)                  | (1,179)                  |
| Interest on bonds and short-term debt                                              | 18,681                   | 18,054                   |
| Net cash from operating activities                                                 | <u>\$ 30,910</u>         | <u>\$ (7,068)</u>        |

*See accompanying notes.*

Community Development Administration  
Residential Revenue Bonds

Notes to Unaudited Interim Financial Statements  
(in thousands)

September 30, 2005

**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, 2005 and the results of its operations for the three months ended September 30, 2005 and September 30, 2004. 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, 2005 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, 2005 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, 2005, the fair value of the investments was \$239,653 of which \$239,016 was the cost of these investments and \$637 was the cumulative increase in fair value. The decrease in fair value of investments for the period ended September 30, 2005 was \$57. The decrease was offset by \$934 of decreased estimated rebate liability for the period ended September 30, 2005.

**3. Mortgage loans:**

During the three months ended September 30, 2005, CDA purchased single family loans in the amount of \$23,784.

**4. Bonds Payable:**

On July 8, 2005 and August 26, 2005, CDA redeemed, prior to maturity, \$11,130 and \$23,125, respectively, of Residential Revenue Bonds and incurred a loss of \$68 and \$186, respectively.

**5. Subsequent events:**

On November 10, 2005, CDA issued \$60,000 of Residential Revenue Bonds 2005 Series D and E. Also, on November 10, 2005, CDA issued short-term debt of \$195,000 of Residential Revenue Bonds 2005 Series F and G.

On December 9, 2005, CDA redeemed, prior to maturity, \$43,380 of Residential Revenue Bonds.

Community Development Administration  
Residential Revenue Bonds

Notes to Unaudited Interim Financial Statements - continued  
(in thousands)

September 30, 2005

**6. Interest Rate Exchange Agreements (Swaps):**

As a means to lower its borrowing costs, CDA issued variable rate bonds in Residential Revenue Bonds 2004 Series I. In order to protect against the potential increases in interest rates, on September 1, 2005 CDA entered into a pay-fixed, receive-variable interest rate Swap agreement. CDA anticipates that the net Swap payments and interest payments on underlying bonds will be lower than what CDA would have paid if it refunded the variable rate bonds and instead issued fixed rate debt on September 1, 2005.

The terms, including the fair values and the counterparty credit ratings of the outstanding Swap, as of September 30, 2005 are provided below.

| Associated Bond Issue | Original Notional Amount | Outstanding Notional Amount | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Value | Swap Final Termination Date | Counterparty Credit Rating |
|-----------------------|--------------------------|-----------------------------|----------------|-----------------|------------------------|------------|-----------------------------|----------------------------|
| 2004 Series I         | \$ 20,000,000            | \$ 20,000,000               | 9/1/2005       | 3.8525%         | 64% of LIBOR plus .29% | (\$87,549) | 9/1/2035                    | Aaa                        |

The final maturity date of the underlying bonds and the final termination date of the Swap agreement are the same.

**7. Reclassification:**

Certain amounts in the Statement of Revenue, Expenses and Changes in Net Assets and the Statement of Cash Flows for September 30, 2004 have been reclassified to conform to the June 30, 2005 audited financial statement presentation.

**APPENDIX I**

**FINANCIAL STATEMENTS OF THE  
MARYLAND HOUSING FUND**

[THIS PAGE INTENTIONALLY LEFT BLANK]

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

**MARYLAND HOUSING FUND**

JUNE 30, 2005 AND 2004

Maryland Housing Fund  
TABLE OF CONTENTS

|                                     | PAGE |
|-------------------------------------|------|
| INDEPENDENT AUDITORS' REPORT        | 3    |
| FINANCIAL STATEMENTS                |      |
| STATEMENTS OF NET ASSETS            | 4    |
| STATEMENTS OF REVENUES AND EXPENSES | 6    |
| STATEMENTS OF CHANGES IN NET ASSETS | 7    |
| STATEMENTS OF CASH FLOWS            | 8    |
| NOTES TO FINANCIAL STATEMENTS       | 10   |

## INDEPENDENT AUDITORS' REPORT

Office of the Secretary  
Department of Housing and Community Development

We have audited the accompanying financial statements of the Maryland Housing Fund (MHF) of the Department of Housing and Community Development (DHCD) of the State of Maryland as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of MHF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only the Maryland Housing Fund 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, 2005 and 2004, and the changes in its net assets and cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Maryland Housing Fund of the Department of Housing and Community Development of the State of Maryland as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Baltimore, Maryland  
August 27, 2005

Maryland Housing Fund  
STATEMENTS OF NET ASSETS

June 30, 2005 and 2004

|                                                     | <u>2005</u>                 | <u>2004</u>                 |
|-----------------------------------------------------|-----------------------------|-----------------------------|
| ASSETS                                              |                             |                             |
| CURRENT ASSETS                                      |                             |                             |
| Unrestricted current assets                         |                             |                             |
| Cash on deposit with State Treasurer                |                             |                             |
| Operating account                                   | \$ 4,774,781                | \$ 3,775,068                |
| Loans and interest receivable, net of allowance for |                             |                             |
| loans and related losses                            | 129,249                     | 136,017                     |
| Acquired property                                   | 1,373,889                   | 2,795,989                   |
| Other                                               | 7,604                       | 335,795                     |
|                                                     | <u>6,285,523</u>            | <u>7,042,869</u>            |
| Total unrestricted current assets                   |                             |                             |
| Restricted current assets                           |                             |                             |
| Cash on deposit with State Treasurer                |                             |                             |
| Loan account                                        | 98,288,705                  | 96,088,827                  |
|                                                     | <u>98,288,705</u>           | <u>96,088,827</u>           |
| Total restricted current assets                     |                             |                             |
| Total current assets                                | <u>104,574,228</u>          | <u>103,131,696</u>          |
| NONCURRENT ASSETS                                   |                             |                             |
| Investments                                         | 1,105,195                   | 821,921                     |
| Loans, net of allowance and current portion         | 514,292                     | 577,493                     |
|                                                     | <u>1,619,487</u>            | <u>1,399,414</u>            |
| Total noncurrent assets                             |                             |                             |
| Total assets                                        | <u><u>\$106,193,715</u></u> | <u><u>\$104,531,110</u></u> |

(continued)

Maryland Housing Fund

STATEMENTS OF NET ASSETS - CONTINUED

June 30, 2005 and 2004

|                                                       | <u>2005</u>                  | <u>2004</u>                  |
|-------------------------------------------------------|------------------------------|------------------------------|
| LIABILITIES AND NET ASSETS                            |                              |                              |
| CURRENT LIABILITIES                                   |                              |                              |
| Accounts payable                                      | \$ 204,470                   | \$ 285,689                   |
| Accrued compensated absences                          | 81,217                       | 82,447                       |
| Accrued workers' compensation                         | 930                          | 1,240                        |
| Mortgage escrow accounts                              | 368,939                      | 436,788                      |
| Unearned premiums                                     | 1,164,254                    | 1,464,643                    |
| Allowance for unpaid insurance losses                 | <u>11,251,186</u>            | <u>14,945,941</u>            |
| Total current liabilities                             | <u>13,070,996</u>            | <u>17,216,748</u>            |
| LONG-TERM LIABILITIES                                 |                              |                              |
| Accrued compensated absences, net of current portion  | 127,514                      | 124,342                      |
| Accrued workers' compensation, net of current portion | 5,070                        | 6,760                        |
| Mortgage escrow accounts, net of current portion      | <u>1,105,195</u>             | <u>821,921</u>               |
| Total long-term liabilities                           | <u>1,237,779</u>             | <u>953,023</u>               |
| Total liabilities                                     | <u>14,308,775</u>            | <u>18,169,771</u>            |
| COMMITMENTS AND CONTINGENCIES                         | -                            | -                            |
| NET ASSETS                                            |                              |                              |
| Restricted net assets                                 |                              |                              |
| Multi-Family Reserves                                 | 44,698,739                   | 44,698,739                   |
| Regular Single-Family Reserves                        | 32,273,875                   | 32,273,875                   |
| Revitalization (Pilot) Reserves                       | 2,224,450                    | 2,224,450                    |
| Home and Energy Loan Reserves                         | 500,000                      | 500,000                      |
| Unallocated Reserves                                  | <u>18,591,641</u>            | <u>16,391,763</u>            |
| Total restricted net assets                           | 98,288,705                   | 96,088,827                   |
| Unrestricted accumulated deficit                      | <u>(6,403,765)</u>           | <u>(9,727,488)</u>           |
| Total net assets                                      | <u>91,884,940</u>            | <u>86,361,339</u>            |
| Total liabilities and net assets                      | <u><u>\$ 106,193,715</u></u> | <u><u>\$ 104,531,110</u></u> |

See notes to financial statements

Maryland Housing Fund

STATEMENTS OF REVENUES AND EXPENSES

Years ended June 30, 2005 and 2004

|                                                    | <u>2005</u>                | <u>2004</u>                 |
|----------------------------------------------------|----------------------------|-----------------------------|
| Operating revenues                                 |                            |                             |
| Net premiums                                       | \$ 2,619,729               | \$ 3,509,276                |
| Interest income on loans                           | 559,453                    | 603,862                     |
| Other income                                       | <u>13,134</u>              | <u>7,067</u>                |
| Total operating revenues                           | <u>3,192,316</u>           | <u>4,120,205</u>            |
| Operating expenses                                 |                            |                             |
| Benefit from losses and expenses related to claims | (2,710,641)                | (8,270,670)                 |
| Net (gains) losses on sales of acquired property   | (571,490)                  | 302,615                     |
| Salaries and related benefits                      | 2,609,191                  | 2,500,148                   |
| General and administrative                         | <u>541,533</u>             | <u>557,040</u>              |
| Total operating expenses                           | <u>(131,407)</u>           | <u>(4,910,867)</u>          |
| Operating income                                   | <u>3,323,723</u>           | <u>9,031,072</u>            |
| Nonoperating revenues                              |                            |                             |
| Restricted interest income on investments          | <u>2,199,878</u>           | <u>1,217,889</u>            |
| Total nonoperating revenues                        | <u>2,199,878</u>           | <u>1,217,889</u>            |
| Change in net assets                               | <u><u>\$ 5,523,601</u></u> | <u><u>\$ 10,248,961</u></u> |

See notes to financial statements

Maryland Housing Fund

STATEMENTS OF CHANGES IN NET ASSETS

Years ended June 30, 2005 and 2004

|                                                                  | Restricted Net Assets    |                                      |                                       |                                        |                         | Unrestricted           |                      |
|------------------------------------------------------------------|--------------------------|--------------------------------------|---------------------------------------|----------------------------------------|-------------------------|------------------------|----------------------|
|                                                                  | Multi-Family<br>Reserves | Regular<br>Single-Family<br>Reserves | Revitalization<br>(Pilot)<br>Reserves | Home<br>and<br>Energy<br>Loan Reserves | Unallocated<br>Reserves | Accumulated<br>Deficit | Total                |
| Balance at June 30, 2003                                         | \$ 44,698,739            | \$ 32,273,875                        | \$ 2,224,450                          | \$ 500,000                             | \$ 15,173,874           | \$ (18,758,560)        | \$ 76,112,378        |
| Interest income allocated at the<br>discretion of DHCD Secretary | -                        | -                                    | -                                     | -                                      | 1,217,889               | (1,217,889)            | -                    |
| Change in net assets                                             | -                        | -                                    | -                                     | -                                      | -                       | 10,248,961             | 10,248,961           |
| Balance at June 30, 2004                                         | 44,698,739               | 32,273,875                           | 2,224,450                             | 500,000                                | 16,391,763              | (9,727,488)            | 86,361,339           |
| Interest income allocated at the<br>discretion of DHCD Secretary | -                        | -                                    | -                                     | -                                      | 2,199,878               | (2,199,878)            | -                    |
| Change in net assets                                             | -                        | -                                    | -                                     | -                                      | -                       | 5,523,601              | 5,523,601            |
| Balance at June 30, 2005                                         | <u>\$ 44,698,739</u>     | <u>\$ 32,273,875</u>                 | <u>\$ 2,224,450</u>                   | <u>\$ 500,000</u>                      | <u>\$ 18,591,641</u>    | <u>\$ (6,403,765)</u>  | <u>\$ 91,884,940</u> |

See notes to financial statements

Maryland Housing Fund

STATEMENTS OF CASH FLOWS

Years ended June 30, 2005 and 2004

|                                                  | <u>2005</u>                  | <u>2004</u>                 |
|--------------------------------------------------|------------------------------|-----------------------------|
| Cash flows from operating activities             |                              |                             |
| Receipts from premiums                           | \$ 2,571,373                 | \$ 3,486,337                |
| Premiums refunded                                | (230,862)                    | (525,081)                   |
| Receipts from loans                              | 439,766                      | 1,502,999                   |
| Payments for loans                               | -                            | (152,885)                   |
| Receipts from mortgage escrows                   | 157,735                      | 166,123                     |
| Payments for mortgage escrows                    | (225,584)                    | (132,285)                   |
| Sale proceeds from acquired properties           | 4,392,888                    | 5,466,910                   |
| Receipts from miscellaneous fees                 | 12,237                       | 6,033                       |
| Payments for properties acquired                 | (2,971,255)                  | (6,212,005)                 |
| Payments for salaries and related benefits       | (2,606,141)                  | (2,610,784)                 |
| Payments for general and administrative expenses | <u>(540,444)</u>             | <u>(557,475)</u>            |
| Net cash provided by operating activities        | <u>999,713</u>               | <u>437,887</u>              |
| Cash flows from investing activities             |                              |                             |
| Receipts from interest earned on investments     | <u>2,199,878</u>             | <u>1,217,889</u>            |
| Net cash provided by investing activities        | <u>2,199,878</u>             | <u>1,217,889</u>            |
| NET INCREASE IN CASH                             | 3,199,591                    | 1,655,776                   |
| Cash, beginning of year                          | <u>99,863,895</u>            | <u>98,208,119</u>           |
| Cash, end of year                                | <u><u>\$ 103,063,486</u></u> | <u><u>\$ 99,863,895</u></u> |

(continued)

Maryland Housing Fund

STATEMENTS OF CASH FLOWS - CONTINUED

Years ended June 30, 2005 and 2004

|                                                                                        | <u>2005</u>       | <u>2004</u>       |
|----------------------------------------------------------------------------------------|-------------------|-------------------|
| Reconciliation of operating income to net cash provided by operating activities        |                   |                   |
| Operating income                                                                       | \$ 3,323,723      | \$ 9,031,072      |
| Adjustments to reconcile operating income to net cash provided by operating activities |                   |                   |
| Decrease in allowance for unpaid insurance losses                                      | (3,694,755)       | (9,447,838)       |
| Decrease in acquired property                                                          | 1,422,100         | 312,432           |
| Decrease (increase) in investments and other assets                                    | 44,917            | (66,550)          |
| Decrease in loans and interest receivable                                              | 69,969            | 1,261,314         |
| Increase (decrease) in accounts payable and other accrued liabilities                  | 134,148           | (64,629)          |
| Decrease in unearned premiums                                                          | <u>(300,389)</u>  | <u>(587,914)</u>  |
| Net cash provided by operating activities                                              | <u>\$ 999,713</u> | <u>\$ 437,887</u> |

See notes to financial statements

## Maryland Housing Fund

### NOTES TO FINANCIAL STATEMENTS

June 30, 2005 and 2004

#### NOTE 1 - PROGRAM DESCRIPTION

The Maryland Housing Fund (MHF) was established in 1971 by Section 3-201 through 3-208 of Article 83B of the Annotated Code of Maryland, as amended, to encourage the flow of private investment capital into multiple-unit and single-family housing by insuring qualified lending institutions against losses on mortgage loans. MHF is authorized to insure mortgage loans, including mortgage loans for multi-family developments financed by public agencies such as the Community Development Administration (CDA), and to provide primary and pool insurance for single family mortgage loans. MHF insures against certain monetary losses incurred as a result of nonpayment of principal, interest or other sums agreed to be paid and certain other events of default under the terms of any insured mortgage loan, but does not insure against property losses, including without limitation, title risk, risks of defective construction or casualty, or any other reduction in project value due to insurable risk or force majeure, casualty or title loss. Legislation enacted in 1981 enables MHF to originate mortgage loans to assist in the disposal of property acquired through foreclosure or pursuant to any other payment in settlement of a claim or loss. MHF is a division of the Department of Housing and Community Development (DHCD).

MHF is an enterprise fund of the State of Maryland (the State) and follows the accrual basis of accounting.

MHF's single-family programs insure mortgages made by private Maryland lending institutions, Baltimore City and the Community Development Administration of the State of Maryland (CDA). These programs include:

- Regular Single-Family Program - MHF is liable for the first loss, up to 25% of the mortgage amount, depending on the loan-to-value ratio.
- Baltimore City Pilot, Pension Loan and Baltimore Residential Programs - MHF insures loans made for the purpose of stimulating the flow of private mortgage capital into areas which have suffered decreasing home ownership and associated economic and social instability. MHF insures 100% of the mortgage amounts.
- Pool Insurance - MHF insures mortgages predominately financed through proceeds of revenue bonds of CDA and is liable for the balance of the loan not covered under primary insurance. Coverage is limited to 10% of lendable proceeds for the aggregate of revenue bond issues (stop-loss). In addition, the Wisconsin Mortgage Assurance Corporation, formerly the Mortgage Guaranty Insurance Corporation, has provided reinsurance for a

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005 and 2004

NOTE 1 - PROGRAM DESCRIPTION (Continued)

portion of mortgage loans financed by one series of CDA's bonds. Notwithstanding the reinsurance provided by the Wisconsin Mortgage Assurance Corporation, the pool insurance coverage in force also includes coverage for mortgage loans financed by this series.

- Home and Energy Loan Program (HELP) - MHF insures loans made for the purpose of rehabilitation and energy conservation in owner occupied or rental housing financed by CDA's Home and Energy Loan Program and is liable for up to 100% of the loan amounts.

MHF's Multi-Family Program provides several plans, but all existing multi-family insurance, other than the program for private lenders, is 100% insurance of projects financed by revenue bonds. Currently, MHF is insuring loans for CDA, the Housing Opportunities Commission of Montgomery County and SunTrust Mortgage, Inc.

In early 1997, MHF suspended all new insurance activity (except for pool insurance on certain single-family loans). Since that time, MHF has opened new programs.

In 2002, the Department re-opened a limited multi-family program of MHF insuring mortgage loans known as "SHOP" (Special Housing Opportunity Program) that finance or refinance the acquisition, construction or rehabilitation of shared living and related facilities for the special needs population which are owned by and sponsored by nonprofit organizations.

In March 2004, enacted Legislation allocated up to \$1.6 million of Revitalization Reserves to insure loans made to victims of Hurricane Isabel. No insurance had been written under this program as of June 30, 2005. This Legislation expires May 31, 2006.

In January 2005, MHF insured a new risk shared bond financed multi-family loan. MHF will consider insuring future multi-family projects on a case by case basis for new bond financed loans, including loans with credit enhancement under the FHA Risk Sharing Program.

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005 and 2004

NOTE 1 - PROGRAM DESCRIPTION (Continued)

In June, 2005, MHF opened a new 40 year single-family mortgage insurance product offered in conjunction with CDA's tax exempt bonds. This product helps address the escalating housing costs in Maryland. The 40 year mortgage maintains a fixed rate of interest for the full loan term and allows borrowers to finance a one-time mortgage insurance premium in the mortgage, which will require no additional outlay of cash for closing, while lowering the monthly mortgage payment. To date, no new insurance has been written.

MHF has allocated separate reserve funds for the Multi-Family Program, Regular Single-Family Program, Revitalization (Pilot) Program and the Home and Energy Loan Program. Insurance of single-family mortgage loans funded by certain CDA housing mortgage revenue bonds provides 100% coverage and is backed by the multi-family reserve fund. Insurance offered to private lenders for permanent mortgages in publicly designated renewal or redevelopment areas provides 100% coverage and is also backed by the multi-family reserve fund.

MHF's restricted funds are derived from the net proceeds of five issues of State general obligation bonds aggregating \$39,300,000 and \$7,500,000 in proceeds derived from State appropriations. In addition, the funds have earned investment income and paid claims. The unrestricted accumulated deficit reflects MHF's operations since inception less interest income.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Generally Accepted Accounting Principles

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

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005 and 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

Effective July 1, 2004, MHF adopted GASB Statement No. 40 "Deposit and Investment Risk Disclosures", an amendment of GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements". GASB Statement No. 40 requires disclosure of information regarding investments: interest rate risk, credit risk, concentration of credit risk and custodial credit risk. This new statement has no impact on MHF's financial position or results of operations, see Note 4.

Cash on Deposit with State Treasurer

All cash is deposited with the State Treasurer. The cash is pooled with other State funds and invested under State guidelines.

Investments

Investments consist of U.S. government treasury zero-coupon bonds carried at fair value based on quoted market prices. Investments are classified as current or long-term based on the maturity date.

Acquired Property

Property acquired as a result of claims settled is carried at the principal claim cost, less management's estimate of expenses and losses related to the maintenance and sale of the property, which management believes approximates fair value less costs to sell. As of June 30, 2005, acquired property consists of \$767,169 of single-family property and \$606,720 of multi-family property. As of June 30, 2004, acquired property consists of \$1,825,602 of single-family property and \$970,387 of multi-family property.

Allowance for Unpaid Insurance Losses

MHF provides for estimated insurance losses under each insurance plan. The allowance for unpaid insurance losses is increased by provisions charged to current operating expenses and reduced by claim payments. The provision for possible insurance losses is based on

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005 and 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

management's review of insured properties, considering past loss experience and current economic conditions which may affect the frequency of claims and the recovery of claim costs. Actual results could differ from those estimates.

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 funds and accounts whose purpose is to pay possible future claims are restricted as to their use, as is interest earned on these restricted assets.

Premium Income Recognition

Premium income on multi-family and single-family loans is recognized on a straight-line basis over the benefit period covered by the premiums.

Salaries and Related Benefits

MHF is subject to an allocation of intradepartmental support costs of the DHCD, which are included in salaries and related benefits in the Statements of Revenues and Expenses. Such costs could affect MHF's financial position or operating results in a manner that differs from those that might have been obtained if MHF was autonomous. MHF records these costs as invoiced by DHCD for the fiscal year. However, the allocation is subject to review and adjustment subsequent to year-end. Any adjustment is included on invoices and recorded in the period in which the adjustment is identified.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains and losses during the reporting periods. Actual results could differ from these estimates.

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005 and 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues and Expenses

MHF distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from mortgage insurance activities in connection with MHF's ongoing operations. The principal operating revenue is mortgage insurance premiums. Operating expenses include expenses relating to claims from defaulted loans and salary, general and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The interest earned on restricted investments is restricted revenue.

NOTE 3 - CASH ON DEPOSIT WITH STATE TREASURER

Principally all cash is held on deposit with the State Treasurer and invested as a component of the State of Maryland investment portfolio. The cash is invested under the State's guidelines. Investment earnings on amounts credited to the operating account do not accrue to the benefit of the MHF. For additional information on the risk categories of cash, see the State of Maryland Comprehensive Annual Financial Report.

NOTE 4 - INVESTMENTS

The following assets reported at fair value and held by MHF at June 30, 2005 are evaluated in accordance with GASB 40 for interest rate risk, credit risk, concentration of credit risk and custodial credit risk:

|                  | Obligations of<br>U.S. Government<br>Agencies |
|------------------|-----------------------------------------------|
| Mortgage escrows | <u>\$ 1,105,195</u>                           |

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005 and 2004

NOTE 4 - INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, MHF's Investment Policy requires that the investment portfolio is structured to meet the cash requirements of ongoing operations.

Credit Risk and Concentration of Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. MHF's Investment Policy requires investment agreements or deposits to be collateralized. MHF's Investment Policy places no limit on the amount that MHF may invest in any one issuer.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or counterparty failure, MHF will not be able to recover its deposits or the value of its collateral securities that are in the possession of an outside party. Investments and collateralized securities are held in trust by the trustee or the trustee agent, kept separate from the assets of the bank and from other trust accounts and are held in MHF's name.

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005 and 2004

NOTE 5 - LOANS AND INTEREST RECEIVABLE, NET OF ALLOWANCE FOR LOANS AND RELATED LOSSES

Loans and interest receivable, net of allowance for loans and related losses, consist of loans made directly by MHF and loans originally made by others and subsequently assigned to MHF under the provisions of the insurance agreements plus interest receivable, net of possible losses. Mortgage loans, notes receivable and interest receivable were as follows for the years ended June 30, 2005 and 2004:

|                                                                              | 2005                | 2004                |
|------------------------------------------------------------------------------|---------------------|---------------------|
| Multi-Family                                                                 | \$ 10,636,967       | \$ 10,866,564       |
| Single-Family                                                                | 118,593             | 160,084             |
| Interest receivable on loans                                                 | 5,404,428           | 5,013,941           |
|                                                                              | <u>16,159,988</u>   | <u>16,040,589</u>   |
| Allowance for possible losses on Multi-Family loans                          | (10,100,879)        | (10,287,015)        |
| Allowance for possible losses on Single-Family loans                         | (14,401)            | (29,715)            |
| Allowance for possible losses on interest receivable                         | <u>(5,401,167)</u>  | <u>(5,010,349)</u>  |
| Total allowance for possible losses                                          | <u>(15,516,447)</u> | <u>(15,327,079)</u> |
| Loans and interest receivable, net of allowance for loans and related losses | <u>\$ 643,541</u>   | <u>\$ 713,510</u>   |
| Current portion, net of allowance                                            | \$ 129,249          | \$ 136,017          |
| Noncurrent portion, net of allowance                                         | <u>514,292</u>      | <u>577,493</u>      |
| Loans and interest receivable, net of allowance for loans and related losses | <u>\$ 643,541</u>   | <u>\$ 713,510</u>   |

Changes in the allowance for possible losses on loans and interest receivable were as follows for the years ended June 30, 2005 and 2004:

|                                 | 2005                 | 2004                 |
|---------------------------------|----------------------|----------------------|
| Balance, beginning of year      | \$ 15,327,079        | \$ 14,888,727        |
| Provision charged to operations | <u>189,368</u>       | <u>438,352</u>       |
| Balance, end of year            | <u>\$ 15,516,447</u> | <u>\$ 15,327,079</u> |

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005 and 2004

NOTE 6 - UNEARNED PREMIUMS

The unearned premiums for the unexpired terms of all policies in force or written as of June 30, 2005 and 2004, and the changes for the years then ended were as follows:

|                                                                             | 2005                                            |                     |                     |                                           |
|-----------------------------------------------------------------------------|-------------------------------------------------|---------------------|---------------------|-------------------------------------------|
|                                                                             | Unearned<br>premiums at<br>beginning of<br>year | Premiums<br>written | Premiums<br>earned  | Unearned<br>premiums at<br>end of<br>year |
| Single-Family Programs                                                      |                                                 |                     |                     |                                           |
| Baltimore City Pilot, Pension Loan<br>and Baltimore Residential<br>Programs | \$ 5,911                                        | \$ 12,227           | \$ 13,093           | \$ 5,045                                  |
| Community Development<br>Administration under<br>Multi-Family Reserves      | 809                                             | 1,904               | 1,943               | 770                                       |
| Regular                                                                     | 538,541                                         | 728,222             | 912,334             | 354,429                                   |
| Pool insurance                                                              | 291,000                                         | 503,161             | 575,168             | 218,993                                   |
| Home and Energy Loan                                                        | 729                                             | 783                 | 1,243               | 269                                       |
| Total Single-Family Programs                                                | 836,990                                         | 1,246,297           | 1,503,781           | 579,506                                   |
| Multi-Family Programs                                                       |                                                 |                     |                     |                                           |
| Construction and Permanent<br>Mortgages                                     | \$ 474,303                                      | \$ 947,980          | \$ 984,472          | \$ 437,811                                |
| Additional Insurance Premium                                                | 125,330                                         | 68,516              | 75,691              | 118,155                                   |
| Multi-Family HELP Program                                                   | 243                                             | 1,278               | 1,308               | 213                                       |
| SHOP Loans                                                                  | 27,777                                          | 55,269              | 54,477              | 28,569                                    |
| Total Multi-Family Programs                                                 | 627,653                                         | 1,073,043           | 1,115,948           | 584,748                                   |
| Total for the year ended<br>June 30, 2005                                   | <u>\$ 1,464,643</u>                             | <u>\$ 2,319,340</u> | <u>\$ 2,619,729</u> | <u>\$ 1,164,254</u>                       |

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005 and 2004

NOTE 6 - UNEARNED PREMIUMS (Continued)

|                                                                                           | 2004                                            |                     |                     |                                           |
|-------------------------------------------------------------------------------------------|-------------------------------------------------|---------------------|---------------------|-------------------------------------------|
|                                                                                           | Unearned<br>premiums at<br>beginning of<br>year | Premiums<br>written | Premiums<br>earned  | Unearned<br>premiums at<br>end of<br>year |
| Single-Family Programs                                                                    |                                                 |                     |                     |                                           |
| Baltimore City Pilot, State Pilot,<br>Pension Loan, and Baltimore<br>Residential Programs | \$ 7,554                                        | \$ 14,203           | \$ 15,846           | \$ 5,911                                  |
| Community Development<br>Administration under<br>Multi-Family Reserves                    | 791                                             | 1,978               | 1,960               | 809                                       |
| Regular                                                                                   | 885,246                                         | 1,101,112           | 1,447,817           | 538,541                                   |
| Pool insurance                                                                            | 403,109                                         | 694,605             | 806,714             | 291,000                                   |
| Home and Energy Loan                                                                      | 1,049                                           | 1,554               | 1,874               | 729                                       |
| Total Single-Family Programs                                                              | <u>1,297,749</u>                                | <u>1,813,452</u>    | <u>2,274,211</u>    | <u>836,990</u>                            |
| Multi-Family Programs                                                                     |                                                 |                     |                     |                                           |
| Construction and Permanent<br>Mortgages                                                   | \$ 593,100                                      | \$ 982,459          | \$ 1,101,256        | \$ 474,303                                |
| Additional Insurance Premium                                                              | 130,951                                         | 70,161              | 75,782              | 125,330                                   |
| Multi-Family HELP Program                                                                 | 2,289                                           | 1,461               | 3,507               | 243                                       |
| SHOP Loans                                                                                | 28,468                                          | 53,830              | 54,521              | 27,777                                    |
| Total Multi-Family Programs                                                               | <u>754,808</u>                                  | <u>1,107,911</u>    | <u>1,235,066</u>    | <u>627,653</u>                            |
| Total for the year ended<br>June 30, 2004                                                 | <u>\$ 2,052,557</u>                             | <u>\$ 2,921,363</u> | <u>\$ 3,509,277</u> | <u>\$ 1,464,643</u>                       |

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005 and 2004

NOTE 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations for the years ended June 30, 2005 and 2004 were as follows:

|                                        | 2005                |                   |                     |                     | Amount due within one year |
|----------------------------------------|---------------------|-------------------|---------------------|---------------------|----------------------------|
|                                        | Beginning balance   | Additions         | Reductions          | Ending balance      |                            |
| Compensated absences                   | \$ 206,789          | \$ 134,867        | \$ (132,925)        | \$ 208,731          | \$ 81,217                  |
| Workers' compensation                  | 8,000               | -                 | (2,000)             | 6,000               | 930                        |
| Mortgage escrows                       | 1,258,709           | 441,009           | (225,584)           | 1,474,134           | 368,939                    |
| Total for the year ended June 30, 2005 | <u>\$ 1,473,498</u> | <u>\$ 575,876</u> | <u>\$ (360,509)</u> | <u>\$ 1,688,865</u> | <u>\$ 451,086</u>          |
|                                        | 2004                |                   |                     |                     | Amount due within one year |
|                                        | Beginning balance   | Additions         | Reductions          | Ending balance      |                            |
| Compensated absences                   | \$ 205,482          | \$ 138,445        | \$ (137,138)        | \$ 206,789          | \$ 82,447                  |
| Workers' compensation                  | 108,000             | -                 | (100,000)           | 8,000               | 1,240                      |
| Mortgage escrows                       | 1,270,071           | 166,123           | (177,485)           | 1,258,709           | 436,788                    |
| Total for the year ended June 30, 2004 | <u>\$ 1,583,553</u> | <u>\$ 304,568</u> | <u>\$ (414,623)</u> | <u>\$ 1,473,498</u> | <u>\$ 520,475</u>          |

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005 and 2004

NOTE 8 - ALLOWANCE FOR UNPAID INSURANCE LOSSES

The allowance for unpaid insurance losses is the estimated claims settlement on notices of default that has been received by MHF, as well as loan defaults that have been incurred but have not been reported by the lenders. Financial Accounting Standards Board Statement No. 60 specifically excludes mortgage guaranty insurance from its guidance relating to the reserves for losses.

For insured multi-family program properties, MHF establishes loss reserves on a case-by-case basis when insured loans are identified as currently in default based on MHF's expected claim payment, net of estimated recovery. At June 30, 2005, MHF has no multi-family loans in default. As a result, MHF provides only limited loss reserves on the multi-family portfolio.

For insured single-family loans, MHF establishes its loss reserves based on past loss experiences and the current real estate market. MHF also reserves for defaults that have been incurred but have not been reported prior to the close of an accounting period, using estimated claim rates and claim sizes for the estimated number of defaults not reported. For single-family program properties, insured loans which have gone through foreclosure and MHF has paid a claim, MHF also reserves for losses based on past loss experiences and the current real estate market.

MHF's reserving process is based upon the assumptions of past experience, including the current real estate market and housing values in the locations where MHF has experienced high claim rates. Therefore, the reserves are necessarily based on estimates and the ultimate liability may vary from such estimates. Management regularly reviews the evaluation of the loss reserves utilizing current information and updates the assumptions in the estimation process accordingly. Any resulting adjustments are reflected in the current period's earnings as either a provision for losses or benefit from losses. Management believes that the allowance for unpaid insurance losses at June 30, 2005 was appropriately established on an aggregate basis and was adequate to cover the ultimate net cost of settling reported and unreported claims.

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005 and 2004

NOTE 8 - ALLOWANCE FOR UNPAID INSURANCE LOSSES (Continued)

Changes in allowance for unpaid insurance losses were as follows:

|                               | Single-Family       | Multi-Family        | Total                |
|-------------------------------|---------------------|---------------------|----------------------|
| Balance at June 30, 2003      | \$ 13,559,027       | \$ 10,834,752       | \$ 24,393,779        |
| Benefit charged to operations | (5,310,940)         | (2,580,861)         | (7,891,801)          |
| Charge-offs                   | (1,556,037)         | -                   | (1,556,037)          |
| Balance at June 30, 2004      | 6,692,050           | 8,253,891           | 14,945,941           |
| Benefit charged to operations | (2,135,209)         | (984,261)           | (3,119,470)          |
| Charge-offs                   | (575,285)           | -                   | (575,285)            |
| Balance at June 30, 2005      | <u>\$ 3,981,556</u> | <u>\$ 7,269,630</u> | <u>\$ 11,251,186</u> |

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Single-Family Mortgages

All loans insured by MHF are with approved lenders and are collateralized by a first or second lien against the improved property, which must be located in the State of Maryland. The details of insured loans and commitments to insure loans as of June 30, 2005, were as follows:

| Insured Mortgages                                                                    |              |                       |                       |                       |
|--------------------------------------------------------------------------------------|--------------|-----------------------|-----------------------|-----------------------|
| Original Commitments                                                                 |              | Current Balances      |                       |                       |
| Number                                                                               | Amount       | Amount                | Contingent Liability  |                       |
| Primary insurance coverage                                                           |              |                       |                       |                       |
| 100% insured (Baltimore City Pilot, Pension Loan and Baltimore Residential Programs) | 143          | \$ 4,483,037          | \$ 3,560,675          | \$ 3,560,675          |
| 25% insured                                                                          | 4,397        | 246,072,466           | 194,620,195           | 48,655,049            |
| Home and Energy Loan Program (up to 100% insured, second lien)                       | 14           | 150,224               | 24,769                | 24,769                |
| Total                                                                                | <u>4,554</u> | <u>\$ 250,705,727</u> | <u>\$ 198,205,639</u> | <u>\$ 52,240,493</u>  |
| Pool insurance coverage                                                              | <u>6,228</u> | <u>\$ 352,340,244</u> | <u>\$ 276,587,028</u> | <u>\$ 160,384,837</u> |

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005 and 2004

NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)

For pool insurance, as of June 30, 2005, MHF was contingently liable as insurer for an amount not to exceed \$160,384,837. Coverage is limited to 10% of lendable proceeds for the aggregate of revenue bond issues (stop-loss). For a portion of the insured loan portfolio, FHA has the primary only insurance coverage and MHF has only the pool insurance coverage. MHF also insures loans financed by certain bonds issued by the City of Baltimore with a 10% stop-loss. In addition, the Wisconsin Mortgage Assurance Corporation, formerly the Mortgage Guaranty Insurance Corporation, has provided reinsurance for a portion of mortgage loans financed by one series of CDA's bonds, and a portion of mortgages financed by one series of bonds issued by the City of Baltimore.

Multi-Family Mortgages

MHF insured mortgage loans as of June 30, 2005, net of partial claim payments, were as follows:

|                                                                                | Number     | Current<br>Balances   |
|--------------------------------------------------------------------------------|------------|-----------------------|
| Construction and Permanent mortgages financed by CDA                           | 54         | \$ 135,271,279        |
| CDA Multi-Family HELP Program                                                  | 1          | 229,798               |
| CDA Single-Family loans under Multi-Family reserves                            | 25         | 578,681               |
| CDA SHOP Loans                                                                 | 112        | 9,154,952             |
| Loans financed by the Housing Opportunities Commission<br>of Montgomery County | 4          | 10,373,509            |
| Loans financed by SunTrust Mortgage, Inc.                                      | 2          | 4,960,086             |
|                                                                                | <u>198</u> | <u>\$ 160,568,305</u> |

NOTE 10 - PENSION AND OTHER POST-RETIREMENT BENEFITS

Eligible employees of MHF and employees of the State are covered under the retirement plans of the State Retirement and Pension System of Maryland (System) and are also entitled to certain healthcare benefits upon retirement. MHF's only liability for retirement and post-employment benefits is its required annual contribution, which was paid in full by MHF to the State of Maryland prior to year-end. The System is considered part of the

Maryland Housing Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005 and 2004

NOTE 10 - PENSION AND OTHER POST-RETIREMENT BENEFITS (Continued)

State's financial reporting entity, and is not considered a part of MHF's reporting entity. The System prepares a separate Comprehensive Annual Financial Report which can be obtained from the State Retirement and Pension System of Maryland at 120 East Baltimore Street, Baltimore, Maryland 21202.

MARYLAND HOUSING FUND  
INTERIM FINANCIAL STATEMENTS  
AS OF SEPTEMBER 30, 2005  
(UNAUDITED)

[THIS PAGE INTENTIONALLY LEFT BLANK]

Maryland Housing Fund  
STATEMENTS OF NET ASSETS  
September 30, 2005 and June 30, 2005  
(Unaudited)

|                                                                                 | Unaudited<br>9/30/2005 | Audited<br>6/30/2005  |
|---------------------------------------------------------------------------------|------------------------|-----------------------|
| ASSETS                                                                          |                        |                       |
| CURRENT ASSETS                                                                  |                        |                       |
| Unrestricted current assets                                                     |                        |                       |
| Cash on deposit with State Treasurer                                            |                        |                       |
| Operating account                                                               | \$ 5,059,922           | \$ 4,774,781          |
| Investments                                                                     | 289,950                | -                     |
| Loans and interest receivable, net of allowance for<br>loans and related losses | 118,733                | 129,249               |
| Acquired property                                                               | 922,486                | 1,373,889             |
| Other                                                                           | 7,641                  | 7,604                 |
| Total unrestricted current assets                                               | <u>6,398,732</u>       | <u>6,285,523</u>      |
| Restricted current assets                                                       |                        |                       |
| Cash on deposit with State Treasurer                                            |                        |                       |
| Loan account                                                                    | <u>98,846,408</u>      | <u>98,288,705</u>     |
| Total restricted current assets                                                 | <u>98,846,408</u>      | <u>98,288,705</u>     |
| Total current assets                                                            | <u>105,245,140</u>     | <u>104,574,228</u>    |
| NONCURRENT ASSETS                                                               |                        |                       |
| Investments                                                                     | 1,056,219              | 1,105,195             |
| Loans, net of allowance and current portion                                     | 516,775                | 514,292               |
| Total noncurrent assets                                                         | <u>1,572,994</u>       | <u>1,619,487</u>      |
| Total assets                                                                    | <u>\$ 106,818,134</u>  | <u>\$ 106,193,715</u> |

(continued)

Maryland Housing Fund  
STATEMENTS OF NET ASSETS - CONTINUED  
September 30, 2005 and June 30, 2005  
(Unaudited)

|                                                       | Unaudited<br>9/30/2005 | Audited<br>6/30/2005  |
|-------------------------------------------------------|------------------------|-----------------------|
| LIABILITIES AND NET ASSETS                            |                        |                       |
| CURRENT LIABILITIES                                   |                        |                       |
| Accounts payable                                      | \$ 799,454             | \$ 204,470            |
| Accrued compensated absences                          | 81,217                 | 81,217                |
| Accrued workers' compensation                         | 930                    | 930                   |
| Mortgage escrow accounts                              | 291,648                | 368,939               |
| Unearned premiums                                     | 1,107,523              | 1,164,254             |
| Allowance for unpaid insurance losses                 | 11,489,014             | 11,251,186            |
| Total current liabilities                             | <u>13,769,786</u>      | <u>13,070,996</u>     |
| LONG-TERM LIABILITIES                                 |                        |                       |
| Accrued compensated absences, net of current portion  | 127,514                | 127,514               |
| Accrued workers' compensation, net of current portion | 5,070                  | 5,070                 |
| Mortgage escrow accounts, net of current portion      | 1,056,219              | 1,105,195             |
| Total long-term liabilities                           | <u>1,188,803</u>       | <u>1,237,779</u>      |
| Total liabilities                                     | <u>14,958,589</u>      | <u>14,308,775</u>     |
| COMMITMENTS AND CONTINGENCIES                         |                        |                       |
|                                                       | -                      | -                     |
| NET ASSETS                                            |                        |                       |
| Restricted net assets                                 |                        |                       |
| Multi-Family Reserves                                 | 44,698,739             | 44,698,739            |
| Regular Single-Family Reserves                        | 32,273,875             | 32,273,875            |
| Revitalization (Pilot) Reserves                       | 2,224,450              | 2,224,450             |
| Home and Energy Loan Reserves                         | 500,000                | 500,000               |
| Unallocated Reserves                                  | 19,439,294             | 18,591,641            |
| Total restricted net assets                           | 99,136,358             | 98,288,705            |
| Unrestricted accumulated deficit                      | <u>(7,276,813)</u>     | <u>(6,403,765)</u>    |
| Total net assets                                      | <u>91,859,545</u>      | <u>91,884,940</u>     |
| Total liabilities and net assets                      | <u>\$ 106,818,134</u>  | <u>\$ 106,193,715</u> |

See notes to financial statements

Maryland Housing Fund  
STATEMENTS OF REVENUES AND EXPENSES  
AS OF SEPTEMBER 30, 2005 and 2004  
(Unaudited)

|                                                                   | Unaudited<br>9/30/2005 | Unaudited<br>9/30/2004 |
|-------------------------------------------------------------------|------------------------|------------------------|
| Operating revenues                                                |                        |                        |
| Net premiums                                                      | \$ 558,725             | \$ 709,620             |
| Interest income on loans                                          | 136,025                | 145,830                |
| Other income                                                      | 258                    | 1,379                  |
| Total operating revenues                                          | <u>695,008</u>         | <u>856,829</u>         |
| Operating expenses                                                |                        |                        |
| Provision (benefit) from losses and expenses<br>related to claims | 636,189                | (1,237,090)            |
| Net losses (gains) on sales of acquired property                  | 206,867                | (50,101)               |
| Salaries and related benefits                                     | 594,500                | 640,000                |
| General and administrative                                        | 130,500                | 160,000                |
| Total operating expenses                                          | <u>1,568,056</u>       | <u>(487,191)</u>       |
| Operating income                                                  | <u>(873,048)</u>       | <u>1,344,020</u>       |
| Nonoperating revenues                                             |                        |                        |
| Restricted interest income on investments                         | 847,653                | 384,064                |
| Total nonoperating revenues                                       | <u>847,653</u>         | <u>384,064</u>         |
| CHANGE IN NET ASSETS                                              | <u>\$ (25,395)</u>     | <u>\$ 1,728,084</u>    |

See notes to financial statements

## Maryland Housing Fund

## STATEMENTS OF CHANGES IN NET ASSETS

For the three months ended September 30, 2005 and years ended June 30, 2005 and 2004

(Unaudited)

|                                                                  | Restricted Net Assets    |                                      |                                       |                                     |                         | Unrestricted<br>Accumulated<br>Deficit | Total        |
|------------------------------------------------------------------|--------------------------|--------------------------------------|---------------------------------------|-------------------------------------|-------------------------|----------------------------------------|--------------|
|                                                                  | Multi-Family<br>Reserves | Regular<br>Single-Family<br>Reserves | Revitalization<br>(Pilot)<br>Reserves | Home and<br>Energy<br>Loan Reserves | Unallocated<br>Reserves |                                        |              |
| Balance at June 30, 2004                                         | \$ 44,698,739            | \$32,273,875                         | \$ 2,224,450                          | \$ 500,000                          | \$ 16,391,763           | \$ (9,727,488)                         | \$86,361,339 |
| Interest income allocated at the<br>discretion of DHCD Secretary | -                        | -                                    | -                                     | -                                   | 2,199,878               | (2,199,878)                            | -            |
| Change in net assets                                             | -                        | -                                    | -                                     | -                                   | -                       | 5,523,601                              | 5,523,601    |
| Balance at June 30, 2005                                         | 44,698,739               | 32,273,875                           | 2,224,450                             | 500,000                             | 18,591,641              | (6,403,765)                            | 91,884,940   |
| Interest income allocated at the<br>discretion of DHCD Secretary | -                        | -                                    | -                                     | -                                   | 847,653                 | (847,653)                              | -            |
| Change in net assets                                             | -                        | -                                    | -                                     | -                                   | -                       | (25,395)                               | (25,395)     |
| Balance at September 30, 2005                                    | \$ 44,698,739            | \$32,273,875                         | \$ 2,224,450                          | \$ 500,000                          | \$ 19,439,294           | \$ (7,276,813)                         | \$91,859,545 |

See notes to financial statements

Maryland Housing Fund  
STATEMENTS OF CASH FLOWS  
AS OF SEPTEMBER 30, 2005 and 2004  
(Unaudited)

|                                                                                         | Unaudited<br>9/30/2005 | Unaudited<br>9/30/2004 |
|-----------------------------------------------------------------------------------------|------------------------|------------------------|
| Cash flows from operating activities                                                    |                        |                        |
| Receipts from premiums                                                                  | \$ 574,716             | \$ 703,392             |
| Premiums refunded                                                                       | (77,372)               | (89,112)               |
| Receipts from loans                                                                     | 35,845                 | 174,721                |
| Receipts from mortgage escrows                                                          | 35,869                 | 40,638                 |
| Payments for mortgage escrows                                                           | (112,182)              | (114,406)              |
| Sale proceeds from acquired properties                                                  | 698,236                | 1,318,292              |
| Receipts from miscellaneous fees                                                        | -                      | 1,121                  |
| Payments for properties acquired                                                        | (756,221)              | (900,513)              |
| Payments for salaries and related benefits                                              | (97,106)               | (80,131)               |
| Payments for general and administrative expenses                                        | (16,644)               | (7,607)                |
| Net cash provided by operating activities                                               | <u>285,141</u>         | <u>1,046,395</u>       |
| Cash flows from investing activities                                                    |                        |                        |
| Receipts from interest earned on investments                                            | <u>557,703</u>         | <u>248,389</u>         |
| Net cash provided by investing activities                                               | <u>557,703</u>         | <u>248,389</u>         |
| NET INCREASE IN CASH                                                                    | 842,844                | 1,294,784              |
| Cash, beginning of year                                                                 | <u>103,063,486</u>     | <u>99,863,895</u>      |
| Cash, end of period                                                                     | <u>\$ 103,906,330</u>  | <u>\$ 101,158,679</u>  |
| Reconciliation of operating deficit to net cash provided by operating activities        |                        |                        |
| Operating deficit                                                                       | \$ (873,048)           | \$ 1,344,020           |
| Adjustments to reconcile operating deficit to net cash provided by operating activities |                        |                        |
| Increase (decrease) in allowance for unpaid insurance losses                            | 237,828                | (1,421,870)            |
| Decrease in acquired property                                                           | 451,403                | 87,732                 |
| Decrease in investments and other assets                                                | 48,939                 | 223,081                |
| Decrease in loans and interest receivable                                               | 8,033                  | 34,442                 |
| Increase in accounts payable and other accrued liabilities                              | 468,717                | 878,780                |
| Decrease in unearned premiums                                                           | (56,731)               | (99,790)               |
| Net cash provided by operating activities                                               | <u>\$ 285,141</u>      | <u>\$ 1,046,395</u>    |

See notes to financial statements

Maryland Housing Fund  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2005 and June 30, 2005  
(Unaudited)

1. GENERAL DISCLOSURE

In the opinion of management, the accompanying financial statements of the Maryland Housing Fund present fairly the financial position at September 30, 2005 and the results of its operations for the three months ended September 30, 2005. These statements are unaudited, and certain information and footnote disclosures normally included in the audited annual financial statements have been omitted.

2. LOANS AND INTEREST RECEIVABLE, NET OF ALLOWANCE FOR LOANS AND RELATED LOSSES

Loans and interest receivable, net of allowance for loans and related losses, consist of loans made directly by MHF and loans originally made by others and subsequently assigned to MHF under the provisions of the insurance agreements plus interest receivable, net of possible losses. Mortgage loans, notes receivable and interest receivable were as follows for the periods ended September 30, 2005 and June 30, 2005:

|                                                                                 | 9/30/2005           | 6/30/2005           |
|---------------------------------------------------------------------------------|---------------------|---------------------|
| Multi-Family                                                                    | \$ 10,611,614       | \$ 10,636,967       |
| Single-Family                                                                   | 116,197             | 118,593             |
| Interest receivable on loans                                                    | 5,532,357           | 5,404,428           |
|                                                                                 | <u>16,260,168</u>   | <u>16,159,988</u>   |
| Allowance for possible losses on Multi-Family loans                             | (10,079,819)        | (10,100,879)        |
| Allowance for possible losses on Single-Family loans                            | (14,401)            | (14,401)            |
| Allowance for possible losses on interest receivable                            | (5,530,440)         | (5,401,167)         |
|                                                                                 | <u>(15,624,660)</u> | <u>(15,516,447)</u> |
| Total allowance for possible losses                                             |                     |                     |
| Loans and interest receivable, net of allowance<br>for loans and related losses | <u>\$ 635,508</u>   | <u>\$ 643,541</u>   |
| Current portion, net of allowance                                               | \$ 118,733          | \$ 129,249          |
| Noncurrent portion, net of allowance                                            | 516,775             | 514,292             |
| Loans and interest receivable, net of allowance<br>for loans and related losses | <u>\$ 635,508</u>   | <u>\$ 643,541</u>   |

Changes in the allowance for possible losses on loans and interest receivable were as follows for the periods ended September 30, 2005 and June 30, 2005:

|                                 | 9/30/2005            | 6/30/2005            |
|---------------------------------|----------------------|----------------------|
| Balance, beginning of period    | \$ 15,516,447        | \$ 15,327,079        |
| Provision charged to operations | 108,213              | 189,368              |
| Balance, end of period          | <u>\$ 15,624,660</u> | <u>\$ 15,516,447</u> |

Maryland Housing Fund  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
September 30, 2005 and June 30, 2005  
(Unaudited)

3. ALLOWANCE FOR UNPAID INSURANCE LOSSES

Changes in allowance for unpaid insurance losses were as follows:

|                                           | <u>Single-Family</u> | <u>Multi-Family</u> | <u>Total</u>         |
|-------------------------------------------|----------------------|---------------------|----------------------|
| Balance at June 30, 2004                  | \$ 6,692,050         | \$ 8,253,891        | \$ 14,945,941        |
| Benefit charged to operations             | (2,135,209)          | (984,261)           | (3,119,470)          |
| Charge-offs                               | <u>(575,285)</u>     | <u>-</u>            | <u>(575,285)</u>     |
| Balance at June 30, 2005                  | 3,981,556            | 7,269,630           | 11,251,186           |
| Provision (benefit) charged to operations | 504,964              | (66,712)            | 438,253              |
| Charge-offs                               | <u>(200,424)</u>     | <u>-</u>            | <u>(200,424)</u>     |
| Balance at September 30, 2005             | <u>\$ 4,286,096</u>  | <u>\$ 7,202,918</u> | <u>\$ 11,489,014</u> |

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX J

### INVESTMENTS HELD IN THE RESIDENTIAL REVENUE BOND FUNDS As of September 30, 2005

| <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 A and B    | \$665,000                    |     | Money Market Funds                                                       | Varies                      | On demand       |
| 1999 Residential Revenue Bonds, Series C and D    | \$616,000                    |     | Money Market Funds                                                       | Varies                      | On demand       |
| 2000 Residential Revenue Bonds, Series H          | \$320,000                    |     | Money Market Funds                                                       | Varies                      | On demand       |
| 2001 Residential Revenue Bonds, Series A and B    | \$185,000                    |     | Money Market Funds                                                       | Varies                      | On demand       |
| 2001 Residential Revenue Bonds, Series G and H    | \$115,458                    |     | Money Market Funds                                                       | Varies                      | On demand       |
| 2001 Residential Revenue Bonds, Series G and H    | \$1,591,358                  | (1) | Federal Home Loan Mortgage Corp.                                         | Discount Note               | 8/11/2005       |
| 2002 Residential Revenue Bonds, Series A          | \$3,668,550                  | (1) | Federal Home Loan Mortgage Corp.                                         | Discount Note               | 8/11/2005       |
| 2004 Residential Revenue Bonds, Series J and K    | \$166,287,027                | (1) | Federal Home Loan Mortgage Corp.                                         | 2.485%                      | 12/5/2005       |
| 2005 Residential Revenue Bonds, Series A, B and C | \$155,968                    |     | Money Market Funds                                                       | Varies                      | On demand       |
| <b><u>Revenue (Float) Fund</u></b>                |                              |     |                                                                          |                             |                 |
| 1997 Residential Revenue Bonds, Series A and B    | \$2,787,060                  |     | Westdeutsche Landesbank Gironzentrale, New York Branch                   | 5.96%                       | 9/1/2029        |
| 1998 Residential Revenue Bonds, Series A and B    | \$4,618,726                  |     | AIG Matched Funding Corp.                                                | 5.30%                       | 9/1/2030        |
| <b><u>Reserve Fund</u></b>                        |                              |     |                                                                          |                             |                 |
| 1997 Residential Revenue Bonds, Series A and B    | \$898,410                    |     | AIG Matched Funding Corp.                                                | 6.24%                       | 9/1/2029        |
| 1998 Residential Revenue Bonds, Series A and B    | \$799,733                    |     | AIG Matched Funding Corp.                                                | 5.68%                       | 9/1/2030        |
| 1998 Residential Revenue Bonds, Series D          | \$1,231,569                  |     | Westdeutsche Landesbank Gironzentrale, New York Branch                   | 5.22%                       | 9/1/2029        |
| 1999 Residential Revenue Bonds, Series C and D    | \$1,176,471                  |     | Westdeutsche Landesbank Gironzentrale, New York Branch                   | 5.82%                       | 9/1/2031        |
| 1999 Residential Revenue Bonds, Series E and F    | \$2,008,012                  | (1) | Federal Home Loan Mortgage Corp.                                         | 6.75%                       | 9/15/2029       |
| 1999 Residential Revenue Bonds, Series H          | \$1,505,539                  | (1) | Federal Home Loan Mortgage Corp.                                         | 6.75%                       | 9/15/2029       |
| 2000 Residential Revenue Bonds, Series A and B    | \$663,874                    |     | AIG-MF L.L.C.                                                            | 6.29%                       | 9/1/2032        |

| <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> |
|---------------------------------------------------|------------------------------|-----|--------------------------------------------------------------------------|-----------------------------|-----------------|
| 2000 Residential Revenue Bonds, Series C and D    | \$563,492                    |     | AIG-MF L.L.C.                                                            | 6.29%                       | 9/1/2032        |
| 2000 Residential Revenue Bonds, Series F and G    | \$775,965                    |     | AIG-MF L.L.C.                                                            | 6.29%                       | 9/1/2032        |
| 2000 Residential Revenue Bonds, Series H          | \$414,904                    |     | AIG Matched Funding Corp.                                                | 5.94%                       | 9/1/2032        |
| 2001 Residential Revenue Bonds, Series A and B    | \$858,887                    |     | AIG Matched Funding Corp.                                                | 5.94%                       | 9/1/2032        |
| 2001 Residential Revenue Bonds, Series E and F    | \$1,141,531                  |     | AIG Matched Funding Corp.                                                | 5.94%                       | 9/1/2032        |
| 2001 Residential Revenue Bonds, Series G and H    | \$1,281,762                  | (1) | Federal Home Loan Mortgage Corp.                                         | 6.25%                       | 7/15/2032       |
| 2002 Residential Revenue Bonds, Series A          | \$171,033                    | (1) | Federal Home Loan Mortgage Corp.                                         | 6.25%                       | 7/15/2032       |
| 2003 Residential Revenue Bonds, Series A, B and C | \$78,901                     |     | Money Market Funds                                                       | Varies                      | On demand       |
| 2003 Residential Revenue Bonds, Series A, B and C | \$976,575                    | (1) | Federal Home Loan Mortgage Corp.                                         | 6.25%                       | 7/15/2032       |
| 2004 Residential Revenue Bonds, Series A and B    | \$607,217                    | (1) | Federal Farm Credit Bonds                                                | 5.25%                       | 8/13/2019       |
| 2004 Residential Revenue Bonds, Series C          | \$393,448                    |     | Money Market Funds                                                       | Varies                      | On demand       |
| 2004 Residential Revenue Bonds, Series D and E    | \$805,821                    | (1) | Federal Farm Credit Bonds                                                | 5.25%                       | 8/13/2019       |
| 2004 Residential Revenue Bonds, Series F          | \$393,448                    |     | Money Market Funds                                                       | Varies                      | On demand       |
| 2004 Residential Revenue Bonds, Series G and H    | \$810,383                    | (1) | Federal Farm Credit Bonds                                                | 5.25%                       | 8/13/2019       |
| 2004 Residential Revenue Bonds, Series I          | \$390,131                    |     | Money Market Funds                                                       | Varies                      | On demand       |
| 2004 Residential Revenue Bonds, Series J and K    | \$3,325,830                  | (1) | Federal Home Loan Mortgage Corp.                                         | 2.485%                      | 12/5/2005       |
| 2005 Residential Revenue Bonds, Series A, B and C | \$1,194,700                  |     | Money Market Funds                                                       | Varies                      | On demand       |
| <br><b><u>Collateral Reserve Fund (2)</u></b>     |                              |     |                                                                          |                             |                 |
| 1997 Residential Revenue Bonds                    | \$5,492,361                  |     | Westdeutsche Landesbank Gironzentrale, New York Branch                   | 5.96%                       | 9/1/2029        |
| <br><b><u>Warehouse Loan Fund (3)</u></b>         |                              |     |                                                                          |                             |                 |
| Residential Revenue Bonds                         | \$105,530                    |     | Money Market Funds                                                       | Varies                      | On demand       |
| Residential Revenue Bonds                         | \$3,022,395                  | (1) | Federal National Mortgage Corp.                                          | Discount Note               | 10/5/2005       |
| Residential Revenue Bonds                         | \$3,023,277                  | (1) | Federal National Mortgage Corp.                                          | Discount Note               | 10/12/2005      |
| Residential Revenue Bonds                         | \$5,034,931                  | (1) | Federal National Mortgage Corp.                                          | Discount Note               | 10/19/2005      |

| <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> |
|---------------------------|------------------------------|-----|--------------------------------------------------------------------------|-----------------------------|-----------------|
| Residential Revenue Bonds | \$5,034,394                  | (1) | Federal Home Loan Mortgage Corp.                                         | Discount Note               | 10/26/2005      |
| Residential Revenue Bonds | \$3,020,607                  | (1) | Federal National Mortgage Corp.                                          | Discount Note               | 11/2/2005       |
| Residential Revenue Bonds | \$4,024,648                  | (1) | Federal National Mortgage Corp.                                          | Discount Note               | 11/9/2005       |
| Residential Revenue Bonds | \$4,016,843                  | (1) | Federal National Mortgage Corp.                                          | Discount Note               | 11/16/2005      |
| Residential Revenue Bonds | \$3,008,578                  | (1) | Federal Home Loan Mortgage Corp.                                         | Discount Note               | 11/22/2005      |
| Residential Revenue Bonds | \$2,003,112                  | (1) | Federal National Mortgage Corp.                                          | Discount Note               | 11/30/2005      |
| Residential Revenue Bonds | \$3,002,444                  | (1) | Federal Home Loan Bank                                                   | Discount Note               | 12/7/2005       |

- 
- (1) In keeping with the provisions of GASB 31, these investments are reported at fair value. The total book value at September 30, 2005 for the investments referenced was \$217,593,989, and the increase in fair value of these investments was \$636,347.
- (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.
- (3) The Warehouse Loan Fund was established by transferring \$45,000,000 in excess revenues from the 1980 General Certificate (Single Family Program Bonds). It provides an interim funding source for loans purchased between issuances of Residential Revenue Bonds.

[THIS PAGE INTENTIONALLY LEFT BLANK]

# APPENDIX K

## RESIDENTIAL REVENUE BOND PROGRAM LOAN PORTFOLIO BY BOND SERIES AND INTEREST RATE AS OF SEPTEMBER 30, 2005

| Sources of Funds               | Mortgage Loan<br>Interest Rate |            | Original<br>Number of<br>Loans | Original<br>Principal<br>Amount (2)-\$ | Number of<br>Outstanding<br>Loans | Outstanding<br>Principal<br>Balance (2)-\$ |
|--------------------------------|--------------------------------|------------|--------------------------------|----------------------------------------|-----------------------------------|--------------------------------------------|
| <b>Collateral Reserve Fund</b> |                                |            | <b>106</b>                     | <b>8,764,712</b>                       | <b>78</b>                         | <b>5,452,192</b>                           |
|                                | 4.000%                         | (3)        | 106                            | 8,764,712                              | 78                                | 5,452,192                                  |
| <b>1997 Series A</b>           |                                |            | <b>198</b>                     | <b>16,992,005</b>                      | <b>80</b>                         | <b>5,722,027</b>                           |
|                                | 4.000%                         |            | 41                             | 3,633,437                              | 27                                | 2,061,830                                  |
|                                | 6.000%                         |            | 1                              | 81,100                                 | 0                                 | 0                                          |
|                                | 6.400%                         |            | 155                            | 13,233,055                             | 52                                | 3,618,270                                  |
|                                | 7.500%                         |            | 1                              | 44,413                                 | 1                                 | 41,926                                     |
| <b>1997 Series B</b>           |                                |            | <b>999</b>                     | <b>81,171,892</b>                      | <b>437</b>                        | <b>29,352,582</b>                          |
|                                | 4.000%                         |            | 210                            | 17,674,896                             | 148                               | 10,564,013                                 |
|                                | 5.500%                         | (5), (5.1) | 48                             | 3,436,397                              | 24                                | 1,472,275                                  |
|                                | 6.400%                         |            | 732                            | 59,127,375                             | 262                               | 17,042,051                                 |
|                                | 6.900%                         |            | 9                              | 933,224                                | 3                                 | 274,243                                    |
| <b>1998 Series A</b>           |                                |            | <b>61</b>                      | <b>4,552,300</b>                       | <b>40</b>                         | <b>2,639,622</b>                           |
|                                | 5.000%                         |            | 49                             | 3,602,864                              | 32                                | 2,105,707                                  |
|                                | 6.100%                         |            | 12                             | 949,436                                | 8                                 | 533,916                                    |
| <b>1998 Series B</b>           |                                |            | <b>899</b>                     | <b>74,306,563</b>                      | <b>397</b>                        | <b>27,418,170</b>                          |
|                                | 5.500%                         | (5), (5.2) | 201                            | 16,692,492                             | 102                               | 7,201,055                                  |
|                                | 6.100%                         |            | 665                            | 54,369,384                             | 286                               | 19,471,400                                 |
|                                | 6.250%                         |            | 9                              | 1,033,541                              | 2                                 | 194,345                                    |
|                                | 6.500%                         |            | 3                              | 297,847                                | 1                                 | 74,015                                     |
|                                | 6.750%                         |            | 21                             | 1,913,299                              | 6                                 | 477,355                                    |
| <b>1998 Series D</b>           |                                |            | <b>708</b>                     | <b>61,727,224</b>                      | <b>340</b>                        | <b>25,649,010</b>                          |
|                                | 4.000%                         | (5), (5.3) | 33                             | 1,909,980                              | 26                                | 1,344,883                                  |
|                                | 5.500%                         | (5), (5.4) | 647                            | 56,978,406                             | 302                               | 23,181,114                                 |
|                                | 5.500%                         |            | 11                             | 982,596                                | 7                                 | 628,266                                    |
|                                | 6.375%                         |            | 17                             | 1,856,242                              | 5                                 | 494,748                                    |
| <b>1999 Series C</b>           |                                |            | <b>25</b>                      | <b>2,584,548</b>                       | <b>16</b>                         | <b>1,611,158</b>                           |
|                                | 5.000%                         |            | 20                             | 1,982,759                              | 14                                | 1,405,343                                  |
|                                | 6.125%                         |            | 1                              | 124,287                                | 0                                 | 0                                          |
|                                | 6.900%                         |            | 4                              | 477,502                                | 2                                 | 205,815                                    |
| <b>1999 Series D</b>           |                                |            | <b>592</b>                     | <b>56,333,589</b>                      | <b>248</b>                        | <b>20,104,205</b>                          |
|                                | 6.000%                         |            | 151                            | 14,090,538                             | 67                                | 5,269,403                                  |
|                                | 6.125%                         |            | 352                            | 33,808,916                             | 143                               | 11,696,859                                 |
|                                | 6.500%                         |            | 89                             | 8,434,135                              | 38                                | 3,137,943                                  |

| Sources of Funds     | Mortgage Loan Interest Rate | Original Number of Loans | Original Principal Amount (2)-\$ | Number of Outstanding Loans | Outstanding Principal Balance (2)-\$ |
|----------------------|-----------------------------|--------------------------|----------------------------------|-----------------------------|--------------------------------------|
| <b>1999 Series E</b> |                             | <b>597</b>               | <b>22,351,652</b>                | <b>349</b>                  | <b>7,682,989</b>                     |
|                      | 4.750% (6), (6.8)           | 85                       | 394,307                          | 78                          | 348,133                              |
|                      | 4.950% (6), (6.7)           | 37                       | 989,443                          | 32                          | 812,533                              |
|                      | 5.750% (6), (6.1)           | 287                      | 3,771,241                        | 182                         | 2,205,678                            |
|                      | 4.950%                      | 3                        | 290,716                          | 2                           | 196,642                              |
|                      | 6.000%                      | 1                        | 161,100                          | 0                           | 0                                    |
|                      | 6.125%                      | 5                        | 565,650                          | 2                           | 185,283                              |
|                      | 6.750%                      | 73                       | 6,559,151                        | 28                          | 2,162,820                            |
|                      | 7.000%                      | 106                      | 9,620,044                        | 25                          | 1,771,901                            |
| <b>1999 Series F</b> |                             | <b>596</b>               | <b>56,193,694</b>                | <b>171</b>                  | <b>13,247,741</b>                    |
|                      | 6.125%                      | 1                        | 80,600                           | 0                           | 0                                    |
|                      | 6.500%                      | 265                      | 24,041,780                       | 95                          | 7,537,158                            |
|                      | 6.750%                      | 69                       | 6,780,630                        | 22                          | 1,697,003                            |
|                      | 6.900%                      | 2                        | 234,547                          | 0                           | 0                                    |
|                      | 7.000%                      | 214                      | 20,439,573                       | 48                          | 3,661,670                            |
|                      | 7.250%                      | 9                        | 924,241                          | 1                           | 57,609                               |
|                      | 7.500%                      | 36                       | 3,692,323                        | 5                           | 294,302                              |
| <b>1999 Series H</b> |                             | <b>614</b>               | <b>58,868,174</b>                | <b>174</b>                  | <b>13,887,462</b>                    |
|                      | 6.000%                      | 158                      | 16,020,135                       | 72                          | 6,329,235                            |
|                      | 6.250%                      | 1                        | 64,450                           | 1                           | 61,046                               |
|                      | 7.000%                      | 254                      | 23,728,090                       | 67                          | 5,024,750                            |
|                      | 7.250%                      | 142                      | 13,335,578                       | 28                          | 2,030,708                            |
|                      | 7.500%                      | 59                       | 5,719,921                        | 6                           | 441,723                              |
| <b>2000 Series A</b> |                             | <b>83</b>                | <b>7,818,452</b>                 | <b>28</b>                   | <b>2,116,182</b>                     |
|                      | 6.900%                      | 75                       | 7,002,330                        | 26                          | 1,972,941                            |
|                      | 7.000%                      | 1                        | 64,648                           | 1                           | 60,206                               |
|                      | 7.500%                      | 7                        | 751,474                          | 1                           | 83,035                               |
| <b>2000 Series B</b> |                             | <b>744</b>               | <b>68,248,330</b>                | <b>322</b>                  | <b>23,269,488</b>                    |
|                      | 5.000% (6), (6.3)           | 71                       | 1,265,057                        | 60                          | 1,005,057                            |
|                      | 5.000%                      | 25                       | 2,528,717                        | 16                          | 1,501,810                            |
|                      | 5.050% (6), (6.6)           | 17                       | 375,455                          | 12                          | 245,908                              |
|                      | 5.750%                      | 98                       | 11,039,408                       | 61                          | 6,155,543                            |
|                      | 5.875%                      | 123                      | 11,767,170                       | 79                          | 7,073,712                            |
|                      | 6.900%                      | 157                      | 15,753,125                       | 40                          | 3,086,288                            |
|                      | 7.250%                      | 253                      | 25,519,399                       | 54                          | 4,201,170                            |
| <b>2000 Series C</b> |                             | <b>63</b>                | <b>5,975,178</b>                 | <b>14</b>                   | <b>979,541</b>                       |
|                      | 7.125%                      | 1                        | 39,979                           | 1                           | 36,430                               |
|                      | 7.250%                      | 62                       | 5,935,199                        | 13                          | 943,111                              |
| <b>2000 Series D</b> |                             | <b>729</b>               | <b>72,613,685</b>                | <b>250</b>                  | <b>20,330,962</b>                    |
|                      | 4.750%                      | 3                        | 291,990                          | 2                           | 221,811                              |
|                      | 5.000% (6), (6.3)           | 71                       | 5,750,253                        | 60                          | 4,568,435                            |
|                      | 5.750%                      | 26                       | 2,821,884                        | 12                          | 1,110,255                            |

| Sources of Funds     | Mortgage Loan Interest Rate | Original Number of Loans | Original Principal Amount (2)-\$ | Number of Outstanding Loans | Outstanding Principal Balance (2)-\$ |
|----------------------|-----------------------------|--------------------------|----------------------------------|-----------------------------|--------------------------------------|
|                      | 5.875%                      | 36                       | 3,765,184                        | 20                          | 1,987,072                            |
|                      | 6.000%                      | 13                       | 1,460,445                        | 6                           | 562,368                              |
|                      | 6.250%                      | 14                       | 1,479,231                        | 5                           | 410,614                              |
|                      | 6.900%                      | 8                        | 874,569                          | 3                           | 268,272                              |
|                      | 7.000%                      | 7                        | 643,123                          | 2                           | 116,477                              |
|                      | 7.125%                      | 335                      | 34,038,611                       | 86                          | 6,855,505                            |
|                      | 7.250%                      | 199                      | 19,866,106                       | 51                          | 3,981,273                            |
|                      | 7.500%                      | 17                       | 1,622,289                        | 3                           | 248,878                              |
| <b>2000 Series F</b> |                             | <b>162</b>               | <b>14,922,531</b>                | <b>50</b>                   | <b>3,935,904</b>                     |
|                      | 6.000%                      | 1                        | 147,300                          | 1                           | 134,149                              |
|                      | 6.750%                      | 143                      | 13,074,753                       | 45                          | 3,520,836                            |
|                      | 7.000%                      | 12                       | 1,167,793                        | 1                           | 33,153                               |
|                      | 7.125%                      | 6                        | 532,685                          | 3                           | 247,766                              |
| <b>2000 Series G</b> |                             | <b>880</b>               | <b>63,725,157</b>                | <b>471</b>                  | <b>26,554,446</b>                    |
|                      | 5.000% (5), (5.5)           | 347                      | 27,059,330                       | 194                         | 14,001,776                           |
|                      | 5.000% (6), (6.4)           | 189                      | 3,755,747                        | 149                         | 2,824,259                            |
|                      | 5.500%                      | 2                        | 129,312                          | 2                           | 124,349                              |
|                      | 5.875%                      | 88                       | 8,037,054                        | 54                          | 4,489,767                            |
|                      | 6.750%                      | 1                        | 87,500                           | 1                           | 81,867                               |
|                      | 6.900%                      | 23                       | 2,681,774                        | 5                           | 456,252                              |
|                      | 7.000%                      | 96                       | 9,293,184                        | 29                          | 2,144,408                            |
|                      | 7.125%                      | 45                       | 4,333,000                        | 16                          | 1,080,729                            |
|                      | 7.250%                      | 42                       | 3,960,526                        | 13                          | 848,997                              |
|                      | 7.500%                      | 47                       | 4,387,730                        | 8                           | 502,043                              |
| <b>2000 Series H</b> |                             | <b>618</b>               | <b>53,429,090</b>                | <b>238</b>                  | <b>14,340,156</b>                    |
|                      | 4.750% (6), (6.8)           | 85                       | 1,636,729                        | 78                          | 1,445,067                            |
|                      | 5.500%                      | 28                       | 2,353,445                        | 21                          | 1,676,529                            |
|                      | 5.875%                      | 29                       | 3,461,107                        | 14                          | 1,589,641                            |
|                      | 6.000%                      | 26                       | 2,446,210                        | 13                          | 1,008,982                            |
|                      | 6.125%                      | 1                        | 148,100                          | 1                           | 117,217                              |
|                      | 6.250%                      | 17                       | 1,979,952                        | 3                           | 340,615                              |
|                      | 6.375%                      | 95                       | 9,077,429                        | 37                          | 2,873,164                            |
|                      | 6.500%                      | 2                        | 181,700                          | 1                           | 82,659                               |
|                      | 6.600%                      | 3                        | 273,077                          | 0                           | 0                                    |
|                      | 6.750%                      | 21                       | 2,103,350                        | 7                           | 613,611                              |
|                      | 7.000%                      | 82                       | 7,663,564                        | 27                          | 2,097,940                            |
|                      | 7.125%                      | 2                        | 182,379                          | 0                           | 0                                    |
|                      | 7.250%                      | 49                       | 5,175,460                        | 10                          | 683,534                              |
|                      | 7.500%                      | 178                      | 16,746,588                       | 26                          | 1,811,195                            |
| <b>2001 Series A</b> |                             | <b>443</b>               | <b>15,488,359</b>                | <b>373</b>                  | <b>12,089,918</b>                    |
|                      | 4.000% (6), (6.2)           | 392                      | 14,406,838                       | 329                         | 11,203,771                           |
|                      | 4.750% (6), (6.5)           | 51                       | 1,081,521                        | 44                          | 886,147                              |
| <b>2001 Series B</b> |                             | <b>464</b>               | <b>38,677,739</b>                | <b>334</b>                  | <b>25,114,400</b>                    |

| Sources of Funds     | Mortgage Loan Interest Rate |            | Original Number of Loans | Original Principal Amount (2)-\$ | Number of Outstanding Loans | Outstanding Principal Balance (2)-\$ |
|----------------------|-----------------------------|------------|--------------------------|----------------------------------|-----------------------------|--------------------------------------|
|                      | 4.750%                      | (6), (6.8) | 85                       | 5,491,320                        | 78                          | 4,848,284                            |
|                      | 5.875%                      | (5), (5.6) | 117                      | 10,873,159                       | 69                          | 5,610,476                            |
|                      | 5.000%                      | (6), (6.4) | 189                      | 15,022,989                       | 149                         | 11,297,034                           |
|                      | 5.875%                      |            | 14                       | 1,448,897                        | 7                           | 650,235                              |
|                      | 6.125%                      |            | 59                       | 5,841,374                        | 31                          | 2,708,371                            |
| <b>2001 Series E</b> |                             |            | <b>141</b>               | <b>13,490,845</b>                | <b>94</b>                   | <b>8,059,279</b>                     |
|                      | 5.500%                      |            | 18                       | 1,544,567                        | 12                          | 864,299                              |
|                      | 5.750%                      |            | 44                       | 4,470,263                        | 27                          | 2,512,429                            |
|                      | 5.875%                      |            | 79                       | 7,476,015                        | 55                          | 4,682,551                            |
| <b>2001 Series F</b> |                             |            | <b>751</b>               | <b>64,962,862</b>                | <b>451</b>                  | <b>34,252,813</b>                    |
|                      | 4.000%                      | (5), (5.8) | 104                      | 5,671,011                        | 85                          | 4,226,793                            |
|                      | 4.950%                      | (6), (6.7) | 37                       | 3,049,101                        | 32                          | 2,503,928                            |
|                      | 5.050%                      | (6), (6.6) | 17                       | 1,256,956                        | 12                          | 823,258                              |
|                      | 5.750%                      | (6), (6.1) | 287                      | 24,782,543                       | 182                         | 14,494,516                           |
|                      | 5.250%                      |            | 2                        | 201,888                          | 1                           | 72,696                               |
|                      | 5.750%                      |            | 2                        | 185,850                          | 0                           | 0                                    |
|                      | 5.875%                      |            | 39                       | 4,184,509                        | 25                          | 2,496,804                            |
|                      | 6.000%                      | (5), (5.7) | 58                       | 5,690,025                        | 23                          | 2,007,653                            |
|                      | 6.000%                      |            | 2                        | 201,633                          | 0                           | 0                                    |
|                      | 6.125%                      |            | 136                      | 13,362,933                       | 69                          | 5,880,090                            |
|                      | 6.250%                      |            | 42                       | 3,830,881                        | 16                          | 1,212,657                            |
|                      | 6.375%                      |            | 2                        | 197,476                          | 1                           | 66,592                               |
|                      | 6.500%                      |            | 1                        | 94,242                           | 1                           | 87,888                               |
|                      | 6.750%                      |            | 4                        | 409,076                          | 2                           | 224,957                              |
|                      | 6.900%                      |            | 2                        | 180,206                          | 0                           | 0                                    |
|                      | 7.000%                      |            | 4                        | 351,960                          | 1                           | 58,254                               |
|                      | 7.125%                      |            | 8                        | 917,816                          | 0                           | 0                                    |
|                      | 7.250%                      |            | 4                        | 394,755                          | 1                           | 96,727                               |
| <b>2001 Series G</b> |                             |            | <b>101</b>               | <b>9,909,563</b>                 | <b>67</b>                   | <b>6,290,907</b>                     |
|                      | 5.000%                      |            | 13                       | 1,430,799                        | 9                           | 917,198                              |
|                      | 5.750%                      |            | 17                       | 1,795,404                        | 11                          | 1,027,823                            |
|                      | 5.875%                      |            | 71                       | 6,683,360                        | 47                          | 4,345,886                            |
| <b>2001 Series H</b> |                             |            | <b>579</b>               | <b>37,198,847</b>                | <b>466</b>                  | <b>27,243,323</b>                    |
|                      | 4.000%                      | (6), (6.2) | 392                      | 20,955,436                       | 329                         | 16,296,422                           |
|                      | 4.750%                      | (6), (6.5) | 51                       | 3,424,816                        | 44                          | 2,806,133                            |
|                      | 5.000%                      |            | 27                       | 2,782,283                        | 21                          | 2,087,913                            |
|                      | 5.250%                      |            | 6                        | 683,303                          | 4                           | 374,783                              |
|                      | 5.500%                      |            | 56                       | 4,330,052                        | 42                          | 3,110,227                            |
|                      | 5.750%                      |            | 41                       | 4,426,872                        | 23                          | 2,320,529                            |
|                      | 5.875%                      |            | 6                        | 596,085                          | 3                           | 247,317                              |
| <b>2002 Series A</b> |                             |            | <b>40</b>                | <b>4,107,148</b>                 | <b>36</b>                   | <b>3,595,264</b>                     |
|                      | 4.950%                      |            | 23                       | 2,443,293                        | 20                          | 2,064,552                            |

| Sources of Funds     | Mortgage Loan Interest Rate | Original Number of Loans | Original Principal Amount (2)-\$ | Number of Outstanding Loans | Outstanding Principal Balance (2)-\$ |
|----------------------|-----------------------------|--------------------------|----------------------------------|-----------------------------|--------------------------------------|
|                      | 5.000%                      | 4                        | 398,607                          | 4                           | 383,058                              |
|                      | 5.050%                      | 7                        | 739,784                          | 7                           | 716,731                              |
|                      | 5.500%                      | 4                        | 315,855                          | 4                           | 306,028                              |
|                      | 5.750%                      | 2                        | 209,609                          | 1                           | 124,895                              |
| <b>2003 Series A</b> |                             | <b>79</b>                | <b>9,224,370</b>                 | <b>69</b>                   | <b>7,873,636</b>                     |
|                      | 4.000%                      | 3                        | 173,550                          | 3                           | 167,812                              |
|                      | 4.950%                      | 74                       | 8,751,820                        | 65                          | 7,540,792                            |
|                      | 5.050%                      | 1                        | 170,600                          | 1                           | 165,031                              |
|                      | 5.750%                      | 1                        | 128,400                          | 0                           | 0                                    |
| <b>2003 Series B</b> |                             | <b>142</b>               | <b>15,582,439</b>                | <b>125</b>                  | <b>13,093,673</b>                    |
|                      | 4.000%                      | 14                       | 767,050                          | 14                          | 740,850                              |
|                      | 4.950%                      | 122                      | 14,177,671                       | 106                         | 11,817,448                           |
|                      | 5.000%                      | 2                        | 156,400                          | 1                           | 68,761                               |
|                      | 5.050%                      | 3                        | 409,918                          | 3                           | 397,533                              |
|                      | 5.500%                      | 1                        | 71,400                           | 1                           | 69,080                               |
| <b>2003 Series C</b> |                             | <b>167</b>               | <b>19,315,068</b>                | <b>149</b>                  | <b>16,384,269</b>                    |
|                      | 4.000%                      | 2                        | 109,600                          | 2                           | 105,830                              |
|                      | 4.950%                      | 161                      | 18,775,840                       | 143                         | 15,864,617                           |
|                      | 5.050%                      | 3                        | 284,628                          | 3                           | 272,837                              |
|                      | 5.250%                      | 1                        | 145,000                          | 1                           | 140,985                              |
| <b>2004 Series A</b> |                             | <b>90</b>                | <b>10,360,109</b>                | <b>86</b>                   | <b>9,566,702</b>                     |
|                      | 4.000%                      | 1                        | 54,800                           | 1                           | 53,085                               |
|                      | 4.950%                      | 89                       | 10,305,309                       | 85                          | 9,513,617                            |
| <b>2004 Series B</b> |                             | <b>183</b>               | <b>19,346,007</b>                | <b>166</b>                  | <b>16,812,136</b>                    |
|                      | 4.000%                      | 13                       | 748,950                          | 13                          | 725,682                              |
|                      | 4.750%                      | 29                       | 2,279,721                        | 27                          | 1,910,894                            |
|                      | 4.950%                      | 140                      | 16,177,065                       | 125                         | 14,039,498                           |
|                      | 5.050%                      | 1                        | 140,271                          | 1                           | 136,063                              |
| <b>2004 Series C</b> |                             | <b>172</b>               | <b>19,335,622</b>                | <b>161</b>                  | <b>17,740,094</b>                    |
|                      | 4.950%                      | 172                      | 19,335,622                       | 161                         | 17,740,094                           |
| <b>2004 Series D</b> |                             | <b>108</b>               | <b>12,549,774</b>                | <b>104</b>                  | <b>11,821,001</b>                    |
|                      | 4.875%                      | 24                       | 2,515,629                        | 23                          | 2,363,277                            |
|                      | 4.950%                      | 83                       | 9,977,645                        | 80                          | 9,402,058                            |
|                      | 5.000%                      | 1                        | 56,500                           | 1                           | 55,666                               |
| <b>2004 Series E</b> |                             | <b>233</b>               | <b>26,846,480</b>                | <b>215</b>                  | <b>24,123,878</b>                    |
|                      | 4.750%                      | 20                       | 1,582,179                        | 18                          | 1,403,963                            |
|                      | 4.875%                      | 21                       | 2,051,624                        | 21                          | 2,015,213                            |
|                      | 4.950%                      | 156                      | 18,716,672                       | 146                         | 17,117,304                           |
|                      | 5.250%                      | 35                       | 4,391,866                        | 29                          | 3,484,826                            |
|                      | 5.500%                      | 1                        | 104,139                          | 1                           | 102,572                              |

| Sources of Funds     | Mortgage Loan Interest Rate | Original Number of Loans | Original Principal Amount (2)-\$ | Number of Outstanding Loans | Outstanding Principal Balance (2)-\$ |
|----------------------|-----------------------------|--------------------------|----------------------------------|-----------------------------|--------------------------------------|
| <b>2004 Series F</b> |                             | <b>158</b>               | <b>19,324,293</b>                | <b>148</b>                  | <b>17,578,485</b>                    |
|                      | 4.875%                      | 12                       | 1,215,300                        | 12                          | 1,192,166                            |
|                      | 4.950%                      | 59                       | 6,876,147                        | 56                          | 6,364,101                            |
|                      | 5.125%                      | 19                       | 2,626,708                        | 17                          | 2,341,780                            |
|                      | 5.250%                      | 19                       | 2,666,673                        | 16                          | 2,106,808                            |
|                      | 5.500%                      | 49                       | 5,939,465                        | 47                          | 5,573,629                            |
| <b>2004 Series G</b> |                             | <b>113</b>               | <b>12,996,789</b>                | <b>110</b>                  | <b>12,464,222</b>                    |
|                      | 5.000%                      | 7                        | 473,413                          | 7                           | 464,884                              |
|                      | 5.500%                      | 106                      | 12,523,376                       | 103                         | 11,999,338                           |
| <b>2004 Series H</b> |                             | <b>219</b>               | <b>26,715,004</b>                | <b>212</b>                  | <b>25,533,828</b>                    |
|                      | 4.875%                      | 62                       | 6,900,204                        | 62                          | 6,806,701                            |
|                      | 4.950%                      | 34                       | 4,406,672                        | 32                          | 4,184,070                            |
|                      | 5.000%                      | 1                        | 77,100                           | 1                           | 76,059                               |
|                      | 5.125%                      | 13                       | 1,586,951                        | 13                          | 1,565,836                            |
|                      | 5.250%                      | 17                       | 2,429,990                        | 16                          | 2,240,146                            |
|                      | 5.500%                      | 70                       | 8,495,723                        | 67                          | 8,050,325                            |
|                      | 5.625%                      | 22                       | 2,818,364                        | 21                          | 2,610,692                            |
| <b>2004 Series I</b> |                             | <b>159</b>               | <b>19,277,983</b>                | <b>151</b>                  | <b>17,792,893</b>                    |
|                      | 5.125%                      | 15                       | 1,760,213                        | 15                          | 1,734,666                            |
|                      | 5.500%                      | 144                      | 17,517,770                       | 136                         | 16,058,227                           |
| <b>2005 Series A</b> |                             | <b>112</b>               | <b>12,283,633</b>                | <b>108</b>                  | <b>11,473,342</b>                    |
|                      | 4.875%                      | 72                       | 7,209,216                        | 72                          | 7,133,710                            |
|                      | 4.950%                      | 2                        | 264,864                          | 2                           | 259,854                              |
|                      | 5.125%                      | 2                        | 315,300                          | 2                           | 310,720                              |
|                      | 5.250%                      | 6                        | 755,648                          | 5                           | 591,097                              |
|                      | 5.500%                      | 1                        | 248,035                          | 0                           | 0                                    |
|                      | 5.625%                      | 29                       | 3,490,570                        | 27                          | 3,177,961                            |
| <b>2005 Series B</b> |                             | <b>240</b>               | <b>27,446,136</b>                | <b>237</b>                  | <b>26,897,866</b>                    |
|                      | 4.875%                      | 45                       | 4,876,412                        | 45                          | 4,845,899                            |
|                      | 5.000%                      | 29                       | 2,154,101                        | 29                          | 2,130,610                            |
|                      | 5.250%                      | 4                        | 465,972                          | 4                           | 462,844                              |
|                      | 5.500%                      | 51                       | 5,948,622                        | 50                          | 5,823,094                            |
|                      | 5.625%                      | 111                      | 14,001,029                       | 109                         | 13,635,420                           |
| <b>2005 Series C</b> |                             | <b>161</b>               | <b>19,343,566</b>                | <b>161</b>                  | <b>19,268,000</b>                    |
|                      | 4.875%                      | 35                       | 4,705,721                        | 35                          | 4,694,718                            |
|                      | 5.000%                      | 31                       | 2,482,096                        | 31                          | 2,469,165                            |
|                      | 5.250%                      | 9                        | 1,318,226                        | 9                           | 1,311,719                            |
|                      | 5.500%                      | 29                       | 3,738,298                        | 29                          | 3,730,030                            |
|                      | 5.625%                      | 57                       | 7,099,225                        | 57                          | 7,062,369                            |
| <b>Warehouse</b>     | (4)                         | <b>79</b>                | <b>10,672,333</b>                | <b>79</b>                   | <b>10,659,326</b>                    |

| Sources of Funds            | Mortgage Loan Interest Rate | Original Number of Loans | Original Principal Amount (2)-\$ | Number of Outstanding Loans | Outstanding Principal Balance (2)-\$ |
|-----------------------------|-----------------------------|--------------------------|----------------------------------|-----------------------------|--------------------------------------|
|                             | 4.875%                      | 26                       | 3,167,996                        | 26                          | 3,164,034                            |
|                             | 5.000%                      | 12                       | 915,593                          | 12                          | 914,907                              |
|                             | 5.250%                      | 3                        | 358,427                          | 3                           | 357,713                              |
|                             | 5.500%                      | 10                       | 1,289,361                        | 10                          | 1,289,092                            |
|                             | 5.625%                      | 7                        | 859,504                          | 7                           | 858,034                              |
|                             | 5.875%                      | 7                        | 1,496,621                        | 7                           | 1,495,445                            |
|                             | 5.950%                      | 14                       | 2,584,831                        | 14                          | 2,580,101                            |
| <b>Total All Series (2)</b> |                             | <u>12,394</u>            | <u>1,195,033,745</u>             | <u>6,841</u>                | <u>620,023,094</u>                   |

**Notes:**

- (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” in Appendix B.
- (2) Individual amounts may not add up to the total amount because of rounding. The total number of loans for all series is adjusted to prevent double counting of participation loans financed from multiple bond series under the Bond Resolution. (For detail on participation loans see Footnote (6)).
- (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 Warehouse Loan Fund is funded from excess revenues and is intended to provide an interim funding source for loans purchased in between the bond issuance dates.

(5) The mortgage rate paid by the borrower is derived from a blend of proceeds from a series of Residential Revenue Bonds and proceeds from the 1999 First Series Bonds issued under the General Certificate and loaned at 0.00%. *(See the below table for detail)*

| Footnote No. | Indenture                | Blended Series    | Interest Rate by Series | Interest Rate to Borrower | No. of All Loans | Original Principal Amount | Number of Loans Outstanding | Outstanding Principal Amount |
|--------------|--------------------------|-------------------|-------------------------|---------------------------|------------------|---------------------------|-----------------------------|------------------------------|
| (5.1)        | Residential Revenue Bond | 1997 Series B     | 6.40%                   | 5.50%                     | 48               | \$3,436,397               | 24                          | \$1,472,275                  |
|              | 1980 General Certificate | 1999 First Series | 0.00%                   |                           |                  | 562,319                   |                             | 240,918                      |
| (5.2)        | Residential Revenue Bond | 1998 Series B     | 6.10%                   | 5.50%                     | 201              | 16,692,492                | 102                         | 7,201,055                    |
|              | 1980 General Certificate | 1999 First Series | 0.00%                   |                           |                  | 1,821,006                 |                             | 785,573                      |
| (5.3)        | Residential Revenue Bond | 1998 Series D     | 5.96%                   | 4.00%                     | 33               | 1,909,980                 | 26                          | 1,344,883                    |
|              | 1980 General Certificate | 1999 First Series | 0.00%                   |                           |                  | 935,890                   |                             | 658,992                      |
| (5.4)        | Residential Revenue Bond | 1998 Series D     | 5.96%                   | 5.50%                     | 647              | 56,978,406                | 302                         | 23,181,114                   |
|              | 1980 General Certificate | 1999 First Series | 0.00%                   |                           |                  | 4,765,453                 |                             | 1,938,778                    |
| (5.5)        | Residential Revenue Bond | 2000 Series G     | 6.75%, 7.5%             | 5.00%                     | 347              | 27,059,330                | 194                         | 14,001,776                   |
|              | 1980 General Certificate | 1999 First Series | 0.00%                   |                           |                  | 11,858,237                |                             | 6,016,310                    |
| (5.6)        | Residential Revenue Bond | 2001 Series B     | 6.625%                  | 5.875%                    | 117              | 10,873,159                | 69                          | 5,610,476                    |
|              | 1980 General Certificate | 1999 First Series | 0.00%                   |                           |                  | 1,388,069                 |                             | 716,234                      |
| (5.7)        | Residential Revenue Bond | 2001 Series F     | 6.625%                  | 6.00%                     | 58               | 5,690,025                 | 23                          | 2,007,653                    |
|              | 1980 General Certificate | 1999 First Series | 0.00%                   |                           |                  | 592,714                   |                             | 209,131                      |
| (5.8)        | Residential Revenue Bond | 2001 Series F     | 6.625%                  | 4.00%                     | 104              | 5,671,011                 | 85                          | 4,226,793                    |
|              | 1980 General Certificate | 1999 First Series | 0.00%                   |                           |                  | 3,721,595                 |                             | 2,773,828                    |

(6) The mortgage rate paid by the borrower is derived from a blend of proceeds from different series of Residential Revenue Bonds. (See the below table for detail) Total number of loans is adjusted to avoid a double count of the number of loans financed with proceeds of different series issued under the Bond Resolution.

| Footnote # | Indenture                | Blended Series | Interest Rate by Series | Interest Rate to Borrower | Original Number of Loans | Original Amount of All Loans | Number of Current Loans | Outstanding Principal Amount |
|------------|--------------------------|----------------|-------------------------|---------------------------|--------------------------|------------------------------|-------------------------|------------------------------|
| (6.1)      | Residential Revenue Bond | 2001 Series F  | 6.625%                  | 5.75%                     | 287                      | \$24,782,543                 | 182                     | \$14,494,516                 |
|            | Residential Revenue Bond | 1999 Series E  | 0.00%                   |                           |                          | 3,771,241                    |                         | 2,205,678                    |
| (6.2)      | Residential Revenue Bond | 2001 Series H  | 6.750%                  | 4.00%                     | 392                      | 20,955,436                   | 329                     | 16,296,422                   |
|            | Residential Revenue Bond | 2001 Series A  | 0.00%                   |                           |                          | 14,406,838                   |                         | 11,203,771                   |
| (6.3)      | Residential Revenue Bond | 2000 Series D  | 6.100%                  | 5.00%                     | 71                       | 5,750,253                    | 60                      | 4,568,435                    |
|            | Residential Revenue Bond | 2000 Series B  | 0.00%                   |                           |                          | 1,265,057                    |                         | 1,005,057                    |
| (6.4)      | Residential Revenue Bond | 2001 Series B  | 6.250%                  | 5.00%                     | 189                      | 15,022,989                   | 149                     | 11,297,034                   |
|            | Residential Revenue Bond | 2000 Series G  | 0.00%                   |                           |                          | 3,755,747                    |                         | 2,824,259                    |
| (6.5)      | Residential Revenue Bond | 2001 Series H  | 6.250%                  | 4.75%                     | 51                       | 3,424,816                    | 44                      | 2,806,133                    |
|            | Residential Revenue Bond | 2001 Series A  | 0.00%                   |                           |                          | 1,081,521                    |                         | 886,147                      |
| (6.6)      | Residential Revenue Bond | 2001 Series F  | 6.560%                  | 5.05%                     | 17                       | 1,256,956                    | 12                      | 823,258                      |
|            | Residential Revenue Bond | 2000 Series B  | 0.00%                   |                           |                          | 375,455                      |                         | 245,908                      |
| (6.7)      | Residential Revenue Bond | 2001 Series F  | 6.560%                  | 4.95%                     | 37                       | 3,049,101                    | 32                      | 2,503,928                    |
|            | Residential Revenue Bond | 1999 Series E  | 0.00%                   |                           |                          | 989,443                      |                         | 812,533                      |
| (6.8)      | Residential Revenue Bond | 2001 Series B  | 6.500%                  | 4.75%                     | 85                       | 5,491,320                    | 78                      | 4,848,284                    |
|            | Residential Revenue Bond | 2000 Series H  | 0.00%                   |                           |                          | 1,636,729                    |                         | 1,445,067                    |
|            | Residential Revenue Bond | 1999 Series E  | 0.00%                   |                           |                          | 394,307                      |                         | 348,133                      |

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX L

### RESIDENTIAL REVENUE BOND PROGRAM PREPAYMENT SPEED OF MORTGAGE LOAN PORTFOLIO BY BOND ISSUANCE

Prepayments on mortgage loans are commonly measured relative to a prepayment standard model. The Bond Market Association standard prepayment model (“BMA”, formerly known as “PSA”, the Public Securities Association) represents an assumed monthly rate of prepayment of the then outstanding principal balance of a pool of new mortgage loans. BMA does not purport to be either an historic description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans. One hundred percent (100%) BMA assumes prepayment rates of 0.2 percent per year of the then-unpaid principal balance of such mortgage loans in the first months of the life of the mortgage loans and an additional 0.2 percent per year in each month thereafter (for example, 0.4 percent per year in the second month) until the 30<sup>th</sup> month. Beginning in the 30<sup>th</sup> month and in each month thereafter during the life of the mortgage loans, 100% BMA assumes a constant prepayment rate of six percent per year. Multiples of BMA are calculated from this prepayment rate series. For example, 200% BMA assumes prepayment rates will be 0.4 percent per year in month one, 0.8 percent per year in month two, reaching 12% per year in month 30 and remaining constant at 12% per year thereafter. The following Average Prepayment Speed tables express the prepayment speed of mortgage loans of the Administration’s Residential Revenue Bonds as a percent of BMA based on actual prepayments and assuming all mortgage loans were originated in the month when the greatest number of mortgage loans was originated.

**The Average Prepayment Speed tables provide periodic BMA prepayments speeds. The Administration makes no representation as to the percentage of the principal balance of the loans that will be prepaid as of any date or as to the overall rate of prepayment of such mortgage loans. The Administration makes no representation as to the speed with which any series of Bonds will be redeemed with prepayments.**

For information on cross-call practices, see “THE 2006 SERIES BONDS – Redemption Provisions – Cross-Call Practices” in the Official Statement. For additional information please refer to the website, [www.dhcd.state.md.us](http://www.dhcd.state.md.us) and click CDA Bonds – Investor Information. In the section labeled NRMSIR Filings, the Administration has provided additional information on its cross-calling practices and the sources for the redemption of bonds in “Other Informational Filings. Furthermore, the recent and historical quarterly NRMSIR filings include a Ten Year Rule table, a schedule of debt outstanding with the effective yields of bonds, and the mortgage loan portfolio detail by bond series and interest rate.

## AVERAGE PREPAYMENT SPEEDS AS PERCENTAGE OF BMA<sup>(1)</sup>

| <u>Bond Series</u>                         | <u>1997 A &amp; B</u> | <u>1998 A &amp; B</u> | <u>1998 D</u> | <u>1999 C &amp; D</u> | <u>1999 E &amp; F</u> | <u>1999 H</u> | <u>2000 A &amp; B</u> | <u>2000 C &amp; D</u> | <u>2000 F &amp; G</u> | <u>2000 H</u> |
|--------------------------------------------|-----------------------|-----------------------|---------------|-----------------------|-----------------------|---------------|-----------------------|-----------------------|-----------------------|---------------|
| <b>Original WAC<sup>(2)</sup></b>          | 5.85%                 | 5.94%                 | 5.48%         | 6.12%                 | 6.72%                 | 6.83%         | 6.59%                 | 6.86%                 | 6.10%                 | 6.78%         |
| <b>6-month period ending<sup>(3)</sup></b> |                       |                       |               |                       |                       |               |                       |                       |                       |               |
| <b>Jun-98</b>                              | 0%                    |                       |               |                       |                       |               |                       |                       |                       |               |
| <b>Dec-98</b>                              | 33%                   |                       |               |                       |                       |               |                       |                       |                       |               |
| <b>Jun-99</b>                              | 38%                   | 18%                   | 0%            |                       |                       |               |                       |                       |                       |               |
| <b>Dec-99</b>                              | 14%                   | 16%                   | 0%            | 0%                    |                       |               |                       |                       |                       |               |
| <b>Jun-00</b>                              | 22%                   | 49%                   | 14%           | 10%                   | 18%                   |               |                       |                       |                       |               |
| <b>Dec-00</b>                              | 42%                   | 19%                   | 17%           | 20%                   | 26%                   | 37%           | 0%                    |                       |                       |               |
| <b>Jun-01</b>                              | 69%                   | 62%                   | 42%           | 82%                   | 35%                   | 32%           | 0%                    | 0%                    | 26%                   | 185%          |
| <b>Dec-01</b>                              | 94%                   | 100%                  | 22%           | 50%                   | 165%                  | 266%          | 150%                  | 260%                  | 89%                   | 338%          |
| <b>Jun-02</b>                              | 135%                  | 93%                   | 70%           | 50%                   | 116%                  | 191%          | 158%                  | 192%                  | 54%                   | 277%          |
| <b>Dec-02</b>                              | 171%                  | 192%                  | 95%           | 126%                  | 441%                  | 535%          | 390%                  | 547%                  | 380%                  | 379%          |
| <b>Jun-03</b>                              | 312%                  | 256%                  | 239%          | 341%                  | 703%                  | 666%          | 509%                  | 663%                  | 443%                  | 675%          |
| <b>Dec-03</b>                              | 516%                  | 436%                  | 368%          | 719%                  | 909%                  | 806%          | 615%                  | 758%                  | 540%                  | 766%          |
| <b>Jun-04</b>                              | 422%                  | 444%                  | 335%          | 425%                  | 658%                  | 593%          | 508%                  | 601%                  | 430%                  | 591%          |
| <b>Dec-04</b>                              | 403%                  | 472%                  | 470%          | 503%                  | 755%                  | 638%          | 572%                  | 681%                  | 455%                  | 669%          |
| <b>Jun-05</b>                              | 514%                  | 446%                  | 543%          | 419%                  | 593%                  | 608%          | 550%                  | 562%                  | 472%                  | 735%          |
| <b>3-month period ending<sup>(4)</sup></b> |                       |                       |               |                       |                       |               |                       |                       |                       |               |
| <b>Sep-05</b>                              | 503%                  | 598%                  | 792%          | 716%                  | 918%                  | 938%          | 708%                  | 688%                  | 587%                  | 553%          |
| <b>WAC at 9/30/2005<sup>(6)</sup></b>      | 5.50%                 | 5.89%                 | 5.44%         | 6.08%                 | 6.51%                 | 6.59%         | 6.19%                 | 6.44%                 | 5.71%                 | 6.31%         |

Note:

- (1) The following table expresses the prepayment speed of mortgage loans of CDA's Residential Revenue Bonds assuming all mortgage loans were originated in the month when the greatest number of mortgage loans were originated. Prepayment speeds are expressed as percentages of the BMA standard prepayment model. The table only includes bond issues in which more than 90% of lendable proceeds have been used to originate mortgage loans.
- (2) Weighted Average Coupon Rate (WAC) as stated is calculated based on the original mortgage loan interest rates at the time of loan purchase.
- (3) Prepayment rates as listed are average prepayment rates over each 6-month period.
- (4) Prepayment rates as listed are average prepayment rates over the indicated 3-month period.
- (5) These bond issues have some unused proceeds. To the extent these funds are used to buy mortgage loans the historic prepayment speeds may change.
- (6) Weighted Average Coupon Rate (WAC) as stated is calculated based on the outstanding principal balance of mortgage loans as of September 30, 2005.

## AVERAGE PREPAYMENT SPEEDS AS PERCENTAGE OF BMA<sup>(1)</sup>

| <u>Bond Series</u>                      | <u>2001 A &amp; B</u> | <u>2001 E &amp; F</u> | <u>2001 G &amp; H (5)</u> | <u>2003 A, B &amp; C</u> | <u>2004 A, B &amp; C</u> | <u>2004 D, E &amp; F</u> | <u>2004 G, H &amp; I</u> | <u>2005 A, B, C (5)</u> |
|-----------------------------------------|-----------------------|-----------------------|---------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-------------------------|
| Original                                | 5.02%                 | 5.74%                 | 4.82%                     | 4.93%                    | 4.93%                    | 5.04%                    | 5.36%                    | 5.34%                   |
| WAC <sup>(2)</sup>                      |                       |                       |                           |                          |                          |                          |                          |                         |
| 6-month period<br>ending <sup>(3)</sup> |                       |                       |                           |                          |                          |                          |                          |                         |
| Jun-98                                  |                       |                       |                           |                          |                          |                          |                          |                         |
| Dec-98                                  |                       |                       |                           |                          |                          |                          |                          |                         |
| Jun-99                                  |                       |                       |                           |                          |                          |                          |                          |                         |
| Dec-99                                  |                       |                       |                           |                          |                          |                          |                          |                         |
| Jun-00                                  |                       |                       |                           |                          |                          |                          |                          |                         |
| Dec-00                                  |                       |                       |                           |                          |                          |                          |                          |                         |
| Jun-01                                  |                       |                       |                           |                          |                          |                          |                          |                         |
| Dec-01                                  | 0%                    |                       |                           |                          |                          |                          |                          |                         |
| Jun-02                                  | 48%                   | 18%                   |                           |                          |                          |                          |                          |                         |
| Dec-02                                  | 18%                   | 35%                   | 0%                        |                          |                          |                          |                          |                         |
| Jun-03                                  | 101%                  | 199%                  | 153%                      |                          |                          |                          |                          |                         |
| Dec-03                                  | 183%                  | 397%                  | 200%                      | 0%                       |                          |                          |                          |                         |
| Jun-04                                  | 235%                  | 346%                  | 381%                      | 0%                       | 0%                       |                          |                          |                         |
| Dec-04                                  | 289%                  | 562%                  | 243%                      | 304%                     | 148%                     | 0%                       |                          |                         |
| Jun-05                                  | 273%                  | 456%                  | 251%                      | 314%                     | 304%                     | 381%                     | 160%                     | 0%                      |
| 3-month period<br>ending <sup>(4)</sup> |                       |                       |                           |                          |                          |                          |                          |                         |
| Sep-05                                  | 384%                  | 644%                  | 470%                      | 504%                     | 306%                     | 443%                     | 452%                     | 198%                    |
| WAC at<br>9/30/2005 <sup>(6)</sup>      | 4.89%                 | 5.62%                 | 4.74%                     | 4.93%                    | 4.92%                    | 5.03%                    | 5.35%                    | 5.32%                   |

Note:

- (1) The following table expresses the prepayment speed of mortgage loans of CDA's Residential Revenue Bonds assuming all mortgage loans were originated in the month when the greatest number of mortgage loans were originated. Prepayment speeds are expressed as percentages of the BMA standard prepayment model. The table only includes bond issues in which more than 90% of lendable proceeds have been used to originate mortgage loans.
- (2) Weighted Average Coupon Rate (WAC) as stated is calculated based on the original mortgage loan interest rates at the time of loan purchase.
- (3) Prepayment rates as listed are average prepayment rates over each 6-month period.
- (4) Prepayment rates as listed are average prepayment rates over the indicated 3-month period.
- (5) These bond issues have some unused proceeds. To the extent these funds are used to buy mortgage loans the historic prepayment speeds may change.
- (6) Weighted Average Coupon Rate (WAC) as stated is calculated based on the outstanding principal balance of mortgage loans as of September 30, 2005.

[THIS PAGE INTENTIONALLY LEFT BLANK]

## **APPENDIX M**

### **PROPOSED FORMS OF OPINIONS OF BOND COUNSEL FOR 2006 SERIES A BONDS, 2006 SERIES B BONDS, 2006 SERIES C BONDS AND 2006 SERIES D BONDS**

[Letterhead of Ballard Spahr Andrews & Ingersoll, LLP, Washington, D.C.]

\_\_\_\_\_, 2006

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

\$12,020,000  
Community Development Administration  
Maryland Department of Housing and Community Development  
Residential Revenue Bonds  
2006 Series A (Non-AMT)

Ladies and Gentlemen:

We have acted as Bond Counsel to the Community Development Administration (the “Administration”), an agency in the Division of Development Finance of the Department of Housing and Community Development (the “Department”), a principal department of the government of the State of Maryland (the “State”), in connection with its issuance and sale of \$12,020,000 aggregate principal amount of its Residential Revenue Bonds 2006 Series A (Non-AMT) (the “2006 Series A Bonds”). With the proceeds of the 2006 Series A Bonds, the Administration will currently refund a portion of the Administration’s Draw Down Mortgage Revenue Bonds (the “Draw Down Bonds”) previously issued under an Indenture of Trust dated as of September 1, 2005, between the Administration and Manufacturers and Traders Trust Company (the “Draw Down Indenture”), as a result of which certain amounts on deposit in the escrow fund established under the Draw Down Indenture will be transferred to the 2006 Series A Program Account of the Program Fund under the Bond Resolution (as defined herein) and certain amounts will be transferred to the Reserve Fund. Funds in the Program Fund will be made available to make or purchase mortgage loans (the “Mortgage Loans”) to finance the acquisition of single-family residences located in the State.

The 2006 Series A Bonds are being issued under and pursuant to (1) Sections 4-101 through 4-255 of the Housing and Community Development Article of the Annotated Code of Maryland, as amended (the “Act”), (2) the Residential Revenue Bond Resolution (the “Bond Resolution”), originally adopted by the Administration as of August 1, 1997 and amended and restated as of July 15, 2005, and accepted by Manufacturers and Traders Trust Company, Baltimore, Maryland, as trustee (the “Trustee”), and (3) the Series Resolution Providing for the Issuance and Sale of \$12,020,000 Principal Amount of Residential Revenue Bonds 2006 Series A (Non-AMT), adopted as of February 1, 2006 (the “Series Resolution”), pursuant to which the 2006 Series A Bonds are authorized to be issued. The Bond Resolution and the Series Resolution are referred to collectively as the Resolutions.

The 2006 Series A Bonds mature, bear interest and are subject to redemption as provided therein and in the Resolutions. The 2006 Series A 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 2006 Series A Bonds will be paid as provided in the Resolutions by the Trustee to the persons in whose names the 2006 Series A 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 2006 Series A Bonds for interest on the 2006 Series A 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 2006 Series A Bonds to be subject to inclusion in gross income retroactively to the date of issuance of the 2006 Series A Bonds. We have examined the 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 Resolutions to comply with all of the applicable requirements of the Code.

In connection with the issuance of the 2006 Series A Bonds, we have examined and considered the Act, the Resolutions, the Code, a specimen of the 2006 Series A 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 2006 Series A Bonds for the purpose of refunding the Draw Down Bonds and as a result of which certain amounts will be made available to finance the Mortgage Loans.

2. The 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 2006 Series A Bonds are entitled to the benefit and security of the Resolutions for the payment thereof in accordance with the terms of the Resolutions.

3. The 2006 Series A 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 Resolutions, subject to any applicable bankruptcy, insolvency, reorganization or similar laws affecting the enforcement of creditors' rights and the reasonable exercise in the future by the State and its governmental bodies of the police power inherent in the sovereignty of the State, the application of equitable principles where equitable remedies are sought and limitation on enforcement of judgments against public bodies. The 2006 Series A Bonds are payable from the revenues and assets of the Administration pledged therefor pursuant to the Resolutions.

4. The form of the specimen 2006 Series A Bonds is consistent with the form of the 2006 Series A Bond provided in the authorizing Series Resolution.

5. The 2006 Series A 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 Resolutions to comply with the Code, interest on the 2006 Series A 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 2006 Series A Bonds is not an item of preference for purposes of calculating the federal individual or corporate alternative minimum taxes, but interest on 2006 Series A Bonds held by a corporation (other than an S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to federal alternative minimum tax because of its inclusion in the adjusted current earnings of a corporate holder. Under certain circumstances interest on a 2006 Series A Bond held by a foreign corporation may be subject to the branch profits tax.

Ownership of tax-exempt obligations, including the 2006 Series A 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, certain S corporations 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 2006 Series A 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 2006 Series A 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 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 2006 Series A 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 2006 Series A Bonds or as to any other matter not set forth herein.

Very truly yours,

[Letterhead of Ballard Spahr Andrews & Ingersoll, LLP, Washington, D.C.]

\_\_\_\_\_, 2006

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

\$47,980,000  
Community Development Administration  
Maryland Department of Housing and Community Development  
Residential Revenue Bonds  
2006 Series B (AMT)

Ladies and Gentlemen:

We have acted as Bond Counsel to the Community Development Administration (the "Administration"), an agency in the Division of Development Finance of the Department of Housing and Community Development (the "Department"), a principal department of the government of the State of Maryland (the "State"), in connection with its issuance and sale of \$47,980,000 aggregate principal amount of its Residential Revenue Bonds 2006 Series B (AMT) (the "2006 Series B Bonds"). With the proceeds of the 2006 Series B Bonds, the Administration will make a deposit into the 2006 Series B Program Account of the Program Fund under the Bond Resolution (as defined herein) and a deposit into the Reserve Fund. Funds in the Program Fund will be made available to make or purchase mortgage loans (the "Mortgage Loans") to finance the acquisition of single-family residences located in the State.

The 2006 Series B Bonds are being issued under and pursuant to (1) Sections 4-101 through 4-255 of the Housing and Community Development Article of the Annotated Code of Maryland, as amended (the "Act"), (2) the Residential Revenue Bond Resolution (the "Bond Resolution"), originally adopted by the Administration as of August 1, 1997 and amended and restated as of July 15, 2005, and accepted by Manufacturers and Traders Trust Company, Baltimore, Maryland, as trustee (the "Trustee"), and (3) the Series Resolution Providing for the Issuance and Sale of \$47,980,000 Principal Amount of Residential Revenue Bonds 2006 Series B (AMT), adopted as of February 1, 2006 (the "Series Resolution"), pursuant to which the 2006 Series B Bonds are authorized to be issued. The Resolution and the Series Resolution are referred to collectively as the Resolutions.

The 2006 Series B Bonds mature, bear interest and are subject to redemption as provided therein and in the Resolutions. The 2006 Series B 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 2006 Series B Bonds will be paid as provided in the Resolutions by the Trustee to the persons in whose names the 2006 Series B 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 2006 Series B Bonds for interest on the 2006 Series B 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 2006 Series B Bonds to be subject to inclusion in gross income retroactively to the date of issuance of the 2006 Series B Bonds. We have examined the 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 2006 Series B Bonds, we have examined and considered the Act, the Resolutions, the Code, a specimen of the 2006 Series B 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 2006 Series B Bonds for the purpose of financing the Mortgage Loans.

2. The 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 2006 Series B Bonds are entitled to the benefit and security of the Resolutions for the payment thereof in accordance with the terms of the Resolutions.

3. The 2006 Series B 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 Resolutions subject to any applicable bankruptcy, insolvency, reorganization or similar laws affecting the enforcement of creditors' rights and the reasonable exercise in the future by the State and its governmental bodies of the police power inherent in the sovereignty of the State, the application of equitable principles where equitable remedies are sought and limitations on enforcement of judgments against public bodies. The 2006 Series B Bonds are payable from the revenues and assets of the Administration pledged therefor pursuant to the Resolutions.

4. The form of the specimen 2006 Series B Bonds is consistent with the form of 2006 Series B Bond provided in the authorizing Series Resolution.

5. The 2006 Series B 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 Resolutions to comply with the Code, interest on the 2006 Series B 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 2006 Series B Bonds is an item of preference for purposes of calculating the federal individual or corporate alternative minimum taxes. Under certain circumstances interest on a 2006 Series B Bond held by a foreign corporation may be subject to the branch profits tax.

Ownership of tax-exempt obligations, including the 2006 Series B 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, certain S corporations 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 2006 Series B 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 2006 Series B 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 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 2006 Series B 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 2006 Series B Bonds or as to any other matter not set forth herein.

Very truly yours,

[Letterhead of Ballard Spahr Andrews & Ingersoll, LLP, Washington, D.C.]

\_\_\_\_\_, 2006

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

\$95,120,000  
Community Development Administration  
Maryland Department of Housing and Community Development  
Residential Revenue Bonds  
2006 Series C (Non-AMT)

Ladies and Gentlemen:

We have acted as Bond Counsel to the Community Development Administration (the "Administration"), an agency in the Division of Development Finance of the Department of Housing and Community Development (the "Department"), a principal department of the government of the State of Maryland (the "State"), in connection with its issuance and sale of \$95,120,000 aggregate principal amount of its Residential Revenue Bonds, 2006 Series C (AMT) (the "2006 Series C Bonds"). With the proceeds of the 2006 Series C Bonds, the Administration will (i) currently refund a portion of the Administration's Draw Down Mortgage Revenue Bonds (the "Draw Down Bonds") previously issued under an Indenture of Trust dated as of September 1, 2005 between the Administration and Manufacturers and Traders Trust Company (the "Draw Down Indenture") and (ii) currently refund or pay at maturity all or a certain portion of certain series of Single Family Program Bonds previously issued by the Administration under the 1980 General Certificate (the "Prior 1980 General Certificate Bonds"), as a result of which certain amounts on deposit in the escrow fund established under the Draw Down Indenture and certain amounts representing prepayments and repayments of mortgage loans financed with the proceeds of the Prior 1980 General Certificate Bonds will be transferred to the 2006 Series C Program Account of the Program Fund under the Bond Resolution (as defined herein). Funds in the Program Fund will be made available to make or purchase mortgage loans (the "Mortgage Loans") to finance the acquisition of single family residences located in the State.

The 2006 Series C Bonds are being issued under and pursuant to (1) Sections 4-101 through 4-255 of the Housing and Community Development Article of the Annotated Code of Maryland, as amended (the "Act"), (2) the Residential Revenue Bond Resolution (the "Bond Resolution"), originally adopted by the Administration as of August 1, 1997 and amended and restated as of July 15, 2005, and accepted by Manufacturers and Traders Trust Company, Baltimore, Maryland, as trustee (the "Trustee"), and (3) the Series Resolution Providing for the Issuance and Sale of \$95,120,000 Principal Amount of Residential Revenue Bonds 2006 Series C, adopted as of February 1, 2006 (the "Series Resolution"), pursuant to which the 2006 Series C Bonds are authorized to be issued. The Bond Resolution and the Series Resolution are referred to collectively as the Resolutions.

The 2006 Series C Bonds mature, bear interest and are subject to redemption as provided therein and in the Resolutions. The 2006 Series C Bonds are issuable initially as fully registered bonds without coupons in the denominations of \$5,000 or any integral multiple thereof. Principal of, premium, if any, and interest on the 2006 Series C Bonds will be paid as provided in the Resolutions by the Trustee to the persons in whose names the 2006 Series C 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 2006 Series C Bonds for interest on the 2006 Series C 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 2006 Series C Bonds to be subject to inclusion in gross income retroactively to the date of issuance of the 2006 Series C Bonds. We have examined the 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 Resolutions to comply with all of the applicable requirements of the Code.

In connection with the issuance of the 2006 Series C Bonds, we have examined and considered the Act, the Resolutions, the Code, a specimen of the 2006 Series C 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 2006 Series C Bonds for the purpose of financing the Mortgage Loans.

2. The 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 2006 Series C Bonds are entitled to the benefit and security of the Resolutions for the payment thereof in accordance with the terms of the Resolutions.

3. The 2006 Series C 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 Resolutions, subject to any applicable bankruptcy, insolvency, reorganization or similar laws affecting the enforcement of creditors' rights and the reasonable exercise in the future by the State and its governmental bodies of the police power inherent in the sovereignty of the State, the application of equitable principals where equitable remedies are sought and limitation on enforcement of judgments against public bodies. The 2006 Series C Bonds are payable from the revenues and assets of the Administration pledged therefor pursuant to the Resolutions.

4. The form of the specimen 2006 Series C Bonds is consistent with the form of the 2006 Series C Bonds provided in the authorizing Series Resolution.

5. The 2006 Series C 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 Resolutions to comply with the Code, interest on the 2006 Series C 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 2006 Series C Bonds is not an item of preference for purposes of calculating the federal individual or corporate alternative minimum taxes, but interest on 2006 Series C Bonds held by a corporation (other than an S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to federal alternative minimum tax because of its inclusion in the adjusted current earnings of a corporate holder. Under certain circumstances interest on a 2006 Series C Bond held by a foreign corporation may be subject to the branch profits tax.

Ownership of tax-exempt obligations, including the 2006 Series C 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, certain S corporations 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 2006 Series C 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 2006 Series C 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 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 2006 Series C 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 2006 Series C Bonds or as to any other matter not set forth herein.

Very truly yours,

[Letterhead of Ballard Spahr Andrews & Ingersoll, LLP, Washington, D.C.]

\_\_\_\_\_, 2006

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

\$24,880,000  
Community Development Administration  
Maryland Department of Housing and Community Development  
Residential Revenue Bonds  
2006 Series D (AMT)

Ladies and Gentlemen:

We have acted as Bond Counsel to the Community Development Administration (the “Administration”), an agency in the Division of Development Finance of the Department of Housing and Community Development (the “Department”), a principal department of the government of the State of Maryland (the “State”), in connection with its issuance and sale of \$24,880,000 aggregate principal amount of its Residential Revenue Bonds 2006 Series D (AMT) (the “2006 Series D Bonds”). With the proceeds of the 2006 Series D Bonds, the Administration will currently refund or pay at maturity all or a portion of certain series of Single Family Program Bonds previously issued by the Administration under the 1980 General Certificate (the “Prior 1980 General Certificate Bonds”), and all or a portion of certain series of bonds (the “Prior Bonds”) previously issued by the Administration, as a result of which certain amounts representing prepayments and repayments of mortgage loans financed with the proceeds of such Prior Bonds and Prior 1980 General Certificate Bonds will be transferred to the 2006 Series D Program Account of the Program Fund under the Bond Resolution (as defined herein). Funds in the Program Fund will be made available to make or purchase mortgage loans (the “Mortgage Loans”) to finance the acquisition of single-family residences located in the State.

The 2006 Series D Bonds are being issued under and pursuant to (1) Sections 4-101 through 4-255 of the Housing and Community Development Article of the Annotated Code of Maryland, as amended (the “Act”), (2) the Residential Revenue Bond Resolution (the “Bond Resolution”), originally adopted by the Administration as of August 1, 1997 and amended and restated as of July 15, 2005, and accepted by Manufacturers and Traders Trust Company, Baltimore, Maryland, as trustee (the “Trustee”), and (3) the Series Resolution Providing for the Issuance and Sale of \$24,880,000 Principal Amount of Residential Revenue Bonds 2006 Series D (AMT), adopted as of February 1, 2006 (the “Series Resolution”), pursuant to which the 2006 Series D Bonds are authorized to be issued. The Resolution and the Series Resolution are referred to collectively as the Resolutions.

The 2006 Series D Bonds mature, bear interest and are subject to redemption as provided therein and in the Resolutions. The 2006 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 2006 Series D Bonds will be paid as provided in the Resolutions by the Trustee to the persons in whose names the 2006 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 2006 Series D Bonds for interest on the 2006 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 2006 Series D Bonds to be subject to inclusion in gross income retroactively to the date of issuance of the 2006 Series D Bonds. We have examined the 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 2006 Series D Bonds, we have examined and considered the Act, the Resolutions, the Code, a specimen of the 2006 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 2006 Series D Bonds for the purpose of financing the Mortgage Loans.

2. The 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 2006 Series D Bonds are entitled to the benefit and security of the Resolutions for the payment thereof in accordance with the terms of the Resolutions.

3. The 2006 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 Resolutions subject to any applicable bankruptcy, insolvency, reorganization or similar laws affecting the enforcement of creditors' rights and the reasonable exercise in the future by the State and its governmental bodies of the police power inherent in the sovereignty of the State, the application of equitable principles where equitable remedies are sought and limitations on enforcement of judgments against public bodies. The 2006 Series D Bonds are payable from the revenues and assets of the Administration pledged therefor pursuant to the Resolutions.

4. The form of the specimen 2006 Series D Bonds is consistent with the form of 2006 Series D Bond provided in the authorizing Series Resolution.

5. The 2006 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 Resolutions to comply with the Code, interest on the 2006 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 2006 Series D Bonds is an item of preference for purposes of calculating the federal individual or corporate alternative minimum taxes. Under certain circumstances interest on a 2006 Series D Bond held by a foreign corporation may be subject to the branch profits tax.

Ownership of tax-exempt obligations, including the 2006 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, certain S corporations 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 2006 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 2006 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 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 2006 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 2006 Series D Bonds or as to any other matter not set forth herein.

Very truly yours,



