

**New Issue**

*In the opinion of Bond Counsel, interest on the 2009 Series A Bonds is includable in the gross income of the recipient thereof for federal income tax purposes. See "TAX MATTERS" herein. The Vermont Housing Finance Agency Act provides that the 2009 Series A Bonds and the interest thereon are exempt from all Vermont taxation, franchise fees or special assessments except for transfer, inheritance and estate taxes.*

**\$23,000,000**  
**VERMONT HOUSING FINANCE AGENCY**  
**HFA Initiative Multifamily Bonds**  
**2009 Series A (Taxable)**

Dated: December 21, 2009

Due: August 1, 2051  
Interest Rate: As described herein

The 2009 Series A Bonds (the "Series Bonds") are issuable only as fully registered bonds and, when issued, are expected to be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (the "Securities Depository"). Purchases and sales by the beneficial owners of the Series Bonds can be made in book-entry form only. Beneficial owners will not receive certificates evidencing their ownership interests in the Series Bonds. See "APPENDIX IV—BOOK ENTRY SYSTEM" herein.

Interest on the Series Bonds will be payable until Conversion (as herein defined) as set forth herein, accruing on and after December 23, 2009 and after Conversion semi-annually thereafter on February 1 and August 1 of each year, commencing on the February 1 or August 1 occurring after the Conversion. Interest on the Series Bonds is payable by The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), to the Securities Depository. The Securities Depository is to credit such payment to its Participants (as hereinafter described), who are to remit interest payments to the beneficial owners of the Series Bonds. Principal and premium, if any, will be payable by the Trustee in the same manner.

The Series Bonds are subject to redemption prior to maturity, including optional and special redemption, at the prices set forth herein under certain circumstances, as more fully described herein.

The interest rate on all or a portion of the Series Bonds is subject to Conversion at the times and in the manner described herein. See "THE SERIES BONDS" herein.

The Series Bonds are being issued by the Agency to ultimately provide money to fund Mortgage Loans in order to acquire, construct or rehabilitate multifamily residential housing located in the State, all as described herein.

This Official Statement is not intended to describe the terms of any Series Bonds after a Release Date (described herein) pertaining to such Series Bonds and is intended only to provide disclosure with respect to the Series Bonds until the respective Release Date. Disclosure with respect to the Series Bonds subsequent to a Release Date will be provided in offering materials distributed in conjunction with one or more Release Dates for the proceeds of such Series Bonds.

The Series Bonds and all other Bonds subsequently issued under the Indenture are limited obligations of the Agency and are payable solely from the Agency's revenues, assets or moneys pledged therefor under the Indenture, provided that any particular Series of Bonds may be secured solely and only by the Mortgage Loans financed thereby and moneys in related funds and accounts pledged therefor. The Agency has no taxing power. Neither the faith and credit nor the taxing power of the State of Vermont or of any political subdivision thereof is pledged for the payment of the Series Bonds.

The Series Bonds are offered for delivery when, as and if issued and subject to the approval of legality by Kutak Rock LLP, Bond Counsel. Certain legal matters will be passed upon for the Agency by George N. Demas, Esq., General Counsel of the Agency. It is expected that the Series Bonds will be delivered in book-entry form through the facilities of the Securities Depository in New York, New York on or about December 21, 2009.

December 9, 2009

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the Agency. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Series Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by the Agency and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and, except for information provided by the Agency, is not to be construed as a representation of the Agency. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency since the date hereof.

THE SERIES BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE AGENCY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

#### TABLE OF CONTENTS

INTRODUCTORY STATEMENT .....	1
THE AGENCY.....	3
ESTIMATED SOURCES AND USES OF FUNDS .....	7
THE SERIES BONDS.....	7
SECURITY FOR THE BONDS.....	12
SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.....	15
TRUSTEE .....	25
PLEDGE AND AGREEMENT OF THE STATE .....	25
NO LITIGATION.....	26
INDEPENDENT AUDITORS.....	26
RATINGS .....	26
CONTINUING DISCLOSURE.....	26
APPROVAL OF LEGALITY.....	26
TAX MATTERS .....	27
MISCELLANEOUS .....	28
APPENDIX I	AUDITED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2009
APPENDIX II	DEFINITIONS OF CERTAIN TERMS
APPENDIX III	SERIES BONDS MULTIFAMILY MORTGAGE LOAN PROGRAM
APPENDIX IV	BOOK ENTRY SYSTEM
APPENDIX V	FORM OF CONTINUING DISCLOSURE AGREEMENT
APPENDIX VI	PROPOSED FORM OF OPINION OF BOND COUNSEL

**\$23,000,000**  
**VERMONT HOUSING FINANCE AGENCY**  
**HFA Initiative Multifamily Bonds**  
**2009 Series A**

This Official Statement of the Vermont Housing Finance Agency (the "Agency") is provided for the purpose of setting forth information concerning the Agency's HFA Initiative Multifamily Bonds, 2009 Series A to be issued in the principal amount of \$23,000,000 (the "Series Bonds"), the Trust Indenture, by and between the Agency and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), dated as of December 1, 2009 (the "Trust Indenture"), its resolutions authorizing the issuance and sale of bonds to finance multifamily mortgage loans, and the Supplemental Indenture dated as of December 1, 2009 (the "Supplemental Indenture"). The Trust Indenture and the Supplemental Indenture are sometimes collectively referred to herein as the "Indenture." Certain terms not defined elsewhere in this Official Statement are defined in APPENDIX II hereto.

**This Official Statement is not intended to describe the terms of any Series Bonds after a Release Date (described herein) pertaining to such Series Bonds and is intended only to provide disclosure with respect to the Series Bonds until the respective Release Date. Disclosure with respect to the Series Bonds subsequent to a Release Date will be provided in offering materials distributed in conjunction with one or more Release Dates for the proceeds of such Series Bonds.**

*This Official Statement contains "forward-looking statements" within the meaning of the federal securities laws. These forward-looking statements include, among others, statements concerning expectations, beliefs, opinions, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements.*

### INTRODUCTORY STATEMENT

The Series Bonds will be secured under the provisions of the Trust Indenture and will be issued in accordance with the provisions of the Trust Indenture, the Supplemental Indenture and the Vermont Housing Finance Agency Act, being No. 260 of the Vermont Acts of 1973, Adjourned Session, as amended (the "Act"). The Series Bonds are the first obligations issued by the Agency under the Trust Indenture. Additional Series of bonds or notes may be issued by the Agency on parity with the Series Bonds and other Series of bonds outstanding under the Trust Indenture, provided that each additional Series is authorized by a supplemental indenture adopted in accordance with and under the provisions of the Trust Indenture and the Act. The Series Bonds and additional bonds or notes issuable under the Trust Indenture are hereinafter sometimes collectively called the "Bonds."

The Act provides that the Agency constitutes a public instrumentality of the State of Vermont (the "State") exercising public and essential governmental functions, and the exercise by the Agency of the powers conferred by the Act is deemed to be an essential governmental function of the State. The Act authorizes the Agency to issue bonds in such principal amounts as the Agency may determine. There is no limit on the total principal amount of bonds of the Agency, including the Series Bonds, which may be outstanding at any one time. As of September 30, 2009, the Agency had \$741,370,021 principal amount of debt outstanding, all of which is subject to the debt limitation. For information regarding the Agency's outstanding indebtedness, see "THE AGENCY—Outstanding Indebtedness."

Pursuant to the provisions of the Act and the Indenture, the Agency has authorized the issuance of the Series Bonds to make funds available to (a) fund certain Multifamily Mortgage Loans (as hereinafter defined, but excluded therefrom is the portion of any such loan financed by notes of the Agency) for the acquisition, construction or rehabilitation of multifamily residential properties (see APPENDIX III herein for further information on the Multifamily Mortgage Loans), (b) deposit in the Reserve Fund amounts necessary to cause the amount on deposit in said Fund to at least equal the Reserve Fund Requirement and (c) deposit in the 2009 Series A Cost of Issuance Account amounts necessary to pay certain costs of issuance of the Series Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The proceeds of the Series Bonds, together with certain funds of the Agency, will be deposited in the 2009 Series A Escrow Account (the "2009 Series A Escrow Account") established in the Program Fund (as defined herein). The proceeds shall be held in the 2009 Series A Escrow Account until such date or dates in calendar year 2010 when the Agency elects to establish a Release Date (as defined herein). At such time, all or a portion of the proceeds of the Series Bonds will be transferred from the 2009 Series A Escrow Account to the 2009 Series A Multifamily Program Account and used to make or acquire Multifamily Mortgage Loans.

The Agency is authorized under the Act to issue bonds to provide funds for the making of multifamily mortgage loans (the "Multifamily Mortgage Loans") to housing sponsors (the "Developers") eligible under the Act for the financing of housing developments (the "Developments") containing five or more dwelling units intended for occupancy on a rental or cooperative basis by persons and families of low and moderate income (the "Program"). The Act requires that such housing sponsors be organized on a nonprofit or limited-profit basis. It is anticipated that substantially all of the Multifamily Mortgage Loans for Developments to be financed under the Indenture provide no recourse to the Developers.

All Bonds issued under the Indenture, including the Series Bonds, are secured, to the extent and as provided in such Indenture, by the Trust Estate. The Trust Estate includes all moneys and securities, including Bond proceeds (other than proceeds deposited in escrow and pledged solely to such Bonds or deposited in trust for the retirement of any outstanding Bonds or other indebtedness of the Agency), and other assets from time to time held by the Trustee under and subject to the terms of the Indenture or any supplemental indenture (other than amounts held in the Rebate Fund, if any, or pledged only to specified Series of Bonds) and any and all other real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security hereunder by the Agency, or by anyone in its behalf or with its written consent, to the Trustee.

The Bonds are limited obligations of the Agency and are payable solely from the Agency's revenues, assets or moneys pledged therefor under the Indenture. The Bonds will not constitute a debt of the State or any political subdivision thereof, and neither the State nor any of its political subdivisions are liable thereon. The Bonds will not constitute a debt or liability or obligation or a pledge of the faith and credit of the State but will be payable solely from the revenues or assets of the Agency pledged therefor. The State is not liable on the Bonds and the Bonds are not a debt of the State and neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal of or the interest on the Bonds.

## THE AGENCY

### Purpose and Powers

The Agency was created as a body politic and corporate of the State. Under the Act, the purpose of the Agency is to promote the expansion of the supply of funds available for mortgages on residential housing and to encourage an adequate supply of safe and decent housing at reasonable costs.

Under the Act the Agency has the power, among other things, to make loans to housing sponsors and mortgage lenders and to purchase mortgage loans from mortgage lenders to finance the making of new residential mortgage loans and rehabilitation mortgage loans for the benefit of persons and families of low and moderate income, to include in any borrowing amounts to pay Agency expenses necessary or incident to such borrowing, to issue bonds and notes, and to do any and all things necessary or convenient to carry out its purposes and exercise the powers granted in the Act.

### Management

The powers of the Agency are vested in nine commissioners, consisting of the State Commissioner of Banking, Insurance, Securities and Health Care Administration, the State Treasurer, the Secretary of Commerce and Community Development, the Executive Director of the Vermont Housing and Conservation Board, or their designees, and five members appointed by the Governor with the advice and consent of the State Senate. The appointed commissioners serve for terms of four years or until a successor is appointed and qualified. Members whose terms have expired continue to serve until reappointed or a successor has been appointed and qualified.

The present commissioners are:

Thomas N. Pelletier – Chair, Term expires January 31, 2011. Mr. Pelletier has been President and Chief Executive Officer of Northfield Savings Bank in Northfield since 1998. He serves as a Director of the Vermont Chamber of Commerce, Public Television of Vermont, Norwich University Applied Research Institutes, Ltd. and the Central Vermont Economic Development Corp.; a Trustee of Carrabassett Valley Academy in Carrabassett Valley, Maine; and a member of the Community Bankers Council of the American Bankers Association. Mr. Pelletier has also served in leadership positions on a number of Boards, including President of Green Mountain United Way and Chair of New England Insurance Trust and Vermont Bankers Association. He earned his B.A. in political science with a concentration in economics from University of Maine in Orono.

Gustave "Gus" Seelig – Vice Chair, Executive Director of the Vermont Housing and Conservation Board, ex-officio member. Mr. Seelig has served as the Executive Director of the Vermont Housing and Conservation Board since its inception in 1987. The Board administers a variety of state and federal programs which have resulted in an investment by the State of over \$156 million, which has developed or rehabilitated nearly 7,000 units of affordable housing and conserved approximately 344,000 acres of land, including 318 farms. Prior to his work for the Board, Mr. Seelig served as the Executive Director of the Central Vermont Community Action Council, a low income advocacy and community development organization. Mr. Seelig serves on the Affordable Housing Program Advisory Board for the Federal Home Loan Bank of Boston. He is also a member of the Board of the Vermont Energy Investment Corporation. Mr. Seelig received a B.A. from Goddard College in 1976 and completed the Harvard University's Program for Senior Executives in State and Local Government in 1996.

Lisa Mitiguy Randall – Term expires January 31, 2012. Ms. Randall is Vice President of Lending at Vermont Federal Credit Union. She was formerly the Development Director of Mater Christi

School, Senior Vice President, Retail Services, New England Federal Credit Union, a Vice President of BancBoston Mortgage Corporation and the Bank of Vermont and held a variety of positions at The Howard Bank, N.A., all in Burlington, Vermont. She has served on a number of boards of charitable organizations. She is a graduate of the University of Vermont.

Robert H. Alberts – Term expires January 31, 2010. Mr. Alberts is President of Eastview at Middlebury, Inc., a planned multi-level, non-profit retirement community, including independent residential care and memory loss options. Mr. Alberts is also the owner of Middlebury Fitness, a full-service fitness and wellness center for all ages and a Partner in Community Investment Counselors, an investment firm specializing in fee-based asset allocation investment programs. In addition, Mr. Alberts currently serves as Vice President of the Board of Directors of the United Way of Addison County and Middlebury Business Association. He is the former head basketball coach at Middlebury Union High School. Mr. Alberts is a graduate of Ohio Wesleyan University.

Dagyne T. Canney – Term expires January 31, 2010. Ms. Canney is owner and principal broker of Prudential Green Mountain Realty in Rutland, where she has sold real estate for 30 years. She serves as a Director of both the Rutland County Board of Realtors and the Vermont Association of Realtors. In addition, Ms. Canney serves on the Governor's Economic Advisory Board and is a member of the Judicial Nominating Committee. She was formerly a member and Vice Chair of the Vermont Real Estate Commission and a director to the Rutland Region Chamber of Commerce. Ms. Canney is a graduate of the University of Vermont.

Bartlett H. "Bart" Frisbie – Term expires January 31, 2013. Mr. Frisbie is the owner of Sterling Construction, Inc., a construction firm developing neighborhoods and building residential housing throughout Chittenden County, Vermont. He has served on the Board of Directors of the Homebuilders and Remodelers Association of Northern Vermont for the past 26 years, including terms as Secretary, Vice President and President. In addition, Mr. Frisbie is a member of Master Builders, a select trade group of similar builders from across the country. He has formerly served on the Colchester Community Development Corporation. He is a graduate of the University of Vermont.

Paulette Thabault – Commissioner of Banking, Insurance, Securities and Health Care Administration, ex officio member. Ms. Thabault, a Vermont native, was appointed Commissioner of the Vermont Department of Banking, Insurance, Securities & Health Care Administration (BISHCA) in January of 2007. As Commissioner, Ms. Thabault is charged with regulating a broad spectrum of financial services industries in the banking, lending, insurance and securities arena, including a growing number of legislatively mandated programs relating to hospital budget oversight, health care quality improvement, and affordability of health care. She previously served as Deputy Commissioner of Health Care Administration in BISHCA, as Vice President of Clinical and Legal Services for The Vermont Health Plan with Blue Cross Blue Shield of Vermont, and Director of Contracting for Massachusetts General Hospital and the MGH General Physicians Organization (MGH) in Boston, Massachusetts. Ms. Thabault has served on several community boards and organizations, including the Community Health Center of Burlington, the Development Committee for the Alzheimers Association – NH/VT Chapter and, currently, the Lund Family Center. She received an associate's degree in nursing from the University of Vermont and a BS in nursing from the University of Washington. She holds a master's of science in nursing from Simmons College and a J.D. from New England School of Law. She is admitted to the Vermont and Massachusetts Bar and is also a small business owner.

George B. "Jeb" Spaulding – State Treasurer, ex officio member. Mr. Spaulding was reelected to a fourth term as Vermont State Treasurer in 2008. As State Treasurer, he has emphasized continuous improvement in treasury fundamentals and initiated a new focus on leveraging State assets to encourage responsible corporate citizenship and support for community and economic development within Vermont.

Prior to becoming Treasurer, Mr. Spaulding served eight terms in the Vermont State Senate from 1985-2000. During that period, he chaired several committees, including the Senate Appropriations Committee, the Joint Fiscal Committee, the Senate Education Committee, and the Joint Committee on Administrative Rules. Mr. Spaulding was the founder and General Manager of WNCS-FM in Montpelier and a partner in Precision Media, Inc. His involvement at the community level includes serving as a board member for the Red Cross, the United Way, Central Vermont Adult Basic Education, and the Washington County 4-H Foundation. He earned a B.A. from Antioch College and a M.Ed. from the University of Vermont.

Kevin L. Dorn – Secretary of the Agency of Commerce and Community Development, ex-officio member. Prior to becoming Secretary in January of 2003, Mr. Dorn was the Executive Director of the Home Builders and Remodelers Association of Northern Vermont for ten years. Prior to this position, he was the Manager of Congressional Affairs for Fairchild Industries and Director of Government Affairs for the General Aviation Manufacturers Association. After college graduation, Mr. Dorn served as a staff assistant to Senator David Durenberger (MN) and as Legislative Assistant and Legislative Director to Congressman Frank Horton (NY). Mr. Dorn holds a degree from Minnesota State University, Mankato.

The following are the principal staff members of the Agency:

Sarah E. Carpenter was appointed as Executive Director of the Agency in October, 1998. Before joining the Agency, Ms. Carpenter was the Executive Director of Cathedral Square Corporation in Burlington, Vermont for 15 years. Cathedral Square is a nationally recognized leader in combining affordable housing and community services. She currently serves on the board of the National Council of State Housing Agencies, the Advisory Board to the Federal Home Loan Bank of Boston, the Boards of Vermont Community Development Program and the Vermont Housing and Conservation Board, and on the Board of Fletcher Allen Healthcare, Vermont's academic health care system. Ms. Carpenter previously has served on a variety of boards, including the national Board of the American Association of Homes and Services for the Aging, AAHSA Assurances Limited, a captive liability insurance company, Housing Vermont, a non-profit statewide developer and tax credit syndicator, and the Community Development Advisory Board of the Federal Reserve Bank of Boston and a number of local charities. Ms. Carpenter is a cum laude graduate of the University of Vermont and holds an M.P.A. degree from Harvard University.

Thomas R. Connors is the Agency's Chief Financial Officer and Treasurer. Prior to joining the Agency in August, 2006, Mr. Connors was Vice President of Finance and Operations at Trak Sports USA, Inc., a \$20 million ski and snowboard manufacturer. From 1993 to 2004, he was Director of Revenue Accounting for IDX Systems Corporation (now GE Healthcare), a \$500 million software company based in Burlington, VT. From 1990 to 1993, Mr. Connors was Vice President of Finance for the software division of Information Resources, Inc. in Waltham, Massachusetts. Since 2001, he has served on the Board at Recycle North, a non-profit company based in Burlington, Vermont, and currently serves as Treasurer of its Board. Mr. Connors received a B.A. in Business Administration from St. Michael's College and an M.B.A. from Bentley College. He also earned a Certificate in Financial Accounting from Champlain College.

David Adams is the Agency's Chief of Program Operations. Prior to joining the Agency in August, 1999, Mr. Adams was a Senior Vice President/Secondary Marketing Manager for Vermont National Bank. Mr. Adams worked for Vermont Federal Bank from 1970-1997 in a variety of positions, including serving as Senior Vice President/Residential Mortgage Lending Division Manager from 1990-1997. Vermont Federal Bank merged with Vermont National Bank in 1997. Mr. Adams received his B.S. in Business Administration from St. Michael's College, Colchester, Vermont.

Samuel J. Falzone is Director of Multifamily Programs for the Agency. Mr. Falzone has been with the Agency since 1979, supervising the management of multifamily properties. He is a Certified Housing Manager. Prior to joining the Agency, Mr. Falzone worked as a District Property Manager in New England for the National Corporation for Housing Partnerships. He attended the University of Massachusetts.

Joseph A. Erdelyi is Director of Development for the Agency. Prior to joining the Agency in 1993, he was a Housing Planner and Development Officer for the New Hampshire Housing Finance Authority. Mr. Erdelyi is a graduate of the University of Vermont and is certified as a Housing Development Finance Professional by the National Development Council.

George N. Demas, Esq. is General Counsel to the Agency. Prior to joining the Agency in 2009, Mr. Demas was Assistant General Counsel for the Vermont Department of Banking, Insurance, Securities and Health Care Administration and also served as an officer for Bombardier Capital Inc. Mr. Demas holds a J.D. from the University of Georgia Law School.

Jacklyn R. Santerre is Assistant Director of Homeownership Programs for the Agency. Before joining the Agency in October 1984 she was a loan processor and office manager for the Lomas and Nettleton Company in Burlington, Vermont for four years.

As of June 1, 2009 the Agency had 35.37 FTE employees who are responsible for the operation and management of the Agency. Of these employees, 8.07 are charged with responsibility for the single family program and 9.40 are charged with responsibility for the multifamily program. Included on the staff of the Agency are professionals with experience in mortgage underwriting and portfolio and investment management.

#### **Operations to Date**

Pursuant to the Act and agreements with bondowners, a substantial portion of the Agency's assets are pledged to secure specific obligations or are otherwise restricted. The Agency maintains separate restricted funds for each of its programs financed by the issuance of bonds under particular general bond resolutions. Assets and revenues of such funds and programs are restricted by various resolutions and agreements and are not available in any manner other than as provided in the various general bond resolutions or indentures adopted by the Agency for its programs. Money in excess of restricted fund requirements is transferred periodically from these restricted funds to the General Fund. All of the Agency's outstanding bonds (other than the Agency's single family housing bonds, the student housing facilities revenue bonds, and the Series Bonds) are general obligations of the Agency secured by and payable from any of the Agency's revenues, money or assets, including the General Fund, subject to agreements heretofore or hereafter made with holders of notes and bonds that pledge particular revenues, money or assets for the payment thereof. The Agency has not pledged any money in the General Fund to the payment of any particular bonds of the Agency. The Bonds are not general obligations of the Agency, and no revenues, money or assets of the Agency are pledged to the payment of the Bonds except as specifically set forth in the Indenture or the related supplemental indentures.

#### **Outstanding Indebtedness**

Since September 1974, the Agency has issued \$2,806,290,043 aggregate principal amount of bonds and notes, of which \$741,370,021 was outstanding as of September 30, 2009, to finance its various programs. The proceeds of the bonds have been or will be used to make mortgage loans to sponsors of multifamily residential housing units for persons and families of low and moderate income in the State, to purchase mortgage loans on single family residential housing units for Persons and Families of Low and

Moderate Income in the State, to make loans to mortgage lenders to finance such single family housing and to make loans to finance certain other multifamily housing developments. The bonds are secured pursuant to the terms of the resolutions or trust indentures under which they were issued.

For additional information with respect to outstanding indebtedness of the Agency, see APPENDIX I.

### ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds from the sale of the Series Bonds, exclusive of accrued interest, are as follows:

Sources of Funds:	
Net Series Bonds Sales Proceeds	\$22,924,500
Contribution from the Agency	<u>120,716</u>
Total Sources	\$23,045,216
Uses of Funds:	
Deposit to 2009 Series A Escrow Account	\$23,000,000
Deposit to Reserve Fund	-0-
Deposit to Revenue Fund	-0-
Deposit to 2009 Series A Cost of Issuance Account	<u>45,216</u>
Total Uses	\$23,045,216

### THE SERIES BONDS

#### General

The proceeds of the Series Bonds will initially be deposited in the 2009 Series A Escrow Account. Amounts deposited in the 2009 Series A Escrow Account shall be retained therein until the requirements of the Supplemental Indenture with respect to the establishment of a Release Date (as described below) are satisfied or until applied to the redemption of the Series Bonds. Amounts on deposit in the 2009 Series A Escrow Account shall be pledged exclusively to the repayment of the Series Bonds unless and until there is a default under the Trust Indenture, in which case such funds will be applied as required by the Trust Indenture. While such proceeds are held in the 2009 Series A Escrow Account, such proceeds may only be invested in Permitted Escrow Investments (as defined below).

Upon the satisfaction of the requirements of the Supplemental Indenture with respect to the establishment of a Release Date (as described below) and to the extent provided therein, amounts designated by the Agency and on deposit in the 2009 Series A Escrow Account shall be transferred to such fund or account as directed by the Agency.

The Series Bonds shall mature, subject to redemption, on August 1, 2051 (the "Stated Maturity").

Payment of the principal of and the interest on the Series Bonds at Stated Maturity shall be made upon the presentation and surrender of the Series Bonds. All payments of interest, on, and of principal of, the Series Bonds shall be paid through the securities depository (together with any successor securities depository, the "Securities Depository") in accordance with its normal procedures, which as of the date hereof provide for payment by the Securities Depository to its Direct Participants (as defined in "Appendix IV—Book Entry System"). The Series Bonds are issuable as fully registered bonds in denominations of \$5,000 and integral multiples thereof and, for purposes of initial issuance and redemption of Series Bonds, \$10,000 or any integral multiple thereof.

## **Interest—General**

Until Converted to a Permanent Rate on a Conversion Date, each Series Bond which is not a Construction Program Bond shall bear interest at the Short-Term Rate from the date of delivery thereof (the "Date of Original Issuance") to the related Conversion Date. The interest rate on some or all of the Series Bonds which are not Construction Program Bonds may be Converted on a Conversion Date to a Permanent Rate in accordance with the provisions of the Supplemental Indenture.

Until Converted on a Conversion Date, each Series Bond which is a Construction Program Bond shall bear interest at the Short-Term Rate from December 23, 2009 to the Release Date. From and after the Release Date to the Construction Program Bond Conversion Date, the Construction Program Bonds shall bear interest at the Construction Program Bond Variable Rate. On and after the Construction Program Bond Conversion Date, the interest rate on the Construction Program Bonds shall be the Permanent Rate.

Interest shall be payable on each Interest Payment Date as described below.

Series Bonds bearing interest at the Construction Program Bond Variable Rate shall bear interest on the basis of actual days elapsed for a year of 365 or 366 days, as applicable. Series Bonds bearing interest at the Permanent Rate shall bear interest based on a 360-day year consisting of 12 30-day months.

## **Interest Rate Conversion**

A Conversion may involve all or only a portion of the Series Bonds, provided that such Series Bonds may only be Converted in integral multiples of \$10,000. Any particular Series Bond may be Converted to a Permanent Rate only once. The Agency may exercise its right of Conversion on no more than three (3) occasions and must cause each related Release Date to occur on or prior to December 31, 2010. If Series Bonds are Converted to Permanent Rates in part on different dates, each portion of such Series Bond may bear interest at different Permanent Rates based on their respective Conversion Dates.

The following definitions apply to the Series Bonds with respect to the determination of interest thereon:

*"Construction Program Bond Conversion Date"* means the first day of the first month which is more than 48 months after December 23, 2009.

*"Construction Program Bond Variable Rate"* means a variable rate equal to the sum of (i) the index of the weekly index rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data, a Thomson Financial Services Company, or its successors, which meet specific criteria established by The Securities Industry and Financial Markets Association, such index currently known as The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index or any successor to such index plus (ii) .50% per annum.

*"Conversion"* or *"Converting"* or *"Converted"* means the conversion or the converting of the interest rate on all or a portion of the Series Bonds from a Short-Term Rate to a Permanent Rate.

*"Conversion Date"* means, with respect to all or a portion of Series Bonds that are converting to a Permanent Rate, the date two (2) months after the related Release Date; provided that there shall be no more than three (3) Conversion Dates.

*"Converted Bonds"* means Series Bonds that have been through the process of Conversion.

*"Four Week T-Bill Rate"* means the interest rate for Four Week Treasury Bills (secondary market) as reported by the Federal Reserve on its website at the following internet address -<http://www.federalreserve.gov/releases/h15/update/h15upd.htm>.

*"GSE"* means either Fannie Mae or Freddie Mac or both, collectively, as the context may require.

*"Interest Payment Date"* means, with respect to Series Bonds which have not been Converted, each Release Date (but such Release Date shall be an Interest Payment Date only for that portion of Series Bonds which have not been Converted with respect to which amounts in the 2009 Series A Escrow Account are subject to release on such date), each Conversion Date (but such Conversion Date shall be an Interest Payment Date only with respect to those Series Bonds which have not been Converted which are to become, as of such date, Converted Bonds), and each redemption date. Interest Payment Dates for each Converted Bond and each Construction Program Bond which is not a Variable Rate Construction Program Bond shall be [February] 1 and [August] 1, commencing on the [February] 1 or [August] 1 first occurring after a Conversion Date. In addition, with respect to Construction Program Bonds, the first Business Day of each month after the Release Date to and including the Construction Program Bond Conversion Date shall be an Interest Payment Date.

*"Permanent Rate"* means the interest rate per annum equal to the sum of (i) 3.21% plus (ii) the Spread.

*"Permanent Rate Calculation Date"* means the date on which the Permanent Rate is calculated with respect to all or a portion of the Series Bonds, which shall be, with respect to each applicable portion of the Series Bonds which have not been Converted, a date acceptable to the GSEs selected by the Agency on or prior to December 31, 2010 by delivery of a Release Certificate.

*"Permitted Escrow Investments"* means the investments represented by and provided pursuant to that certain Global Escrow Agreement by and among the GSEs, the Trustee and U.S. Bank National Association, as escrow agent.

*"Release Date"* means such date or dates (not to exceed three (3) dates) on or prior to December 31, 2010 and which dates are acceptable to the GSEs, on which dates the requirements under the Supplemental Indenture are satisfied, including, without limitation, delivery of a Release Certificate.

*"Short-Term Rate"* means, (i) for the period from December 23, 2009 to the applicable Release Date, the interest rate which produces an interest payment on such Release Date relative to the Series Bonds with respect to which amounts on deposit in the 2009 Series A Escrow Account are subject to release on such Release Date equal to Investment Earnings and (ii) with respect to Series Bonds which are not Variable Rate Construction Program Bonds, from the Release Date to the Conversion Date, an interest rate equal to the sum of the Spread plus the lesser of (A) the Four Week T-Bill Rate as of the Business Day prior to the Release Date or (B) the Permanent Rate. For purposes of this provision, *"Investment Earnings"* means total investment earnings on the portion of the 2009 Series A Escrow Account related to Series Bonds with respect to which a Release Date is occurring.

*"Special Permanent Rate Advisor"* means State Street Bank and Trust Company, and any successor or assign designated by Treasury.

“*Spread*” means (i) with respect to Series Bonds which are not Construction Program Bonds, additional per annum interest on the Series Bonds based upon the lowest Bond Rating effective as of the Permanent Rate Calculation Date to the Series Bonds under the Indenture by the rating agencies rating the Series Bonds, as follows:

Rating	Additional Spread
‘Aaa’/‘AAA’	60 bps
‘Aa’/‘AA’	75 bps
‘A’	110 bps

and, (ii) with respect to Series Bonds which are Construction Program Bonds, additional per annum interest on the Construction Program Bonds based upon the lowest Bond Rating of the Series Bonds effective as of the Permanent Rate Calculation Date under the Trust Indenture by the rating agencies rating the Construction Program Bonds as follows:

Rating	Additional Spread
‘Aaa’/‘AAA’	140 bps
‘Aa’/‘AA’	155 bps
‘A’	190 bps

#### **Conversion Procedures**

On or prior to the date which is fourteen (14) days prior to a proposed Release Date, the Agency shall notify the Trustee, the GSEs, Treasury’s Financial Agent and the rating agencies of (A) the proposed Release Date, (B) the proposed Conversion Date, (C) the principal amount of Series Bonds to be Converted on such Conversion Date, (D) the proposed Permanent Rate Calculation Date and (E) the Bond rating anticipated to be in effect on the Release Date.

The Agency shall deliver the following to the Trustee on or prior to any Release Date:

- (a) the certification of the Special Permanent Rate Advisor specifying, as applicable, the Permanent Rate Calculation Date and the Four Week T-Bill Rate, Spread and Permanent Rate applicable to the relevant Conversion;
- (b) a supplement to this Official Statement relative to the Series Bonds being Converted;
- (c) (I) an opinion or opinions of counsel and a certificate of an authorized officer of the Agency to the effect that nothing has come to their attention that this Official Statement contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements herein, in light of the circumstances in which they were made, not misleading and (II) a letter or letters from the counsel referenced in the foregoing clause (I) addressed to the GSEs stating that the GSEs may rely on such opinion as though it was addressed to them;
- (d) confirmation by the rating agencies of the Bond rating on the applicable Series Bonds after giving effect to the Release Date and related Conversion;

(e) an opinion of Bond Counsel dated as of the Release Date to the effect that the applicable Series Bonds have been duly and validly issued and are enforceable obligations of the Agency and that interest payable on such Series Bonds is exempt from federal income taxation under Section 103 of the Code; and

(f) a certificate of the GSEs, evidencing (i) their consent to the Release Date and (ii) that the Agency has paid or made arrangements to pay the fees of the GSEs' counsel in connection with the Release Date.

### **Redemption Provisions**

***Redemption Due to Failure to Convert.*** Any Series Bonds with respect to which a Release Date has not occurred prior to January 1, 2011 are subject to mandatory redemption on February 1, 2011 (or any earlier date selected by the Agency), to the extent a Release Date has not occurred prior to January 1, 2011 at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date.

***Redemption Due to Withdrawal of Closing Certificates.*** The Series Bonds are subject to mandatory redemption in whole, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, on the first Business Day at least thirty (30) days after December 23, 2009, if there is delivered by mail or by electronic means to the Trustee on or prior to December 23, 2009 a Certificate of Adverse Change and the GSEs have not, prior to the date 20 days following December 23, 2009, provided the Trustee a written waiver.

***"Certificate of Adverse Change"*** means a written notice from or on behalf of the GSEs or the Agency stating that one or more of the certificates or opinions required to be delivered by the Agency pursuant to the Placement Agreement, between the Agency and the GSEs, have been revised or withdrawn prior to the receipt by the Agency of proceeds of the Series Bonds on December 23, 2009.

***Pre-Conversion Series Bonds Not Meeting Minimum Rating Thresholds.*** Within ten (10) Business Days of receipt by the Trustee of notice that the long-term unenhanced rating on the Bonds has been withdrawn or fallen below "A3" or "A-", all proceeds that are held in the 2009 Series A Escrow Account shall be used to mandatorily redeem a corresponding amount of Series Bonds, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, to the redemption date.

***Available Moneys for Redemptions.*** With respect to the redemptions set forth above, moneys on deposit in the 2009 Series A Escrow Account shall be used for any such redemption; if amounts in the 2009 Series A Escrow Account are not sufficient, then any available moneys under the Indenture shall be used for any such redemption.

***Sinking Fund Installments.*** The Series Bonds are subject to mandatory sinking fund redemption, prior to maturity, in the amounts and on the dates to be established by the Agency not later than the final Release Date (provided, however, that Construction Program Bonds shall not be subject to sinking fund redemption prior to the Construction program Bond Conversion Date) at the principal amount thereof, plus accrued interest thereon to the date of redemption. The principal amount of any Series Bonds redeemed pursuant to the redemption provisions described above shall be applied to reduce each respective Sinking Fund Installment in the manner described in a certificate of an Authorized Officer.

**Optional Redemption.** The Series Bonds are redeemable at the option of the Agency, in whole or in part, from any source of funds, on the first Business Day of any month, at 100% of the principal amount, without premium, plus accrued interest thereon to the date of redemption.

**Selection of Bonds To Be Redeemed.** If Series Bonds are to be redeemed in part, the aggregate principal amount of the Series Bonds to be redeemed shall be selected and redeemed in Authorized Denominations on a pro rata portion (calculated based on the outstanding principal amount of the Series Bonds divided by the sum of the outstanding principal amount of the Series Bonds and the outstanding principal amount of any bonds issued in conjunction with and secured by the Indenture on a parity with the Series Bonds) and 100% (if no bonds issued in conjunction with and secured by the Indenture on a parity with the Series Bonds are then Outstanding) of all principal prepayments and recoveries of principal received with respect to the Permitted Mortgage Loans, acquired or financed with the proceeds of the Series Bonds and any such parity bonds, to the extent not used to pay scheduled principal, interest or sinking fund redemptions on Series Bonds and any bonds issued in conjunction with and secured by the Indenture on a parity with the Series Bonds. Notwithstanding the foregoing, tax credit equity with respect to projects funded with Permitted Mortgage Loans may be used solely to redeem related bonds issued in conjunction with Series Bonds. Amounts set forth in clause (ii) are required to be applied to the redemption of Series Bonds promptly and as provided above shall not be recycled into new Permitted Mortgage Loans. Particular series of Series Bonds may be redeemed with payments of specified Permitted Mortgage Loans. If any Series Bonds are to be redeemed under any of the redemption provisions described above, Series A Bonds may be redeemed only in Authorized Denominations.

**Additional Redemptions.** Upon a Conversion, the Agency may add redemption provisions to the Series Bonds being Converted in addition to those specified above.

**Notice of Redemption of Bonds.** When the Trustee receives notice from the Agency, according to the provisions of the Indenture, of its election to redeem Bonds, the Trustee will give notice of such redemption to the Owner or Owners of the Series Bonds as appropriate (DTC, in the event that such Bonds are in book-entry form), which notice will specify the series, maturities and tenor of the Bonds to be redeemed, the redemption date and the places where amounts due upon redemption will be payable. The Indenture provides that with respect to the Series Bonds the Trustee will mail a copy of the notice of redemption not more than 60 days and not less than 45 days before the redemption date, to the Owners of all such Series Bonds to be redeemed. Failure to mail any such notice to the Owner of any Series Bonds or any defect in such notice will not affect the validity of the redemption of any other Series Obligation for which the required notice was given.

## SECURITY FOR THE BONDS

All Bonds issued under the Indenture, including the Series Bonds, are secured, to the extent and as provided in such Indenture, by the Trust Estate, unless otherwise provided with respect to any particular Series or Subseries of Bonds. The Trust Estate includes all moneys and securities, including Bond proceeds (other than proceeds deposited in trust for the retirement of any outstanding Bonds or other indebtedness of the Agency), and other assets from time to time held by the Trustee under and subject to the terms of the Indenture or any Supplemental Indenture (other than amounts held in the Rebate Fund, if any, or moneys or securities or Loans pledged to secure only a specific Series or Subseries of Bonds) and any and all other real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security hereunder by the Agency, or by anyone in its behalf or with its written consent, to the Trustee.

The Bonds are limited obligations of the Agency and are payable from the Agency's revenues, assets or moneys pledged under the Indenture. The Bonds will not constitute a debt of the State or any political subdivision thereof, and neither the State nor any of its political subdivisions are liable thereon. The Bonds will not constitute a debt or liability or obligation or a pledge of the faith and credit of the State but will be payable solely from the revenues or assets of the Agency. The State is not liable on the Bonds and the Bonds are not a debt of the State and neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal of or the interest on the Bonds.

Upon Conversion of any Series Bonds to a Permanent Rate, the Principal payments or Sinking Fund Installments on the Converted Series Bonds will be established based on the scheduled amortization payments on the Loans then expected to be made or purchased with the proceeds of such Series Bonds so that even if no Loan Prepayments were received with respect to such Loans, money or cash equivalents expected to be held in the funds and accounts under the Indenture would be sufficient to pay when due the Principal payments and Sinking Fund Installments of and interest on the Series Bonds and all Program Expenses allocable thereto. Funds (including Loan Prepayments, if any) may be received from time to time in amounts in excess of the amounts necessary to pay the interest on and Principal payments of the Bonds then due. Payments of principal and interest on Loans, including Loan Prepayments, in excess of the amounts necessary to pay interest on and Principal payments of the Bonds may be applied to redeem Bonds, including the Series Bonds, prior to maturity. See "THE SERIES BONDS—Redemption Provisions."

To the extent that Loans are not purchased at the times and interest rates anticipated by the Agency, or timely payment of principal or interest on the Loans is not received when due, or prepayments on Loans are received at a rate substantially higher than assumed, or the Agency suffers losses on Loans in excess of any applicable mortgage insurance or guarantee or in excess of amounts otherwise available therefor or investment income differs from the amount projected by the Agency, the moneys available under the Indenture for payment of the Bonds, including the amounts in the Reserve Fund, may be adversely affected. Certain proceeds of the Bonds, including proceeds on deposit in the Program Fund and the Reserve Fund, have been and will be invested in Permitted Investments.

#### **Reserve Fund**

The Trust Indenture requires that a Reserve Fund be established and provides for its funding and maintenance in an amount at least equal to the Reserve Requirement. The Trust Indenture establishes the Reserve Requirement as an amount at least equal to the aggregate amounts specified, if any, as the Reserve Requirement in the Supplemental Indentures authorizing all Series of Bonds currently outstanding.

The Supplemental Indenture provides that the Reserve Requirement for the Series Bonds will be established upon the Conversion thereof to a Permanent Rate.

Permitted Investments on deposit in the Reserve Fund are valued under the Indenture at par, if purchased at par, or at Amortized Value if purchased at other than par. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Depositaries of Moneys and Investment of Funds."

Moneys in the Reserve Fund may not be withdrawn in any amount which would reduce the amount on deposit in the Reserve Fund to less than the Reserve Requirement except for the purpose of paying principal of and interest on Bonds maturing and becoming due for payment and any Sinking Fund Installments and any amounts required to be paid to the Provider of a Hedge Agreement (other than fees, expenses or termination payments payable to such Provider) unless otherwise provided in such Hedge

Agreement or any related Supplemental Indenture, for which no other moneys pledged under the Indenture (other than amounts on deposit in the Program Accounts, if any) are available. In lieu of cash or securities, the Trust Indenture allows the Agency to satisfy the Reserve Requirement in part or in whole by maintaining letters of credit, insurance policies, sureties, guarantees or other security arrangements as defined and provided for in a Supplemental Indenture) (collectively, "Cash Equivalents"), which Cash Equivalents shall have the necessary terms to maintain the then current Rating of the Bonds.

#### **Additional Security**

In addition to the security provided for the Bonds under the Trust Indenture and any security provided for Loans under the applicable supplemental indenture, to the extent the provision thereof will not adversely affect the unenhanced ratings assigned to any Bonds outstanding by any Rating Agency, the Agency may obtain additional security or Cash Equivalents providing for or further securing the payment of all or a portion of the Principal Installments or redemption price of and interest on the Bonds or providing Cash Equivalents or providing for the purchase of Bonds by the issuer or obligor of any such Additional Security or providing for or further securing the payment of the principal and interest and other payments to be made on Loans. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Cash Equivalents."

In the Indenture the Agency has covenanted that so long as any Series Bonds remain Outstanding, no amounts on deposit in the Revenue Fund shall be released from the Indenture and transferred to the Agency's General Fund unless the Agency files with the Trustee a certificate showing that (a) the unpaid balance of all Loans held under the Indenture, plus the amount then held in all Funds and Accounts under the Indenture, other than amounts held in the Rebate Fund and the amounts then to be released from the Indenture to the Agency's General Fund, are at least equal to 100% of the principal amount of all Bonds plus all interest accrued and unpaid thereon as of such date.

#### **Additional Bonds**

The Trust Indenture permits the issuance of additional Bonds thereunder for the purpose of providing funds for effectuating the public purposes as set for in the Act and, in addition, to refund outstanding Bonds issued under the Trust Indenture or other bonds or notes of the Agency, so long as the issuance of such additional Bonds would not adversely affect the unenhanced ratings then assigned to any Bonds outstanding by any Rating Agency. Any additional Bonds issued under the Trust Indenture would be on a parity with the outstanding Bonds and would be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Trust Indenture. The Trust Indenture provides that upon the issuance of any such additional Bonds there is to be deposited in the Reserve Fund, if necessary, amounts sufficient to increase the amount therein to the Reserve Requirement calculated after such issuance. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Authorization and Issuance of Bonds."

The Agency covenants that it will not issue Bonds or other debt senior to or on a parity with the Series Bonds which additional parity or senior bonds or debt is secured, in whole or in part, with multifamily loans which are not Permitted Mortgage Loans. The Agency further covenants that (i) the sum of the Series Bonds and any parity bonds which are not Series Bonds issued and Outstanding under the Indenture shall not at any time exceed [Series Bonds at Settlement/.60], (ii) on each Release Date, Series Bonds Outstanding shall constitute not less than 30% of the aggregate amount of Series Bonds and parity bonds issued and Outstanding under the Indenture which are not Series Bonds following the final Release Date, the Agency will not issue any additional parity Bonds (other than parity Bonds issued to refund outstanding parity Bonds) under the Indenture so long as any Series Bonds remain Outstanding.

### **Enforceability of Remedies**

Notwithstanding anything to the contrary in the Indenture, as long as any Series Bonds are outstanding the owners of a majority in principal amount of the Series Bonds shall have the exclusive right to direct the exercise of remedies under the Indenture and, following the occurrence of an Event of Default with respect to the Series Bonds and any such parity bonds, the Trustee shall take such remedial actions as are directed solely by the owners of a majority in principal amount of the Series Bonds.

The remedies available to the Owners of the Series Bonds upon an event of default under the Indenture or other documents described herein are in many respects dependent upon judicial actions, which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies set forth in the Indenture and the various Program Documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by the exercise of judicial discretion in accordance with general equitable principles and by bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally.

### **Special GSE Rights**

For so long as any Series Bonds remain outstanding, certain rights have been granted to the GSEs pursuant to the terms of the Supplemental Indenture. These rights include, but are not limited to, the right to approve the appointment of a Successor Trustee and to directly enforce certain provisions of the Supplemental Indenture.

## **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

The Indenture contains terms and conditions relating to the issuance and sale of Bonds, including various covenants and security provisions, certain of which are summarized below. This summary does not purport to be comprehensive or definitive and is subject to all of the provisions of the Indenture, to which reference is hereby made, copies of which are available from the Agency or the Trustee. Summary definitions of certain terms used in the Indenture and below are set forth in APPENDIX II to this Official Statement.

In addition to the provisions of the Indenture summarized below, the Supplemental Indenture sets forth provisions specific to the Series Bonds and the terms and conditions of such Bonds as well as additional covenants and security provisions applicable to such Bonds (see "THE SERIES BONDS" and "SECURITY FOR THE BONDS").

### **Indenture as Contract with Bondowners**

The Indenture constitutes a contract among the Agency, the Trustee and the Bondowners. The pledge made in the Indenture and the provisions, covenants and agreements therein are for the equal benefit, protection and security of all owners of the Bonds, all of which, regardless of their times of issue or maturity, rank equally without preference, priority or distinction of any Bond over another except as expressly provided in the Indenture.

### **Pledge of the Indenture**

The Indenture creates a continuing pledge and lien on the Trust Estate to secure the full and final payment of the principal and redemption price of and interest on all the Outstanding Bonds. The Trust

Estate includes all moneys and securities, including Bond proceeds (other than proceeds deposited in trust for the retirement of any outstanding Bonds or other indebtedness of the Agency), and other assets from time to time held by the Trustee under and subject to the terms of the Indenture or any Supplemental Indenture (other than amounts held in the Rebate Fund, if any) and any and all other real or personal property of every name and nature from time to time by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the Indenture by the Agency, or by anyone in its behalf or with its written consent, to the Trustee.

Additionally, the Bonds are limited obligations of the Agency and are payable from any of the Agency's revenues, assets or moneys pledged under the Indenture. The Bonds do not constitute a debt of the State or any political subdivision thereof, and neither the State nor any of its political subdivisions are liable thereon. The Bonds do not constitute a debt or liability or obligation or a pledge of the faith and credit of the State but will be payable solely from the revenues or assets of the Agency. The State is not liable on the Bonds and the Bonds are not a debt of the State and neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal of or the interest on the Bonds.

#### **Authorization and Issuance of Bonds**

Bonds of the Agency may be issued from time to time in one or more Series without limitation as to amount except as provided in the Indenture or as may be limited by law. The Bonds will be limited obligations of the Agency. The Agency may issue a Series of Bonds by adopting a supplemental indenture and delivering to the Trustee, among other things:

- (1) A Counsel's Opinion with respect to the issuance of the Bonds in a form acceptable to the Agency as specified in the Supplemental Indenture;
- (2) A copy of the Supplemental Indenture authorizing such Bonds, which shall specify, among other things, the terms and conditions of the Bonds and the related Reserve Requirement; and
- (3) A Certificate stating that (i) the principal amount of the Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed herein or by law, (ii) upon the issuance and delivery of such Bonds, the Reserve Requirement will be met, and (iii) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, the Agency shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture.

#### **Cash Equivalents**

The Indenture permits the use of a letter of credit, insurance policy, surety, guarantee or other security arrangement (as defined and provided for in the related Supplemental Indenture) (each a "Cash Equivalent"), so long as such Cash Equivalent shall have such terms necessary to maintain the Rating of the Bonds.

#### **Qualified Hedge Agreements**

If the Agency shall enter into any Qualified Hedge Agreement with respect to any Bonds and the Agency has made a determination that the Qualified Hedge Agreement was entered into for the purpose of hedging or managing the interest due with respect to specified Bonds, then during the term of the Qualified Hedge Agreement: (a) for purposes of any calculation of debt service, the interest rate on the

Bonds with respect to which the Qualified Hedge Agreement applies shall be determined as if such Bonds had interest payments equal to the interest payable on those Bonds less any payments reasonably expected to be made to the Agency by the Provider and plus any payments reasonably expected to be made by the Agency to the Provider in accordance with the terms of the Qualified Hedge Agreement (other than fees, expenses or termination payments payable to such Provider for providing the Qualified Hedge Agreement); (b) any such payments (other than fees and termination payments) required to be made by the Agency to the Provider pursuant to such Qualified Hedge Agreement shall be made from amounts on deposit in the Debt Service Fund, unless otherwise specified by the Agency to be paid from other moneys; (c) any such payments received by or for the account of the Agency from the Provider pursuant to such Qualified Hedge Agreement shall constitute Revenues and be deposited in the Revenue Fund; and (d) fees not equivalent to regular Bond debt service payments, expenses and termination payments, if any, payable to the Provider may be deemed to be debt service and paid from amounts on deposit in the Revenue Fund but subordinate to payment of principal, interest and Sinking Fund Installments on the Bonds (and amounts equivalent to such payments payable to a Provider under a Hedge Agreement) and amounts required to be deposited to the Reserve Fund, or such funds in the Indenture as are specifically designated by the Agency, in each case if and to the extent expressly provided in the Qualified Hedge Agreement or applicable Supplemental Indenture.

#### **Establishment of Funds and Accounts**

The Indenture establishes or authorizes the establishment of the following funds and accounts to be held by the Trustee:

- Program Fund
- Revenue Fund
- Debt Service Fund
- Reserve Fund
- Rebate Fund
- Special Program Fund

In addition, within the Program Fund, the Supplemental Indenture establishes the 2009 Series A Escrow Account. See "SECURITY FOR THE BONDS—Additional Security."

The Trustee shall establish in each Fund a separate Account for each Series of Bonds. Except as otherwise provided, the proceeds of a particular Series of Bonds issued pursuant to a Supplemental Indenture and the earnings on investments of moneys in the Funds or Accounts relating to a particular Series of Bonds, when required to be deposited in any Fund, shall be deposited or credited to the Account established therein for that particular Series of Bonds. Withdrawals from Funds and Accounts in connection with a particular Series of Bonds may be made and used (including for purposes of redemption) only for such Series of Bonds. For purposes of investment, the Trustee and the Agency may consolidate the Accounts required to be established in a particular Fund into one Fund so long as adequate records are maintained as to the amounts held in each such Fund allocable to each Series of Bonds.

#### **Program Fund**

Program Fund moneys may be used for any purpose set forth in a Supplemental Indenture. The Trustee may also, to the extent amounts are insufficient in the Revenue Fund to pay principal of or interest on the Bonds or any Sinking Fund Installment when due, transfer (after transferring amounts in any capitalized interest account established in connection with the Series Bonds, the Special Program Fund and the Reserve Fund) moneys from the Program Fund (to the extent of amounts available therein) to the Revenue Fund to pay principal of or interest on the Series Bonds and any Sinking Fund Installments. Additionally, amounts or assets credited to the Program Fund may, upon the direction of an

Authorized Officer, be transferred or credited by the Trustee to the Revenue Fund or another Fund or Account or to the Agency at such times as directed by such Authorized Officer.

### **Revenue Fund**

All moneys and amounts pledged hereunder shall, promptly upon receipt by the Agency, be deposited in the Revenue Fund.

On or before each interest payment date for the Outstanding Bonds, or on such other dates as may be directed in a Supplemental Indenture, the Trustee will transfer from the Revenue Fund the balance on deposit in such Fund as follows in the following order of priority:

- (i) To the Debt Service Fund, an amount equal to the unpaid interest due on the Bonds on that date, and on any redemption date or purchase date pursuant to the Indenture, an amount equal to the unpaid interest due on the Bonds to be paid, redeemed or purchased, and any amounts required to be paid to the Provider of a Qualified Hedge Agreement (other than fees, expenses or termination payments payable to such Provider of the Qualified Hedge Agreement) equivalent to interest;
- (ii) To the Debt Service Fund, (i) an amount equal to the principal amount of the Outstanding Bonds, if any, due (whether by maturity, redemption or otherwise) on that date, and (ii) an amount equal to the Sinking Fund Installment, if any, due on that date; and
- (iii) To the Reserve Fund, if and to the extent required so that the amount therein shall equal the Reserve Requirement.

The Trustee shall, to the extent the amount in the Revenue Fund and the Debt Service Fund is insufficient to pay principal of or interest on the Bonds or amounts owed to a Provider under a Hedge Agreement equivalent to interest (other than fees, expenses or termination payments, except as otherwise provided in the Indenture) or any Sinking Fund Installment when due, transfer the amount of such deficiency from the following funds in the following order: (i) any amounts in any capitalized interest account established pursuant to a Supplemental Indenture, (ii) the Special Program Fund, if any, to the extent of amounts available therein and therefor, (iii) the Reserve Fund, to the extent of amounts available therein, and (iv) the Program Fund, to the extent of amounts available therein and therefor.

So long as there shall be held in the Debt Service Fund an amount sufficient to fully pay all Outstanding Bonds in accordance with their terms (including Principal Amount or Redemption Price and interest) and all amounts due the Provider of a Qualified Hedge Agreement (other than fees, expenses or termination payments, except as otherwise provided in the Indenture), no deposits shall be required to be made into the Debt Service Fund.

Amounts or assets in the Revenue Fund may, on and after each Interest Payment Date upon the direction of an Authorized Officer, be used to pay Program Expenses or may be transferred or credited by the Trustee to another Fund or Account or, upon delivery of a Parity Certificate and a Cash Flow Certificate, to the Agency at such times as directed by such Authorized Officer.

### **Debt Service Fund**

On each Interest Payment Date and any other date on which interest on the Bonds is payable, the Trustee shall withdraw from the Debt Service Fund an amount equal to the unpaid interest due on the Bonds on that date, and on any redemption date or purchase date pursuant to the Indenture, an amount

equal to the unpaid interest due on the Bonds to be paid, redeemed or purchased, and any amounts required to be paid to the Provider of a Qualified Hedge Agreement (other than fees, expenses or termination payments payable to such Provider of the Qualified Hedge Agreement) equivalent to interest and shall cause it to be applied to the payment of said interest or amount when due, or shall transmit it to one or more Paying Agents, who shall apply it to such payment.

The Trustee shall withdraw from the Debt Service Fund on each date on which principal of the Bonds is payable (i) an amount equal to the principal amount of the Outstanding Bonds, if any, due (whether by maturity, redemption or otherwise) on that date, which shall be applied to the payment or purchase of the principal of said Bonds or transmitted to one or more Paying Agents who shall apply it to such payment and (ii) an amount equal to the Sinking Fund Installment, if any, due on that date, which shall be applied to the redemption of Bonds to be redeemed on that date or transmitted to one or more Paying Agents who shall apply it to such redemption.

Unless other dates are specified in the Supplemental Indenture authorizing a Series of Bonds, on or before the thirty-first day prior to each such date on which a Sinking Fund Installment is due, the Trustee shall proceed to select for redemption in the manner provided in this heading "**Debt Service Fund**" from all Outstanding Bonds of the Series subject to redemption from such Sinking Fund Installment an amount of such Bonds, equal to the aggregate principal amount of such Bonds redeemable with such Sinking Fund Installment, and shall call such Bonds for redemption from such Sinking Fund Installment on the next succeeding date for redemption, and give notice of such call in accordance with the Indenture. On or before the fortieth day next preceding any date on which a Sinking Fund Installment is due, the Agency, by a Certificate, may (i) deliver to the Trustee for cancellation Bonds which are subject to redemption from such Sinking Fund Installment, or portions thereof, in any aggregate principal amount desired or (ii) receive a credit in respect of its Sinking Fund Installment obligation for any such Bonds, which prior to said date have been delivered to the Trustee for cancellation or redeemed (otherwise than through redemption from a Sinking Fund Installment) and canceled by the Trustee and not theretofore applied as a credit against any Sinking Fund Installment obligation. Each Bond or portion thereof so delivered or previously redeemed shall be credited by the Trustee at the principal amount thereof on the obligation with respect to such Sinking Fund Installments as the Certificate shall direct and the principal amount of such Bonds to be redeemed by such Sinking Fund Installment shall be accordingly reduced.

Amounts or assets in the Debt Service Fund may, on and after each Interest Payment Date upon the direction of an Authorized Officer, be transferred or credited by the Trustee to another Fund or Account or to the Agency at such times as directed by such Authorized Officer.

#### **Reserve Fund**

An amount equal to the Reserve Requirement shall be maintained in the Reserve Fund, from the proceeds of the sale of the Bonds or such other sources as specified by a direction of an Authorized Officer. The Trustee shall, to the extent the amount in the Revenue Fund is insufficient to pay principal of and interest on the Bonds and any Sinking Fund Installments and any amounts required to be paid to the Provider of a Hedge Agreement (other than fees, expenses or termination payments payable to such Provider) unless otherwise provided in such Hedge Agreement or any related Supplemental Indenture, transfer from the Reserve Fund (after transferring any amounts in any capitalized interest account established pursuant to a Supplemental Indenture or the Special Program Fund (to the extent of amounts available therein and therefor)) to the Revenue Fund to pay the principal of and interest on the Bonds and any Sinking Fund Installments and any amounts required to be paid to the Provider of a Hedge Agreement (other than fees, expenses or termination payments payable to such Provider) unless otherwise

provided in such Hedge Agreement or any related Supplemental Indenture. The Trustee shall notify the Agency in writing prior to any such withdrawal from the Reserve Fund.

Any balance in the Reserve Fund in excess of the Reserve Requirement shall, upon the direction of a Certificate, be transferred or credited by the Trustee to the Revenue Fund or other Fund or Account at such times as directed by such Authorized Officer.

The Reserve Requirement with respect to the applicable Series of Bonds may be funded through Cash Equivalents. In connection with any discussion related to the Indenture of "moneys" on deposit in or held for the credit of the Reserve Fund, "moneys" shall be deemed to include said Cash Equivalents.

#### **Rebate Fund**

There shall be deposited in the Rebate Fund, as directed by a Certificate of an Authorized Officer, such amounts determined by the Agency as are necessary to satisfy any "arbitrage rebate requirements" to comply with the requirements of Section 148 of the Code. Payments shall be made from the Rebate Fund, as directed by a Certificate of an Authorized Officer, at such times and in such amounts as are necessary to comply with the requirements of Section 148 of the Code.

#### **Special Program Fund**

If and to the extent directed by a Certificate of an Authorized Officer, the Trustee shall create the Special Program Fund, or accounts therein, and from time to time (i) pay out money from the Special Program Fund for any purpose permitted under the Act and (ii) transfer funds to the Agency free and clear of the lien of the Indenture.

The Trustee shall, to the extent the amount in the Revenue Fund is insufficient to pay the principal of and interest on the Bonds and any Sinking Fund Installment when due and any amounts required to be paid to the Provider of a Hedge Agreement (other than fees, expenses or termination payments payable to such Provider) unless otherwise provided in such Hedge Agreement or any related Supplemental Indenture, transfer (after transferring amounts in any capitalized interest account established in connection with a Supplemental Indenture) moneys from the Special Program Fund, to the extent of amounts therein which are not otherwise restricted for specific purposes, to the Revenue Fund to pay the principal of and interest on the Bonds and any Sinking Fund Installment and any amounts required to be paid to the Provider of a Hedge Agreement (other than fees, expenses or termination payments payable to such Provider) unless otherwise provided in such Hedge Agreement or any related Supplemental Indenture.

#### **Depositaries of Moneys and Investment of Funds**

Except as otherwise provided below, the Agency may direct the Trustee to invest moneys in the Funds and the Accounts held by the Trustee in Permitted Investments, the maturity or redemption date at the option of the holder of which shall not exceed the date or dates on which moneys in said Fund or Account for which the investments were made are reasonably expected to be required for the purposes provided in the Indenture and any related Supplemental Indenture.

Obligations purchased as an investment of moneys in any Fund or Account held by the Trustee under the provisions of the Indenture shall be deemed at all times to be a part of such Fund or Account. Moneys in separate Funds and Accounts may be commingled for the purpose of investment or deposit, subject to instructions from an Authorized Officer, to the extent possible in conformity with the

provisions of the Indenture, so long as adequate records are maintained as to the amounts held in each such Fund or Account allocable to each Series of Bonds.

In computing the amount in any Fund or Account held by the Trustee under the provisions of the Indenture, obligations purchased by the Trustee or transferred by the Agency to the Trustee as an investment of moneys therein shall be valued at the Amortized Value, plus the amount of accrued interest, except that securities covered by repurchase agreements shall be valued at market price. Where market prices for obligations held by the Trustee are not readily available, the Trustee may determine the market price for such obligations in such manner as it deems reasonable. To the extent that moneys are invested pursuant to an Investment Agreement, such Investment Agreement shall be valued at par, unless the provider of the Investment Agreement is in default of its payments thereunder in which case it shall be valued as provided in the immediately preceding sentence.

At the direction of an Authorized Officer, the Trustee shall sell outright or pursuant to a repurchase agreement at the best price reasonably obtainable, or present for redemption, any obligation purchased by it as an investment whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund or Account for which such investment was made. When transferring moneys from one Fund or Account to another, investments need not be liquidated, and all or a portion of such invested moneys may be credited to a particular Fund or Account from another.

#### **Issuance of Additional Obligations**

So long as any Bonds are Outstanding, the Agency covenants that it will not create or permit the creation of or issue any obligations or create any additional indebtedness (other than additional Series of Bonds) which will be secured by a superior or equal charge or superior or equal lien on the amounts pledged under the Indenture or will be payable, on an equal or superior basis, from any of the Funds or Accounts established and created by or pursuant to the Indenture. The Agency may, however, issue evidences of indebtedness (including general obligations of the Agency) not issued and secured under the Indenture.

#### **Supplemental Indentures**

Any of the provisions of the Indenture may be amended by the Agency by a Supplemental Indenture with the consent of (i) the holders of not less than a majority in aggregate Principal Amount of the Bonds then outstanding at the time such consent is given and (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, the holders of not less than a majority in aggregate principal amount of the Bonds of the particular Series Outstanding affected at the time of such consent is given, shall have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to consent to and approve the execution by the Agency and the Trustee of such indentures supplemental hereto as shall be deemed necessary and desirable by the Agency for the purpose of modifying, altering, amending, adding to or rescinding, in particular, any of the terms or provisions contained in the Indenture or in any Supplemental Indentures; provided however, that except as set forth in the last paragraph under this heading or in the case of consent given by all of the holders of the Bonds then Outstanding, no such modification or amendment may permit (i) an extension of the maturity or mandatory sinking fund redemption date of the principal of or the time for payment of the interest on any Bond issued under the Indenture, (ii) a reduction in the principal amount of any Bond or the rate of interest (except as otherwise provided in a Supplemental Indenture), or sinking fund redemption requirements, thereon, (iii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (iv) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Indenture, or (v) any modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee without the written consent of the Trustee.

For the purposes of the above paragraph, Bonds of any particular Series shall be deemed to be affected by a modification or amendment of the Indenture if the same materially or adversely affects or diminishes the rights of the holders of Bonds of such Series. The Trustee, relying upon Counsel's opinion, may determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by a modification or amendment of the Indenture, and any such determination shall be binding and conclusive on the Agency and all holders of Bonds. With respect to matters affecting the security for the Bonds, the Trustee may conclusively rely upon written evidence from each Rating Agency that a change will not adversely affect the Rating on the Outstanding Bonds.

Notwithstanding anything contained in the foregoing paragraphs, with the consent of all of the holders of all the Bonds then Outstanding, the terms and provisions of the Indenture, and the rights and obligations of the Agency and the holders of the Bonds, in any particular, may be modified or amended in any respect upon the execution by the Agency and filing in accordance with the provisions of a Supplemental Indenture of the Agency making such modification or amendment; provided, however, that no such modification or amendment shall change or modify any of the rights, obligations, duties, remedies, immunities and privileges of the Trustee without the written consent of the Trustee.

In addition, the Agency may enter into an agreement with any Bondholder restricting one or more rights of such Bondholder, provided that such agreement shall affect only such Bondholder (or assigns) and such agreement shall not grant such Bondholder any rights or privileges not afforded other Bondholders.

Notwithstanding anything in this paragraph to the contrary, the Agency may not modify or supplement the Indenture as described in "**—Debt Service Fund**" with respect to a Series of Bonds insured by a policy of municipal bond insurance without the prior written consent of the applicable provider of such municipal bond insurance.

The Agency may adopt (without the consent of any Owners of the Bonds) Supplemental Indentures to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Indenture or to insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable, not materially adverse to the security of the Bondholders and not contrary to or inconsistent with the Indenture as theretofore in effect.

#### **Events of Default**

Events of Default specified in the Indenture include (i) interest on any of the Bonds is not paid on any date when due or the principal of any Bonds is not paid at maturity or the redemption price of any Bond is not paid at a Redemption Date at which such Bonds have been called for redemption, or regular payments (excluding fees, expenses or termination payments) on a Qualified Hedge Agreement are not paid when due, (ii) if there is a default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Agency in the Indenture, in any Supplemental Indenture or in the Bonds contained, and such default is not remedied within 60 days after notice thereof pursuant to the Indenture, or (iii) the Agency files a petition seeking a composition of indebtedness under the federal bankruptcy laws or under any applicable law or statute of the United States of America or of the State, or if the State has limited or altered the rights of the Agency pursuant to the Act, as in force on the date of the Indenture, to fulfill the terms of any agreements made with the Holders of Bonds or in any way impaired the rights and remedies of Holders of Bonds while any Bonds are Outstanding.

## Remedies

Upon the occurrence of any Event of Default, the Trustee in its own name may pursue, and upon the written request of the Owners of not less than a majority in aggregate Principal Amount of the Bonds then outstanding, must pursue, any available remedy under the Act, at law or in equity, to enforce the payment of the principal of, premium, if any, and interest on the Bonds then Outstanding, and any other creditors secured hereunder, including, without limitation, the following:

(i) The Trustee may declare the principal amount of all Bonds Outstanding and the interest accrued thereon to be immediately due and payable, whereupon such principal amount and interest shall thereupon become immediately due and payable, if an Event of Default pursuant to clause (i) under “—Events of Default” above;

(ii) The books and records of the Agency relating to the Bonds shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys, but only to the extent that such inspection and use does not challenge, in the Agency’s discretion, the confidentiality of such books and records as well as other related communications of the Agency; and

(iii) The Agency, whenever the Trustee shall demand, will account as if it were the trustee of an express trust for all money, securities and Funds and Accounts pledged or held under the Indenture for such period as shall be stated in such demand.

## Application Moneys After Default

All moneys received by the Trustee pursuant to any right given upon an Event of Default or action taken under the allowed actions for remedy of such Event of Default, following the satisfaction of any payments due the Trustee under the Indenture, be deposited in the Revenue Fund and all moneys in the Revenue Fund (other than moneys held for redemption of Bonds duly called for redemption) shall be applied as described below.

Unless the principal amount of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied in the following order of priority:

(i) To the payment to the persons entitled thereto of all interest then due on the Bonds, in the order of the maturity of such interest and, if the amount available shall not be sufficient to pay in full said amount, then to the payment ratably, according to the amounts due to the persons entitled thereto, without any discrimination or privilege;

(ii) To the payment to the persons entitled thereto of the unpaid principal amount of any of the Bonds which shall have become due (other than Bonds matured or called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates, with interest on such Bonds from the respective dates upon which they became due at the rate borne by the Bonds and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or privilege;

(iii) To be held for the payment to the persons entitled thereto as the same shall become due of the principal amount of and interest on the Bonds which may thereafter become due either at maturity or upon call for redemption prior to maturity and, if the amount available

shall not be sufficient to pay in full Bonds due on any particular date, together with interest then due and owing thereon, payment shall be made ratably according to the amount of principal due on such date to the persons entitled thereto without any discrimination or privilege;

(iv) To the payment of any amounts due and payable to the Bond Insurer; and

(v) To the payment of fees, expenses and termination payments due and payable under a Qualified Hedge Agreement.

If the principal amount of all the Bonds shall have become or shall have been declared due, all such moneys shall be applied; first, to the payment of the principal amount and interest then due and unpaid upon the Bonds, without preference or priority of principal amount over interest or of interest over principal amount, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal amount and interest, to the persons entitled thereto without any discrimination or privilege; and second, to fees, expenses and termination payments due and payable under a Hedge Agreement.

With respect to the foregoing, amounts due under a Qualified Hedge Agreement which are equivalent to Bond interest shall be treated as Bond interest.

Whenever all principal amounts of and interest on all Bonds have been paid and all fees, expenses and charges of the Trustee and any Paying Agent and Provider of a Hedge Agreement have been paid, any balance remaining in the Revenue Fund shall be paid to the Agency.

#### **Discharge of Lien**

If the Agency shall pay or cause to be paid, or there shall otherwise be paid or provision for payment made, to the holders of the Bonds the principal amount of, premium, if any, and interest due or to become due thereon and to Providers amounts due under a Qualified Hedge Agreement, at the times and in the manner stipulated therein, then unless there shall be delivered to the Trustee a Certificate to the contrary, these presents and the estate and rights hereby granted shall cease, determine and be void, whereupon the Trustee shall cancel and discharge the lien of the Indenture, and execute and deliver to the Agency such instruments in writing as shall be requisite to release the lien hereof, and reconvey, release, assign and deliver unto the Agency any and all the estate, right, title and interest in and to any and all rights or property assigned or pledged to the Trustee or otherwise subject to the lien of the Indenture, except cash held by the Trustee or any Paying Agent for the payment of the principal amount of, premium, if any, and interest on any Series of Bonds.

Any Bond shall be deemed to be paid within the meaning of this subheading “—Discharge of Lien” and for all purposes of the Indenture and any Supplemental Indenture when payment of the principal amount of and premium, if any, on such Bond, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided herein), either (i) shall have been made or caused to be made in accordance with the terms thereof or (ii) shall have been provided by irrevocably depositing with the Trustee, in trust and irrevocably set aside exclusively for such payment (a) moneys sufficient to make such payment and/or (b) Federal Obligations (which may be subject to redemption prior to maturity only if such terms of redemption do not adversely affect the Rating of the Bonds) maturing as to principal and interest in such amount and at such time as will ensure the availability of sufficient moneys to make such payment. At such times as a Bond shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such moneys or Federal Obligations.

Notwithstanding the foregoing, in the case of Bonds which by their terms may be redeemed prior to their stated maturity, no deposit under the immediately preceding paragraph shall be deemed a payment of such Bonds as aforesaid until the Agency shall have given the Trustee, in form satisfactory to the Trustee, irrevocable instruction:

(i) stating the date when the principal amount (and premium, if any) of each such Bond is to be paid, whether at maturity or on a redemption date;

(ii) to call for redemption pursuant to the Indenture (and at such times as notice thereof may be given in accordance with the Indenture) any Bonds to be redeemed prior to maturity pursuant to in clause (b) of the preceding paragraph hereof; and

(iii) to mail, as soon as practicable, in the manner prescribed by the Indenture, a notice to the holders of such Bonds and to each Rating Agency that the deposit required by clause (b) of the preceding paragraph above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal amount or redemption price, if applicable, on said Bonds as specified in (i) hereof and, if a maturity date is stated, whether or not such Bonds continue to be subject to redemption.

All moneys so deposited with the Trustee as provided above may at the direction of the Agency also be invested and reinvested in Federal Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from all Federal Obligations in the hands of the Trustee pursuant to the Indenture which is not required for the payment of the Bonds and interest and premium, if any, thereon with respect to which such moneys shall have been so deposited shall be deposited in the Revenue Fund as and when realized and collected for such an application as are other moneys deposited in such Fund.

Notwithstanding any provision of the Indenture which may be contrary to the provisions of this subheading of "**Discharge of Lien**," all moneys or Federal Obligations set aside and held in trust pursuant to the provisions of this subheading of "**Discharge of Lien**" for the payment of Bonds (including interest and premium thereon, if any) shall be applied to and used solely for the payment of the particular Bonds (including interest and premium thereof, if any) with respect to which such moneys and Federal Obligations have been so set aside in trust.

Anything in "**Supplemental Indentures**" above to the contrary notwithstanding, if moneys or Federal Obligations have been deposited or set aside with the Trustee pursuant to this subheading of "**Discharge of Lien**" for the payment of Bonds and such Bonds shall not have in fact been actually paid in full, no amendment to the provisions of this heading "**Discharge of Lien**" shall be made without the consent of the holder of each Bond affected thereby.

#### **TRUSTEE**

The Trustee for the Series Bonds is The Bank of New York Mellon Trust Company, N.A., with corporate trust offices located in Boston, Massachusetts. The Trustee also acts as Paying Agent for the Series Bonds. Payments of principal, premiums, if any, and interest on the Series Bonds are payable at the Paying Agent's corporate trust office in Boston, Massachusetts.

#### **PLEDGE AND AGREEMENT OF THE STATE**

Under the Act, the State pledges and agrees with the Owners of bonds of the Agency that the State will not limit or restrict the rights vested in the Agency to perform its obligations and to fulfill the

terms of any agreement made with the Owners of its bonds or in any way impair the rights and remedies of the Owners of the bonds until the bonds and interest thereon are fully met, paid and discharged.

The Act provides that bonds and other obligations of the Agency will not be deemed to constitute a debt or liability or obligation of the State or of any political subdivision thereof or a pledge of the faith and credit of the State or of any political subdivision, but will be payable solely from and secured solely by a pledge of the Trust Estate established under the Indenture.

#### **NO LITIGATION**

There is no controversy or litigation of any nature now pending or, to the knowledge of the Agency, threatened, restraining or enjoining the issuance, sale, execution or delivery of the Series Bonds or the purchasing of Loans with the proceeds of the Series Bonds or in any way contesting or affecting any authority for the issuance or validity of the Series Bonds, any proceedings of the Agency taken with respect to the issuance or sale thereof, the pledge or application of any money or security provided for the payment of the Series Bonds or the existence or powers of the Agency.

#### **INDEPENDENT AUDITORS**

The financial statements of the Agency for the year ended June 30, 2009 included in Appendix I-A have been audited by KPMG LLP, independent certified public accountants, whose report thereon is also included in Appendix I-A. KPMG LLP has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.

#### **RATINGS**

Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "Aa2" to the Series Bonds. Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings can only be obtained from the rating agency furnishing the same. There is no assurance such ratings will be continued for any given period of time or that they will not be changed by the rating agency furnishing the same, if, in the judgment of such rating agencies, circumstances so warrant. Any such change of such ratings may have an effect upon the market price or the marketability of the Series Bonds.

#### **CONTINUING DISCLOSURE**

The Agency has covenanted for the benefit of holders and beneficial owners of the Series Bonds to provide certain financial information and operating data relating to the Agency by not later than 180 days following the end of the Agency's Fiscal Year (which currently is June 30) (the "Annual Report"), commencing with the report for the 2009 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Agency with the MSRB. The notices of material events will be filed by the Agency with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in "APPENDIX V—FORM OF THE CONTINUING DISCLOSURE AGREEMENT." The Agency has never failed to comply in all material respects with any previous undertakings to provide annual reports or notices of material events.

## **APPROVAL OF LEGALITY**

All legal matters related to the authorization, issuance, sale and delivery of the Series Bonds are subject to the approval of Kutak Rock LLP, Bond Counsel. The unqualified approving opinion of Bond Counsel in substantially the form attached hereto as APPENDIX VI will be delivered with the Series Bonds. Certain legal matters will be passed upon for the Agency by George N. Demas, General Counsel of the Agency.

## **TAX MATTERS**

### **General**

In the opinion of Bond Counsel, under existing laws, regulations, rulings, and judicial decisions, interest on the Series Bonds is includable in the gross income of the holders thereof for federal income tax purposes. The owners of the Series Bonds, by accepting such Series Bonds, have agreed to treat the Series Bonds as indebtedness. The Agency will treat the Series Bonds as a financing reflecting the Series Bonds as its indebtedness for tax and financial accounting purposes.

Holders of the Series Bonds should consult with their tax advisor regarding other federal income tax consequences of holding the Series Bonds, including, but not limited to, market discount or premium, deductibility of investment interest expense, sale or exchange of the Series Bonds, backup withholding, state and local taxation, tax-exempt investors, foreign investors, and ERISA.

### **Treasury Circular 230 Disclosure**

To ensure compliance with Treasury Circular 230, taxpayers are hereby notified that (a) any discussion of U.S. federal tax issues in this Official Statement is not intended by us to be relied upon, and cannot be relied upon, by taxpayers for the purpose of avoiding penalties that may be imposed on taxpayers under the Internal Revenue Code; (b) such discussion is written in connection with the promotion or marketing of the transactions or matters addressed herein; and (c) taxpayers should seek advice based on their particular circumstances from an independent tax advisor.

### **Vermont Taxes**

In the opinion of Bond Counsel, under existing laws of the State, the Series Bonds, their transfer, and the interest payable thereon, including any profit realized from the sale or exchange thereof, will be exempt from all taxation by the State and its political subdivisions, except estate or inheritance taxation. The Series Bonds and the income therefrom may be subject to taxation under the laws of states other than the State.

### **Changes in Federal and State Tax Law**

From time to time, there are legislative proposals in the Congress of the United States and the various states that, if enacted, could alter or amend the federal and state tax matters referred to herein and adversely affect the market value of the Series Bonds. It cannot be predicted whether or in what form any such proposals might be enacted or whether, if enacted, would apply to bonds issued prior to the enactment. In addition, regulatory actions are, from time to time, announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Series Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series Bonds or the market value thereof would be impacted thereby. Purchasers of the Series Bonds


should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives, or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives, or litigation.

#### MISCELLANEOUS

The references herein to the Act and the Indenture, and the references to the Series Bonds Multifamily Mortgage Loans in APPENDIX III hereto, are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and reference is made to the Act, the Indenture and such Agreements and Documents for full and complete statements of such provisions. The agreements of the Agency with the Owners of the Series Bonds are fully set forth in the Indenture and this Official Statement is not to be construed as a contract with the purchasers of the Series Bonds. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they will be, intended merely as such and not as representations of fact. Copies of the Act and the Indenture are, and the Multifamily Mortgage Loans will be, on file at the office of the Agency. The address of the Agency is 164 Saint Paul Street, Burlington, Vermont 05401 and its telephone number is (802) 864-5743.

The execution and delivery of this Official Statement by an Authorized Officer has been duly authorized by the Agency.

VERMONT HOUSING FINANCE AGENCY

  
/s/ Sarah E. Carpenter  
Executive Director

**APPENDIX I**

**AUDITED FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009  
(WITH INDEPENDENT AUDITORS' REPORT THEREON)**

**AND**

**UNAUDITED BALANCE SHEET  
AND INCOME STATEMENT  
FOR THE THREE MONTHS  
ENDED SEPTEMBER 30, 2009**



**VERMONT HOUSING FINANCE AGENCY**  
(a component unit of the State of Vermont)

**Financial Statements and  
Required Supplementary Information**

**June 30, 2009**

**(With Independent Auditors' Report Thereon)**

**VERMONT HOUSING FINANCE AGENCY**

**Table of Contents**

	<b>Page</b>
<b>Independent Auditors' Report</b>	1
<b>Management's Discussion and Analysis -- Required Supplementary Information (Unaudited)</b>	2
<b>Statement of Net Assets</b>	7
<b>Statement of Revenues, Expenses and Changes in Net Assets</b>	8
<b>Statement of Cash Flows</b>	9
<b>Notes to Financial Statements</b>	11



KPMG LLP  
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356 Mountain View Drive  
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### Independent Auditors' Report

The Honorable Thomas M. Salmon  
State Auditor of the State of Vermont and  
The Commissioners  
Vermont Housing Finance Agency:

We have audited the accompanying financial statements of the business-type activities and each major fund of the Vermont Housing Finance Agency (the Agency), a component unit of the State of Vermont, as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Vermont Housing Finance Agency as of June 30, 2009, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 2 to 6 is not a required part of the financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

**KPMG LLP**

October 14, 2009

Vt. Reg. No. 02-0008941

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## VERMONT HOUSING FINANCE AGENCY

### Management's Discussion and Analysis

June 30, 2009

(Unaudited)

This section of the Vermont Housing Finance Agency's (the Agency) annual Financial Statements presents management's discussion and analysis of its financial performance and significant changes in financial position for the fiscal year ended June 30, 2009. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole.

#### Overview of the Agency

The Agency was created in 1974 by an Act of the General Assembly of the State of Vermont. The purpose of the Agency is to promote the expansion of the supply of funds available for mortgages on residential housing and to encourage an adequate supply of safe and decent housing at reasonable costs. The Agency is authorized to issue bonds and other obligations to fulfill its corporate purposes. Obligations of the Agency do not constitute debt of the State of Vermont and are payable solely from the revenues or assets of the Agency.

The majority of the Agency's funding has been provided from the proceeds of sales of tax-exempt and taxable bonds and notes, and advances from lending institutions. Since September 1974, the Agency has issued \$2.8 billion aggregate principal amount of bonds, notes and line of credit borrowings, of which \$739.1 million was outstanding as of June 30, 2009, to finance its various programs. The proceeds of the debt have been or will be used to make mortgage loans to sponsors of multi-family residential housing units for persons and families of low and moderate income in the State, to purchase mortgage loans on single family residential housing units for persons and families of low and moderate income in the state, and to make loans to finance certain other multi-family housing developments. The bonds are secured pursuant to the terms of the resolutions under which they were issued.

#### Overview of the Financial Statements

The Agency's financial statements consist of three parts – Management's Discussion and Analysis, the basic financial statements and the notes to the financial statements. The basic financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. The notes to the basic financial statements are intended to provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

#### Summary of Net Assets

The Agency's Statement of Net Assets consists primarily of single family and multi-family mortgage loans, cash and investments, and related bonds and notes payable. It also includes a portfolio of mortgage loans financed through its Operating Fund, as well as a variety of other assets such as property and equipment, other receivables, and deferred charges.

Cash and investments are used to fund loan purchases, bond debt service, and reserve funds, and are typically held in guaranteed investment contracts or other investment vehicles, as authorized in accordance with the Agency's investment policy.

**VERMONT HOUSING FINANCE AGENCY**

Management's Discussion and Analysis

June 30, 2009

(Unaudited)

The following table summarizes the net assets of the Agency as of June 30, 2009 with comparative data from the prior fiscal year.

	<u>2009</u>	<u>2008</u>	<u>Percentage change 2009 - 2008</u>
<b>Assets:</b>			
Cash and investments	\$ 131,828,112	200,568,394	(34.3)%
Loans receivable, net	681,004,431	705,340,994	(3.5)
Other assets	<u>18,873,402</u>	<u>20,176,584</u>	<u>(6.5)</u>
<b>Total assets</b>	<u>831,705,945</u>	<u>926,085,972</u>	<u>(10.2)</u>
<b>Liabilities:</b>			
Bonds and notes payable	739,087,628	828,973,611	(10.8)
Other liabilities	<u>11,797,806</u>	<u>12,854,819</u>	<u>(8.2)</u>
<b>Total liabilities</b>	<u>750,885,434</u>	<u>841,828,430</u>	<u>(10.8)</u>
<b>Net assets:</b>			
Invested in capital assets	1,628,361	1,593,923	2.2
<b>Restricted:</b>			
Bond and other requirements	62,417,750	66,371,231	(6.0)
Excess yield loans	8,455,328	8,539,071	(1.0)
Unrestricted	<u>8,319,072</u>	<u>7,753,317</u>	<u>7.3</u>
<b>Total net assets</b>	<u>\$ 80,820,511</u>	<u>84,257,542</u>	<u>(4.1)%</u>

Total assets decreased by \$94.4 million or 10.2% for the fiscal year ended June 30, 2009 when compared to the year ended June 30, 2008, primarily as a result of:

- Cash and investments decreased by \$68.7 million, or 34.3%. Significant additions to cash were the issuance of \$50.0 million in multiple-purpose bonds, and \$19.2 million of notes, and \$77.3 million of mortgage loan principal. Reductions in cash were the payment of \$92.1 million in notes and \$67.0 million of bonds, and mortgage loan originations of \$55.9 million.
- Total mortgage and construction loans receivable decreased by \$24.3 million or 3.5% for the twelve month period. Loan originations decreased by \$103.8 million or 65% compared to the prior fiscal year. In fiscal year 2009 principal collections increased by \$0.9 million or 1.1%.
- Included in restricted net assets is approximately \$8.5 million of multi-family mortgages, net of a \$1.5 million loan loss reserve, which were funded by mortgage interest income received in excess of that permitted by federal tax law (excess yield). To be in compliance with the aforementioned tax laws, the Agency believes that it may eventually forgive a portion of these loans, but that current reserves are adequate to cover such risk.

**VERMONT HOUSING FINANCE AGENCY**

Management's Discussion and Analysis

June 30, 2009

(Unaudited)

The following table summarizes the change in mortgage loans receivable for the year ended June 30, 2009, with comparative data from the prior fiscal year:

	<u>Fiscal year ended June 2009</u>	<u>Fiscal year ended June 2008</u>	<u>Percentage change year to year June 2009 vs. June 2008</u>
Mortgage loans receivable:			
Beginning balance	\$ 705,340,994	623,559,508	13.1%
Mortgage loan originations	55,931,834	159,721,796	(65.0)
Principal collections	(77,372,687)	(76,527,169)	1.10
Loans transferred to REO status	(2,162,982)	(940,445)	130.0
Loan loss provision	(732,728)	(472,696)	55.0
Ending balance	<u>\$ 681,004,431</u>	<u>705,340,994</u>	<u>(3.5)%</u>

The following table summarizes the changes in bonds, notes payable, and lines of credit borrowings for the fiscal year are as follows (in thousands):

	<u>Balance at June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2009</u>
Bonds payable	\$ 728,869	50,000	(66,955)	711,914
Notes payable	76,508	—	(70,264)	6,244
Lines of credit borrowings	23,596	19,153	(21,819)	20,930
Total debt	<u>\$ 828,973</u>	<u>69,153</u>	<u>(159,038)</u>	<u>739,088</u>

Total liabilities of the Agency decreased by \$90.9 million, or 10.8% for the fiscal year ended June 30, 2009 when compared to the year ended June 30, 2008, primarily as a net result of:

- \$50.0 million in bonds issued under the Multiple Purpose resolution.
- Fifteen multi-family construction projects received \$19.2 million in loan advances, which were financed with notes payable from lending institutions. \$21.8 million of notes were repaid.
- Two issues of Multiple Purpose Notes matured during the period, reducing notes payable by \$70.3 million.
- \$67.0 million of principal was paid on outstanding bonds payable.

**Summary of Revenues, Expenses and Changes in Net Assets**

The Agency's operating revenues consist primarily of interest income on mortgage and construction loans, investment income, and miscellaneous fee income. Operating expenses consist of bond interest expense and other debt financing costs, operational expenses, and mortgage servicing fees.

**VERMONT HOUSING FINANCE AGENCY**

Management's Discussion and Analysis

June 30, 2009

(Unaudited)

The following table summarizes the changes in net assets for the fiscal year ended June 30, 2009 with comparative data from the prior fiscal year.

	<u>2009</u>	<u>2008</u>	<u>Percentage change 2009 - 2008</u>
<b>Operating revenues:</b>			
Interest on loans	\$ 42,364,370	41,677,841	1.6%
Interest on investments	5,180,906	9,717,929	(46.7)
Fee income	727,525	755,469	(3.7)
Gain on bond redemptions	154,640	187,468	(17.5)
Other revenue	141,772	75,684	87.3
<b>Total operating revenues</b>	<u>48,569,213</u>	<u>52,414,391</u>	<u>(7.3)</u>
<b>Operating expenses:</b>			
Financing costs	45,194,711	43,355,316	4.2
Operational expenses	4,777,266	4,900,927	(2.5)
Mortgage servicing	1,101,184	1,394,369	(21.0)
Loan losses and property disposition	803,405	512,180	56.9
<b>Total operating expenses</b>	<u>51,876,566</u>	<u>50,162,792</u>	<u>3.4</u>
<b>Operating income (loss)</b>	<u>(3,307,353)</u>	<u>2,251,599</u>	<u>(246.9)</u>
<b>Nonoperating revenues:</b>			
Gain on sale of investments	384,051	—	100.0
Net depreciation in fair value of investments	(513,729)	(73,782)	596.3
<b>Increase (decrease) in net assets</b>	<u>(3,437,031)</u>	<u>2,177,817</u>	<u>(257.8)</u>
<b>Net assets at beginning of year</b>	<u>84,257,542</u>	<u>82,079,725</u>	<u>2.7</u>
<b>Net assets at end of year</b>	<u>\$ 80,820,511</u>	<u>84,257,542</u>	<u>(4.1)%</u>

## VERMONT HOUSING FINANCE AGENCY

### Management's Discussion and Analysis

June 30, 2009

(Unaudited)

The Agency's net loss for the fiscal year ended June 30, 2009 was \$3,437,031, compared to a surplus of \$2,177,817 for the fiscal year ending June 30, 2008. The change results primarily from the effects of:

- The operating loss for the period of \$3,307,353, compared to a surplus of \$2,251,599 for the comparable twelve months last year. A large portion of the change in operating results is due to decreased investment interest income of \$4,537,023, and an increase in financing costs of \$1,839,395 offset by increased mortgage loan interest income of \$686,529.
- The decrease in investment interest income by \$4.5 million, or 46.7%, from the same period last year was due to decreased reinvestment rates and a net decrease in the cash and investment portfolio balance of \$68.7 million. This decrease was primarily due to mortgage loan originations and reduction of debt.
- The increased financing costs reflect approximately \$4.5 million of interest expense paid on VHFA's variable rate debt during the twelve month period.
- Net depreciation in the fair value of investments accounted for a decrease in net assets of \$513,729 compared to net depreciation of \$73,782 in the same twelve month period of the prior year.

#### **Budgetary Information**

The Agency prepares an annual budget of income, expenses, and fund transfers (net of deferred loan origination costs and fees) for its Operating Fund. The operating budget is prepared by staff and reviewed and approved prior to the start of each fiscal year by the Agency's Board of Commissioners.

For fiscal year 2009, the Agency projected an Operating Fund budget surplus of \$9,700 and achieved an actual budget surplus of \$530,200 as a result of positive expense variances of \$323,600 net of negative income variances of \$268,500 and fund transfers \$465,400 greater than budgeted.

The addition of net deferred loan origination costs and fees of \$70,000 in fiscal year 2009 to the budget surplus of \$530,200 results in an increase in Operating Fund net assets for fiscal year 2009 of \$600,200, compared with an increase of \$243,700 in the prior period.

#### **Contacting the Agency's Financial Management**

This financial report is designed to provide a general overview of the Agency's operations and insight into the financial statements. If you have questions about this report or need additional financial information, please contact the Chief Financial Officer at Vermont Housing Finance Agency, 164 St. Paul Street, Burlington, VT 05401 or visit our website at [www.vhfa.org](http://www.vhfa.org).

VERMONT HOUSING FINANCE AGENCY

Statement of Net Assets

June 30, 2009

Assets	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Bond Fund	Multi-Family Mortgage Program Fund	Total
Cash and cash equivalents	\$ 5,228,147	—	—	—	5,228,147
Investments	100,000	—	—	—	100,000
Accrued interest receivable:					
Mortgage and notes	1,176,896	1,900,888	516,736	339,476	3,933,996
Investments	461	363,574	83,681	265,581	713,297
Current portion of mortgage loans receivable	271,349	9,051,409	3,522,890	2,813,340	15,658,988
Current costs of bond issuance expense	—	97,186	33,087	46,611	176,884
Current portion of deferred mortgage originating fees, net	—	389,892	185,476	—	575,368
Current receivables and prepaid expenses	182,055	1,415,190	291,031	68,652	1,956,928
Interfund receivables (payables)	789,716	163,589	(321,145)	(632,160)	—
Total current assets	<u>7,748,624</u>	<u>13,381,728</u>	<u>4,311,756</u>	<u>2,901,500</u>	<u>28,343,608</u>
Noncurrent assets:					
Restricted cash and cash equivalents	—	45,643,342	25,220,137	24,639,315	95,502,794
Restricted investments	—	25,936,167	—	5,061,004	30,997,171
Noncurrent portion of mortgage loans receivable, net	12,453,628	398,654,460	149,263,961	104,973,394	665,345,443
Deferred costs of bond issuance, net	—	2,427,197	696,042	847,484	3,970,723
Deferred mortgage origination fees, net	—	803,007	54,715	—	857,722
Noncurrent receivables and prepaid expenses	—	2,334,667	1,338,203	—	3,672,870
Land	775,000	—	—	—	775,000
Building (less accumulated depreciation of \$362,802)	638,032	—	—	—	638,032
Office furniture and fixtures (less accumulated depreciation of \$1,507,334)	215,329	—	—	—	215,329
Other assets and real estate owned	—	1,360,933	26,320	—	1,387,253
Total noncurrent assets	<u>14,081,989</u>	<u>477,159,773</u>	<u>176,999,378</u>	<u>135,521,197</u>	<u>803,362,337</u>
Total assets	<u>\$ 21,830,613</u>	<u>490,541,501</u>	<u>180,911,134</u>	<u>138,422,697</u>	<u>831,705,945</u>
Liabilities and Net Assets					
Liabilities:					
Current liabilities:					
Current notes payable and lines of credit	\$ 2,505,869	—	—	18,245,450	20,751,319
Current bonds payable	10,193	10,575,000	2,955,000	3,641,603	17,181,796
Accrued interest payable	57,150	4,132,984	1,419,878	1,850,543	7,460,555
Current unamortized bond and note premium (discount), net	—	(34,077)	(49,448)	(65,288)	(148,813)
Current deferred loan origination fees	75,438	—	—	—	75,438
Accounts payable	574,228	951,924	140,934	10,290	1,677,376
Escrowed cash deposits	2,368,331	—	—	—	2,368,331
Arbitrage rebate payable	—	241,603	—	—	241,603
Total current liabilities	<u>5,591,209</u>	<u>15,867,434</u>	<u>4,466,364</u>	<u>23,682,398</u>	<u>49,607,605</u>
Noncurrent liabilities:					
Noncurrent notes payable	5,433,474	—	—	989,029	6,422,503
Noncurrent bonds payable	334,460	436,445,000	157,385,000	100,367,550	694,732,010
Unamortized bond and note premium (discount), net	—	(727,287)	13,735	(833,200)	(1,546,752)
Arbitrage rebates payable	—	1,341,987	—	4,044	1,346,031
Noncurrent deferred mortgage loan origination fees	324,037	—	—	—	324,037
Total noncurrent liabilities	<u>6,291,971</u>	<u>437,059,700</u>	<u>157,398,735</u>	<u>100,527,423</u>	<u>701,277,829</u>
Total liabilities	<u>11,883,180</u>	<u>452,927,134</u>	<u>161,865,099</u>	<u>124,210,021</u>	<u>750,885,434</u>
Net assets:					
Invested in capital assets	1,628,361	—	—	—	1,628,361
Restricted	—	37,614,367	19,046,035	14,212,676	70,873,078
Unrestricted	8,319,072	—	—	—	8,319,072
Total net assets	<u>9,947,433</u>	<u>37,614,367</u>	<u>19,046,035</u>	<u>14,212,676</u>	<u>80,820,511</u>
Total liabilities and net assets	<u>\$ 21,830,613</u>	<u>490,541,501</u>	<u>180,911,134</u>	<u>138,422,697</u>	<u>831,705,945</u>

See accompanying notes to financial statements.

**VERMONT HOUSING FINANCE AGENCY**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
Year ended June 30, 2009

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Bond Fund	Multi- Family Mortgage Program Fund	Total
<b>Operating revenues:</b>					
<b>Interest income:</b>					
Mortgage and construction loans	\$ 861,850	25,663,180	8,804,760	7,034,580	42,364,370
Investments	29,372	2,824,831	1,653,748	672,955	5,180,906
<b>Fee income:</b>					
Multi-Family Mortgage Programs	587,021	—	125,593	—	712,614
Single Family Mortgage Programs	14,086	65	760	—	14,911
Gain (loss) on bond redemptions	—	254,849	(100,209)	—	154,640
Other revenue	141,772	—	—	—	141,772
<b>Total operating revenues</b>	<b>1,634,101</b>	<b>28,742,925</b>	<b>10,484,652</b>	<b>7,707,535</b>	<b>48,569,213</b>
<b>Operating expenses:</b>					
<b>Financing costs, including interest and amortization of premium, discount and costs of issuance, net</b>					
Mortgage service and contract administration fees	665,372	27,146,572	10,590,320	6,792,447	45,194,711
Salaries and benefits	2,687	827,014	215,707	55,776	1,101,184
Operating expenses	3,361,430	—	—	—	3,361,430
Professional fees	948,626	—	—	—	948,626
Trustee and assignee fees	135,074	98,322	19,448	—	252,844
Property disposition and loan loss recoveries	214,366	—	—	—	214,366
	171,764	261,513	40,022	330,106	803,405
<b>Total operating expenses</b>	<b>5,499,319</b>	<b>28,333,421</b>	<b>10,865,497</b>	<b>7,178,329</b>	<b>51,876,566</b>
<b>Operating income (loss)</b>	<b>(3,865,218)</b>	<b>409,504</b>	<b>(380,845)</b>	<b>529,206</b>	<b>(3,307,353)</b>
<b>Nonoperating revenues:</b>					
Gain on sales of investments	—	384,051	—	—	384,051
Net appreciation (depreciation) in fair value of investments	—	(531,987)	—	18,258	(513,729)
<b>Income (loss) before transfers</b>	<b>(3,865,218)</b>	<b>261,568</b>	<b>(380,845)</b>	<b>547,464</b>	<b>(3,437,031)</b>
<b>Net transfers to (from) operating fund</b>	<b>4,465,411</b>	<b>(7,116,331)</b>	<b>3,234,420</b>	<b>(583,500)</b>	<b>—</b>
<b>Increase (decrease) in net assets</b>	<b>600,193</b>	<b>(6,854,763)</b>	<b>2,853,575</b>	<b>(36,036)</b>	<b>(3,437,031)</b>
<b>Net assets at beginning of year</b>	<b>9,347,240</b>	<b>44,469,130</b>	<b>16,192,460</b>	<b>14,248,712</b>	<b>84,257,542</b>
<b>Net assets at end of year</b>	<b>\$ 9,947,433</b>	<b>37,614,367</b>	<b>19,046,035</b>	<b>14,212,676</b>	<b>80,820,511</b>

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY

Statement of Cash Flows

Year ended June 30, 2009

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Program Fund	Multi-Family Mortgage Program Fund	Total
<b>Cash flows from operating activities:</b>					
Interest collections on mortgages	\$ 856,685	25,798,580	8,662,000	7,078,210	42,395,475
Principal collections on mortgages	1,005,575	46,075,955	9,787,176	20,503,981	77,372,687
Purchases of mortgages	(992,300)	(1,561,314)	(36,372,482)	(17,005,738)	(55,931,834)
Fee income and other receipts	516,954	65	126,353	—	643,372
Salaries and benefits payments	(3,269,263)	—	—	—	(3,269,263)
Operating expense payments	(1,296,279)	(148,391)	(19,448)	(55,776)	(1,519,894)
Foreclosed property (gain) loss	8,236	205,466	(26,592)	241,893	429,003
Payment on prepaid origination fees	—	(18,550)	(444,890)	—	(463,440)
Service fees and other payments	—	(882,514)	(212,134)	—	(1,094,648)
Net cash provided by (used for) operating activities	(3,170,392)	69,469,297	(18,500,017)	10,762,570	58,561,458
<b>Cash flows from investing activities:</b>					
Proceeds from sales and maturities investments	—	2,212,571	32,802,548	—	35,015,119
Interest received on investments	41,371	3,037,941	2,501,653	806,468	6,387,433
Decrease in escrowed cash deposits	(37,617)	—	—	—	(37,617)
Cost of real estate owned	—	(956,462)	—	—	(956,462)
Proceeds from sales of real estate owned	—	1,652,454	—	—	1,652,454
Payment to IRS to rebate excess earnings	—	(152,070)	(283,676)	(105,599)	(541,345)
Net cash provided by investing activities	3,754	5,794,434	35,020,525	700,869	41,519,582
<b>Cash flows from noncapital financing activities:</b>					
Net proceeds from issuance of bonds payable	—	—	49,654,903	—	49,654,903
Principal payments on bonds	(9,526)	(41,320,000)	(21,760,000)	(3,865,657)	(66,955,183)
Interest payments on bonds and notes payable	(665,603)	(25,095,181)	(10,052,048)	(6,713,811)	(42,526,645)
Proceeds from issuance of notes payable	—	—	—	19,153,161	19,153,161
Repayment of notes payable	(1,668,701)	—	(70,095,000)	(20,320,260)	(92,083,961)
Payments to bond insurers	—	(374,679)	(109,006)	(17,458)	(501,143)
Cost of Issuance Reimbursements	386,168	—	—	—	386,168
Payments for cost of issuance	(276,821)	(82,814)	(250,106)	(42,204)	(651,945)
Transfers from (to) other funds	713,388	(2,775,515)	2,262,920	(200,793)	—
Net cash used for noncapital financing activities	(1,521,097)	(69,648,189)	(50,348,337)	(12,007,022)	(133,524,645)
<b>Cash flows from capital related financing activities:</b>					
Purchase of office furniture and fixtures	(156,075)	—	—	—	(156,075)
Net cash used for capital related financing activities	(156,075)	—	—	—	(156,075)
Net increase (decrease) in cash and cash equivalents	(4,843,810)	5,615,542	(33,827,829)	(543,583)	(33,599,680)
Cash and cash equivalents at beginning of year	10,071,957	40,027,800	59,047,966	25,182,898	134,330,621
Cash and cash equivalents at end of year	\$ 5,228,147	45,643,342	25,220,137	24,639,315	100,730,941

VERMONT HOUSING FINANCE AGENCY

Statement of Cash Flows

Year ended June 30, 2009

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Program Fund	Multi-Family Mortgage Program Fund	Total
Reconciliation of cash flows from operating activities:					
Operating income (loss)	\$ (3,865,218)	409,504	(380,845)	529,206	(3,307,353)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	121,637	—	—	—	121,637
Amortization of discounts on bonds and notes payable, net	—	25,167	103,642	65,260	194,069
Amortization of costs of bond issuance and other fees	—	101,063	91,317	39,235	231,615
Amortization of deferred income	—	(1,233,287)	257,396	—	(975,891)
Advances for cost of issuance	276,821	—	—	—	276,821
Reimbursement for Cost of issue advances	(386,168)	—	—	—	(386,168)
Loss/(gain) on bond redemptions	—	(254,849)	100,209	—	(154,640)
Investment interest income	(29,372)	(2,824,831)	(1,653,748)	(672,955)	(5,180,906)
Bond and note interest expense	665,372	25,590,617	10,049,670	6,670,394	42,976,053
Bond insurance expense	—	386,559	88,295	17,558	492,412
Changes in assets and liabilities:					
Decrease (increase) in mortgage loans receivable	193,275	46,605,084	(26,532,039)	4,070,243	24,336,563
Increase in other assets	—	(436,480)	(26,320)	—	(462,800)
Decrease (increase) in accrued interest receivable	(5,165)	135,400	(106,976)	15,455	38,714
Decrease (increase) in other receivables and prepaid expenses	44,767	826,140	(455,303)	28,174	443,778
Increase (decrease) in deferred mortgage origination fees, net	(133,758)	447,735	(38,888)	—	275,089
Increase (decrease) in accounts payable	(52,583)	(308,517)	3,573	—	(357,527)
Net cash provided by (used for) operating activities	\$ (3,170,392)	69,469,305	(18,500,017)	10,762,570	58,561,466

Supplemental noncash operating/investing activities:

Mortgage loans receivable converted to real estate owned amounted to \$2,162,982 in fiscal year 2009.

Supplemental noncash financing activities:

The fair value of investments decreased \$313,729 in fiscal year 2009.

See accompanying notes to financial statements.

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009

**(1) Authorizing Legislation and Nature of Funds**

**(a) Authorizing Legislation**

Vermont Housing Finance Agency (the Agency) was created as a body politic and corporate of the State of Vermont by an Act of the General Assembly approved on April 11, 1974 (the Act). The purpose of the Agency is to promote the expansion of the supply of funds available for mortgages on residential housing and to encourage an adequate supply of safe and decent housing at reasonable costs. The Agency is a component unit of the State of Vermont and the State of Vermont appoints a majority of the Agency's board of commissioners.

The Agency is empowered by the Act and subsequent amendments to issue bonds and notes. Instruments so issued do not constitute a debt or obligation of the State of Vermont and are payable solely from revenues or assets of the Agency.

The State of Vermont has pledged and agreed with the holders of bonds and notes of the Agency not to impair in any way the rights and remedies of such holders.

**(b) Basis of Presentation and Nature of Funds**

The financial statements are presented on a program basis, combining the various restricted accounts required by each bond resolution into groups that account for the various bonds issued, related costs of issuance and debt service activity and the investment and related earnings of the bond proceeds in mortgages or loans and temporary investments and the maintenance of certain reserve fund requirements – all under the specific requirements of each resolution.

These accounts are in turn grouped by major fund as described below for the Single Family Mortgage Program fund, the Multiple Purpose Program Fund, the Multi-family Mortgage Program fund, and the unrestricted Operating fund of the Agency.

**(i) Operating Fund**

This fund derives its revenue principally from fees, mortgage interest and investment income. Operating expenses of the Agency are paid from this fund.

Transfers from program funds to the Operating Fund represent amounts allowed to be transferred pursuant to the terms of the Agency's bond resolutions.

**(ii) Single Family Mortgage Program Fund**

This fund has been established under the Single Family Insured Mortgage Bond Resolution adopted in September 1976, the Single Family Mortgage Purchase Bond Resolution adopted in June 1978, the Home Mortgage Purchase Bond Resolution adopted in July 1983 and the Single Family Housing Bond Resolution adopted in September 1990. Monies from these programs have been used by the Agency to purchase mortgage loans on single family residential housing units for persons and families of low and moderate income in Vermont.

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009

**(iii) Multiple Purpose Program Fund**

This fund has been established under the Multiple Purpose Bond Indenture adopted in July 2007. Monies from these programs have been used by the Agency to finance mortgage loans on single family residential housing units and multi-family residential housing units for persons and families of low and moderate income within the state of Vermont.

**(iv) Multi-Family Mortgage Program Fund**

This fund has been established under the Multi-Family Mortgage Bond Resolution adopted in February 1977, the Multi-Family Housing Bond Resolution adopted in September 1981, and various individualized taxable and tax exempt bond resolutions adopted between December 1985 and May 2007. Monies from these programs are used by the Agency to make and finance mortgage loans to sponsors of multi-family residential housing units for persons and families of low and moderate income within the State of Vermont.

**(v) Reserve Requirements**

Under various bond resolutions of the Agency, certain amounts from bond proceeds are required to be set aside and maintained for potential debt service requirements in trustee accounts. As of June 30, 2009, reserve requirements totaled \$17,057,296 for the Single Family Mortgage Programs, \$7,939,851 for the Multi-Family Mortgage Programs and \$5,431,567 for the Multiple Purpose Programs. Amounts held in reserve accounts as of June 30, 2009 exceeded the required balances in all cases.

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

**(a) Basis of Accounting**

The Agency's financial statements have been prepared on the accrual basis of accounting using the economic resource management focus. Accordingly, the Agency recognizes revenue in the period earned and expenses in the period incurred.

As permitted under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Agency has elected not to apply Statements of Financial Accounting Standards issued after November 30, 1989.

**(b) Net Assets**

In accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the Agency's net assets have been classified for external financial reporting purposes into the following three net asset categories:

- *Invested in Capital Assets*: Capital assets, net of accumulated depreciation, and cost of construction or improvement of those assets.
- *Restricted*: Net assets subject to externally imposed stipulations, including those for excess yield loans.

## VERMONT HOUSING FINANCE AGENCY

### Notes to Financial Statements

June 30, 2009

- *Unrestricted:* Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Commissioners or may otherwise be limited by contractual agreements with outside parties.

(c) *Cash Equivalents*

The Agency considers all highly liquid investments, including investment agreements with insurance companies, with original maturities of three months or less to be cash equivalents for purposes of the statement of cash flows. Cash equivalents also includes mortgage payments which are in transit to the trustee to be invested in collateralized repurchase agreements.

(d) *Mortgage Loans Receivable*

Mortgage loans receivable are carried at their uncollected principal balances less an allowance for loan losses on mortgages. The loan loss allowances are established based on historical loss experience. Future additions to the allowance may be necessary based on changes in economic conditions. At June 30, 2009, the allowance for loan losses totaled \$204,187 relating to Single Family mortgage loans, \$1,538,204 for Multiple Purpose mortgage loans, \$862,000 for Multi-Family mortgage loans and \$2,100,000 for operating fund mortgage loans.

Included in Multi-Family mortgage loans receivable is approximately \$8.5 million of mortgages funded by excess yield. The Agency estimates that it may be required to forgive or restructure up to this amount of these loans prior to the final maturity of the related 1999 and 2007 bond issues, in order to be in compliance with federal tax laws.

(e) *Investments*

Investments are comprised of short-term investments other than cash equivalents that mature in one year or less, and long-term investments with maturities in excess of one year. The Agency follows the provisions of GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. GASB No. 31 requires investments to be reported at fair value in the statement of net assets. The net decrease in the fair value of investments, including both realized and unrealized gains and losses, is recognized in the statement of revenues, expenses, and changes in net assets. Fair values of guaranteed investment contracts (GICs) are recorded at contract value. Fair values of all other investments are based upon quoted market prices.

(f) *Depreciation*

The Agency records purchases of its capital assets at cost and depreciates that cost over the estimated useful lives of the assets, which are forty years for the building and three to five years for furniture and fixtures, using the straight-line method.

(g) *Amortization*

Costs of bond issuance, which represents underwriters' fees and legal costs are deferred and amortized over the lives of the respective issues using the straight-line method. Bond discounts and premiums are amortized using the effective interest method over the life of the bonds.

## VERMONT HOUSING FINANCE AGENCY

### Notes to Financial Statements

June 30, 2009

The difference between the reacquisition price and net carrying amount of defeased bonds is deducted from, or added to the refunding debt liability and amortized on the straight-line method over the shorter of the maturity of the new debt or the defeased debt.

**(h) *Income Tax Status***

The Agency is generally exempt from federal and Vermont income taxes under Section 115 of the Internal Revenue Code and applicable state laws.

**(i) *Deferred Loan Origination Fees and Costs***

In accordance with SFAS No. 91, *Accounting for Nonrefundable Fees and Cost Associated with Origination or Acquiring Loans and Initial Direct Costs of Leases*, loan origination fees and certain related costs are deferred and amortized over the estimated lives of the respective loans.

**(j) *Arbitrage to be Rebated***

Bonds issued by the Agency are subject to a variety of Internal Revenue Service (IRS) regulations which limit the amount of income which may be earned with nonmortgage investments to an amount not greater than that amount which would have been earned had the funds been invested at the yield on the bonds as defined by the IRS. Excess earnings must be rebated every five years. In 2009 \$541,000 was rebated to the IRS.

**(k) *Operating and Nonoperating Revenues and Expenses***

The Agency records all revenues and expenses related to its Single Family and Multi-Family loan programs as operating revenues and expenses since they are generated from the Agency's daily operations needed to carry out its statutory purposes. Investment income is recorded as operating revenue in all funds. Net appreciation and depreciation in the fair value of investments is recorded as nonoperating revenues and expenses. Gains and losses on bond redemption are recorded in operating revenues or expenses because they are a part of the normal operations of the Agency's activities.

**(l) *Use of Estimates***

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires estimates and assumptions that affect the reported amount of the assets and liabilities and contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to estimates and assumptions include the provision for loan losses and the valuation of investments.

**(3) *Cash, Cash Equivalents and Investments***

For mortgage program investments, bond resolution requirements mandate specific classes of investment vehicles. Qualified investments are: direct obligations of the United States of America; obligations unconditionally guaranteed by the United States of America; indebtedness issued by certain federal agencies; bank time deposits evidenced by certificates of deposits insured by the Federal Depository Insurance Corporation (FDIC) and, if in excess of insured limits, collateralized in full by the aforementioned federal government investments; obligations of the State of Vermont, and/or federal or

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009

state insured mortgages; collateralized repurchase agreements secured by obligations of the federal government; GICs with the collateral held by or at the direction of the appropriate trustee; and, investment agreements with banks or bank holding companies rated in the top categories by nationally recognized rating agencies.

The Agency has an investment policy with an overriding goal of providing optimum coverage of risk exposure and maintaining liquidity necessary for future cash needs while maximizing the return on investments. All investment agreements with banks or bank holding companies, insurance companies or other financial institutions must be rated at least "A" by nationally recognized credit rating agencies. All bonds are issued by U.S. Treasury or U.S. government agencies such as FNMA, FHLMC and FHLB, and have implied credit ratings of AAA.

**(a) Custodial Credit Risk – Deposits**

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Agency's deposits may not be recovered. The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. The deposits (including certificates of deposit) at June 30, 2009, were \$5.1 million. Of these, \$2.8 million were exposed to custodial credit risk as uninsured and uncollateralized.

**(b) Cash and Investments**

The Agency's cash and investments at June 30, 2009 are presented below.

Investments by type					
June 30, 2009					
(Expressed in thousands)					
Investment type	Fair value	Investment maturities (in years)			
		Less than 1	1 – 5	6 – 10	More than 10
Cash	\$ 5,120	5,120	—	—	—
Money market	48,753	48,753	—	—	—
Certificate of deposit	100	100	—	—	—
Guaranteed investment contracts	67,000	46,858	—	—	20,142
U.S. Treasury securities	8,538	—	—	8,538	—
Government agency securities	1,658	—	—	602	1,056
Common stock	659	—	—	—	—
	<u>\$ 131,828</u>	<u>100,831</u>	<u>—</u>	<u>9,140</u>	<u>21,198</u>

**(c) Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributable to the magnitude of the Agency's investment in a single issuer. More than 5% of the Agency's investments are invested in guaranteed investment contracts; AIG, Bayern LB, Calyon, and Transamerica. These investments are 30.3%, 22.4%, 18.2%, and 8.5%, respectively, of the Agency's total investments. The Agency's investment policy does not limit the amount invested in a single issue.

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009

**(d) Interest Rate Risk – Investments**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency's policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**(4) Mortgage and Construction Loans Receivable**

**(a) Single Family Mortgage Loans Receivable**

Single Family mortgage loans earn interest at annual rates ranging from 4.5% to 12%. Mortgage payments are received monthly by the Agency from which a service fee is generally retained by servicing lenders or the subservicer.

At June 30, 2009, approximately 67% of the Single Family mortgage portfolios consist of primary insured mortgages.

Mortgage loans, not requiring primary insurance, are limited to 80% of the appraised value of the property.

**(b) Multi-Family Mortgage Loans and Construction Loans Receivable**

Multi-Family mortgage loans receivable earn interest at annual rates ranging predominantly from 1.07% to 14.00%, and are collateralized by first mortgage liens on all real and personal property of the mortgaged premises.

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009

**(5) Capital Assets**

Capital asset activity for the year ended June 30, 2009 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Capital assets not being depreciated				
Land	\$ 775,000	—	—	775,000
Total capital assets not being depreciated	<u>775,000</u>	<u>—</u>	<u>—</u>	<u>775,000</u>
Capital assets being depreciated				
Building	1,000,834	—	—	1,000,834
Building improvements	649,853	4,475	—	654,328
Computer equipment	719,417	148,910	—	868,327
Furniture and fixtures	197,318	2,690	—	200,008
Total capital assets being depreciated	<u>2,567,422</u>	<u>156,075</u>	<u>—</u>	<u>2,723,497</u>
Less accumulated depreciation for:				
Building	(337,780)	(25,022)	—	(362,802)
Building improvements	(627,349)	(14,128)	—	(641,477)
Computer equipment	(608,249)	(72,550)	—	(680,799)
Furniture and fixtures	(175,121)	(9,937)	—	(185,058)
Total accumulated depreciation	<u>(1,748,499)</u>	<u>(121,637)</u>	<u>—</u>	<u>(1,870,136)</u>
Total capital assets being depreciated, net	<u>818,923</u>	<u>34,438</u>	<u>—</u>	<u>853,361</u>
Capital assets, net	\$ <u>1,593,923</u>	<u>34,438</u>	<u>—</u>	<u>1,628,361</u>

Current period depreciation expense of \$121,637 was charged to the operating fund.

**(6) Real Estate Owned**

Real estate owned at June 30, 2009 consists of properties held pending sale as a result of foreclosure by the Agency. Real estate owned is carried at the lower of cost or fair value less estimated costs to sell. A valuation allowance has been established to account for the reduction in value of properties held. At June 30, 2009, the valuation allowance totaled \$180,180.

**(7) Escrowed Cash Deposits**

Escrowed cash deposits are received primarily from multi-family housing developers at the time the Agency makes permanent mortgage loans. Escrowed deposits are governed by agreements, and released upon satisfactory compliance with their terms.

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009

**(8) Bonds Payable**

All bonds payable are general or special obligations of the Agency and are collateralized by the operating revenues, loans, funds and investments pledged pursuant to the respective bond resolutions. Interest is payable semi-annually. All bonds are subject to redemption after various dates at par value.

Outstanding bonds payable at June 30, 2009 are as follows:

**A. Single Family Mortgage Program Fund:**

Home Mortgage Purchase Program:

1989 Series B, maturing 2009, interest at 7.450%	\$ <u>380,000</u>
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Housing Program:

Series 9, maturing 2009 to 2037, interest at 4.65% to 5.400%	12,075,000
Series 10, maturing 2009 to 2030, interest at 4.45% to 5.250%	7,300,000
Series 11, maturing 2009 to 2030, interest at 5.15% to 5.950%	2,900,000
Series 12, maturing 2009 to 2031, interest at 5.60% to 6.400%	2,855,000
Series 13, maturing 2009 to 2031, interest at 5.05% to 5.970%	6,845,000
Series 14, maturing 2010 to 2032, interest at 4.625% to 6.050%	9,055,000
Series 15, maturing 2009 to 2032, interest at 4.30% to 5.375%	12,855,000
Series 16, maturing 2010 to 2033, interest at 4.75% to 5.600%	26,245,000
Series 17, maturing 2009 to 2034, interest at 3.182% to 5.100%	18,710,000
Series 18, maturing 2010 to 2034, interest at 3.50% to 4.950%	18,900,000
Series 19, maturing 2009 to 2035, interest at 2.80% to 5.000%	21,460,000
Series 20, maturing 2009 to 2035, interest at 3.85% to 5.500%	22,895,000
Series 21, maturing 2009 to 2035, interest at 2.55% to 5.000%	32,615,000
Series 22, maturing 2009 to 2035, interest at 3.65% to 5.000%	33,290,000
Series 23, maturing 2009 to 2035, interest at 3.50% to 5.000%	48,325,000
Series 24, maturing 2009 to 2036, interest at 3.70% to 5.000%	36,725,000
Series 25, maturing 2009 to 2037, interest at 3.95% to 6.000%	46,350,000
Series 26, maturing 2009 to 2038, interest at 3.65% to 5.750%	47,720,000
Series 27, maturing 2009 to 2038, interest at 3.85% to 5.500%	39,520,000

Total Housing Program	<u>446,640,000</u>
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Total Single Family Mortgage Program Fund	<u>447,020,000</u>
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**B. Multiple Purpose Bond Program Fund:**

Multiple Purpose Bonds:

2007 Series A and B, maturing 2009 to 2038, interest at 4.10% to 5.750%	60,675,000
2007 Series C, maturing 2009 to 2038, interest at 3.90% to 5.750%	64,360,000
2008 Series C, maturing 2010 to 2040, interest at 2.15% to 5.35%	35,305,000

Total Multiple Purpose Bonds	<u>160,340,000</u>
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**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009

**C. Multi-Family Mortgage Program Fund:**

**Mortgage Program:**

1999 Series A, maturing 2010 to 2020, interest at 4.65% to 5.125%	\$ 3,225,000
1999 Series B, maturing 2010 to 2030, interest at 5.45% to 6.000%	3,520,000
1999 Series C and D, maturing 2010 to 2021, interest at 5.15% to 5.800%	21,805,000
2000 Series A, maturing 2010 to 2039, interest at 5.900%	4,910,000
2000 Series B, C, and D, maturing 2009 to 2031, interest at 5.650% to 6.700%	2,150,000
2001 Series A, B, C, and D, maturing 2009 to 2032, interest at 5.400% to 7.270%	4,820,000
2002 Series A and B, maturing 2009 to 2039, interest at 4.55% to 7.200%	11,310,000
2003 Series A, maturing 2009 to 2043, interest at 5.050% to 5.250%	4,105,000
2003 Series C, maturing 2010 to 2034, interest at 3.60% to 5.100%	10,145,000
2004 Series A, B, and C, maturing 2009 to 2046, interest at 3.45% to 6.300%	13,805,000
2004 Series D, maturing 2009 to 2039, interest at 4.650% to 4.900%	2,680,000
2005 Series A, B, C, and D, maturing 2009 to 2035, interest at 4.400% to 5.750%	4,220,000
<b>Total Mortgage Program</b>	<u>86,695,000</u>

**Direct Placement Program:**

**Northgate Housing Program:**

Five series of bonds, maturing 2009 to 2031, interest at 7.085% to 9.230%	5,823,359
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**Highgate Housing Program:**

Two series of bonds, maturing 2009 to 2031, interest at 6.450% to 7.741%	1,032,262
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**Kilbourn Mobile Home Park Bond:**

Taxable bond, maturing 2009 to 2016, interest at 7.500%	188,500
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**T.D. Banknorth Borrowing – Chittenden Housing Corp. Bond:**

Maturing 2009 to 2012, interest at 5.410%	3,620,032
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**Multi-Family variable rate demand bonds, Series 1**

Maturing 2010 to 2038, interest at 4.180% to 5.490%	4,085,000
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**Multi-Family variable rate demand bonds, Series 2**

Maturing 2010 to 2038, interest at 3.756% to 4.610%	2,565,000
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<b>Total Direct Placement Programs</b>	<u>17,314,153</u>
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<b>Total Multi-Family Mortgage Program Fund</b>	<u>104,009,153</u>
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**D. Operating Fund:**

Northgate Housing Site Acquisition, maturing 2009 to 2031, interest at 7%	544,653
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<b>Total bonds payable</b>	<u>\$ 711,913,806</u>
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All calendar year 2009 maturities on bonds payable occur after June 30, 2009.

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009

Future maturities on bonds payable as of June 30, 2009 are as follows (in thousands):

	Multi-Family Mortgage Programs				Multiple Purpose Programs	
	Mortgage Program		Direct Placement Programs		Multiple Purpose Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
Fiscal year ending June 30:						
2010	\$ 3,060	4,736	582	743	2,935	7,693
2011	3,230	4,580	567	703	3,510	7,566
2012	3,375	4,410	334	783	3,650	7,416
2013	3,500	4,230	3,830	744	3,355	7,260
2014	3,140	4,030	323	694	3,195	7,111
2015 - 2019	19,095	17,231	2,088	3,102	17,025	33,269
2020 - 2024	14,385	12,011	2,246	2,396	21,965	28,607
2025 - 2029	12,325	8,730	2,934	1,629	27,605	22,451
2030 - 2034	13,900	5,080	2,693	690	33,380	14,922
2035 - 2039	8,875	1,725	1,695	172	41,010	5,332
2040 - 2044	1,470	242	—	—	2,690	60
2045 - 2046	340	28	—	—	—	—
<b>Total</b>	<b>\$ 86,695</b>	<b>67,073</b>	<b>17,314</b>	<b>11,656</b>	<b>160,340</b>	<b>141,687</b>

	Single Family Mortgage Programs							
	Home Mortgage		Housing Program		Operating Fund		Agency totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Fiscal year ending June 30:								
2010	\$ 380	14	10,195	20,980	10	38	17,182	34,204
2011	—	—	10,645	20,550	11	37	17,963	33,436
2012	—	—	10,575	20,087	12	37	17,946	32,733
2013	—	—	10,700	19,615	13	36	21,398	31,885
2014	—	—	11,210	19,129	13	35	17,881	31,019
2015 - 2019	—	—	68,493	86,990	82	159	106,783	140,731
2020 - 2024	—	—	83,350	69,076	115	127	122,061	112,217
2025 - 2029	—	—	92,945	48,238	162	80	135,991	81,148
2030 - 2034	—	—	103,375	24,275	127	18	153,477	44,985
2035 - 2039	—	—	45,130	3,909	—	—	96,730	11,138
2040 - 2044	—	—	—	—	—	—	4,160	302
2045 - 2046	—	—	—	—	—	—	340	28
<b>Total</b>	<b>\$ 380</b>	<b>14</b>	<b>446,640</b>	<b>332,849</b>	<b>543</b>	<b>567</b>	<b>711,914</b>	<b>553,846</b>

A summary of bonds payable, discount on bonds, and premium on bonds and arbitrage rebate payable activity for the year ended June 30, 2009 is as follows (in thousands):

	Balance at June 30, 2008	Increases	Decreases	Balance at June 30, 2009	Amounts due within one year	Amounts due thereafter
Bonds payable	\$ 728,869	50,000	(66,955)	711,914	17,182	694,732
Discount on bonds	(6,480)	(345)	733	(6,092)	(319)	(5,773)
Premium on bonds	5,318	—	(921)	4,397	170	4,227
Arbitrage rebate payable	1,806	477	(695)	1,588	242	1,346

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009

The Agency has entered into interest rate swap agreements with counterparties in connection with the Single Family Housing Bonds Variable Rate Demand Bonds (VRDB) in order to obtain a synthetic fixed interest rate at a cost expected to be less than that associated with variable rate debt. Under the swap agreement, the swap provider pays the Agency an amount based on the London InterBank Offered Rate (LIBOR) or the Securities Industry and Financial Markets Association (SIFMA), and the Agency pays the swap provider an amount at a fixed rate of interest.

Using rates as of June 30, 2009, debt service requirements of the variable rate bonds and net swap payments, assuming current interest rates remain constant, were as follows (in thousands):

	Variable rate		Interest rate swaps, net	Total
	Principal	Interest		
Fiscal year ending June 30:				
2010	\$ 842	4,318	5,034	10,194
2011	1,172	4,299	5,001	10,472
2012	1,135	4,268	4,780	10,183
2013	1,200	4,247	4,741	10,188
2014	1,255	4,224	4,700	10,179
2015 - 2019	18,045	19,696	22,209	59,950
2020 - 2024	26,560	15,163	17,902	59,625
2025 - 2029	27,950	10,213	12,778	50,941
2030 - 2034	34,400	5,223	7,508	47,131
2035 - 2039	23,375	644	2,148	26,167
2040	2,690	5	52	2,747
	<u>\$ 138,624</u>	<u>72,300</u>	<u>86,853</u>	<u>297,777</u>

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009

A summary of the swap agreements follows:

Issue	Effective date	Face amount	Termination date	Termination option date	Fixed swap payment rate	Variable receivable rate	Fair value at June 30, 2009
Series 17	VRDB 4/23/2003	\$ 5,420,000	5/1/2019	—	3.182	70% of LIBOR	\$ (273,122)
Series 19	VRDB 4/8/2004	6,900,000	11/1/2027	—	3.492	70% of LIBOR	(513,575)
Series 20	VRDB 8/12/2004	7,000,000	5/1/2028	11/1/2014	4.166	70% of LIBOR	(707,727)
Series 21	VRDB 11/30/2004	10,250,000	5/1/2029	—	3.682	SIFMA + 0.10% (if LIBOR < 3.00%) 68% of LIBOR (if LIBOR > 3.00%)	(871,315)
Series 22	VRDB 6/8/2005	13,800,000	11/1/2034	5/1/2012	3.731	65% of LIBOR	(808,691)
Series 23	VRDB 10/26/2005	14,500,000	11/1/2034	11/1/2014	3.569	65% of LIBOR + 0.28%	(800,253)
Series 24	VRDB 4/19/2006	10,440,000	11/1/2035	5/1/2015	3.973	65% of LIBOR + 0.28%	(852,292)
Series 25	VRDB 7/12/2006	12,945,000	11/1/2036	11/1/2015	4.251	65% of LIBOR + 0.28%	(1,404,848)
Series 26	VRDB 10/26/2006	13,450,000	5/1/2037	5/1/2016	3.897	65% of LIBOR + 0.28%	(1,139,424)
MP2007 A	VRDB 7/24/2007	12,800,000	5/1/2037	5/1/2017	4.197	65% of LIBOR + 0.28%	(1,450,865)
MP2007 C	VRDB 9/12/2007	16,500,000	11/1/2037	5/1/2017	3.990	65% of LIBOR + 0.28%	(1,592,978)
MP2008 C	VRDB 9/24/2008	11,980,000	5/1/2040	—	3.167	SIFMA + 0.05%	(321,912)
TD BankNorth Chittenden Housing	6/28/2006	3,620,032	6/28/2011	—	5.410	69% of LIBOR	(221,808)
Series 1-A	VRDB 1/25/2007	635,000	1/1/2022	—	4.240	SIFMA + 0.15%	(55,073)
Series 1-B	VRDB 1/25/2007	1,740,000	1/1/2022	—	4.180	SIFMA + 0.10%	(148,844)
Series 1-C	VRDB 1/25/2007	1,710,000	1/1/2022	—	5.490	LIBOR + 0.05%	(269,580)
Series 2-A	VRDB 1/24/2008	1,295,000	1/5/2023	—	3.800	SIFMA + 0.15%	(54,248)
Series 2-B	VRDB 1/24/2008	270,000	1/5/2023	—	3.756	SIFMA + 0.10%	(11,408)
Series 2-C	VRDB 1/24/2008	1,000,000	1/5/2023	—	4.610	LIBOR + 0.05%	(76,795)
		<u>\$ 146,255,032</u>					<u>\$ (11,574,758)</u>

By using derivative financial instruments to hedge exposures to changes in interest rates, the Agency exposes itself to credit and market risk. Credit risk is the failure of the counter-party to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counter-party owes the Agency, which creates credit risk for the Agency. When the fair value of a derivative contract is negative, the Agency owes the counter-party and, therefore, it does not possess credit risk. The Agency minimizes its credit risk in derivative instruments by entering into transactions with high-quality counter-parties whose credit rating is higher than Aa. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rates is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009

**(9) Notes Payable**

The Agency may borrow from the Federal Home Loan Bank (FHLB) in an amount not to exceed assets pledged to the FHLB. As of June 30, 2009, the Agency had outstanding borrowings totaling \$5,744,342 which are secured by mortgage loans with a carrying value of \$6,300,425. These borrowings have interest rates ranging from 6.32% to 7.66% and mature through November 2018.

The Agency is operating under unsecured variable rate lines of credit that total \$70,050,000 with lending institutions expiring in 2010. At June 30, 2009, there was a \$20,929,579 balance outstanding at 1.07% to 4.44%. The lines of credit were entered into in order to fund working capital, and to be used for specific construction projects financed by the Agency.

The Agency has a \$500,000 note payable to the Vermont Community Foundation at a rate of 4.5%, maturing in February 2010. The note is uncollateralized.

Future maturities on notes payable and line of credit borrowings as of June 30, 2009 are as follows (in thousands):

	Operating Fund		Multi Family Direct Placement Program		Agency totals	
	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:						
2010	\$ 2,506	464	18,246	359	20,752	823
2011	200	378	989	17	1,189	395
2012	244	363	—	—	244	363
2013	230	346	—	—	230	346
2014	248	328	—	—	248	328
2015 – 2019	4,511	895	—	—	4,511	895
Total	\$ 7,939	2,774	19,235	376	27,174	3,150

A summary of line of credit borrowings and notes payable activity for the year ended June 30, 2009 is as follows (in thousands):

	Balance at June 30, 2008	Increases	Decreases	Balance at June 30, 2009	Amounts due within one year	Amounts due thereafter
Line of credit borrowings	\$ 23,596	19,153	(21,819)	20,930	19,940	990
Notes payable	76,508	—	(70,264)	6,244	811	5,433
	\$ 100,104	19,153	(92,083)	27,174	20,751	6,423

**(10) Asset Restrictions**

Pursuant to the Act and agreements with bondholders and other parties, the Agency's assets are pledged to secure specific obligations or are otherwise restricted.

Programs which are financed by the issuance of bonds are accounted for separately in accordance with each of the general bond resolutions. Program assets and revenues are pledged to bondholders. Revenues in excess of required amounts are available to be transferred to the Operating Fund.

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009

Amounts transferred to the Operating Fund from the bond resolutions are free and clear of any lien or pledge created by the bond resolutions, and may be used for any lawful purpose under the Act, including payments to various accounts within the bond resolutions. All of the outstanding bonds, except for the Single Family Housing Bonds, are general obligations of the Agency. For general obligation bonds, the Agency covenants that it will restore deficiencies to the bond programs, as defined by the bond resolutions, from the Operating Fund.

The Operating Fund is also the primary source to pay administrative expenses in connection with current and future housing programs, and to provide collateral for credit agreements.

**(11) Retirement Plan**

Upon meeting certain eligibility requirements, the Agency's employees are eligible to participate in the Vermont Housing Finance Agency 403(b) Plan, a noncontributory defined contribution pension plan. For the year ended June 30, 2009, the Agency had a total payroll of \$2,337,339, of which \$2,290,009 was covered by the pension plan. The Agency's contribution to the Plan is 10% of the covered payroll. Employees are 30% vested in benefits under the plan upon hire, and vest in the remaining 70% on a pro-rata basis over the next five years of service. Forfeitures on nonvested benefits by terminated employees reduce the Agency's contribution. The cost of the plan was \$239,640 for the year ended June 30, 2009, and is included in salaries and benefits expense. The Agency does not provide any postemployment benefits other than the 403(b) plan.

**(12) Gain on Bond Redemptions**

During the year ended June 30, 2009, the Agency redeemed \$30,180,000 of its Single-Family Housing Program Bonds, and \$19,770,000 of its Multiple Purpose Bonds. A gain on bond redemptions of \$154,640 was recognized which represents the unamortized balance of bond premium and discount and cost of issuance costs associated with the bonds retired.

**VERMONT HOUSING FINANCE AGENCY**

Notes to Financial Statements

June 30, 2009

The following is a summary of the redeemed bonds (in thousands):

<b>Single Family Housing Program:</b>	
Series 9	\$ 1,320,000
Series 10	960,000
Series 11	505,000
Series 12	320,000
Series 13	885,000
Series 14	880,000
Series 15	790,000
Series 16	2,770,000
Series 17	1,655,000
Series 18	1,935,000
Series 19	1,880,000
Series 20	1,645,000
Series 21	2,715,000
Series 22	2,005,000
Series 23	1,925,000
Series 24	1,845,000
Series 25	2,085,000
Series 26	2,320,000
Series 27	1,740,000
	<u>\$ 30,180,000</u>
<b>Multiple Purpose Bonds:</b>	
2007 Series A, B	\$ 3,430,000
2007 Series C	1,645,000
2008 Series C	14,695,000
	<u>\$ 19,770,000</u>

**(13) Commitments and Contingencies**

At June 30, 2009, the Agency had outstanding commitments in the amount of \$5,494,678 to purchase or finance mortgage loans pursuant to its normal funding from bond proceeds. In addition, there were commitments of \$33,900,000 for general loans or future program subsidy purposes.

Under the Single Family Mortgage Programs, the Agency has obtained surety bonds in the amount of \$23,534,719 expiring between 2030 and 2038, which satisfy the requirements of certain bond resolutions.

## VERMONT HOUSING FINANCE AGENCY

### Notes to Financial Statements

June 30, 2009

#### (14) Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors; and omissions; injuries to employees; employees' health; and natural disasters. The Agency manages these risks through a combination of participating in the State self-insurance program and purchasing commercial insurance packages in the name of the Agency. The Agency has not experienced settled claims resulting from these risks which have exceeded its insurance coverage. In addition, the Agency's bylaws provide for the indemnification of Agency commissioners and officers by the Agency. This indemnification requirement is supported by various statutes related to claims against employees and entities of the State and the Agency's authorizing legislation which includes the benefit of sovereign immunity.

#### (15) Subsequent Event

On July 28, 2009, the Agency securitized \$41.2 million of Single Family mortgage loans receivable with Freddie Mac; \$35.5 million from the Single Family Housing Program, and \$5.7 million from the Multiple Purpose Bonds program. The mortgage backed securities (MBS) issued in exchange for the loans will amortize principal and interest over the terms of the underlying mortgages and will be carried as investments in the respective programs.

On July 1, 2009 VHFA entered into an agreement with the United States Department of Housing and Urban Development (HUD) to administer \$5.4 million of funding available to eligible Vermont housing developments under the Federal Tax Credit Assistance Program (TCAP). The TCAP program, authorized by the American Recovery and Reinvestment Act will pay for capital items in developments that receive Section 42 Housing Credits.

On August 26, 2009 VHFA made its first distribution under Section 1602 of the American Recovery and Reinvestment Tax Act of 2009 which authorized the United States Department of the Treasury to issue grants to State housing credit agencies in lieu of low-income housing credits. The program allows states to exchange up to 100% of returned and unused pre-2009 ceiling credits and 40% of 2009 per capita and national pool credits for cash. VHFA will administer the distribution of the cash to eligible housing developments to pay for capital items. As of September 1, 2009, VHFA had exchanged \$1.4 million of credits for \$11.7 million in cash, and made distributions of \$462,470.

On June 15, 2009 VHFA signed a memorandum of agreement with the State of Vermont to administer \$7 million out of \$19.6 million of Neighborhood Stabilization Program (NSP) funds allocated to the State under the Federal Housing and Economic Recovery Act of 2008. VHFA's portion to administer is called the Homeownership Acquisition and Rehabilitation Program (HARP). The NSP-HARP funds will be used to purchase foreclosed 1 to 4 unit residential properties, to pay for any required rehabilitation and related costs, and to find eligible buyers or renters. VHFA received its initial funding from the State of Vermont on July 27, 2009 and purchased the first property under the NSP-Harp program on August 5, 2009.

VERMONT HOUSING FINANCE AGENCY

Statement of Net Assets

September 30, 2009

(Unaudited)

	SINGLE FAMILY				MULTI-FAMILY			COMBINED TOTAL
	INSURED MORTGAGE PROGRAM	MORTGAGE PURCHASE PROGRAM	HOME MTG PURCHASE PROGRAM	HOUSING PROGRAM	MULTIPLE PURPOSE BONDS	MORTGAGE PROGRAM	DIRECT PLACEMENT PROGRAM	
<b>ASSETS:</b>								
Cash and cash equivalents	760,599	184,566	4,751,059	57,716,467	26,897,775	21,921,058	3,168,650	120,725,194
Investments	3,372	-	-	26,312,503	-	5,067,536	-	31,483,411
Mortgage and const loans receivable	154,058	37,366	851,043	359,224,517	146,142,962	71,026,404	37,974,444	632,153,318
Less: Reserve for loan losses	(140)	-	(2,185)	(201,862)	(1,538,204)	-	(862,000)	(4,704,391)
Mortgage backed securities (FHLMC, FNMA, GNMA)	-	-	-	34,824,650	8,561,747	-	-	43,486,397
Accrued interest receivable:								
Mortgage and construction loans and notes	916	933	9,484	1,808,754	522,928	296,004	46,707	3,850,118
Investments	17	-	36,341	1,088,758	186,767	88,053	-	1,399,936
Mortgage backed securities	-	-	-	86,654	20,211	-	-	106,865
Deferred costs of bond issuance	-	-	17,067	2,483,041	718,700	736,278	146,164	4,101,250
Deferred mortgage origination fees, net	-	-	-	1,083,944	230,793	-	-	1,314,737
Land	-	-	-	-	-	-	-	775,000
Building (net of depreciation)	-	-	-	-	-	-	-	631,777
Office furniture and fixtures (net of depreciation)	-	-	-	-	-	-	-	195,482
Other furniture and prepaid expenses	2,718	-	11,776	3,450,751	1,555,265	70,256	78,092	5,239,070
Interfund receivables (payables)	(407,261)	3,912	(677,389)	1,232,714	(316,048)	796,008	(772,158)	-
Other assets and REO	-	-	-	1,362,819	26,320	-	-	1,389,139
<b>TOTAL ASSETS</b>	\$ 514,279	206,777	4,997,196	490,473,710	183,109,216	100,001,597	39,779,899	842,147,303
<b>LIABILITIES:</b>								
Deferred loan origination fees	-	-	-	-	-	-	-	2,615,348
Accounts payable	28	9	5,371	2,528,615	128,305	4,044	10,290	3,244,885
Escrowed cash deposits	-	-	-	-	-	-	-	2,293,795
Line of credit borrowings	-	-	-	-	-	-	-	2,195,000
Notes payable	-	-	-	-	-	-	22,471,411	28,172,740
Accrued interest payable	-	-	9,437	9,358,290	3,438,258	602,277	72,563	13,547,184
Bonds payable	-	-	380,000	446,640,000	160,340,000	85,895,000	17,202,628	711,002,281
Unamortized premium (discount) on bonds and notes	-	-	(68,144)	(685,760)	(23,351)	(841,716)	(40,457)	(1,659,428)
<b>TOTAL LIABILITIES</b>	\$ 28	9	326,664	457,841,145	163,883,212	85,659,605	39,776,435	761,411,805
<b>NET ASSETS:</b>								
Invested in capital assets	-	-	-	-	-	-	-	1,602,259
Restricted	514,251	206,768	4,670,532	32,632,565	19,226,004	14,341,992	63,464	71,655,576
Unrestricted	-	-	-	-	-	-	-	7,477,663
<b>TOTAL NET ASSETS</b>	\$ 514,251	206,768	4,670,532	32,632,565	19,226,004	14,341,992	63,464	80,735,498

**VERMONT HOUSING FINANCE AGENCY**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Three Months Ended September 30, 2009**  
(Unaudited)

	GENERAL FUND	SINGLE FAMILY			MULTI-FAMILY			COMBINED TOTAL	
		INSURED MORTGAGE PROGRAM	MORTGAGE PURCHASE PROGRAM	HOME MTG PURCHASE PROGRAM	HOUSING PROGRAM	MULTIPLE PURPOSE BONDS	MORTGAGE PROGRAM		DIRECT PLACEMENT PROGRAM
<b>OPERATING REVENUES:</b>									
Interest income:									
Mortgage and construction loans receivable	\$ 202,310	3,122	933	20,076	5,384,945	2,142,291	1,232,364	410,587	9,396,628
Investments	1,406	104	-	27,682	762,548	114,566	180,852	-	1,087,158
Mortgage backed securities	-	-	-	-	418,242	80,563	-	-	498,805
Fee Income:									
Multi-Family Mortgage Programs	109,649	-	-	-	-	39,402	-	-	149,051
Single Family Mortgage Programs	22,415	-	-	-	-	50	-	-	22,465
Miscellaneous income	17,531	-	-	-	-	-	-	-	17,531
<b>Total operating revenues</b>	<b>353,311</b>	<b>3,226</b>	<b>933</b>	<b>47,758</b>	<b>6,565,735</b>	<b>2,376,872</b>	<b>1,413,216</b>	<b>410,587</b>	<b>11,171,638</b>
<b>OPERATING EXPENSES:</b>									
Financing costs, including interest and amortization of premium, discount and costs of issuance	152,965	13	-	8,878	6,265,667	2,139,289	1,228,528	409,026	10,204,366
Mortgage service and contract administration fees	-	113	18	972	178,199	54,011	-	-	233,313
Salaries and benefits	767,673	-	-	-	-	-	-	-	767,673
Operating expenses	164,799	-	-	-	-	-	-	-	164,799
Professional fees	83,589	-	-	-	53,263	-	-	-	136,852
Trustee and assignee fees	51,796	-	-	-	-	-	-	-	51,796
Loss (gain) on bond redemptions	-	-	-	-	-	-	-	-	-
Property disposition and loan loss expenses (recoveries)	-	-	-	-	80,487	3,603	-	-	84,090
<b>Total operating expenses</b>	<b>1,220,822</b>	<b>126</b>	<b>18</b>	<b>9,850</b>	<b>6,577,616</b>	<b>2,196,903</b>	<b>1,228,528</b>	<b>409,026</b>	<b>11,642,889</b>
Operating income (loss)	(867,511)	3,100	915	37,908	(11,881)	179,969	184,688	1,561	(471,251)
<b>NON-OPERATING REVENUES:</b>									
Net appreciation (depreciation) in fair value of investments	-	947	-	-	378,760	-	6,531	-	386,238
Income (loss) before transfers	(867,511)	4,047	915	37,908	366,879	179,969	191,219	1,561	(85,013)
Net transfers to (from) programs	-	-	-	-	-	-	-	-	-
Increase (decrease) in net assets	(867,511)	4,047	915	37,908	366,879	179,969	191,219	1,561	(85,013)
Net assets at beginning of year	9,947,433	510,204	205,853	4,632,624	32,265,686	19,046,035	14,150,773	61,903	80,820,511
Net assets at end of period	\$ 9,079,922	514,251	206,768	4,670,532	32,632,565	19,226,004	14,341,992	63,464	80,735,498

## APPENDIX II

### DEFINITIONS OF CERTAIN TERMS

The following are definitions in summary form of certain terms contained in the Indenture and used in this Official Statement:

*"Bondholder"* or *"holder of Bonds"* or *"owner of Bonds"*: the registered owner of any Bond.

*"Cash Flow Certificate"* means, with respect to a Series (or Subseries) of Bonds, an Officer's Certificate demonstrating projected annual Revenues with respect to such Series (or Subseries) sufficient to pay projected Program Expenses with respect to such Series (or Subseries) and scheduled interest and principal payments with respect to such Series (or Subseries).

*"Deferred Interest Bonds"*: the Bonds so designated in a Supplemental Indenture but shall not include any such Bond from and after the date, if any, on which such Bond will bear interest that is payable to the holder of such Bond prior to its scheduled maturity.

*"Federal Agency Obligations"* means bonds, debentures or other obligations issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Farm Credit Bank, any Federal Home Loan Bank, the Resolution Funding Corporation, the Tennessee Valley Authority, any Federal Loan Bank or the Government National Mortgage Association and any other obligations of any agency controlled or supervised by and acting as an instrumentality of the United States Government pursuant to authority granted by the Congress of the United States.

*"Federal Obligations"* means direct obligations of the United States or other obligations the timely payment of principal and interest of which is fully and unconditionally guaranteed by the United States.

*"Fiscal Year"* means the period of 12 calendar months commencing on July 1 in any calendar year and ending on June 30 in the following year.

*"Hedge Agreement"* means a payment exchange agreement, swap agreement, forward purchase agreement or any other hedge agreement entered into by the Agency providing for payments between the parties based on levels of, or changes in, interest rates or other indices or contracts to exchange cash flows or a series of payments or contracts, including, without limitation, interest rate floors, or caps, options, puts or calls, which allows the Agency to manage or hedge payment, rate, spread or similar risk with respect to all or a portion of any Series of Bonds or any assets pledged under the Indenture.

*"HUD"* means the Department of Housing and Urban Development and any successor thereto and shall include FHA, as dictated by context.

*"Interest"* or *"interest"* means, with respect to any Bonds, the amount of interest specified with respect thereto by the Supplemental Indenture authorizing the issuance thereof, and, in reference to debt service on the Bonds, shall include regular payments (but not termination payments or other fees or expenses) required of the Agency for any related Qualified Hedge Agreement to the extent so specified in the Supplemental Indenture authorizing the same.

*"Loan"* or *"Loans"*: any Multifamily Mortgage Loans or any Loan Securities.

**“Loan Security”**: a security, instrument of indebtedness or other obligation of or guaranteed by the Government National Mortgage Association, Fannie Mae or the Federal Home Loan Mortgage Corporation, payable from or representing an interest in Loans or interests therein and as more fully described in the applicable supplemental indenture authorizing the issuance of a Series of Bonds for the purchase of such Loan Securities.

**“Multifamily Housing Program”**: the Agency’s program of making Multifamily Mortgage Loans.

**“Multifamily Mortgage Loan”**: an interest-bearing loan made by the Agency to a mortgagor for the financing of a development secured by a mortgage on such Development.

**“Outstanding” or “Bonds Outstanding”** means all Bonds which have been authenticated and delivered by the Trustee under the Indenture, except (a) bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity; (b) bonds for the payment or redemption of which cash funds or Federal Obligations or any combination thereof shall have been theretofore deposited with the Trustee (whether upon or prior to the maturity or redemption date of any such Bonds); provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Trustee shall have been filed with the Trustee; (c) bonds in lieu of which other Bonds have been executed and delivered under the Indenture; and (d) bonds otherwise specified in a Supplemental Indenture.

**“Parity Certificate”** means, with respect to a Series (or Subseries) of Bonds, unless otherwise specified in the Supplemental Indenture authorizing such Series, a Certificate demonstrating that the “value” of the “principal assets” securing such Series (or Subseries) equals or exceeds 100% of the “capital value” of such Series (or Subseries) of Bonds, and with respect thereto:

(a) “value” means a periodic valuation of principal assets to be made by an Officer’s Certificate (and not for financial reporting purposes), as amounts computed for the several categories of principal assets, respectively, as follows: (i) for a Loan, the unpaid principal amount thereof; and (ii) for Permitted Investments and deposits, the principal amount or amortized cost of a Permitted Investment, whichever is lower, if it matures more than twenty four (24) months after the date of computation or is held subject to a repurchase agreement, and the principal amount of a deposit or of a Permitted Investment that matures within twenty four (24) months after the date of computation and is not held subject to a repurchase agreement;

(b) “principal assets” means all Loans (including defaulted Loans), deposited cash and Permitted Investments in all Series (or Subseries) Accounts in the Program Fund, the Debt Service Fund, the Reserve Fund and the Revenue Fund, other than Permitted Investments and cash held pursuant to the Indenture or to pay accrued interest on Outstanding Bonds of such Series (or Subseries); and

(c) “capital value” means for any or all Bonds of such Series (or Subseries) Outstanding on a particular date, the aggregate principal amount of current interest paying Bonds, plus the aggregate appreciated amount of any Deferred Interest Bonds, computing the appreciated amount as of the then next preceding interest payment (compounding) date.

**“Permitted Investments”** means any of the following which at the time are legal investments under the law of the State for funds held under the Indenture which are then proposed to be invested hereunder: (a) Federal Obligations; (b) obligations of any state of the United States of America or any political subdivision of such a state (such obligations of which are rated in the highest long term rating

category by each Rating Agency); (c) Federal Agency Obligations; (d) repurchase agreements collateralized by securities described in (a), (b) or (c) above with any institution that will not adversely affect the Rating of the Bonds at the time of purchase; (e) investment agreements, secured or unsecured as required by the Agency, with any institution that will not adversely affect the Rating of the Bonds at the time of execution; (f) any of the following obligations that would not adversely affect the Rating of the Bonds at the time of purchase: (i) time deposits, certificates of deposit or any other deposit with federally or state chartered banks (including the Trustee and its affiliates), the deposits of which are fully insured by the FDIC, (ii) commercial paper, (iii) shares of a money market mutual fund or other collective investment fund registered under the Investment Company Act of 1940, as amended, whose shares are registered under the Securities Act of 1933, as amended, having assets of at least \$100 million, and (iv) any other investment with a financial institution; provided that, for the purposes of (d), (e) or (f) above, unless otherwise notified by a Rating Agency, if the general unsecured obligation of an institution is rated by such Rating Agency at a level which is not lower than one rating below the Rating on the Bonds, any agreement constituting a general unsecured obligation of such an institution shall not be treated as adversely affecting the Rating of the Bonds; and further provided that it is expressly understood that the definition of Permitted Investments shall be, and be deemed to be, expanded, or new definitions and related provisions shall be added to the Indenture, thus permitting investments with different characteristics from those permitted which the Executive Director deems from time to time to be in the interest of the Agency to include as Permitted Investments, as reflected in an Executive Director's Determination, or in a Supplemental Indenture if at the time of inclusion such inclusion will not, in and of itself, adversely affect the then current Rating on the Bonds.

*"Principal"* or *"principal"*: (a) unless otherwise provided in the Indenture or in a Supplemental Indenture, as such term references the principal amount of a Deferred Interest Bond or Deferred Interest Bonds, the Appreciated Amount thereof, and (b) as such term references the principal amount of any other Bond or Bonds, the principal amount at maturity of such Bond or Bonds.

*"Program Expenses"*: any fee, premium or other item of expense directly or indirectly payable by or reimbursable to the Agency and related to (a) the compensation and expenses of the Trustee and any other paying agents, (b) the servicing of Loans (whether by the Agency or others), (c) the maintenance in full force and effect of any Additional Security, (4) any policy or policies of insurance on or relating to Loans maintained by the Agency pursuant to any supplemental indenture and (5) reasonable costs and expenses incurred by the Agency in connection with its ownership, preservation, rehabilitation or disposition of property acquired by the Agency through the protection or enforcement of its rights conferred by law under the applicable Loan.

*"Provider"*: any person or entity providing a Hedge Agreement pursuant to agreement with or upon the request of the Agency.

*"Qualified Hedge Agreement"*: a Hedge Agreement is a Qualified Hedge Agreement if, at the time of execution of such Hedge Agreement, (i) the Provider of the Hedge Agreement is a Qualified Institution or the Provider's obligations under the Hedge Agreement are unconditionally guaranteed by a Qualified Institution and (ii) the Agency designates it as such by a certificate of an Authorized Officer.

*"Qualified Institution"*: (a) a bank, a trust company, a national banking association, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, or an insurance company or association chartered or organized under the laws of any state of the United States of America, a corporation, a trust, a partnership, an unincorporated organization, or a government or an agency, instrumentality, program, account, fund, political subdivision or corporation

thereof, in each case the unsecured or uncollateralized long-term debt obligations of which, or obligations secured or supported by a letter of credit, contract, agreement or surety bond issued by any such organization, at the time a Qualified Hedge Agreement is entered into by the Agency are either (i) rated at least as high as the Bonds by each Rating Agency which rates such obligations or (ii) such that entering into a Qualified Hedge Agreement with such entity will not adversely affect the then current unenhanced Ratings, if any, assigned to the Bonds by each Rating Agency or (b) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality the obligations of which are backed by the full faith and credit of the United States of America.

**"Rating"**: with respect to any Series of Bonds, the then-current rating or ratings assigned by the Rating Agency pursuant to the request of the Agency without regard to the benefit of any bond insurance or other credit enhancement relating to any Bond.

**"Rating Agency"**: a nationally recognized organization that has an outstanding rating on the Bonds pursuant to the request of the Agency.

**"Rebate Requirement"**: means with respect to a particular Series of Bonds, the amount determined to be the Rebate Requirement, if any, for such Series pursuant to the applicable supplemental indenture.

**"Reserve Requirement"**: as of any particular date of calculation, the aggregate of the amounts specified, if any, as the Reserve Requirement in the Supplemental Indentures authorizing the outstanding Series of Bonds.

**"Series"**: unless otherwise specified in a Supplemental Indenture, all of the Bonds authenticated and delivered on original issuance in a simultaneous transaction pursuant to a Supplemental Indenture, and any Bonds thereafter delivered in lieu of or in substitution for such Bonds pursuant to the Indenture, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions.

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

**"Supplemental Indenture"**: an indenture supplemental to or amendatory of the Indenture, adopted by the Agency in accordance with the Indenture.

**"Trust Estate"**: all moneys and securities, including Bond proceeds (other than proceeds deposited in trust for the retirement of any outstanding Bonds or other indebtedness of the Agency), and other assets from time to time held by the Trustee under and subject to the terms of the Indenture or any Supplemental Indenture (other than amounts held in the Rebate Fund, if any) and any and all other real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security hereunder by the Agency, or by anyone in its behalf or with its written consent, to the Trustee which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof.

### APPENDIX III

#### SERIES BONDS MULTIFAMILY MORTGAGE LOAN PROGRAM

##### General

In deciding whether to make a Multifamily Mortgage Loan on a development the Agency considers, among other things, the extent of the need for affordable rental housing in the market area, the quality and location of the proposed site, the experience and stability of the developers, the quality of management experience, and the sufficiency of projected revenues to pay anticipated operating expenses in the face of expected economic trends and conditions. In addition, the Agency may also consider the loan-to-value ratio of the Agency's Multifamily Mortgage Loan.

The ability of owners of multifamily residential rental developments to make mortgage payments is affected by a variety of factors, including the achievement and maintenance of a sufficient level of occupancy; sound management of the developments; timely and adequate increases in rents to cover increases in operating expenses, including taxes, utility rates and maintenance costs; changes in applicable laws and governmental regulations; and social and economic trends affecting the communities in which the developments are located, the State and the United States in general.

##### Series Bonds Loans

The Supplemental Indenture provides that proceeds of the Series Bonds may only be used to finance (or in certain cases refund debt issued to finance) "Permitted Mortgage Loans," which are defined as (i) loans insured by FHA, including loans under the FHA risk-sharing program, (ii) loans guaranteed by GNMA, (iii) loans guaranteed by either GSE, and (iv) loans originated pursuant to underwriting criteria agreed to by the GSEs (which criteria are provided by the GSEs in writing for use in connection with the Program Bonds) which are either newly originated or refinanced as part of a refunding of variable rate debt of the Issuer issued on or before October 19, 2009, which debt was issued to acquire and finance the holding of multifamily loans described in (i)-(iv) above on or after October 19, 2004, so long as all such loans are eligible to be financed on a tax-exempt basis under applicable federal income tax law.

The Supplemental Indenture further provides that the proceeds of the Series Bonds may not be used for essential governmental functions within the meaning of Section 115 of the Code and that (i) escrowed proceeds of Series Bonds with a maturity in excess of 34 years may only be used to fund Permitted Mortgage Loans insured by FHA, and (ii) escrowed proceeds of Series Bonds with a maturity of more than 32 years and 34 years or less may only be used to fund Permitted Mortgage Loans guaranteed by either GSE or originated pursuant to underwriting criteria agreed to by the GSEs and must be designated Construction Program Bonds.

## APPENDIX IV

### BOOK ENTRY SYSTEM

When the Series Bonds are issued, ownership interests will be available to purchasers only through a book-entry system (the "Book-Entry System") maintained by The Depository Trust Company ("DTC"), New York, New York, or such other depository institution designated by the Agency pursuant to the Indenture. Purchasers of beneficial interests in the Series Bonds will not receive certificates reflecting their interests in the Series Bonds.

DTC will act as securities depository for the Series Bonds. The Series Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered security certificate will be issued for each maturity of the Series Bonds in the aggregate principal amount thereof, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity 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"). DTC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 Standard & Poor'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 Series Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for such Series Bonds on DTC's records. The ownership interest of each actual purchaser of each 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 purchases. Beneficial Owners are, however, expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners entered into the transactions. Transfers of ownership interests in the 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 beneficial ownership interests in Series Bonds, except in the event that use of the book-entry system for the Series Bonds is discontinued.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES BONDS, AS NOMINEE FOR DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED

**OWNERS OR OWNERS OF THE SERIES BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES BONDS.**

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

Conveyances 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 Cede & Co. If less than all of the Series Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series Bonds to be redeemed.

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

Principal or redemption price of and interest payments on the Series Bonds is to be made to DTC. DTC's practice is to credit Direct Participants' accounts on the date payment is due in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the date payment is due. Payments by Participants to Beneficial Owners are to 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 Trustee, the Bond Registrar, the Paying Agent or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal or redemption price of and interest to DTC is the responsibility of the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The Agency and the Trustee may treat DTC (or its nominee) as the sole and exclusive owner of the Series Bonds registered in its name (or the name of its nominee) for the purpose of payment of the principal of and premium, if any, or interest on the Series Bonds, selecting the Series Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Owners under the Indenture, registering the transfer of Bonds, obtaining any consent or other action to be taken by Owners and for all other purposes whatsoever, and shall not be affected by any notice to the contrary.

Any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant, an Indirect Participant or otherwise) to notify the Beneficial Owner of any such notice and its content or effect shall not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice.

When reference is made to any action which is required or permitted to be taken by the Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Owners for such purposes. When notices are given, they shall be sent by the Trustee to DTC. DTC shall forward (or cause to be forwarded) the notice to the DTC Participants so that such DTC Participants may forward (or cause to be forwarded) the notices to the Beneficial Owners.

For every transfer and exchange of a beneficial ownership interest in the Series Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may discontinue providing its services as securities depository with respect to the Series Bonds at any time by giving reasonable notice to the Agency or the Trustee. In the event that no satisfactory substitute depository is found to replace DTC, or if the Agency determines that Beneficial Owners should be able to obtain Series Bond certificates, the Agency or the Trustee is obligated to deliver Series Bonds, as appropriate, as described in the Indenture. In the event such Series Bond certificates are issued, the Beneficial Owner, upon registration of the Series Bonds held in such Beneficial Owner's name, shall become the Owner for purposes of the Indenture and the provisions of the Indenture shall apply to, among other things, the transfer and exchange of certificates and the method of payment of principal of and interest on the Series Bonds.

NEITHER THE AGENCY, NOR THE TRUSTEE, NOR THE BOND REGISTRAR, NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DIRECT PARTICIPANTS, TO THE INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (ii) THE TIMELY PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE WITH RESPECT TO THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES BONDS; (iii) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS BY DTC UNDER THE INDENTURE; (iv) THE SELECTION BY DTC OF ANY DIRECT OR INDIRECT PARTICIPANT AND THE SELECTION BY SUCH DIRECT OR INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNER TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES BONDS; OR (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

The information included under this caption (except for the preceding paragraph) has been provided by DTC. No representation is made by the Agency or the Trustee as to the accuracy or adequacy of such information provided by DTC or as to the absence of material adverse changes in such information subsequent to the date hereof.

## APPENDIX V

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of \_\_\_\_\_ 1, 2009 (this "Disclosure Agreement"), is executed and delivered by the VERMONT HOUSING FINANCE AGENCY, (the "Agency") and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A. (the "Trustee") in connection with the issuance of \$23,000,000 aggregate principal amount of its HFA Initiative Multifamily Bonds, 2009 Series A (the "Bonds"). The Bonds are being issued pursuant to a Trust Indenture, dated as of December 1, 2009 (the "General Indenture"), and a Supplemental Indenture, dated as of December 1, 2009 (the "Supplemental Indenture" and, together with the General Indenture, the "Indenture"), each between the Agency and the Trustee.

**Section 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the Agency and the Trustee.

**Section 2. Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"EMMA" means the MSRB's Electronic Municipal Market Access system ("EMMA") for municipal securities disclosure

"MSRB" means the Municipal Securities Rulemaking Board.

**Section 3. Provision of Annual Financial Information and Operating Data.** The Agency hereby agrees to provide or cause to be provided at least annually to the MSRB financial information and operating data regarding the Agency and the Multifamily Mortgage Loans Program (the "Program") of the type set forth in the Official Statement, dated December 9, 2009, with respect to the Bonds (the "Official Statement") under the following captions or in the following Appendices (or portions thereof):

(a) The audited financial statements of the Agency for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Agency's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manners as the Annual Report when they become available.

(b) The financial information of the Agency for the prior fiscal year generally consistent with the financial information contained in the Official Statement under the heading "THE AGENCY—Outstanding Indebtedness" and in "APPENDIX III—SERIES BONDS MULTIFAMILY MORTGAGE LOAN PROGRAM" thereto.

(c) Information with respect to the principal amount and interest rate on each loan financed with the proceeds of the Bonds.

The information described above will be filed no later than 180 days after the end of the fiscal year of the Agency and may be provided in one document or in multiple documents, delivered in such manner (which shall be electronic and otherwise in accordance with EMMA from and after the Effective

Date) and by such time so that it is received by the date herein required. Such information will include audited financial statements prepared in accordance with generally accepted accounting principles as in effect from time to time; provided, however, that the Agency reserves the right to report securitized mortgage loans at amortized cost, rather than fair value; and provided further, however, that if audited financial statements are not available within 180 days after the end of the preceding fiscal year, unaudited financial statements will be provided with audited financial statements to follow when available.

All or a portion of the annual financial and operating information may be provided by way of cross-reference to other documents previously provided to the MSRB or may be filed with the Securities and Exchange Commission. If the cross-referenced document is a final official statement within the meaning of the Rule, it shall be available from the MSRB.

**Section 4. Failure To File Annual Financial and Operating Information.** The Agency agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of a failure by the Agency to provide the annual financial and operating information described in Section 3 above on or prior to the date specified in Section 3.

**Section 5. Material Events.** The Agency agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of the occurrence of any of the following events with respect to the 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 reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) modifications to rights of the holders of the Bonds;
- (viii) Series 2009 A Bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds; and
- (xi) rating changes.

Each material event notice shall be so captioned and shall prominently state the date, title and (to the extent less than all of the Bonds are affected by the related material event) CUSIP numbers of the Bonds.

The Agency may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above, but the Agency does not undertake any commitment to provide such notice of any event except those events listed above.

**Section 6. Termination of Reporting Obligation.** Pursuant to paragraph (b)(5)(iii) of the Rule, the Agency's obligation to provide annual financial and operating information and notice of material events, as set forth herein, shall automatically terminate if and when the Agency no longer remains an obligated person with respect to the Bonds, which shall occur upon payment or redemption of the Bonds in full or upon the legal defeasance of the Bonds in accordance with the Indenture.

**Section 7. Dissemination Agent.** The Agency may, from time to time, appoint or engage an agent to assist the Agency in disseminating information hereunder (the "Dissemination Agent"). The Agency may discharge any such Dissemination Agent with or without appointing a successor Dissemination Agent.

**Section 8. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Agreement, the Agency and the Trustee may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, without the consent of the holders of the Bonds, under the following conditions:

(a) The amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the obligated person or type of business conducted;

(b) This Disclosure Agreement, as amended or with the provision so waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interests of the holders of the Bonds, as determined either by parties unaffiliated with the Agency (such as the Trustee for the Bonds or nationally recognized bond counsel), or by approving vote of the holders of the Bonds pursuant to the terms of the Indenture at the time of the amendment or waiver.

The Agency shall provide notice of each amendment or waiver which changes the accounting principles followed by the Agency in preparation of its annual financial information to the MSRB. The initial annual financial information provided by the Agency after the amendment or waiver shall explain, in narrative form, the reasons for the amendment or waiver and the effect of the change, if any, in the type of operating data or financial information being provided.

**Section 9. Default.** This Disclosure Agreement is intended to be for the sole benefit of the holders of the Bonds (for such purpose, beneficial owners of the Bonds shall also be considered holders of the Bonds) and shall create no rights in any other person or entity (except the Trustee, and then only as set forth below).

This Disclosure Agreement shall be enforceable by or on behalf of any such holder of the Bonds, provided that the right of any holder of the Bonds to challenge the adequacy of the information furnished pursuant to this Disclosure Agreement shall be limited to an action by or on behalf of the holders of Bonds representing at least a majority of the aggregate outstanding principal amount of the Bonds. This Disclosure Agreement is also enforceable on behalf of the holders of the Bonds by the Trustee, and the Trustee may, and upon the written direction of the owners of not less than a majority of the aggregate outstanding principal amount of the Bonds shall, proceed, subject to the indemnification and other provisions of the Indenture, to protect and enforce the rights of the owners of the Bonds pursuant to this Disclosure Agreement. Any failure by the Agency to comply with the provisions of this Disclosure Agreement shall not be an Event of Default under the Indenture.

The rights of the holders of the Bonds and the Trustee to enforce the provisions of this Disclosure Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Agency's obligations under this Disclosure Agreement and the Agency, its members, officers and employees shall incur no liability under this Disclosure Agreement by reason of any act or failure to act hereunder. Without limiting the generality of the foregoing and except as otherwise provided in the Indenture with respect to the Trustee, neither the commencement nor the successful completion of an action to compel performance under this Section shall entitle the Trustee or any other person to attorneys' fees, financial damages of any sort or any other relief other than an order or injunction compelling performance.

**Section 10. Beneficiaries.** This Disclosure Agreement shall inure solely to the benefit of the Agency, the Trustee and the holders of the Bonds (for such purpose, beneficial owners of the Bonds shall also be considered holders of the Bonds) and shall create no rights in any other person or entity.

**Section 11. Choice of Law.** This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State, provided that to the extent this Disclosure Agreement addresses matters of federal securities laws, including the Rule, this Disclosure Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

VERMONT HOUSING FINANCE AGENCY

By \_\_\_\_\_  
Executive Director

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A., as Trustee

By \_\_\_\_\_  
Its \_\_\_\_\_

**APPENDIX VI**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

December \_\_, 2009

Vermont Housing Finance Agency  
Burlington, Vermont

\$23,000,000  
Vermont Housing Finance Agency  
HFA Initiative Multifamily Bonds  
2009 Series A

We have acted as Bond Counsel in connection with the issuance by the Vermont Housing Finance Agency (the "Agency") of \$23,000,000 aggregate principal amount of its HFA Initiative Multifamily Bonds, 2009 Series A (the "Series Bonds"). The Series Bonds are authorized to be issued pursuant to No. 260 of the Vermont Acts of 1973, Adjourned Session, as amended (the "Act"), and under and pursuant to the Agency's Trust Indenture, dated as of December 1, 2009 (the "Trust Indenture"), resolutions of the Agency authorizing the issuance and sale of bonds to finance multifamily mortgage loans, and the Supplemental Indenture dated December 1, 2009 (the "Supplemental Indenture"). The Trust Indenture and the Supplemental Indenture are sometimes collectively referred to herein as the "Indenture."

The Series Bonds are being issued to fund additional Mortgage Loans to acquire, construct or rehabilitate multifamily residential housing located in the State of Vermont (the "State"). The Series Bonds, as well as any additional bonds to be issued under the Indenture (collectively, the "Bonds"), are equally and ratably secured by the Indenture unless otherwise specified in the supplemental indenture or by the Agency pursuant to the provisions thereof.

The Series Bonds are dated, mature in the years, in the respective principal amounts and bear interest at the rates per annum (subject to conversion) set forth in the Supplemental Indenture. The Series Bonds are also subject to redemption prior to maturity upon the terms and conditions and at the redemption prices provided in the Indenture.

In rendering this opinion we have reviewed the Indenture and certain other documents, certificates and other materials delivered in connection with the issuance of the Series Bonds.

Based on the foregoing it is our opinion that:

(a) The Agency is duly created and validly existing under the Act as a body politic and corporate of the State and has the right and power under the Act to enter into the Indenture and to authorize, issue and deliver the Series Bonds.

(b) The Indenture has been duly and lawfully authorized and executed by the Agency, is in full force and effect and is valid and binding upon the Agency and enforceable in accordance with its terms and no other authorization for the Indenture is required. The Indenture

creates the valid pledge which it purports to create of the Trust Estate (except the Rebate Fund), subject only to the provisions of the Indenture permitting the application of amounts held thereunder for the purposes (including particular series or subseries of Bonds) and on the terms and conditions set forth in the Indenture.

(c) The Series Bonds have been duly authorized, executed, issued and delivered by the Agency in accordance with the Act and the Indenture and constitute valid and binding limited obligations of the Agency, which has no taxing power, enforceable in accordance with their terms and the terms of the Indenture and entitled to the benefits of the Act and the Indenture. The Series Bonds are limited obligations of the Agency, payable from the Agency's revenues, assets or moneys pledged therefor under the Indenture. The Series Bonds do not constitute a debt or liability or obligation of the State or of any political subdivision thereof or a pledge of the faith and credit of the State or of any political subdivision.

(d) Assuming compliance by the Agency with certain covenants and certifications contained in the Indenture, under existing laws, regulations, rulings, and judicial decisions, interest on the Series Bonds is includable in the gross income of the holders of the Series Bonds for federal income tax purposes.

(e) Assuming compliance by the Agency with certain covenants and certifications contained in the Indenture, under existing laws of the State of Vermont, the Series Bonds, their transfer, and the interest payable thereon, including any profit realized from the sale or exchange thereof, will be exempt from all taxation by the State of Vermont and its political subdivisions, except estate or inheritance taxation.

The opinions we have expressed herein as to the treatment of the Series Bonds or the interest borne thereon for federal income tax purposes and for state tax purposes are based upon statutes, regulations, and court decisions in effect on the date hereof. We undertake no obligation to update the contents of this opinion on any future date. Each purchaser of the Series Bonds should consult his or her tax advisor regarding any changes in the status of any pending or proposed legislation.

To ensure compliance with Treasury Circular 230, taxpayers are hereby notified that: (a) any discussion of U.S. federal tax issues in this opinion is not intended or written by us to be relied upon, and cannot be relied upon, by taxpayers for the purpose of avoiding penalties that may be imposed on taxpayers under the Internal Revenue Code; (b) such discussion is written in connection with the promotion or marketing of the transactions or matters addressed herein; and (c) taxpayers should seek advice based on their particular circumstances from an independent tax advisor.

The foregoing opinions are qualified only to the extent that the enforceability of the Series Bonds and the Indenture may be limited by the exercise of judicial discretion in accordance with general equitable principles and by bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally heretofore or hereafter enacted to the extent constitutionally enforceable.

The scope of our engagement has not extended beyond the examinations and the rendering of the opinions expressed herein. The opinions expressed herein are based upon existing law as of the date hereof, and we express no opinion herein as of any subsequent date or with respect to any pending legislation.

Very truly yours,