

New Issue

In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 20 Bonds is not includable in gross income for federal income tax purposes and such interest is a separate tax preference item for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. For information regarding certain requirements for and exceptions to such exclusion, see "TAX EXEMPTION." The Vermont Housing Finance Agency Act provides that the Series 20 Bonds and the interest thereon are exempt from all Vermont taxation, franchise fees or special assessments except for transfer, inheritance and estate taxes.

\$31,825,000
VERMONT HOUSING FINANCE AGENCY
Single Family Housing Bonds
\$23,825,000 Series 20A (AMT)
\$8,000,000 Series 20B (ARCs) (AMT)

Dated: Date of Delivery

Due: As shown on inside cover

The Series 20A Bonds (the "Series 20A Bonds") and the Series 20B Bonds (the "Series 20B Bonds" and, together with the Series 20A Bonds, the "Series 20 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 20 Bonds can be made in book-entry form only. Beneficial owners will not receive certificates evidencing their ownership interests in the Series 20 Bonds. See "**BOOK-ENTRY SYSTEM**" herein.

Interest on the Series 20 Bonds will be payable on May 1, 2005 and semi-annually thereafter on November 1 and May 1 of each year. Interest on the Series 20 Bonds is payable by Banknorth, N.A., 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 20 Bonds. Principal and premium, if any, will be payable by the Trustee in the same manner.

The Series 20B Bonds are to be initially issued as Auction Rate Certificates (the "ARCs") and shall initially bear interest from the date of delivery to and including September 16, 2004 at a rate established prior to the issuance of the Series 20B Bonds by UBS Financial Services Inc.† Thereafter, for each Auction Period, ARCs shall bear interest at the applicable Auction Rate for a 35-day Auction Period determined pursuant to the Auction Procedures as described herein and in "**APPENDIX IX—ARCs PROVISIONS**" hereto. Prospective purchasers of the Series 20B Bonds should carefully review the Auction Procedures, and should note that such procedures provide that (i) a Bid or Sell Order (as defined herein) constitutes a commitment to purchase or sell ARCs based upon the result of an Auction (as defined herein), (ii) settlement for purchases and sales will be made on the Business Day following an Auction, and (iii) Auctions may be suspended under certain circumstances as described herein. Beneficial interest in Series 20B Bonds may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer (as defined herein). At any given time, any of the ARCs may operate in any of the following Rate Periods: Auction Period, Variable Rate Period, Flexible Rate Period or Fixed Rate Period. The ARCs shall bear interest at the Auction Rates established for Auction Periods until a Variable Rate Conversion Date, Flexible Rate Conversion Date or Fixed Rate Conversion Date. Subject to certain conditions described herein, ARCs operating in any one Rate Period may be converted to another Rate Period and will be subject to mandatory tender. The ARCs are subject to call for redemption at any time. **THERE IS NO RIGHT OF THE SERIES 20B OWNERS TO TENDER THE ARCs AT ANY TIME, AND NO OBLIGATION ON THE PART OF THE AGENCY, UBS FINANCIAL SERVICES INC., THE UNDERWRITERS, THE BOND INSURER, THE TRUSTEE OR ANY OTHER PERSON TO PURCHASE THE ARCs AT ANY TIME. THIS OFFICIAL STATEMENT DOES NOT PROVIDE ANY INFORMATION REGARDING THE SERIES 20B BONDS AFTER THE DATE, IF ANY, ON WHICH SUCH BONDS ARE CONVERTED TO ANOTHER RATE PERIOD. SEE "THE SERIES 20 BONDS—THE ARCs" HEREIN.**

The Series 20 Bonds are subject to redemption prior to maturity, including sinking fund redemption at par and optional and special redemption at the prices set forth herein under certain circumstances, as more fully described herein.

Under the circumstances described herein, the Series 20A Bonds, in a principal amount not to exceed the amount of unexpended proceeds of the Series 20 Bonds on deposit in the Series 20 Program Account will be subject to mandatory tender and remarketing on any date (the "Adjustment Date") not earlier than February 1, 2005 and not later than July 1, 2007. On the Adjustment Date, if any, interest on the Series 20A Bonds subject to mandatory tender and remarketing are to be adjusted to a lower rate (the "Adjusted Interest Rate"). Owners of any Series 20A Bonds subject to mandatory tender on the Adjustment Date may elect to retain such Bonds and the Series 20A Bonds so retained shall bear interest on and after the Adjustment Date at the Adjusted Interest Rate as more fully described herein.

The scheduled payment of principal of and interest on the Series 20 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 20 Bonds by Financial Security Assurance Inc.



The Series 20 Bonds constitute special obligations of the Agency payable solely from and secured solely by a pledge of certain Revenues, Loans and funds and accounts established under the Resolution. 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 20 Bonds.

The Series 20 Bonds (other than the Series 20A Bonds maturing on November 1, 2030 and May 1, 2035) are offered for delivery when, as and if issued and received by the Underwriters and subject to the approval of legality by Kutak Rock LLP, Bond Counsel. The Series 20A Bonds maturing on November 1, 2030 and May 1, 2035 are being sold by the Agency directly to an institutional investor and are not offered hereby. Certain legal matters will be passed upon for the Agency by Elizabeth Mullikin Drake, General Counsel of the Agency, and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York. It is expected that the Series 20 Bonds will be delivered in book-entry form through the facilities of the Securities Depository in New York, New York on or about August 12, 2004.

UBS Financial Services Inc. †

Citigroup

A.G. Edwards & Sons, Inc.

June 23, 2004

† UBS Financial Services Inc. will be the sole underwriter and initial Broker-Dealer for the ARCs

MATURITY SCHEDULE

\$23,825,000

Single Family Housing Bonds, Series 20A (AMT)

\$3,730,000 Serial Bonds

Due Date	Principal Amount	Interest Rate	Due Date	Principal Amount	Interest Rate
May 1, 2006	\$250,000	2.45%	November 1, 2010	\$155,000	4.05%
November 1, 2006	255,000	2.65	May 1, 2011	165,000	4.125
May 1, 2007	215,000	3.00	November 1, 2011	170,000	4.20
November 1, 2007	220,000	3.15	May 1, 2012	175,000	4.35
May 1, 2008	225,000	3.45	November 1, 2012	180,000	4.35
November 1, 2008	235,000	3.55	May 1, 2013	185,000	4.45
May 1, 2009	240,000	3.75	November 1, 2013	195,000	4.50
November 1, 2009	250,000	3.85	May 1, 2014	205,000	4.65
May 1, 2010	200,000	4.00	November 1, 2014	210,000	4.65

\$5,860,000 5.125% Series 20A Term Bonds due November 1, 2025
 \$3,765,000 5.20% Series 20A Term Bonds due November 1, 2030
 \$5,480,000 5.50% Series 20A Term Bonds due May 1, 2034 (Premium PAC)
 \$4,990,000 5.25% Series 20A Term Bonds due May 1, 2035

\$8,000,000

Single Family Housing Bonds, Series 20B (ARCs) (AMT)

<u>Maturity</u>	<u>Last Day of Initial Period</u>	<u>Auction Period</u>	<u>First Auction Date</u>	<u>First Interest Payment Date</u>
November 1, 2033	September 16, 2004	35-day	September 16, 2004	May 1, 2005

Price of Series 20A Term Bonds due May 1, 2034 (Premium PAC): 105.636%
 All other Series 20 Bonds: 100%

**Financial Advisor to the
 Vermont Housing Finance Agency:
 Piper Jaffray & Co.**

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 20 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 20 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 20 Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the initial public offering prices set forth on the cover page, and such public offering prices may be changed from time to time by the Underwriters. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Other than with respect to information concerning Financial Security Assurance Inc. ("FSA") contained under the caption "**MUNICIPAL BOND INSURANCE,**" Appendix V "**—FSA**" and Appendix VIII, herein, none of the information in this Official Statement has been supplied or verified by FSA and FSA makes no representation or warranty, express or implied, as to (a) the accuracy or completeness of such information; (b) the validity of the Series 20 Bonds; or (c) the tax exempt status of interest on the Series 20 Bonds.

THE SERIES 20 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.

IN CONNECTION WITH THE OFFERING OF THE SERIES 20 BONDS, THE UNDERWRITERS MAY OVER-ALLOT AND EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH SERIES 20 BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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VERMONT HOUSING FINANCE AGENCY
Single Family Housing Bonds, Series 20A (AMT)
Single Family Housing Bonds, Series 20B (ARCs) (AMT)

This Official Statement of the Vermont Housing Finance Agency (the “Agency”) is provided for the purpose of setting forth information concerning the Agency: its Single Family Housing Bonds, Series 20A to be issued in the principal amount of \$23,825,000 (the “Series 20A Bonds” or the “Fixed Rate Bonds”), and its Single Family Housing Bonds, Series 20B Auction Rate Certificates to be issued in the principal amount of \$8,000,000 (ARCs) (the “Series 20B Bonds” or “ARCs” and, together with the Series 20A Bonds, the “Series 20 Bonds”), its Single Family Housing Bond Resolution adopted on September 20, 1990, authorizing the issuance and sale of Single Family Housing Bonds (as heretofore amended and supplemented, the “General Resolution”), and its Twenty-Fourth Supplemental Single Family Housing Bond Resolution authorizing the issuance and sale of the Series 20 Bonds adopted on May 27, 2004 (as supplemented by the Series Certificate executed upon the issuance of the Series 20 Bonds, the “Twenty-Fourth Supplemental Resolution”). The General Resolution and the Twenty-Fourth Supplemental Resolution are sometimes collectively referred to herein as the “Resolution.” Certain terms not defined elsewhere in this Official Statement are defined in **APPENDIX IV** and **APPENDIX IX** hereto.

INTRODUCTORY STATEMENT

The Series 20 Bonds will be secured under the provisions of the General Resolution and will be issued in accordance with the provisions of the General Resolution, the Twenty-Fourth Supplemental Resolution and the Vermont Housing Finance Agency Act, being No. 260 of the Vermont Acts of 1973, Adjourned Session, as amended (the “Act”). Prior to the original issuance of the Series 20 Bonds, the Agency has issued its Single Family Housing Bonds, Series 1 through Series 19 (collectively, the “Prior Bonds”) pursuant to the General Resolution and Supplemental Resolutions with respect to each Series of Bonds. The Prior Bonds were issued in an initial aggregate principal amount of \$1,034,745,000, of which amount \$419,310,000 was outstanding as of June 1, 2004. Additional Series of bonds may be issued by the Agency on a parity with the Series 20 Bonds and other Series of bonds outstanding under the General Resolution, provided that each additional Series is authorized by a supplemental resolution adopted in accordance with and under the provisions of the General Resolution and the Act. The Prior Bonds, the Series 20 Bonds and additional bonds issuable under the General Resolution 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 and notes in such principal amounts as the Agency may determine. The total principal amount of bonds and notes of the Agency, including the Series 20 Bonds, outstanding at any one time may not exceed \$900,000,000. As of June 1, 2004, the Agency had \$543,238,397 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 Resolution, the Agency has authorized the issuance of the Series 20 Bonds to make funds available to (a) purchase Loans (hereinafter defined) made to finance the purchase or improvement of single family housing in the State by Persons and Families of Low and Moderate Income (hereinafter defined), (b) deposit in the Series 20 Premium Account of the Program Fund amounts representing the initial issue premium on the Series 20A Bonds maturing May 1, 2034 (the “Premium PAC Bonds”) to be used to provide down payment assistance to certain borrowers as described herein (See “**SINGLE FAMILY MORTGAGE PURCHASE PROGRAM**”), (c) deposit in the Bond Reserve Fund amounts necessary to cause the amount on deposit in said Fund to equal the Bond

Reserve Fund Requirement, (d) deposit in the Loan Loss Claim Fund amounts necessary to cause the amount on deposit in said Fund to equal the Loans Loss Claim Fund Requirement and (e) deposit in the Series 20 Cost of Issuance Account amounts necessary to pay certain costs of issuance of the Series 20 Bonds. See “**ESTIMATED SOURCES AND USES OF FUNDS.**”

Upon completion of the transfers of funds described above, approximately \$30,304,568 is expected to be on deposit in the Series 20 Program Account and available to purchase Loans. In addition, approximately \$278,100 is expected to be on deposit in the Series 20 Premium Account and made available to provide down payment assistance grants in an amount equal to 3.00% of the principal amount of each Loan with respect to Loans to be purchased with proceeds of the Series 20 Bonds in an aggregate principal amount of \$9,270,000. Also, \$492,320 is expected to be deposited into the Series 20 Program Account for the payment of origination fees and servicing release fees to lenders. The Agency’s program of financing Loans made from proceeds of the Series 20 Bonds is referred to herein as the “Series 20 Program.”

The Bonds are special obligations of the Agency and will be secured, to the extent and as provided in the Resolution, solely by a pledge of (a) Revenues, (b) Loans financed under the Resolution, (c) all Additional Security, if any, and (d) all money, securities and Reserve Deposits in the funds and accounts pledged under the Resolution (other than the Rebate Fund established for any Series of Bonds). The State is not obligated to pay the principal of the Bonds or the interest thereon, and neither the faith and credit nor the taxing power of the State or of any political subdivision thereof is pledged to the payment of the principal or redemption price, if any, or the interest on the Bonds. There is no statutory provision for the maintenance of any funds or accounts pledged under the Resolution.

The scheduled payment of the principal of and interest on the Series 20 Bonds when due will be insured by a municipal bond insurance policy to be issued by Financial Security Assurance Inc. (“FSA”) simultaneously with the delivery of the Series 20 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 seven commissioners, consisting of the State Commissioner of Banking, Insurance, Securities and Health Care Administration, the State Treasurer, the Secretary of Commerce and Community Development, or their designees, and four 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:

Lisa Mitiguy Randall – Chair, term expires January 31, 2008. Ms. Randall is the Development Director of Mater Christi School. Ms. Randall was formerly 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.

Gustave “Gus” Seelig – Vice-Chair, term expires January 31, 2005. 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 Vermont 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.

Paul J. Beaulieu – Term expires January 31, 2007. Mr. Beaulieu is the Executive Vice President and Chief Operating Officer of Factory Point National Bank of Manchester Center, Vermont. In addition, he is involved with several community organizations, including the Board of Trustees of Southwestern Vermont Health Care, Northshire Day School and the Manchester and the Mountains Chamber of Commerce. He is also a Trustee and Vice Chair of the New England School of Banking at Williams College. Mr. Beaulieu is a graduate of St. Michael’s College and has received a Masters of Business Administration from the University of Notre Dame.

Dagyne T. Canney – Term expires on January 31, 2006. Ms. Canney is owner and principal broker of Vermont Real Estate Sales Company in Rutland. She serves as a Director of both the Rutland County Board of Realtors and the Vermont Real Estate Information Network (MLS). In addition, Ms. Canney serves on the Governor’s Economic Advisory Board and is a member of the Keybank Advisory Board for the Vermont/Champlain Valley District. She was formerly a member and Vice Chairperson of the Vermont Real Estate Commission. Ms. Canney is a graduate of the University of Vermont.

John P. Crowley – Commissioner of Banking, Insurance, Securities and Health Care Administration, ex-officio member. Prior to becoming Commissioner in January of 2003, Mr. Crowley was the Senior Partner in the law office Keyser Crowley, P.C. in Rutland, Vermont. Mr. Crowley served in the Vermont House of Representatives in 1993-1994 and from 1999-2003, he served in the Vermont Senate where he was a member of the Senate Finance Committee. He has served on a number of boards of directors of community organizations, including the Rutland Regional Medical Center where he served as Chairman of the Board of Directors for two years. Mr. Crowley holds degrees from the Georgetown University Law Center, Southeastern University and Holy Cross College.

George B. “Jeb” Spaulding – State Treasurer, ex-officio member. Mr. Spaulding was elected State Treasurer in November, 2002. Previously, Mr. Spaulding served 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. He was also the Director of Career and Workforce Development at the Vermont Department of Education, Director of the Vermont Academy of Science and Technology at Vermont Technical College and an adjunct instructor in the Communications Department at Norwich University.

He has also served on several community organizations. Mr. Spaulding attended Antioch College and 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 of 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. Ms. Carpenter is a cum laude graduate of the University of Vermont and holds a M.P.A. degree from Harvard University. She 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. Ms. Carpenter currently serves on the boards of the Vermont Community Development Program and the Vermont Housing and Conservation Board, as well as the boards of Fletcher Allen Healthcare and several local charitable organizations.

The position of Chief Financial Officer and Treasurer for the Agency is presently vacant. The Agency is in the process of soliciting applicants for the position. Under the Agency's Bylaws, the Executive Director is authorized to serve in this capacity until a successor is appointed.

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.

Patricia A. Crady is the Agency's Director of Homeownership Programs. Prior to joining the Agency in 1985, Ms. Crady was a branch manager and loan originator for ComFed Mortgage Company, Inc. in South Burlington, Vermont from August 1983 to January 1985. Prior to that, Ms. Crady was Vice President and Manager, Secondary Market Department, with the Bank of Vermont. She attended the University of Vermont.

Elizabeth Mullikin Drake, Esq. is General Counsel to the Agency. Before joining the Agency, Ms. Drake was Assistant General Counsel for Bombardier Capital, a subsidiary of Bombardier Inc. She is also a former ex-officio Commissioner of the Agency in her capacity as Commissioner of Housing and Community Affairs for the State of Vermont from 1991-1993. She has also served as Agency Counsel to the Vermont Agency of Development and Community Affairs. Ms. Drake is a graduate of the University of Vermont and received her juris doctor degree from Vermont 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 March 31, 2004 the Agency had 40 employees who are responsible for the operation and management of the Agency's single family and multi-family programs. Of these employees, 10 are charged with responsibility for the single family 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 a particular general bond resolution. Such funds and programs have separate sets of self-balancing accounts set up in accordance with the Act and the various 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 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 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 General Resolution or the related supplemental resolutions.

Outstanding Indebtedness

Since September 1974, the Agency has issued \$1,972,141,543 aggregate principal amount of bonds, of which \$543,238,397 was outstanding as of June 1, 2004, to finance its various programs. The proceeds of the bonds 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, to make loans to mortgage lenders to finance such single family housing 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.

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

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ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds from the sale of the Series 20 Bonds, exclusive of accrued interest, are as follows:

Sources of Funds:	
Principal Amount of Series 20 Bonds	\$31,825,000.00
Premium on Premium PAC Bonds	308,852.80
Agency Contribution	<u>900,000.00</u>
Total Sources	\$33,033,852.80
Uses of Funds:	
Deposit to Series 20 Program Account	\$31,074,987.50
Deposit to Bond Reserve Fund	1,053,079.69
Deposit to Revenue Fund	412,246.71
Deposit to Series 20 Cost of Issuance Account	238,200.00
Underwriters' Discount and Fee	<u>255,338.90</u>
Total Uses	\$33,033,852.50

SECURITY FOR THE BONDS

The Bonds are special obligations of the Agency and are payable from and secured solely by a pledge and grant of a security interest in (a) all Revenues (including all payments of principal of and interest on Loans, insurance proceeds, Loan Loss Claim Fund Withdrawals and other recovery payments with respect to Loans, if any); (b) all Loans, and any other Revenue-producing contracts and any and all rights and interests of the Agency incident thereto and the proceeds thereof; and (c) all moneys, securities, Reserve Deposits and, subject to the provisions of the applicable supplemental resolution, Additional Security, if any, in all funds and accounts created by or pursuant to the Resolution (other than the Rebate Fund established for any Series of Bonds), subject to the provisions of the Resolution permitting the application of amounts held thereunder for the purposes and on the terms and conditions set forth therein. See **“SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION—Pledge of the Resolution.”**

Revenues

Under the General Resolution, Revenues include (a) all amounts paid or required to be paid with respect to principal and interest from time to time on Loans, including interest payments on Loans and Loan Principal Payments, Loan Prepayments and Loan Loss Claim Fund Withdrawals, after deducting any fees required to be retained by Mortgage Lenders for servicing the Loans, (b) all payments received on account of Reserve Deposits or Additional Security, if any, and (c) all interest, investment gains and other income received or moneys or securities held pursuant to the Resolution and paid or to be paid into the Revenue Fund. Except as may be provided in a supplemental resolution authorizing Reserve Deposits or Additional Security, all Revenues upon receipt by the Agency are deposited in the Revenue Fund.

The General Resolution provides that the Revenues shall be deposited in the various funds and accounts and used for the purposes set forth therein. All Revenues are to be used to pay Program Expenses and interest on and Principal Installments of the Bonds, and to make up any deficiency in any fund or account established under the Resolution, including the Rebate Fund. See **“SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION—Revenues and Revenue Fund.”** Any Revenues available after such payments and transfers, subject to the provisions of a supplemental resolution and upon the direction of the Agency, may be (a) applied to purchase additional Loans, (b) applied to purchase or redeem Bonds or (c) distributed to the Agency free and clear of the lien of the Resolution; provided, however, that in the case of any distributions to the Agency a Projection of Revenues satisfying the requirements of the General Resolution must be filed with the Trustee and, in the

case of distributions to the Agency from amounts allocable to any Series of Bonds outstanding or the Series 20 Bonds, on the date of such Projection of Revenues the outstanding principal balance of all Loans held under the Resolution for the account of the applicable Series of Bonds, plus all amounts held in the funds and accounts under the Resolution (excluding the amount to be distributed and amounts in the Rebate Fund) allocable to such Bonds must be at least equal to 101% of the Principal Amount of all Bonds of the applicable Series then outstanding, plus interest accrued thereon.

If Revenues are not sufficient to pay Principal Installments and interest on the Bonds, moneys in any Capitalized Interest Account, the Redemption Fund not yet committed to the redemption of Bonds, the Bond Reserve Fund and the Program Accounts will be applied to make up the deficiency. In addition to amounts available in the foregoing funds and accounts, any deficiency arising in connection with the special redemption of Bonds may, subject to certain conditions provided in the applicable supplemental resolution, be satisfied from amounts on deposit in one or more Contingency Accounts or Loan Loss Claim Funds. See **“SECURITY FOR THE BONDS—Additional Security”** and **“SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION—Revenues and Revenue Fund.”**

Loans

The Bonds are secured by a pledge of and lien upon the Loans purchased or held under the Program. The General Resolution authorizes the purchase or making of Loans consisting of Mortgage Loans, Home Improvement Loans, Cooperative Housing Loans, Loan Securities and Residential Housing Loans. However, the Supplemental Resolutions with respect to each Series of Bonds limit the types of Loans that may be purchased or made with the proceeds of or other amounts allocable to such series.

All Loans currently outstanding under the General Resolution are Mortgage Loans. The respective Supplemental Resolution for each Series of Bonds permits the application of the proceeds of such Series to the purchase or making of Mortgage Loans, Home Improvement Loans, Cooperative Housing Loans, Loan Securities and Residential Housing Loans if certain conditions are met, including the delivery by the Agency to the Trustee of evidence that such use will not adversely affect the ratings then assigned to any Bonds.

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The following table sets forth for each Series of Bonds under the General Resolution, the original amount available for Loans, the aggregate principal amount of Loans outstanding as of March 31, 2004 and the range of interest rates made available for each Series of Bonds.

Series	Original Amount Available for Mortgage Loans	Outstanding Principal Amount of Loans ¹	Interest Rates ²
Series 1	\$25,250,000	\$ 4,328,024	7.95 - 8.95%
Series 2	37,310,610	5,353,367	7.80 - 8.25
Series 3	30,171,625	6,062,809	7.95 - 8.25
Series 4	54,514,000	5,631,103	6.00 - 13.50
Series 5	35,000,000	7,271,216	6.75 - 8.50
Series 6	60,000,000	15,399,452	6.55 - 8.25
Series 7	42,500,000	19,797,072	5.45 - 7.55
Series 8	30,035,000	10,035,079	5.65 - 7.75
Series 9	61,788,875	30,034,949	4.95 - 7.50
Series 10A/B	33,016,574	17,724,596	4.70 - 6.70
Series 11	24,373,088	9,032,034	5.45 - 7.10
Series 12A/B	28,340,702	9,546,184	5.90 - 7.55
Series 13A	33,737,120	16,727,996	6.25 - 7.50
Series 14	31,365,000	22,270,965	5.75 - 7.00
Series 15	30,900,000	23,176,543	5.55 - 6.75
Series 16	79,930,000 ³	58,220,141	5.25 - 8.90
Series 17	30,000,000	27,919,072	4.10 - 6.20
Series 18	30,000,000	23,872,732	4.10 - 6.60
Series 19	30,142,681	-0- ⁽⁴⁾	3.90 - 6.25

¹ Unless otherwise restricted by the Code and except with respect to the Series 4 Bonds, the Agency is authorized to recycle principal payments with respect to Mortgage Loans allocated to certain Series of Bonds into new Mortgage Loans.

² Includes Stepped-Rate Mortgage Loans.

³ Includes \$29,930,000 of previously originated Mortgage Loans that became allocated to the Series 16 Bonds upon the refunding of prior obligations of the Agency. In addition, the Series 16 transaction provided funds in the amount of \$50,000,000 for the origination of new Mortgage Loans.

⁴ The Series 19 Bonds were issued in April of 2004; this table denotes loans outstanding as of March 31, 2004.

The Loans to be purchased with the proceeds of the Series 20 Bonds are designed to assist persons and families of low and moderate income in the State to obtain affordable housing. The ability of the Agency to apply such proceeds to the purchase of mortgage loans will depend, in large part, on the level of interest rates on conventional mortgages otherwise available from mortgage lenders. Accordingly, although the Agency believes that all of the amounts available to purchase Loans pursuant to the Series 20 Program will be used to purchase Loans, no assurance can be given that this will occur. Pursuant to the Resolution, unexpended amounts on deposit in the Series 20 Program Account that are not used to purchase Loans or otherwise subject to mandatory tender are required to be used to redeem Bonds. See “**THE SERIES 20 BONDS—Redemption Provisions—Special Redemption.**”

The Agency has covenanted in the General Resolution that, in a manner consistent with the Act and with the provisions of the Resolution, it will use and apply funds made available in connection with the issuance of the Bonds to the extent not reasonably required for other Program purposes of the Agency, to purchase or make Loans. In addition, in order to receive and collect Revenues, the Agency will do all

such acts and things necessary as may be consistent with sound banking practices and principles, and will diligently enforce and take all steps, actions and proceedings reasonably necessary, in the judgment of the Agency, to enforce all terms, conditions and covenants of Loans. Each Loan purchased or made by the Agency from the proceeds of Bonds or other moneys available therefor under the Resolution shall be secured, shall bear such insurance or guarantees, shall be in the amounts and shall otherwise have such terms and conditions as may be specified in the applicable supplemental resolution.

Whenever it shall be necessary in order to protect and enforce the rights of the Agency under a Loan and to protect and enforce the rights and interest of Bondowners under the Resolution, the General Resolution requires the Agency to take steps to enforce any policy or certificate of insurance or guaranty or Additional Security relating to a Loan and to foreclose the mortgage or enforce the security interest created by such Loan and to collect, hold and maintain or to sell or otherwise dispose of the collateral securing the note, mortgage or other instrument which is in default under the provisions of such Loan and, if the Agency deems such to be advisable, to bid for and purchase such collateral at any foreclosure sale.

The Agency may sell or otherwise dispose of any Loan which is in default or delinquent in the payment of principal or interest thereon if the Agency determines that such action is in the best interests of the Agency and Bondowners and will result in a greater availability of Revenues to pay Aggregate Debt Service when due and Program Expenses than would be the case if such Loan is not sold.

The Agency may sell or otherwise dispose of any Loan which is not in default or delinquent in the payment of principal or interest thereon, or transfer any such Loan to itself free and clear of the pledge of the Resolution and at such price as the Agency shall determine, provided that prior to any such disposition or transfer the Agency files with the Trustee a Projection of Revenues showing that following such disposition or transfer anticipated Revenues, together with any other moneys available for such purposes, will be sufficient to pay in the current and each subsequent Fiscal Year Aggregate Debt Service when due and all Program Expenses. Except as otherwise provided in any supplemental resolution, the proceeds, if any, of sale, transfer or other disposition of any Loan which was not in default or delinquent in the payment of principal or interest thereon shall not constitute a Loan Prepayment and shall not be deposited directly or indirectly in a Special Redemption Account for any Series of Bonds outstanding.

Bond Reserve Fund

The General Resolution requires that a Bond Reserve Fund be established and provides for its funding and maintenance in an amount at least equal to the Bond Reserve Fund Requirement. The General Resolution establishes the Bond Reserve Fund Requirement as an amount at least equal to the aggregate of the Series Bond Reserve Fund Requirements for all Series of Bonds outstanding as established in the supplemental resolution for such series.

The supplemental resolutions for each Series of Bonds currently outstanding have established the Series Bond Reserve Requirement for the applicable Series of Bonds at an amount at least equal to the lesser of (a) 50% of the maximum amount of Debt Service payable on such Series of Bonds in the current or any subsequent Fiscal Year and (b) 10% of the original net proceeds of such Series of Bonds.

Investment Obligations on deposit in the Bond Reserve Fund are valued under the Resolution at par, if purchased at par, or at amortized value if purchased at other than par. See “**SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION—Investments and Deposits.**” As of March 31, 2004, cash and Reserve Deposits (as defined below) on deposit in the Bond Reserve Fund aggregated \$31,312,660 and the Bond Reserve Fund Requirement was \$17,640,352. With the exception of a reserve fund surety bond in the amount of \$1,570,000 issued by Ambac Assurance Corporation (“Ambac Assurance”) in connection with the issuance of the Series 7A Bonds, the Bond Reserve Fund

has been funded entirely with cash. Upon the delivery of the Series 20 Bonds the amount on deposit in the Bond Reserve Fund will be at least equal to the Bond Reserve Fund Requirement.

Moneys in the Bond Reserve Fund may not be withdrawn in any amount which would reduce the amount on deposit in the Bond Reserve Fund to less than the Bond Reserve Fund Requirement except for the purpose of paying Principal Installments and interest on Bonds maturing and becoming due for the payment of which no other moneys pledged under the Resolution (other than amounts on deposit in the Program Accounts, if any) are available. In lieu of cash or securities, to the extent that the then current unenhanced ratings assigned to the Bonds by any Nationally Recognized Credit Rating Agency will not be adversely affected, the General Resolution allows the Agency to satisfy the Bond Reserve Fund Requirement in part or in whole by maintaining (a) irrevocable and unexpired letters of credit issued by a banking institution, (b) irrevocable policies of insurance in full force and effect, (c) irrevocable guaranties by banks, bank holding companies or insurance companies or (d) such other security or amounts as may be specified in a supplemental resolution and pledged to the payment of Bonds or Loans (collectively, "Reserve Deposits"), in each case making funds available to the Trustee for the same purpose and subject to the same conditions as such cash or securities would be available.

Projection of Revenues

The General Resolution requires that the Agency file with the Trustee a Projection of Revenues (a) upon delivery of any Series of Bonds; (b) upon the mandatory tender and interest rate adjustment on any Fixed Rate Bonds of any Series, (c) prior to the transfer of moneys from the Revenue Fund to the Agency free and clear of the lien of the Resolution; (d) except in certain circumstances, prior to the application of moneys in the Debt Service Fund or the Redemption Fund for the purchase or redemption of Bonds or the transfer of moneys in the Revenue Fund to a Program Account for the purchase of Loans; (e) prior to the sale of any Loan which is not in default or delinquent in any payments thereon and (f) upon filing with the Trustee the annual budget with respect to the Program for the ensuing Fiscal Year. Each Projection of Revenues is required to show, in effect, that after the intended action, anticipated Revenues and other funds thereafter available will be sufficient to pay in each subsequent Fiscal Year the Principal Installments of and interest on all outstanding Bonds when due and all Program Expenses or, if that is not the case, that such action will produce a greater amount of Revenues and other funds available for such purpose than would be the case if the Agency fails to take such action. In the case of transfers to the Agency, the Projection of Revenues must also demonstrate funds sufficient to make required deposits, if any, into the Rebate Fund and Bond Reserve Fund in each subsequent Fiscal Year. See "**SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION**" and "**APPENDIX IV—DEFINITIONS OF CERTAIN TERMS—Projection of Revenues.**"

The Projection of Revenues to be prepared upon the issuance of the Series 20 Bonds will be based upon, among other things, the assumptions that the Loans expected to be purchased with moneys in each Program Account under the Resolution, including the Series 20 Program Account, will be fully amortizing Loans of 30-year terms.

The foregoing Projections of Revenues further assume that moneys in the various funds and accounts established under the Resolution will be invested prior to application (a) in Investment Obligations at actual yields available to the Agency pursuant to existing investment contracts or arrangements or (b) if such moneys are not then invested, at the lowest yields as may be required by a Nationally Recognized Credit Rating Agency.

The Principal Installments on the Prior Bonds were established, and the Principal Installments on the Series 20 Bonds will be established at the time of issuance of such Bonds, based on the scheduled amortization payments on the Loans then expected to be purchased with the proceeds of the applicable Series of Bonds so that even if no Loan Prepayments were received with respect to such Loans, Revenues

and other available money expected to be held in the funds and accounts under the Resolution would be sufficient to pay when due the Principal Installments of and interest on such Series of Bonds and all Program Expenses allocable thereto. Revenues (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 Installments 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 Installments of the Bonds, unless applied by the Agency to purchase additional Loans, may be applied to redeem Bonds, including the Series 20 Bonds, prior to maturity. See “**THE SERIES 20 BONDS—Redemption Provisions—Special Redemption.**”

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 Mortgage 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 Revenues and other moneys available under the Resolution for payment of the Bonds, including the amounts in the Bond Reserve Fund, may be adversely affected. Certain proceeds of the Bonds, including proceeds on deposit in the Program Fund and the Bond Reserve Fund, have been and will be used to purchase Investment Obligations.

Additional Security

In addition to the security provided for the Bonds under the General Resolution and any security provided for Loans under the applicable supplemental resolution, to the extent the provision thereof will not adversely affect the unenhanced ratings assigned to any Bonds outstanding by any Nationally Recognized Credit Rating Agency, the Agency may obtain letters of credit, lines of credit, surety bonds, insurance policies, guarantees or similar obligations or other agreements or instruments (“Additional Security”) 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 Reserve Deposits 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 GENERAL RESOLUTION—Additional Security.**”

As of the date hereof the Agency has provided the following Additional Security for the Bonds currently outstanding and is to provide the following Additional Security for the Series 20 Bonds:

Loan Loss Claim Funds. In addition to the requirements of the Resolution relating to primary mortgage insurance for Loans acquired from amounts in the various Program Accounts under the Resolution, the Agency has established separate Loan Loss Claim Funds with respect to the Loans allocable to the Series 20 Bonds and each Series of Bonds heretofore issued under the General Resolution.

The Loan Loss Claim Fund for each Series of Bonds must each be maintained in an amount at least equal to (x) 1.85% of the sum of (a) the aggregate unpaid principal amount of all Prior Resolution Loans (in the case of the Series 4 Loan Loss Claim Fund) and all Loans purchased from amounts on deposit in the related Program Account plus (b) the aggregate amount, if any, then held in the related Program Account which may be applied to the purchase of such Loans, less (y) the aggregate amount withdrawn from such Loan Loss Claim Fund on account of Loan Losses; or in such lesser amount as each Nationally Recognized Credit Rating Agency then maintaining a rating on any Bonds outstanding confirms will not adversely affect the unenhanced rating on the Bonds (the “Loan Loss Claim Fund Requirements”).

In addition to cash and Investment Obligations, the Supplemental Resolutions permit the Loan Loss Claim Funds to be funded with one or more Loan Loss Claim Fund Deposits. See “**APPENDIX IV—DEFINITIONS OF CERTAIN TERMS.**” The Twenty-Fourth Supplemental Resolution provides for the deposit of a Surety Bond provided by FSA in the Loan Loss Claim Fund in an amount equal to \$574,887 (the “Series 20 Loan Loss Claim Fund Requirement”).

The following table presents information as of March 31, 2004 on the Loan Loss Claim Fund for each Series of Bonds. For certain information with respect to the providers of the Loan Loss Claim Fund Deposits, see “**APPENDIX V—CERTAIN INFORMATION REGARDING CREDIT ENHANCEMENT PROVIDERS.**”

Series of Bonds	Loan Loss Claim Fund Amount	Losses Paid ⁽¹⁾	Loan Loss Claim Fund Requirement
Series 1	\$ 225,000 ⁽²⁾	\$ 806,840	\$ -0-
Series 2	350,000 ⁽²⁾⁽³⁾	1,406,891	-0-
Series 3	325,000 ⁽²⁾	1,165,698	-0-
Series 4	335,000 ⁽²⁾	327,235	-0-
Series 5	435,000 ⁽²⁾	722,820	-0-
Series 6	850,000 ⁽²⁾	887,381	-0-
Series 7	650,000 ⁽²⁾	113,186	253,060
Series 8	555,650 ⁽⁴⁾	104,131	81,518
Series 9	1,145,000 ⁽⁵⁾	159,515	396,132
Series 10	610,807 ⁽²⁾	7,956	319,949
Series 11	450,902 ⁽²⁾	1,470	167,750
Series 12	524,303 ⁽²⁾	-0-	181,155
Series 13	624,137 ⁽²⁾	-0-	315,635
Series 14	555,144 ⁽²⁾	-0-	412,013
Series 15	577,478 ⁽²⁾	4,543	437,256
Series 16	1,478,705 ⁽⁶⁾	22,572	1,059,065
Series 17	555,827 ⁽⁶⁾	-0-	546,627
Series 18	562,563 ⁽⁶⁾	-0-	553,361
Series 19	559,995 ⁽²⁾	-0-	557,640

(1) Losses paid in excess of the Loan Loss Claim Fund Amount have been paid from available funds of the Agency.

(2) Surety Bond provided by FSA.

(3) Series 2 was additionally secured in the amount of \$771,747 under a Letter of Credit from Sanwa Bank through January 12, 2001.

(4) Surety Bond provided by Ambac Assurance Corporation.

(5) Surety Bond provided by MBIA Insurance Corporation.

(6) Funded by a cash deposit from available funds of the Agency.

If the Agency realizes a Loan Loss on a Loan, the Trustee shall withdraw the amount of such Loan Loss (a “Loan Loss Claim Fund Withdrawal”) from the Loan Loss Claim Fund created for the related Series of Bonds, or, if the Loan Loss is with respect to a Home Improvement Loan financed with proceeds of the Series 2 Bonds, from the Series 2 Home Improvement Loan Loss Claim Fund, and deposit such amount in the Revenue Fund. Any Loan Loss Claim Fund Withdrawals so deposited in the Revenue Fund will constitute Revenues under the Resolution and may, but are not required to be, used only to pay interest on and Principal Installments of the related Series of Bonds. In addition, if at any time the amounts otherwise available in any Special Redemption Account are insufficient to permit the

Agency to file the Projection of Revenues required by the General Resolution (after application to such purposes of all amounts available therefor in all other funds and accounts maintained under the Resolution other than the Rebate Fund), the Trustee shall withdraw the amount of the deficiency from any Loan Loss Claim Fund or the Series 2 Home Improvement Loan Loss Claim Fund, as directed by the Agency, and deposit the amount so withdrawn in the Revenue Fund or the applicable Special Redemption Account, provided that the amount remaining in the applicable Loan Loss Claim Fund after any such withdrawal is not less than the applicable Loan Loss Claim Fund Requirement, and provided further that amounts on deposit in the Series 1, Series 4, Series 8, Series 9, Series 10, Series 11, Series 12, Series 13, Series 14, Series 15, Series 16, Series 17, Series 18, Series 19 and Series 20 Bonds Loan Loss Claim Funds may only be applied to the redemption of Series 1, Series 4, Series 8, Series 9, Series 10, Series 11A, Series 12, Series 13A, Series 14A, Series 15A, Series 16, Series 17, Series 18, Series 19 or Series 20 Bonds, respectively, and that amounts on deposit in each other Loan Loss Claim Fund may only be applied to the redemption of the related Series of Bonds or any other Series of Bonds (other than the Series 4 Bonds) issued prior to such Series of Bonds.

While the amount of each Loan Loss Claim Fund Requirement will decline, among other reasons, as Loans are paid or prepaid in accordance with their terms, the Supplemental Resolutions provide that the respective amounts of the Loan Loss Claim Fund Deposits may not be correspondingly reduced and amounts on deposit in the Loan Loss Claim Funds may not be withdrawn in such events unless each Nationally Recognized Credit Rating Agency then maintaining a rating on any Bonds Outstanding confirms that such reduction or withdrawal will not adversely affect the unenhanced ratings then assigned by it to any Bonds Outstanding. Amounts on deposit in or credited to the Loan Loss Claim Funds may be withdrawn or reduced by the Agency without approval of such rating agencies due to the non-origination of Loans or to the extent Loan Losses are paid from the applicable Loan Loss Claim Fund.

Not less than five business days prior to the expiration date of any Loan Loss Claim Fund Deposit, the Agency shall deposit with the Trustee either an extension of or substitute for such Loan Loss Claim Fund Deposit, in either case in an amount available to be drawn thereunder sufficient to satisfy the applicable Loan Loss Claim Fund Requirement or, if less, the stated amount of the expiring Loan Loss Claim Fund Deposit. If the Agency fails to deposit an extension of or substitute for such Loan Loss Claim Fund Deposit with the Trustee, not less than three business days prior to the expiration date of the Loan Loss Claim Fund Deposit, the Trustee shall draw on such Loan Loss Claim Fund Deposit and deposit in the applicable Loan Loss Claim Fund an amount sufficient to satisfy the applicable Loan Loss Claim Fund Requirement or, if less, the full amount then available to be drawn under the applicable Loan Loss Claim Fund Deposit.

Contingency Accounts. As additional security for the Bonds set forth below, the related Supplemental Resolution established a Contingency Account for such Series of Bonds in the amounts set forth below. The Twenty-Fourth Supplemental Resolution has established the Series 20 Contingency Account which is expected to be funded by a surety bond provided by FSA. The previously established Contingency Accounts have been funded with surety bonds as described below and such surety bonds shall expire upon payment, in full, of the applicable Series of Bonds. For certain information with respect to FSA, Ambac Assurance and MBIA Insurance Corporation (“MBIA”), see “**APPENDIX V—CERTAIN INFORMATION REGARDING CREDIT ENHANCEMENT PROVIDERS.**”

Series of Bonds	Contingency Account Amount
Series 7A	\$850,000 ⁽¹⁾
Series 8	400,000 ⁽¹⁾
Series 9	875,000 ⁽²⁾
Series 10A/B	600,000 ⁽³⁾
Series 11A	513,010 ⁽³⁾
Series 12	552,416 ⁽³⁾
Series 13	603,321 ⁽³⁾
Series 14	518,628 ⁽³⁾
Series 15	800,000 ⁽³⁾
Series 16	-0-
Series 17	640,000 ⁽³⁾
Series 18	750,000 ⁽³⁾
Series 19	750,000 ⁽³⁾
Series 20	750,000 ⁽³⁾

⁽¹⁾ Surety Bond provided by Ambac Assurance Corporation.

⁽²⁾ Surety Bond provided by MBIA Insurance Corporation.

⁽³⁾ Surety Bond provided by Financial Security Assurance Inc.

If money is transferred from the Series 7A, Series 8, Series 9, Series 10A/B, Series 11A, Series 12A/B, Series 13A, Series 14A, Series 15A, Series 17, Series 18, Series 19 or Series 20 Program Account to the applicable Special Redemption Account as a result of the Agency's inability to purchase Loans or is deposited in a Special Redemption Account due to prepayments of the Loans that are not used to purchase additional Loans, the Agency will redeem a portion of the outstanding Bonds in accordance with, and upon satisfaction of the conditions set forth in, the General Resolution (See "**SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION—Redemption Fund.**") Prior to such redemption, the Agency must deliver to the Trustee a Projection of Revenues demonstrating that following such redemption anticipated Revenues and other funds available for the purpose will be sufficient to pay in the current and each subsequent Fiscal Year Aggregate Debt Service when due and all Program Expenses or, if that will not be the case, that in the judgment of the Agency such redemption will result in a greater amount of Revenues and other funds available to pay in the current and each subsequent Fiscal Year Aggregate Debt Service when due and all Program Expenses than would be the case if such redemption is not effected. If the Agency is unable to deliver such Projection of Revenues without the deposit of additional moneys in the Revenue Fund, the Agency may deposit the deficiency in the Revenue Fund, for application to the redemption of the Bonds, or if the Agency shall fail to make such deposit, the Trustee will withdraw from a Contingency Account and deposit in the Revenue Fund, for application to the redemption of the Bonds, an amount (up to an aggregate amount equal to the initial deposit therein) sufficient to enable the Agency to deliver such Projection of Revenues. A Contingency Account for a Series of Bonds, other than the Series 7A Contingency Account and the Series 8 Contingency Account, may only be drawn upon in connection with a redemption of such Series of Bonds or a prior Series of Bonds for which a Contingency Account has been established. The Series 7A Contingency Account may only be drawn upon in connection with a redemption of the Series 7A Bonds and the Series 8 Contingency Account may only be drawn upon in connection with a redemption of the Series 8 Bonds.

FSA Surety Bonds

The Series 10 Contingency Account Requirement, the Series 11 Contingency Account Requirement, the Series 12 Contingency Account Requirement, the Series 13 Contingency Account Requirement, the Series 14 Contingency Account Requirement, the Series 15 Contingency Account

Requirement, the Series 17 Contingency Account Requirement, the Series 18 Contingency Account Requirement and the Series 19 Contingency Account Requirement have been funded with the Series 10 Contingency Account Surety, the Series 11 Contingency Account Surety, the Series 12 Contingency Account Surety, the Series 13 Contingency Account Surety, the Series 14 Contingency Account Surety, the Series 15 Contingency Account Surety, the Series 17 Contingency Account Surety, the Series 18 Contingency Account Surety and the Series 19 Contingency Account Surety, respectively. The Loan Loss Claim Fund Requirement for each Series of Bonds other than the Series 8 Bonds, Series 9 Bonds, Series 16 Bonds, Series 17 Bonds, Series 18 Bonds and Series 19 Bonds, has been funded with a Loan Loss Claim Fund Surety provided by FSA. Such surety bonds provide that after receipt by FSA of a demand for payment executed by the Trustee certifying that under the provisions of the Resolution, a withdrawal is required to be made from the respective Contingency Account or the respective Loan Loss Claim Fund, as applicable, and such withdrawal cannot be made from other funds available in the Series 10 Contingency Account, the Series 11 Contingency Account, the Series 12 Contingency Account, the Series 13 Contingency Account, the Series 14 Contingency Account, the Series 15 Contingency Account, the Series 17 Contingency Account, the Series 18 Contingency Account or the Series 19 Contingency Account respectively, or the respective Loan Loss Claim Fund, FSA is to deposit funds with the Trustee sufficient to enable the Trustee to make such withdrawals in the required amount, but in no event exceeding the Surety Bond Coverage, as defined in each of the surety bonds.

It is anticipated that the Series 20 Contingency Account Requirement will be funded with the Series 20 Contingency Account Surety. The Series 20 Contingency Account Surety will provide that after receipt by FSA of a demand for payment executed by the Trustee certifying that under the provisions of the Resolution, a withdrawal is required to be made from the Series 20 Contingency Account and such withdrawal cannot be made from other funds available in the Series 20 Contingency Account, FSA is to deposit funds with the Trustee sufficient to enable the Trustee to make such withdrawals in the required amount, but in no event exceeding the Surety Bond Coverage, as defined in the Series 20 Contingency Account Surety.

Pursuant to the terms of each of the surety bonds, the Surety Bond Coverage provided by the respective surety bond is to be automatically reduced to the extent payment is made by FSA under the terms of the surety bond and the Agency would be required to reimburse FSA for any draws under the surety bond with interest at a market rate. The reimbursement obligation of the Agency under each surety bond is a general obligation of the Agency.

The surety bonds do not insure against nonpayment caused by the insolvency or negligence of the Trustee.

MBIA Surety Bonds

The Series 9 Contingency Account Requirement has been funded with the Series 9 Contingency Account Surety and the Series 9 Loan Loss Claim Fund Requirement has been funded with the Series 9 Loan Loss Claim Fund Surety. Such surety bonds provide that after receipt by MBIA of a demand for payment executed by the Trustee certifying that under the provisions of the Resolution a withdrawal is required to be made from the Series 9 Contingency Account or the Series 9 Loan Loss Claim Fund and such withdrawal cannot be made from other funds available in the Series 9 Contingency Account or the Series 9 Loan Loss Claim Fund, MBIA is to deposit funds with the Trustee sufficient to enable the Trustee to make such withdrawals in the required amount, but in no event exceeding the Surety Bond Coverage, as defined in each of the surety bonds.

Pursuant to the terms of each of the surety bonds, the Surety Bond Coverage provided by the respective surety bond is to be automatically reduced to the extent payment is made by MBIA under the terms of the surety bond and the Agency would be required to reimburse MBIA for any draws under the

surety bond with interest at a market rate. The reimbursement obligation of the Agency under each surety bond is a general obligation of the Agency.

The surety bonds do not insure against nonpayment caused by the insolvency or negligence of the Trustee.

Ambac Surety Bonds

The Series 7A Contingency Account Requirement and the Series 8 Contingency Account Requirement have been funded with the Series 7A Contingency Account Surety and the Series 8 Contingency Account Surety, respectively, the Series 8 Loan Loss Claim Fund Requirement has been funded with the Series 8 Loan Loss Claim Fund Surety and the Bond Reserve Fund Requirement for the Series 7A Bonds has been funded with a surety bond provided by Ambac Assurance. Such surety bonds provide that after receipt by Ambac Assurance of a demand for payment executed by the Trustee certifying that under the provisions of the Resolution a withdrawal is required to be made from the Bond Reserve Fund, the Series 7A Contingency Account or Series 8 Contingency Account, as applicable, or the Series 8 Loan Loss Claim Fund and such withdrawal cannot be made from other funds available in the Bond Reserve Fund, the Series 7A Contingency Account or Series 8 Contingency Account, respectively, or the Series 8 Loan Loss Claim Fund, Ambac Assurance is to deposit funds with the Trustee sufficient to enable the Trustee to make such withdrawals in the required amount, but in no event exceeding the Surety Bond Coverage, as defined in each of the surety bonds.

Pursuant to the terms of each of the surety bonds, the Surety Bond Coverage provided by the respective surety bond would be automatically reduced to the extent payment is made by Ambac Assurance under the terms of such surety bond and the Agency would be required to reimburse Ambac Assurance for any draws under such surety bond with interest at a market rate. Upon such reimbursement of draws under the Bond Reserve Fund surety bond provided in connection with the issuance of the Series 7A Bonds, such surety bond would be reinstated to the extent of each principal reimbursement up to but not exceeding its Surety Bond Coverage. The reimbursement obligation of the Agency under each surety bond is a general obligation of the Agency.

The surety bonds do not insure against nonpayment caused by the insolvency or negligence of the Trustee.

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Additional Security for Certain Bonds

In connection with the issuance of the Bonds set forth below, the Agency caused the related municipal bond insurance provider to issue a municipal bond insurance policy relating to such Series of Bonds. Such insurance policies do not secure the Series 20 Bonds.

Series of Bonds	Municipal Bond Insurance Provider
Series 6	Ambac Assurance
Series 7A	Ambac Assurance
Series 8	Ambac Assurance
Series 9	MBIA
Series 10A/B	FSA
Series 11A	FSA
Series 12A/B	FSA
Series 13A	FSA
Series 14A	FSA
Series 15A	FSA
Series 16A	FSA
Series 17	FSA
Series 18A	FSA
Series 19	FSA

Additional Bonds

The General Resolution permits the issuance of additional Bonds thereunder for the purpose of providing funds for the Program and, in addition, to refund outstanding Bonds issued under the General Resolution or other bonds or notes of the Agency issued to finance Loans qualifying under the General Resolution, so long as the issuance of such additional Bonds would not adversely affect the unenhanced ratings then assigned to any Bonds outstanding by any Nationally Recognized Credit Rating Agency. Any additional Bonds issued under the General Resolution 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 General Resolution. The General Resolution provides that upon the issuance of any such additional Bonds there is to be deposited in the Bond Reserve Fund, if necessary, amounts sufficient to increase the amount therein to the Bond Reserve Fund Requirement calculated after such issuance. Prior to the delivery of any additional Bonds, the Agency is required to file a Projection of Revenues with the Trustee. See “**SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION—Authorization and Issuance of Bonds.**” No assurance can be given, however, that any Additional Security for the Bonds provided in connection with the issuance of any Additional Bonds would provide coverage that is comparable to the coverage provided by the Loan Loss Claim Funds and Contingency Accounts described above.

Enforceability of Remedies

The remedies available to the Owners of the Series 20 Bonds upon an event of default under the Resolution 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 Resolution 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 20 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.

MUNICIPAL BOND INSURANCE

Concurrently with the issuance of the Series 20 Bonds, Financial Security Assurance Inc. (together with its successors or assigns, the "Bond Insurer") will issue its Municipal Bond Insurance Policy for the Series 20 Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Series 20 Bonds when due as set forth in the form of the Policy included as "**APPENDIX VIII—SPECIMEN MUNICIPAL BOND INSURANCE POLICY**" of this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law. Additional information regarding FSA can be found in "**APPENDIX V—CERTAIN INFORMATION REGARDING CREDIT ENHANCEMENT PROVIDERS.**"

THE SERIES 20 BONDS

Fixed Rate Bonds

The Fixed Rate Bonds will be dated the date of initial delivery and will be issued as fully registered bonds without coupons in denominations of \$5,000 or any multiple thereof, and are to mature on the dates and bear interest at the rates shown on the inside cover page of this Official Statement. Interest is payable on the Fixed Rate Bonds on May 1, 2005 and semi-annually thereafter on May 1 and November 1 of each year and on the maturity date thereof. Interest on the Fixed Rate Bonds shall be calculated on the basis of a 360 day year of twelve 30-day months. The interest rates on the Fixed Rate Bonds are subject to adjustment as described herein.

Mandatory Tender of the Fixed Rate Bonds. Pursuant to the Twenty-Fourth Supplemental Resolution, a Principal Amount of Fixed Rate Bonds not in excess of the amount on deposit in the Series 20 Program Account may be subject to mandatory tender for purchase on any date (the "Adjustment Date") during the period from February 1, 2005 to July 1, 2007, inclusive (the "Adjustment Option Period"), subject to the right of the Owners of such Fixed Rate Bonds to elect to retain such Bonds. On the Adjustment Date, the Fixed Rate Bonds of any Owner that are subject to mandatory tender shall either be purchased by the Agency and remarketed as an equal Principal Amount of Fixed Rate Bonds (the "Adjusted Rate Bonds") bearing interest at the Adjusted Interest Rate (as hereinafter defined) or, if the Owner so elects, exchanged for an equal Principal Amount of Fixed Rate Bonds bearing interest at the Adjusted Interest Rate. Any Fixed Rate Bonds purchased on the Adjustment Date are to be purchased at a price equal to the issue price thereof (including any initial issue premium paid with respect to the Premium PAC Bonds), plus accrued interest to (but not including) the Adjustment Date.

The interest rate on the Fixed Rate Bonds subject to mandatory tender on the Adjustment Date may not be adjusted unless the yield on the Pro-Forma Tender Bonds (as hereinafter defined), assuming such Bonds bear interest at the Pro-Forma Adjusted Interest Rate (as hereinafter described), is at least .50% per annum lower than the yield on the Series 20 Bonds calculated as of the date of issuance of the Fixed Rate Bonds, and unless certain other conditions specified in the Twenty-Fourth Supplemental Resolution are satisfied.

Determination of the Adjusted Interest Rate. If at any time during the Adjustment Option Period moneys remain on deposit in the Series 20 Program Account and the Agency makes certain

determinations specified in the Twenty-Fourth Supplemental Resolution with respect to the marketability of Loans bearing interest at the rate that would result from the adjustment of the interest rate on a Principal Amount of Fixed Rate Bonds equal to no more than the amount on deposit in the Series 20 Program Account to the Pro-Forma Adjusted Interest Rate (as hereinafter defined), the Agency may deliver to the Remarketing Agent a certificate of an authorized officer directing the Remarketing Agent to determine and certify to the Agency a Pro-Forma Adjusted Interest Rate for each maturity of the Fixed Rate Bonds as of a date (the "Certification Date") specified by the Agency, which date shall be not less than two business days after the date of such Certificate. The certificate shall also specify a Principal Amount of Fixed Rate Bonds that may be subject to mandatory tender for purchase on the Adjustment Date (the "Pro-Forma Tender Bonds"), which Principal Amount shall not exceed the amount on deposit in the Series 20 Program Account. The Pro-Forma Adjusted Interest Rate shall be the lowest rate or rates which, in the judgment of the Remarketing Agent, on the basis of prevailing market conditions, would permit the resale of the Pro-Forma Tender Bonds at par plus accrued interest, if any, on the Certification Date.

If on or after any Certification Date, the Agency makes certain determinations specified in the Twenty-Fourth Supplemental Resolution with respect to the marketability of Loans bearing interest at the rate that would result from the adjustment of the interest rate on all Pro-Forma Tender Bonds to the Pro-Forma Adjusted Interest Rate, the Agency may elect to call a Principal Amount of Fixed Rate Bonds (not in excess of the amount of Pro-Forma Tender Bonds) for mandatory tender on the Adjustment Date and remarketing as Adjusted Rate Bonds. The Adjustment Date shall be any date during the Adjustment Option Period, selected by the Agency, that is not less than 33 days after the date on which the Agency makes the election described above.

If the Agency elects to call Fixed Rate Bonds for mandatory tender on the Adjustment Date, each maturity of Fixed Rate Bonds outstanding shall be called for tender, as nearly as practicable, in accordance with the ratio which the aggregate Principal Amount of such Fixed Rate Bonds of each maturity outstanding bears to the aggregate Principal Amount of such Fixed Rate Bonds of all maturities outstanding. The Trustee shall select by lot the Fixed Rate Bonds (hereinafter referred to as "Series 20 Tender Bonds") within each maturity to be so tendered.

Not less than 30 days prior to the Adjustment Date, notice of the mandatory tender for purchase or exchange of Series 20 Tender Bonds shall be given by the Trustee to all Owners of Series 20 Tender Bonds. Each such notice shall state, in effect:

- the Principal Amount of Series 20 Tender Bonds owned by such Owner and the bond numbers and maturity dates thereof;
- that, unless the Agency fails to satisfy the conditions to the mandatory tender of Series 20 Tender Bonds, the Series 20 Tender Bonds of such Owner will be exchanged for Adjusted Rate Bonds or purchased from the Owner and remarketed as Adjusted Rate Bonds on the Adjustment Date in either case bearing the same maturity dates as the Series 20 Tender Bonds for which they were exchanged;
- that the Owners of Series 20 Tender Bonds will no longer be entitled to receive interest on such Bonds after the Adjustment Date, except in the case of Series 20 Tender Bonds retained pursuant to elections and not purchased (in which case such Bonds shall, from and after the Adjustment Date, bear interest at the Adjusted Interest Rate);
- that each Series 20 Tender Bond shall be purchased on the Adjustment Date unless the Bondowner directs the Agency and the Trustee not to purchase all or any specified

portion of such Owner's Series 20 Tender Bonds in accordance with the Twenty-Fourth Supplemental Resolution:

- the date by which an Owner electing to retain Series 20 Tender Bonds must notify the Trustee of such election and instructions for delivering notice of such election;
- that if the Series 20 Tender Bonds had been exchanged for Adjusted Rate Bonds on the Certification Date, they would have borne interest thereafter at the Pro-Forma Adjusted Interest Rate, the method by which the Adjusted Interest Rate will be determined and that the actual Adjusted Interest Rate will be determined on the Calculation Date, which date shall be a date not earlier than fifteen and not later than seven days prior to the Adjustment Date;
- that, except with respect to Series 20 Tender Bonds registered in the name of the Securities Depository (or any substitute or successor depository) or its nominee, each Bondowner shall deliver such Bond or Bonds to the Trustee not later than 10:30 A.M. (New York City time) on the Adjustment Date; and
- that if no adjustment of interest rate takes place as a result, of a failure by or inability of the Remarketing Agent to set the Adjusted Interest Rate as described above or as otherwise provided in the Twenty-Fourth Supplemental Resolution, all Series 20 Tender Bonds will be subject to mandatory redemption at the issue price thereof (including any initial issue premium paid with respect to the Premium PAC Bonds) on the Adjustment Date.

Interest Rates and Maturities of Adjusted Rate Bonds. On the Calculation Date, the Remarketing Agent shall determine and announce to the Trustee and the Agency the Adjusted Interest Rate that the Adjusted Rate Bonds of each applicable maturity shall bear as of and after the Adjustment Date. The Adjusted Interest Rate shall be the lowest rate or rates which, in the judgment of the Remarketing Agent, as of the date of such determination and under prevailing market conditions, would permit the resale of the Adjusted Rate Bonds on such date at par plus accrued interest, if any. If the Remarketing Agent shall fail or be unable to set the Adjusted Interest Rate on the Calculation Date, all Series 20 Tender Bonds shall be subject to mandatory redemption on the Adjustment Date.

Election to Retain Adjusted Bonds. Any Owner of an Adjusted Rate Bond who has received notice from the Trustee that such Owner's Fixed Rate Bonds will be subject to interest rate adjustment may elect to retain all or a portion of such Fixed Rate Bonds as Adjusted Rate Bonds. An Owner of a Series 20 Tender Bond who elects to retain such Bonds must, in lieu of purchase by the Agency, exchange such specified portion of Series 20 Tender Bonds for an amount of Adjusted Rate Bonds equal in Principal Amount to the Series 20 Tender Bonds tendered for exchange and of the same maturity as the Series 20 Tender Bonds so exchanged. Such election must be in writing, sent by mail, telex or facsimile and received by the Trustee not later than 4:00 P.M., New York time, on the 15th day prior to the Adjustment Date (or if such day is not a Business Day, the next succeeding Business Day). Such election may be made with respect to all or any specified portion of such Owner's Series 20 Tender Bonds (which portion shall be in integral multiples of \$5,000).

A Bondowner electing to retain a Series 20 Tender Bond shall state (a) that such person is the Owner of the Series 20 Tender Bonds to be exchanged for Adjusted Rate Bonds and (b) the maturity date of the Adjusted Rate Bonds for which such Owner's Series 20 Tender Bonds are to be exchanged and the Principal Amount or Amounts applicable to such maturity date and acknowledge that if the Remarketing Agent and the Agency are unable to satisfy the conditions specified in the Twenty-Fourth Supplemental Resolution with respect to the adjustment of the interest rate on the Series 20 Tender Bonds, such

Owner's Series 20 Tender Bonds shall be subject to mandatory redemption at par despite direction to the contrary.

Any such direction so delivered to the Trustee shall be irrevocable. Any Bondowner's failure to deliver such notice in a timely manner shall result in the purchase of all of such Owner's Series 20 Tender Bonds.

Requirements for Adjustment of Interest Rate on Series 20 Tender Bonds. Following the Calculation Date, but in no event later than the second Business Day prior to the Adjustment Date, the Agency shall deliver to the Trustee certain certificates required by the Twenty-Fourth Supplemental Resolution, including (a) a Certificate of an Authorized Officer setting forth the Agency's reasonable expectations that adjustment of the interest rate on the Series 20 Tender Bonds on the Adjustment Date to the Adjusted Interest Rate and the purchase thereafter of Loans at a certain specified rate or rates with proceeds allocable to the Adjusted Rate Bonds will not cause the Series 20 Bonds to be "arbitrage bonds" within the meaning of Section 143(g) or Section 148(a) of the Code (the "Arbitrage Projection Certificate"), accompanied by an opinion of Bond Counsel to the effect that the adjustment of the interest rate on the Series 20 Tender Bonds on the Adjustment Date will not adversely affect the excludability of interest on the Series 20 Bonds from gross income of the holders thereof for federal income tax purposes and that no matters have come to the attention of such counsel which make unreasonable or incorrect the representations made in such Arbitrage Projection Certificate, (b) a certificate of an authorized officer setting forth a Projection of Revenues (prepared on the assumption that the Series 20 Tender Bonds will bear interest at the Adjusted Interest Rate) demonstrating that, following adjustment of the interest rate on the Series 20 Tender Bonds, Revenues and other funds available for the purpose will be sufficient to pay in the current and each subsequent Fiscal Year Aggregate Debt Service when due and all Program Expenses or, if that is not the case, that the amount of Revenues and other funds available to pay the Aggregate Debt Service on all Bonds outstanding other than the Adjusted Rate Bonds to be remarketed or exchanged for the Series 20 Tender Bonds and all Program Expenses allocable thereto will be greater following adjustment of the interest rate on the Series 20 Tender Bonds than would be the case if the Agency did not adjust the interest rate on such Bonds but redeemed the Series 20 Tender Bonds on the Adjustment Date (the "Remarketing Projection of Revenues"), (c) a letter (or other evidence satisfactory to the Trustee) from each nationally recognized credit rating agency then rating any Bonds outstanding at the request of the Agency, confirming that adjustment of the interest rate on the Series 20 Tender Bonds will not cause such agency to change the unenhanced credit ratings on any Bonds outstanding (the "Adjustment Rating Certificate"), and (d) a certificate of an authorized officer to the effect that the balance on deposit in the Bond Reserve Fund and the Series 20 Loan Loss Claim Fund as of the Adjustment Date will not be less than the Bond Reserve Requirement and the Series 20 Loan Loss Claim Fund Requirement, respectively, calculated as of the Adjustment Date.

If on or prior to the second Business Day immediately preceding the Adjustment Date either (a) the Agency shall fail to deliver the certificates described above or (b) either (x) the Agency shall determine (and certify to the Trustee) that the rate of interest to be borne by Loans to be acquired with the proceeds attributable to the Adjusted Rate Bonds exceeds the rate which the Agency reasonably determines is the maximum rate which eligible mortgagors can afford or (y) the Agency shall have reasonably determined (and shall so certify to the Trustee) that Mortgage Lenders will be unable or unwilling to originate Loans for sale to the Agency at such rate or in a principal amount sufficient to fully apply all proceeds allocable to the Adjusted Rate Bonds as provided in the Twenty-Fourth Supplemental Resolution, or (z) the Agency shall determine that Loans made by or on behalf of the Agency, directly or indirectly, with proceeds attributable to the Adjusted Rate Bonds cannot be issued bearing a rate or rates of interest which will be less than the prevailing rate of interest on comparable loans available in the State of Vermont without the assistance of the Agency, the Series 20 Tender Bonds (or such portion of the Principal Amount thereof as the Agency shall determine is necessary to satisfy the provisions of the Twenty-Fourth Supplemental Resolution) shall not be exchanged for Adjusted Rate Bonds or purchased

and remarketed as Adjusted Rate Bonds on the Adjustment Date and the Trustee shall call for redemption and redeem on the Adjustment Date all Series 20 Tender Bonds in accordance with the provisions described below under “—**Redemption Provisions—Special Redemption.**”

The ARCs

The Series 20B Bonds shall bear interest from the date of delivery until and including September 16, 2004 at rates determined by UBS Financial Services Inc., as the sole underwriter of the ARCs prior to the date of delivery (the “Initial Period”), which rate will be the interest rate that will result in the Series 20B Bonds being sold at a price of 100% of the principal amount thereof for such period. Thereafter, the Series 20B Bonds shall bear interest at Auction Rates established for Auction Periods until a Variable Rate Conversion Date, Flexible Rate Conversion Date or Fixed Rate Conversion Date. At no time shall the Series 20B Bonds bear interest at a rate higher than the Maximum Interest Rate. Series 20B Bonds bearing interest at Auction Rates are sometimes referred to herein as “ARCs.”

This Official Statement does not provide comprehensive information regarding the Series 20B Bonds after the date, if any, on which such bonds begin to bear interest at a Fixed Rate, Variable Rate or Flexible Rate prior to maturity or prior redemption.

“Auction Rate” means the rate of interest per annum to be borne by the ARCs during each Auction Period determined in accordance with the Auction Procedures described in “**APPENDIX IX—ARCs PROVISIONS**” hereto; provided, however:

(i) that if the Auction Agent shall have failed to calculate, or for any reason fails to timely provide, the Auction Rate for any Auction Period (including, without limitation the circumstances where there is no Auction Agent or no Broker-Dealer), the Auction Rate for such Auction Period shall be the Maximum Auction Rate;

(ii) that if there occurs an Event of Default under the Resolution consisting of a failure to pay (A) any installment of interest payable when due and payable or (B) any principal or premium, if any, payable when the same shall become due and payable, either at maturity, by proceeding for redemption or upon acceleration or otherwise, and which, in any such case, is followed by the failure of the Bond Insurer to make, in accordance with the hereinafter defined Policy, due and punctual payments described in (A) or (B), if so required by the Policy (a “Payment Default”), Auctions will be suspended and the Auction Rate for the Auction Period commencing on or after the Payment Default and for each Auction Period thereafter to and including the Auction Period, if any, during which, or commencing less than the greater of two Business Days or one Business Day plus the number of Business Days by which the Auction Date precedes the first day of the next succeeding Auction Period (the “Applicable Number of Business Days”) after, such Payment Default is cured, shall be the Default Rate;

(iii) that, in the event of a failed conversion of ARCs to a Variable Rate Period, a Flexible Rate Period or a Fixed Rate Period or in the event of a failure to change the length of the current Auction Period as provided in the Resolution due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Rate for the next Auction Period shall be the Maximum Auction Rate; or

(iv) that if the ARCs are not rated, or the ARCs are no longer maintained in book-entry-only form by the Securities Depository, then the ARCs will bear interest at the Maximum Auction Rate.

In no event may the Auction Rate exceed the Maximum Interest Rate.

“Auction Date” means September 16, 2004 and thereafter, the Business Day immediately preceding the first day of each Auction Period, other than: (i) each Auction Period commencing after the ownership of the ARCs is no longer maintained in book-entry form by the Depository; (ii) each Auction Period commencing after the occurrence and during the continuance of a Payment Default; (iii) any Auction Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default.

“Auction Period” means (a) the Initial Period and (b) each successive 35-day period thereafter, commencing on a Friday (or the Business Day following the last day of the prior Auction Period, if the prior Auction Period does not end on a Thursday) and ending on (and including) a Thursday (unless such Thursday is not followed by a Business Day, in which case such Auction Period will end on the next succeeding day that is followed by a Business Day), as the same may be changed pursuant to procedures described in “**APPENDIX IX—ARCS PROVISIONS**” under the caption “**CHANGES IN AUCTION PERIODS OR AUCTION DATE.**”

Under certain circumstances, the definitions set forth above may be modified as described in “**APPENDIX IX—ARCS PROVISIONS**” hereto. Changes to the Auction Periods and Auction Dates do not require the amendment of the Auction Procedures or any consents.

The ARCS will be dated the date of initial delivery and will be issued as fully registered bonds without coupons and in denominations of \$50,000 or any integral multiple thereof. Fully registered bonds are interchangeable for other fully registered bonds of the same series in Authorized Denominations upon terms and conditions provided in the Twenty-Fourth Supplemental Resolution. The amount of interest distributable to holders of ARCs in respect of each \$50,000 in principal amount thereof for any Auction Period or part thereof shall be calculated by applying the Applicable Rate for such Auction Period or part thereof to the principal amount of \$50,000, multiplying such product by the actual number of days in the Auction Period or part thereof concerned divided by 365 or 366, as applicable, and truncating the resultant figure to the nearest one cent. Interest on the ARCs shall be computed by the Trustee on the basis of a 365-day year for the number of days actually elapsed; except that for any such calculation with respect to an Interest Payment Date occurring after January 1 of a leap year through December 31 of such leap year, such interest (for any day occurring during such period) shall be computed on the basis of a 366-day year period. In the event an Interest Payment Date occurs in any Auction Period on a date other than the first day of such Auction Period, the Trustee, after confirming the calculation required above, will calculate the portion of the amount of interest distributable in respect of each \$1,000 in principal amount (taken, without rounding, to .0001 of one cent) of ARCs for any Auction Period or part thereof (the “Interest Amount”) payable on such Interest Payment Date and the portion payable on the next succeeding Interest Payment Date. The Trustee will make the foregoing calculation not later than the close of business on each Auction Date.

The initial Interest Payment Date for the Series 20B Bonds will be May 1, 2005. Thereafter, the Interest Payment Dates for the Series 20B Bonds during an Auction Period will be (i) each November 1 and May 1, (ii) any date on which Series 20B Bonds are redeemed pursuant to the provisions of the Twenty-Fourth Supplemental Resolution and (iii) the Maturity Date.

Auction Agent

The Twenty-Fourth Supplemental Resolution provides that when Series 20B Bonds bear interest at the Auction Rate, the Trustee shall, at the direction of the Agency, appoint an Auction Agent. The Trustee and the Auction Agent will enter into an Auction Agreement which will provide, among other things, that the Auction Agent will determine the Auction Rate for each Auction in accordance with the Auction Procedures. The Trustee will enter into the Auction Agreement initially with Deutsche Bank Trust Company Americas, as agent for the Trustee, which agent shall perform the duties of Auction Agent

with respect to the Series 20B Bonds. See “**APPENDIX IX—ARCs PROVISIONS**” for additional information on the Auction Procedures.

Order Procedures for Existing Owners and Potential Owners

The procedure for submitting orders prior to the Submission Deadline on each Auction Date is described in “**APPENDIX IX—ARCs PROVISIONS**,” as are the particulars with regard to the determination of the Auction Rate and the allocation of Series 20B Bonds bearing interest at Auction Rates (collectively, the “Auction Procedures”).

Amendment of Auction Procedures

The provisions of the Twenty-Fourth Supplemental Resolution concerning the Auction Procedures, including, without limitation, the definitions of Default Rate, Maximum Auction Rate, All-Hold Rate and the Applicable Percentage, may be amended by obtaining the consent of the Bond Insurer and owners of all Outstanding Series 20B Bonds bearing interest at an Auction Rate. If on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such amendment to the registered owners of the Outstanding Series 20B Bonds bearing interest at an Auction Rate, (i) the Auction Rate for the Series 20B Bonds is determined on such date is the Winning Bid Rate and (ii) there is delivered to the Agency and the Trustee an Opinion of Bond Counsel to the effect that such amendment will not adversely affect the validity of the Series 20B Bonds or any exemption from federal income taxation to which interest on the Series 20B Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the owners of all Outstanding Series 20B Bonds bearing interest at an Auction Rate.

Changes to the Auction Periods and Auction Dates and certain changes to the Applicable Percentages do not require the amendment of the Auction Procedures or any Owner consents. See “**Changes in Auction Periods or Auction Dates**” and “**Adjustment of Percentages**” in “**APPENDIX IX—ARCs PROVISIONS**” hereto. Similarly, the provisions of certain of the auction documents regarding certain of the auction procedures may be amended from time to time to conform to industry or market practices solely upon the written consent of the parties to the applicable document upon notice of such amendment to the affected Owners and without any such Owner consents.

Market Agent

The Trustee will enter into a market agent agreement with UBS Financial Services Inc. (together with any successor as market agent entering into a similar agreement with the Trustee, the “Market Agent”) which sets forth the Market Agent’s duties and responsibilities. The Market Agent will not receive any compensation for acting as Market Agent. The Agency may remove the Market Agent at any time provided that such removal shall not take effect until the appointment of a successor Market Agent.

Special Considerations Relating to ARCs

The ability of an Existing Holder of ARCs to sell such ARCs in any Auction is directly contingent upon the Auction Agent’s receipt of Sufficient Clearing Bids. If Sufficient Clearing Bids are not received, Submitted Orders shall be accepted or rejected as summarized in “**APPENDIX IX—ARCs PROVISIONS**” hereto under the caption “**AUCTION PROCEDURES—Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Bonds**,” and an Existing Holder of ARCs who submits a Sell Order may be required to continue to hold such ARCs.

The Auction Procedures will be suspended and the Auction Rate will equal the Default Rate for the Auction Period commencing on or after any Payment Default and for each Auction Period thereafter

to and including the Auction Period, if any, during which, or commencing less than the Applicable Number of Business Days after, such Payment Default is cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter.

The Twenty-Fourth Resolution provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days' notice or 30 days' notice, if it has not been compensated for its services for more than 30 days after such fee is due, to the Agency, the Bond Insurer, the Market Agent and the Trustee, and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its compensation has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon five business days' notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place, except as otherwise provided in the Twenty-Fourth Supplemental Resolution.

The Broker-Dealer Agreement will provide that a Broker-Dealer may submit an Order in Auctions for its own account. If a Broker-Dealer submits an Order for its own account in any Auction, it might have an advantage over other Bidders in that it would have knowledge of Orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers (if any) in that Auction. In the Broker-Dealer Agreement, the Broker-Dealers will agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules.

UBS Financial Services Inc. has advised the Agency that it intends initially to make a market for the ARCs between Auctions; however, UBS Financial Services Inc. is not obligated to make such markets, and no assurance can be given that secondary markets therefor will develop.

During an Auction Period, so long as the ownership of the ARCs is maintained in book-entry form by the Securities Depository, an Existing Holder or a beneficial owner may sell, transfer or otherwise dispose of ARCs only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions such Existing Holder or its Broker-Dealer or its Participant advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of ARCs from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such ARCs to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Holder of the ARCs so sold, transferred or disposed of immediately after such sale, transfer or disposition.

Any ratings on the ARCs do not address the likelihood that any Auction will be successful or that any Existing Holder will be able to sell ARCs in any Auction.

Fixed Rate Conversion at Option of Agency

At the option of the Agency, the Series 20B Bonds bearing interest at a Variable Rate, Flexible Rate or the Auction Rate may be converted to bear interest at the Fixed Rate as hereinafter provided. The Fixed Rate Conversion Date shall be in the case of a conversion from an Auction Period, on any Business Day as specified by the Agency for which notice has been given as specified below.

Not less than seven (7) Business Days prior to the date on which the Trustee's Agent or Trustee is required to notify the Owners of the conversion pursuant to the next succeeding paragraph, the Agency shall give written notice of the conversion to the Trustee, the Trustee's Agent, if any, the Remarketing Agent, if any, the Bond Insurer, the Auction Agent, if any, and the Broker-Dealer, if any, setting forth the Series 20B Bonds subject to such conversion and the Proposed Fixed Rate Conversion Date. Together

with such notice, the Agency shall file with the Bond Insurer, the Trustee and the Trustee's Agent, if any, an Opinion of Bond Counsel to the effect that the conversion of the Series 20B Bonds to the Fixed Rate will not adversely affect the validity of the Series 20B Bonds or any exemption from federal income taxation to which interest on the Series 20B Bonds would otherwise be entitled. No conversion to the Fixed Rate shall occur unless the Agency shall also file with the Bond Insurer, the Trustee and the Trustee's Agent, if any, an Opinion of Bond Counsel of the type referred to in the preceding sentence dated the Fixed Rate Conversion Date.

The Trustee shall mail a notice of the proposed conversion to the holders of all Series 20B Bonds to be converted not less than twenty (20) days prior to the Proposed Fixed Rate Conversion Date, which notice shall include: (i) the Proposed Fixed Rate Conversion Date, (ii) a statement that the Series 20B Bonds to be converted will be subject to mandatory tender for purchase on the Proposed Fixed Rate Conversion Date, (iii) a statement that the owners will have no right to retain such Series 20B Bonds and (iv) a description of the consequences of a failed conversion.

The Agency may revoke its election to effect a conversion of the interest rate on any Series 20B Bonds to a Fixed Rate by giving written notice of such revocation to the Bond Insurer, the Trustee, the Trustee's Agent, the Remarketing Agent, the Auction Agent, and the Broker-Dealer at any time prior to the setting of the Fixed Rate by the Remarketing Agent.

On the proposed Fixed Rate Conversion Date applicable to the ARCs to be converted, such ARCs to be converted shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of the ARCs so tendered is payable solely from the proceeds of the remarketing of such ARCs. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all applicable ARCs on the mandatory tender date, the ARCs will not be subject to mandatory tender, will be returned to their owners, and will bear interest during the Auction Period commencing on such failed conversion date at the Maximum Auction Rate for an Auction Period of seven days.

This Official Statement is not intended to provide disclosure information regarding the Series 20B Bonds subsequent to a Fixed Rate Conversion Date.

Variable Rate and Flexible Rate Conversion from Auction Periods at Option of Agency

At the option of the Agency, the Series 20B Bonds may be converted from an Auction Period to a Variable Rate Period or, with the prior written consent of the Bond Insurer, a Flexible Rate Period as follows:

(i) The Variable Rate Conversion Date or Flexible Rate Conversion Date shall be on any Business Day as specified by the Agency for which notice has been given as specified in (ii) below.

(ii) The Agency shall give written notice of any such conversion to the Remarketing Agent, the Trustee, the Bond Insurer, the Auction Agent, and the Broker-Dealer not less than seven (7) Business Days prior to the date on which the Trustee is required to notify the Owners of the conversion pursuant to (iii) below. Such notice shall specify the Series 20B Bonds subject to such conversion and the Variable Rate Conversion Date or Flexible Rate Conversion Date, as the case may be. Such notice shall be accompanied by (a) a written statement from the Remarketing Agent, addressed to the Agency and the Trustee, to the effect that the Remarketing Agent has determined that, in its judgment, a change to a Variable Rate or Flexible Rate from the Auction Rate would result in the lowest aggregate cost, taking into account interest and any other then determinable fees and expenses, being payable with respect to the Series 20B Bonds during the

twelve month period commencing with the Variable Rate Conversion Date, (b) an approval in writing of such Variable Rate Period or Flexible Rate Period, as the case may be, by the Agency or a duly authorized officer of the Agency, or (c) an Opinion of Bond Counsel to the effect that neither such statement nor such approval is required for the continued validity and enforceability of the Series 20B Bonds in accordance with their terms. Together with such notice, the Agency shall file with the Trustee and the Bond Insurer an Opinion of Bond Counsel to the effect that the conversion of the Series 20B Bonds to a Variable Rate or a Flexible Rate will not adversely affect the validity of the Series 20B Bonds or any exemption from federal income taxation to which interest on the Series 20B Bonds would otherwise be entitled. No change to a Variable Rate or Flexible Rate shall become effective unless the Agency shall also file, with the Trustee and the Bond Insurer, an Opinion of Bond Counsel of the type referred to in the preceding sentence dated the Variable Rate Conversion Date or Flexible Rate Conversion Date, as the case may be.

(iii) Not less than twenty (20) days prior to the Variable Rate Conversion Date or Flexible Rate Conversion Date, the Trustee shall mail a written notice of the conversion to the holders of all Series 20B Bonds to be converted, specifying the Variable Rate Conversion Date or Flexible Rate Conversion Date, that the Series 20B Bonds to be converted will be subject to mandatory tender for purchase on the relevant Conversion Date, and that the owners will have no right to retain their Series 20B Bonds and describing the consequences of a failed conversion.

(iv) Unless waived by the Bond Insurer, the Agency shall cause a Liquidity Facility meeting certain requirements set forth in the Resolution to be in effect on such conversion date or shall certify that no Liquidity Facility is required.

(v) The Agency may revoke its election to effect a conversion of the interest rate on any Series 20B Bonds from the Auction Rate by giving written notice of such revocation to the Trustee, the Trustee's Agent, the Bond Insurer, the Remarketing Agent, the Auction Agent, and the Broker-Dealer at any time prior to the setting of the Variable Rate or Flexible Rate by the Remarketing Agent.

On any proposed Variable Rate Conversion Date or Flexible Rate Conversion Date applicable to the ARCs to be converted, such ARCs to be converted shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of the ARCs so tendered is payable solely from the proceeds of the remarketing of such ARCs. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all applicable ARCs on the mandatory tender date, the ARCs will not be subject to mandatory tender, will be returned to their owners and will bear interest during the Auction Period commencing on such failed conversion date at the Maximum Auction Rate for an Auction Period of seven days.

This Official Statement is not intended to provide disclosure information regarding the Series 20B Bonds subsequent to a Variable Rate Conversion Date or Flexible Rate Conversion Date.

Conversion From Auction Rate Periods at the Direction of the Bond Insurer

If any series of the Series 20B Bonds bear interest at an Auction Rate equal to the Maximum Auction Rate for more than 60 consecutive days, the Twenty-Fourth Supplemental Resolution requires that the Agency convert the Series 20B Bonds to a Variable Rate Period, a Flexible Rate Period or a Fixed Rate Period unless the Bond Insurer shall otherwise direct. The Agency shall give written notice of any such conversion to the Bond Insurer, the Trustee, the Auction Agent and the Broker-Dealer not less than seven (7) Business Days prior to the date on which the Trustee is required to notify the Owners of the conversion pursuant to the provisions summarized in the following paragraph. Such notice shall be

accompanied by (a) a written statement from the Remarketing Agent, addressed to the Agency and the Trustee, to the effect that the Remarketing Agent has determined that, in its judgment, a change to a Variable Rate or Flexible Rate from the Auction Rate would result in the lowest aggregate cost, taking into account interest and any other then determinable fees and expenses, being payable with respect to the Series 20B Bonds during the twelve-month period commencing with the Variable Rate Conversion Date or Flexible Rate Conversion Date or (b) an approval in writing of such Variable Rate Period or Flexible Rate Period, as the case may be, by the Agency or a duly authorized officer of the Agency. Not less than twenty (20) days prior to the Variable Rate Conversion Date or Flexible Rate Conversion Date or proposed Fixed Rate Conversion Date, the Trustee shall mail a written notice of the conversion to the holders of all Series 20B Bonds to be converted, specifying the Variable Rate Conversion Date or Flexible Rate Conversion Date or Fixed Rate Conversion Date, that the Series 20B Bonds to be converted will be subject to mandatory purchase on the Conversion Date, and that the owners will have no right to retain their Series 20B Bonds and describing the consequences of a failed conversion. Unless the Series 20B Bonds are to be converted to the Fixed Rate, or unless consented to by the Bond Insurer, the Agency shall cause a Liquidity Facility meeting the requirements of the Twenty-Fourth Supplemental Resolution to be in effect or shall certify that no Liquidity Facility is required pursuant to the provisions of the Twenty-Fourth Supplemental Resolution.

Tenders

ARCs are not subject to optional tender. The ability of ARCs Owners to sell ARCs at par on an Auction Date is subject to the procedures described in “**APPENDIX IX—ARCs PROVISIONS.**” No assurance can be given that any sale will be consummated. ARCs shall be subject to mandatory tender upon not less than twenty days’ notice upon the conditions described above under the captions “**—Fixed Rate Conversion at Option of Agency,**” “**—Variable Rate and Flexible Rate Conversion from Auction Periods at Option of Agency,**” “**—Conversion From Auction Rate Periods at the Direction of the Bond Insurer.**” Any ARCs subject to conversion and not tendered on the Conversion Date shall be deemed tendered and upon payment of the purchase price for such Series 20B Bonds shall not be entitled to any further interest thereon.

Swap Agreement for the ARCs

In connection with the ARCs, the Agency has entered into a variable to fixed interest rate swap agreement (the “Swap Agreement”) with UBS AG (the “Swap Provider”). Under the Swap Agreement the Swap Provider will pay the Trustee an amount calculated based on variable rate indices, and the Agency will pay the Swap Provider an amount calculated at a fixed rate of interest. The obligation of the Agency to make payments to the Swap Provider under the Swap Agreement will be on parity with the Agency’s obligation to pay Debt Service on the Bonds under the Resolution. Payments made to the Agency by the Swap Provider under the Swap Agreement are pledged as Revenues under the Resolution.

The Agency is obligated to make debt service payments on the ARCs regardless of the performance of the Swap Provider of its obligations under the Swap Agreement.

Redemption Provisions

Sinking Fund Redemption. The Series 20A Bonds maturing on November 1, 2025, November 1, 2030, May 1, 2034 (Premium PAC Bonds) and May 1, 2035 and the Series 20B Bonds maturing on November 1, 2033 are subject to mandatory redemption in part at a redemption price equal to the Principal Amount thereof plus accrued interest thereon, without premium, through application of Sinking Fund Installments on the dates and in the amounts as follows:

Series 20A Bonds Due November 1, 2025

Due	Principal Amount	Due	Principal Amount
May 1, 2015	\$215,000	November 1, 2020	\$265,000
November 1, 2015	225,000	May 1, 2021	275,000
May 1, 2016	230,000	November 1, 2021	285,000
November 1, 2016	240,000	May 1, 2022	295,000
May 1, 2017	245,000	November 1, 2022	310,000
November 1, 2017	255,000	May 1, 2023	310,000
May 1, 2018	220,000	November 1, 2023	325,000
November 1, 2018	225,000	May 1, 2024	280,000
May 1, 2019	235,000	November 1, 2024	295,000
November 1, 2019	245,000	May 1, 2025	310,000
May 1, 2020	255,000	November 1, 2025 [†]	320,000

[†] Maturity

Series 20A Bonds Due November 1, 2030

Due	Principal Amount	Due	Principal Amount
May 1, 2026	\$335,000	November 1, 2028	\$405,000
November 1, 2026	345,000	May 1, 2029	375,000
May 1, 2027	360,000	November 1, 2029	380,000
November 1, 2027	365,000	May 1, 2030	400,000
May 1, 2028	385,000	November 1, 2030 [†]	415,000

[†] Maturity

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Series 20A Bonds Due May 1, 2034 (Premium PAC Bonds)

Due	Principal Amount	Due	Principal Amount
May 1, 2007	\$45,000	May 1, 2021	\$ 90,000
November 1, 2007	45,000	November 1, 2021	90,000
May 1, 2008	50,000	May 1, 2022	95,000
November 1, 2008	50,000	November 1, 2022	95,000
May 1, 2009	50,000	May 1, 2023	110,000
November 1, 2009	50,000	November 1, 2023	110,000
May 1, 2010	55,000	May 1, 2024	115,000
November 1, 2010	55,000	November 1, 2024	115,000
May 1, 2011	55,000	May 1, 2025	120,000
November 1, 2011	55,000	November 1, 2025	125,000
May 1, 2012	55,000	May 1, 2026	125,000
November 1, 2012	60,000	November 1, 2026	130,000
May 1, 2013	60,000	May 1, 2027	135,000
November 1, 2013	60,000	November 1, 2027	145,000
May 1, 2014	60,000	May 1, 2028	145,000
November 1, 2014	65,000	November 1, 2028	145,000
May 1, 2015	65,000	May 1, 2029	145,000
November 1, 2015	65,000	November 1, 2029	155,000
May 1, 2016	70,000	May 1, 2030	160,000
November 1, 2016	70,000	November 1, 2030	165,000
May 1, 2017	75,000	May 1, 2031	165,000
November 1, 2017	75,000	November 1, 2031	170,000
May 1, 2018	75,000	May 1, 2032	165,000
November 1, 2018	80,000	November 1, 2032	165,000
May 1, 2019	80,000	May 1, 2033	170,000
November 1, 2019	80,000	November 1, 2033	175,000
May 1, 2020	85,000	May 1, 2034 [†]	180,000
November 1, 2020	85,000		

[†] Maturity

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Series 20A Bonds Due May 1, 2035

Due	Principal Amount	Due	Principal Amount
May 1, 2031	\$435,000	November 1, 2033	\$490,000
November 1, 2031	450,000	May 1, 2034	810,000
May 1, 2032	480,000	November 1, 2034	995,000
November 1, 2032	450,000	May 1, 2035 [†]	410,000
May 1, 2033	470,000		

[†] Maturity

Series 20B Bonds Due November 1, 2033

Due	Principal Amount	Due	Principal Amount
May 1, 2010	\$ 50,000	May 1, 2022	\$150,000
November 1, 2010	100,000	November 1, 2022	150,000
May 1, 2011	100,000	May 1, 2023	150,000
November 1, 2011	100,000	November 1, 2023	150,000
May 1, 2012	100,000	May 1, 2024	200,000
November 1, 2012	100,000	November 1, 2024	200,000
May 1, 2013	100,000	May 1, 2025	200,000
November 1, 2013	100,000	November 1, 2025	200,000
May 1, 2014	100,000	May 1, 2026	200,000
November 1, 2014	100,000	November 1, 2026	200,000
May 1, 2015	100,000	May 1, 2027	200,000
November 1, 2015	100,000	November 1, 2027	200,000
May 1, 2016	100,000	May 1, 2028	200,000
November 1, 2016	100,000	November 1, 2028	200,000
May 1, 2017	100,000	May 1, 2029	250,000
November 1, 2017	100,000	November 1, 2029	250,000
May 1, 2018	150,000	May 1, 2030	250,000
November 1, 2018	150,000	November 1, 2030	250,000
May 1, 2019	150,000	May 1, 2031	250,000
November 1, 2019	150,000	November 1, 2031	250,000
May 1, 2020	150,000	May 1, 2032	250,000
November 1, 2020	150,000	November 1, 2032	300,000
May 1, 2021	150,000	May 1, 2033	300,000
November 1, 2021	150,000	November 1, 2033 [†]	300,000

[†] Maturity

The amounts of semi-annual sinking fund installments set forth above are subject to reduction as a result of optional or special redemption of Series 20 Bonds subject to sinking fund redemption. At the time of any special or optional redemption of such bonds, the amount of each future sinking fund installment will be reduced as shall be determined in a certificate of the Agency such that the total amount of such reductions equals the amount of such special or optional redemption.

In the event of an adjustment of the interest rate on the Adjusted Rate Bonds that are subject to sinking fund redemption, the Remarketing Agent shall establish a separate sinking fund schedule for the Adjusted Rate Bonds, on a pro rata basis in accordance with the proportion of such Series 20A Bonds that are Adjusted Rate Bonds, and the remainder of the sinking fund installments for the Series 20A Bonds of such maturity shall be applied to the redemption of the remaining Series 20A Bonds of such maturity.

The amounts accumulated for each sinking fund installment may be applied by the Trustee to the purchase of the Series 20 Bonds for which such sinking fund installment is established at any time prior to the 45th day preceding the due date of such sinking fund installment. In the event that Series 20 Bonds are purchased in an amount sufficient to satisfy the next sinking fund installment scheduled therefor and amounts allocable to such sinking fund installment remain on deposit in the Debt Service Fund, such amounts may be applied to the purchase of Series 20 Bonds of such maturities (and may be applied to reduce the sinking fund installments of such Series 20 Bonds subject to sinking fund redemption) as the Agency may determine, provided that prior to any such purchase or reduction on other than a pro rata basis the Agency will be required to deliver to the Trustee a Projection of Revenues.

Optional Redemption. The Series 20A Bonds, other than the Premium PAC Bonds, are subject to redemption, at the option of the Agency, either as a whole or in part at any time, on or after May 1, 2014 from money deposited in the Series 20 Optional Redemption Account in the Redemption Fund at a redemption price of 100% of the principal amount thereof, plus accrued interest, if any, to the date of redemption.

The Premium PAC Bonds are subject to redemption, at the option of the Agency, either as a whole or in part at any time on or after May 1, 2014 from money deposited in the Series 20 Optional Redemption Account in the Redemption Fund at the prices (expressed as percentages of the principal amount of Premium PAC Bonds being redeemed) set forth below, plus accrued interest, if any, to the redemption date, as follows:

Premium PAC Bonds Redemption Period (Both Dates Inclusive)	Redemption Price
May 1, 2014 through April 30, 2015	101%
May 1, 2015 and thereafter	100%

The Series 20B Bonds are subject to redemption prior to maturity from any available moneys at the option of the Agency in whole or in part at a Redemption Price equal to 100% of the principal amount plus accrued interest on any Business Day; provided that in the event of a partial redemption of the Series 20B Bonds bearing interest at an Auction Rate, the aggregate principal amount of the Series 20B Bonds not so redeemed shall be an integral multiple of \$50,000.

The Agency shall select the principal amounts of each maturity and interest rate of Series 20 Bonds to be redeemed and the Trustee shall select by lot the Series 20 Bonds of a particular maturity and interest rate to be so redeemed.

Special Redemption.

Series 20 Loan Prepayments. The Series 20 Bonds will be subject to redemption in whole or in part on any date at a Redemption Price equal to 100% of the principal amount thereof, plus interest accrued thereon to the redemption date from Loan Prepayments allocable to Loans allocable to the Series 20 Bonds (the “Series 20 Loans”). In redeeming the Series 20

Bonds from Loan Prepayments allocable to the Series 20 Loans, the Agency shall select Series 20 Bonds for redemption as follows:

(a) the Agency shall first redeem the ARCs, but only to the extent that the outstanding principal amount of such ARCs following such redemption is not less than the ARCs Outstanding Applicable Amount as of such date, which is calculated based on the assumed receipt of Loan Prepayments allocable to the Series 20 Loans at 20% of Bond Market Association (“BMA”), prepayment standard or model (the “BMA Prepayment Model”) as set forth in the table below;

(b) amounts remaining following the redemptions specified in clause (a) above shall be applied to redeem the Premium PAC Bonds, but only to the extent that the outstanding principal amount of such Premium PAC Bonds following such redemption is not less than the Premium PAC Bond Outstanding Applicable Amount as of such date, which is calculated based on the assumed receipt of Loan Prepayments allocable to the Series 20 Loans at 75% of the BMA Prepayment Model as set forth in the table below;

(c) amounts remaining following the redemptions specified in clauses (a) and (b) above shall be applied, unless otherwise directed by the Agency, to the redemption of those maturities of the Series 20 Bonds (excluding the ARCs and the Premium PAC Bonds) which would produce, as nearly as practicable, a pro rata redemption of the Series 20 Bonds (excluding the ARCs and the Premium PAC Bonds) to the extent that the Series 20 Cumulative Loan Prepayments as of such date do not exceed the Series 20 Bonds Cumulative Applicable Amount as of such date, which amount is calculated based on the assumed receipt of Loan Prepayments allocable to the Series 20 Loans at 350% of the BMA Prepayment Model; and

(d) amounts remaining following the redemptions specified in clauses (a), (b) and (c) above shall be applied, unless otherwise directed by the Agency, to the redemption of those maturities of the Series 20 Bonds which would produce, as nearly as practicable, a pro rata redemption of the Series 20 Bonds taking into account the amounts applied to redeem the Series 20 Bonds pursuant to the above-described redemptions.

Any special redemption of the Series 20 Bonds from unexpended proceeds as described below will reduce the Premium PAC Term Bond Outstanding Applicable Amount and the Series 20 Bonds Cumulative Applicable Amount described above for the current and each future semiannual period by an amount equal to the product of such amounts and a fraction the numerator of which equals the sum of the amount of moneys disbursed from the Special Redemption Account to redeem Series 20 Bonds and the denominator of which equals the sum of the amount of moneys initially deposited by the Trustee in the Series 20 Program Account for the purchase of Mortgage Loans. In addition, the ARCs Outstanding Applicable Amount will be reduced as described above only if the Agency elects, at its option, to redeem ARCs from such unexpended proceeds.

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The ARCs Outstanding Applicable Amount is as follows:

Date	ARCs Outstanding Applicable Amount	Date	ARCs Outstanding Applicable Amount
November 1, 2005	\$8,000,000	May 1, 2017	\$3,600,000
May 1, 2006	7,900,000	November 1, 2017	3,450,000
November 1, 2006	7,800,000	May 1, 2018	3,200,000
May 1, 2007	7,700,000	November 1, 2018	3,000,000
November 1, 2007	7,550,000	May 1, 2019	2,750,000
May 1, 2008	7,350,000	November 1, 2019	2,550,000
November 1, 2008	7,200,000	May 1, 2020	2,400,000
May 1, 2009	7,000,000	November 1, 2020	2,250,000
November 1, 2009	6,850,000	May 1, 2021	2,100,000
May 1, 2010	6,650,000	November 1, 2021	1,950,000
November 1, 2010	6,400,000	May 1, 2022	1,800,000
May 1, 2011	6,100,000	November 1, 2022	1,650,000
November 1, 2011	5,850,000	May 1, 2023	1,500,000
May 1, 2012	5,600,000	November 1, 2023	1,350,000
November 1, 2012	5,350,000	May 1, 2024	1,150,000
May 1, 2013	5,100,000	November 1, 2024	1,050,000
November 1, 2013	4,900,000	May 1, 2025	900,000
May 1, 2014	4,700,000	November 1, 2025	750,000
November 1, 2014	4,550,000	May 1, 2026	650,000
May 1, 2015	4,350,000	November 1, 2026	550,000
November 1, 2015	4,150,000	May 1, 2027	400,000
May 1, 2016	3,950,000	November 1, 2027	50,000
November 1, 2016	3,800,000	May 1, 2028	-0-

The Premium PAC Term Bond Outstanding Applicable Amount is as follows:

Date	Premium PAC Term Bond Outstanding Applicable Amount
May 1, 2005	\$5,480,000
November 1, 2005	5,350,000
May 1, 2006	5,205,000
November 1, 2006	4,930,000
May 1, 2007	4,490,000
November 1, 2007	4,000,000
May 1, 2008	3,545,000
November 1, 2008	3,055,000
May 1, 2009	2,640,000
November 1, 2009	2,190,000
May 1, 2010	1,765,000
November 1, 2010	1,365,000
May 1, 2011	1,030,000
November 1, 2011	665,000
May 1, 2012	320,000
November 1, 2012	-0-

No assurance can be given that Loan Prepayments on the Series 20 Loans will conform to any level of a particular prepayment projection, schedule or model or that Loan Prepayments on the Series 20 Loans will be available to be applied to redemptions of any of the Series 20 Bonds, including the ARCs and the Premium PAC Bonds. The rates of loan prepayments on mortgage loans are generally influenced by a variety of economic, geographical, social and other factors, including servicing decisions, changing property values, prevailing interest rates and the time within which mortgage loans are originated. In general, if prevailing interest rates fall significantly below the interest rates on a pool of mortgage loans, such mortgage loans may be likely to prepay at higher rates than if prevailing interest rates remain at or above the interest rates on such mortgage loans. Conversely, if prevailing interest rates rise above the interest rates on a pool of mortgage loans, the rate of loan prepayments might be expected to decrease. The rates of delinquencies and foreclosures on the Series 20 Loans will also affect the expected special redemption schedules. The Agency cannot predict the number of Series 20 Loans that may become delinquent or in foreclosure proceedings. For these reasons, the Agency cannot offer any assurances as to the rate at which the Series 20 Loans will prepay and offers no assurance that the scheduled amounts will, in fact, be available to effect any redemptions described herein.

Unexpended Moneys. Pursuant to the Resolution, the Series 20 Bonds are subject to redemption by operation of the Special Redemption Accounts in the Redemption Fund, as a whole or in part at any time at a price equal to the issue price thereof (including any initial issue premium paid with respect to the Premium PAC Bonds) plus accrued interest to the date of redemption from unexpended moneys in the Series 20 Program Account not applied to the purchase of Loans. Series 20 Bonds to be redeemed from unexpended proceeds shall be selected for redemption on a proportionate basis from among all outstanding maturities of such Series 20 Bonds; however, the Agency may redeem Bonds on a basis other than pro-rata if the Agency provides a Projection of Revenues showing that anticipated Revenues, together with any other moneys available for the purpose remaining after such redemption, will be sufficient to pay in the current and each subsequent Fiscal Year Aggregate Debt Service when due and all Program Expenses, in connection with a redemption other than a redemption done on a proportionate basis. See “**SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION—Revenues and Revenue Fund**” and “**—Redemption Fund.**”

Other Amounts in the Special Redemption Account. Pursuant to the Resolution, the Series 20 Bonds (excluding the ARCs and the Premium PAC Bonds if the redemption would result in outstanding balances below the Outstanding Applicable Amount in the respective tables) are subject to redemption by operation of the Special Redemption Accounts in the Redemption Fund, as a whole or in part at any time at par plus accrued interest to the date of redemption from certain excess money under the Resolution deposited in the Special Redemption Account for any Series of Bonds, including payments of principal of and interest on Loans in excess of amounts necessary (i) to pay interest on or principal of Bonds when due and (ii) to maintain the Bond Reserve Fund at the Bond Reserve Fund Requirement and the Rebate Fund at the Rebate Requirement. See “**SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION—Revenues and Revenue Fund**” and “**—Redemption Fund.**”

Pursuant to the General Resolution, prior to any purchase or redemption of Bonds the Agency must file with the Trustee a Projection of Revenues showing either that (a) anticipated Revenues, together with any other moneys available for the purpose remaining after such redemption, will be sufficient to pay in the current and each subsequent Fiscal Year Aggregate Debt Service when due and all Program Expenses, or (b) if not, that in the judgment of the Agency such purchase or redemption will result in a greater amount of Revenues and other funds available to pay in the current and each subsequent Fiscal Year Aggregate Debt Service when due and all Program Expenses than would be the case if such purchase or redemption is not effected. Notwithstanding the foregoing, no Projection of Revenues shall

be required for the application of any amounts in a Special Redemption Account solely to the redemption of Bonds of the Series to which such Account is applicable if such amounts shall be applied to the redemption of Bonds of each maturity and of similar tenor of such Series outstanding in the same proportion as the Bonds of such maturity and similar tenor outstanding bear to the Bonds of all maturities of similar tenor of such Series outstanding.

Loans may not be originated and purchased in an aggregate amount equal to the amount of funds available for such purpose for many reasons. One of the principal factors in originating real estate loans is the availability of funds to make such loans at interest rates and on other terms that prospective borrowers can afford. The Agency has determined that there is presently a shortage of funds in the State available to make such loans at interest rates competitive with that specified for the Loans. This condition could change during the origination period for the Loans. For example, prevailing interest rates for conventional mortgages in the State could decrease or other loans with a rate and terms equivalent to or more favorable than the rate and terms of the Loans could be made available by mortgage lenders. In the event that, prior to all the Loans being originated by the Mortgage Lenders, additional funds to make loans were to become available in the State at rates competitive with those specified for the Loans, the Mortgage Lenders might not be able to utilize all of the funds available for the origination of Loans.

For all Series of Bonds other than the Series 4 Bonds, the Code imposes certain requirements as to the qualification of potential mortgagors for Loans and the purchase price of the residences which may become subject to a Loan. These requirements restrict the ability of potential mortgagors and residential units to qualify for Loans and thereby may materially impair the Agency's ability to purchase Loans. The requirements are subject to change and may become more restrictive, thereby resulting in a decrease in the number of potential mortgagors or residential units eligible for inclusion in the Program.

Principal prepayments of any Loans and, in certain circumstances, scheduled principal payments of Loans, to the extent such amounts are not used to purchase additional Loans, will be used to redeem an appropriate portion of Bonds, including the Series 20 Bonds, by special mandatory redemption as provided in the Resolution. No reliable prediction can be made with regard to the level of prepayment in full or other early termination of loans, including the Loans and the Prior Resolution Loans. The Agency does expect prepayment of some of the Loans. Accordingly, the Series 20 Bonds may have a substantially shorter life than their stated maturities or sinking fund redemption dates.

Notice of Redemption of Bonds. When the Trustee receives notice from the Agency, according to the provisions of the Resolution, of its election to redeem Bonds, the Trustee will give notice of such redemption to the Owner or Owners of the Series 20 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 Resolution provides that with respect to the Series 20 Bonds the Trustee will mail a copy of the notice of redemption not more than 60 days and not less than 30 days before the redemption date, to the Owners of all such Series 20 Bonds to be redeemed. Failure to mail any such notice to the Owner of any Series 20 Bond or any defect in such notice will not affect the validity of the redemption of any other Series 20 Bond for which the required notice was given.

BOOK-ENTRY SYSTEM

General

Beneficial ownership interests in the Series 20 Bonds will be available in book-entry form only, in the principal amount of \$5,000 or integral multiples thereof (\$50,000 principal amount and any integral multiple thereof with respect to the ARCs). Purchasers of beneficial ownership interests in the Series 20 Bonds will not receive certificates representing their interests in the Series 20 Bonds purchased and will not be owners of Bonds (“Owners”) under the Resolutions, except as described below.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 20 Bonds. One fully registered Bond for each maturity of each Series of the Series 20 Bonds, each in the aggregate Principal Amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC and deposited with DTC. DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking corporation” 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 17 of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (the “Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of the Participants, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of its Direct Participants and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation, as well as by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (the “Indirect Participants”). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 20 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 20 Bonds on DTC’s records. The ownership interest of each actual purchaser of Series 20 Bonds (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interests in the Series 20 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 20 Bonds except in the event that use of the book-entry system for the Series 20 Bonds is discontinued.

To facilitate subsequent transfers, all Series 20 Bonds deposited by Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of Series 20 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 20 Bonds; DTC’s records reflect only the identity of the Direct Participant to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communication 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 20 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in each issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Series 20 Bonds. 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 20 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

The Agency and the Trustee may treat DTC (or its nominee) as the sole and exclusive owner of the Series 20 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 20 Bonds, selecting the Series 20 Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Owners under the Resolutions, 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.

The Trustee is to make payments of the Principal Amount of and redemption premium, if any, and interest on the Series 20 Bonds to DTC, as registered owner of the Series 20 Bonds. Payments by Participants or Indirect Participants to Beneficial Owners shall 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 shall be the responsibility of such Participants and not the responsibility of DTC, the Trustee or the Agency, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Agency or 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 Trustee and the Agency, so long as a book-entry system is used for the Series 20 Bonds, is to send any notice of redemption or other notices only to DTC or its nominee as the registered owner of such Series of Bonds. Any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a 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.

NEITHER THE AGENCY NOR THE TRUSTEE SHALL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, ANY BENEFICIAL OWNER OR OTHER PERSONS CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE SERIES 20 BONDS UNDER OR THROUGH OR ANY PARTICIPANT, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF AND PREMIUM, IF ANY, OR INTEREST ON THE SERIES 20 BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNERS UNDER THE RESOLUTIONS; THE SELECTION BY DTC OR ANY DTC PARTICIPANT OF ANY PERSON TO RECEIVE, PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF SERIES 20 BONDS; OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS AN OWNER.

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 20 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 20 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 Offered Security certificates, the Agency or the Trustee is obligated to deliver Series 20 Bonds, as appropriate, as described in the Resolution. In the event such Offered Security certificates are issued, the Beneficial Owner, upon registration of the Series 20 Bonds held in such Beneficial Owner's name, shall become the Owner for purposes of the Resolutions and the provisions of the Resolutions 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 20 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 20 BONDS; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDOWNERS BY DTC UNDER THE RESOLUTION; (IV) THE SELECTION BY DTC OR 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 20 BONDS; OR (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDOWNER.

The foregoing description of the practices and procedures of DTC relating to securities, such as the Series 20 Bonds, that are delivered to investors through the DTC book-entry system has been provided by DTC and neither the Agency, the Underwriters nor the Trustee is responsible for the accuracy or completeness thereof.

SINGLE FAMILY MORTGAGE PURCHASE PROGRAM

General

The Agency has established a program to use the proceeds of Bonds to finance the purchase or making of Loans to Eligible Borrowers (hereinafter defined) from mortgage lenders (the "Program"). Pursuant to the General Resolution, proceeds of Bonds may be used to purchase or make Mortgage Loans, Cooperative Housing Loans (either of which may be Qualified Rehabilitation Loans), Home Improvement Loans, Loan Securities or Residential Housing Loans that meet the requirements of the Act, the General Resolution and the applicable supplemental resolution and that are made to finance the

purchase, construction, rehabilitation, refinancing or improvement of Residential Housing (collectively, the “Loans”).

Series 20 Program

The Twenty-Fourth Supplemental Resolution limits the Series 20 Program to the purchase or making of Mortgage Loans (excluding Mortgage Loans for the construction of Residential Housing). The Agency has reserved the right to make appropriate modifications to the Series 20 Program and to amend the Program Documents (hereinafter defined) in order to finance Loans for the construction of Residential Housing, Home Improvement Loans, Cooperative Housing Loans and Qualified Rehabilitation Loans, provided that the Agency delivers to the Trustee evidence that such use will not adversely affect the unenhanced ratings then assigned to any Bonds outstanding by any Nationally Recognized Rating Agency.

Construction loans, if any, will be made to finance the construction and to provide for the permanent financing of Eligible Residences. Construction loans involve a higher degree of risk than permanent financing. For example, due to fraud, negligence or other circumstances, the newly constructed residence may, after expending the proceeds of the construction loan, have a fair market value that is less than the proceeds of the construction loan. In the event that upon the default of the Mortgagor it is necessary to sell the residence in order to realize the value of the Mortgage Loan, the Series 20 Program may suffer a loss that may not be covered by the mortgage insurance on the loan. For additional information about Qualified Rehabilitation Loans and Home Improvement Loans, see “**CERTAIN FEDERAL INCOME TAX MATTERS—Qualified Rehabilitation Loans**” and “**—Home Improvement Loans.**”

It is anticipated that the Agency will offer several Loan products to finance Eligible Residences. The Agency anticipates that approximately \$9,000,000 of the amount available to finance loans will be made available to Eligible Borrowers who opt to receive downpayment assistance grants (repayable in certain instances) in the amount of 3.00% of the principal amount of each Program Loan (“Downpayment Assistance Loans”). Such Downpayment Assistance Loans will be offered at zero points and will bear interest at a weighted average interest rate of approximately 6.50% per annum. In addition, the Agency expects to offer zero point Program Loans without downpayment assistance (“Unassisted Loans”) and both one step and three step Program Loans (the “Stepped Rate Mortgage Loans”) at interest rates which result in a weighted average interest rate for such loans of approximately 6.00% per annum. One and two point options will be available with respect to the Unassisted Loans at interest rates fifteen and thirty basis points lower, respectively, than the then applicable interest rate for zero point Unassisted Loans and a one point option will be available with respect to Stepped Rate Mortgage Loans at interest rates fifteen basis points lower than the then applicable initial interest rate for zero point Stepped Rate Mortgage Loans. The Agency has reserved the right to finance all or a portion of such Loans at higher or lower rates than described above and to provide other forms of Loan products.

The Agency will implement the Series 20 Program in accordance with the provisions of the Mortgage Loan Origination and Purchase Agreements (the “Origination Agreements”) between the Agency and the mortgage lenders (the “Mortgage Lenders”), the Mortgage Loan Servicing Agreements between the Agency and the Mortgage Lenders (the “Servicing Agreements”), and the Agency’s procedural guide that establishes standards and requirements for the purchase and servicing of eligible Loans under the Program (the “Procedural Guide”). The Origination Agreements, Servicing Agreements, and Procedural Guide are hereinafter collectively called the “Program Documents.” The eligibility criteria and procedures set forth in the Program Documents have been established by the Agency. The provisions of the Program Documents, except those required by the Act and those required by the Resolution (which may only be modified by amendment of the Resolution) may be modified by the Agency from time to time or waived on a case-by-case basis.

The Agency expects that amounts on deposit in the Series 20 Program Account will be used primarily to purchase Eligible Mortgage Loans. An Eligible Mortgage Loan is a Mortgage Loan made by a Mortgage Lender to an Eligible Borrower to finance the purchase of eligible residential property (an "Eligible Residence"). Eligible Borrowers are Persons and Families of Low and Moderate Income (a) none of whom had a present ownership interest in a dwelling at any time during the three-year period prior to the closing of this Mortgage Loan, unless the residence financed is located in certain "targeted areas," (b) none of whom is qualified without governmental assistance (including a mortgage credit certificate) for a loan of equal down payment and amortization requirements under any other fixed interest-rate mortgage loan program then being offered by the Mortgage Lender, (c) who otherwise meet the requirements of the Agency in the Procedural Guide, and (d) who intend to occupy the Eligible Residence as a permanent principal residence within 60 days (90 days in the case of Qualified Rehabilitation Loans) after the date the Mortgage Loan is made. See "**CERTAIN FEDERAL INCOME TAX MATTERS.**"

The term "Persons and Families of Low and Moderate Income" means persons and families whose annualized gross monthly income does not exceed the amounts established by the Agency from time to time pursuant to the Act and which does not exceed the maximum amounts permitted by the Internal Revenue Code of 1986, as amended (the "Code"), which amounts will be adjusted for family size as required by the Code. As of March 2, 2004, the maximum gross family income for Eligible Borrowers ranges from \$58,600 to \$72,000 for families of one or two persons and from \$67,300 to \$85,000 for families of three or more persons. Such amounts are either at or lower than the amounts currently permitted under the Code.

An Eligible Residence may consist of an owner-occupied single family residence consisting of not more than two dwelling units (other than a mobile home or manufactured housing that is not permanently affixed to real property) and such appurtenant land as is reasonably necessary to maintain the basic livability of the dwelling unit and as does not provide, other than incidentally, a source of income to the Eligible Borrower to whom a Mortgage Loan is made (a "Mortgagor"), which dwelling and land (a) is occupied or intended for occupancy by the Mortgagor as his domicile and not as an investment property, a recreational home, or for use primarily in a trade or business and (b) has a purchase price that does not exceed the limits established by the Agency pursuant to the Procedural Guide. The purchase price limitations are subject to change from time to time. As of March 2, 2004, the maximum purchase price for new residences ranges from \$214,000 to \$250,000. The maximum purchase price for existing single family residences ranges from \$189,500 to \$230,000 for residences with one dwelling unit and from \$210,000 to \$250,000 for residences with two dwelling units. See "**CERTAIN FEDERAL INCOME TAX MATTERS.**"

Mortgage Loan Origination and Purchase Agreements

The Agency has entered, or will enter, into an Origination Agreement with each of the Mortgage Lenders, pursuant to which the Mortgage Lenders agree to originate from time to time and sell to the Agency, at par, and, unless the Agency directs otherwise, to service on its behalf, an unspecified principal amount of eligible Mortgage Loans. Although a Mortgage Lender is not required to originate a specified principal amount of Mortgage Loans, once the Mortgage Lender has originated Mortgage Loans and the Agency has reserved funds for those Mortgage Loans, such Mortgage Loans must be offered for sale and delivered to the Agency.

Under the Agency's current Program Documents, the Origination Agreements relate only to eligible Mortgage Loans and do not contemplate the origination of Cooperative Housing Loans, Qualified Rehabilitation Loans or Home Improvement Loans. The Origination Agreements provide that the term of each eligible Mortgage Loan will be a maximum of 30 years, and that each eligible Mortgage Loan must be guaranteed by the United States Department of Agriculture/Rural Development (formerly the Farmers

Home Administration, “USDA/RD”), insured by the Federal Housing Administration (“FHA”) or by private mortgage insurance, guaranteed by the Veteran’s Administration (the “VA”) or meet the requirements specified in the Procedural Guide and the General Resolution for uninsured Mortgage Loans.

Each Mortgage Lender represents and warrants in the Origination Agreement, among other things, that (a) each Mortgage Loan is evidenced by a note and secured by a mortgage and constitutes a first lien on an Eligible Residence, (b) each Mortgage Loan would be a prudent investment for its own account, (c) each Mortgage Loan complies with the provisions of the Act, and (d) each Mortgage Loan is an eligible Mortgage Loan.

In addition to the representations and warranties made by the Mortgage Lenders with respect to Mortgage Loans to be purchased by the Agency, certain other conditions, some of which are outlined below, must exist or must be warranted to exist by the Mortgage Lender at each date on which the Agency buys Mortgage Loans (the “Closing Date”). The Mortgage Loans must be current in payments of principal and interest and no counterclaim, offset, defense, or right of rescission may exist that can be asserted and maintained by the Mortgagor against the Agency, as assignee of the Mortgage Loans. The assignment to the Agency of each Mortgage Loan must convey a valid first lien on an Eligible Residence as to which the Mortgagor has marketable record title. The Mortgage Lender is to hold each executed assignment of Mortgage Loans in its files and is to agree to record such assignment upon the Agency’s request. The improvements upon the real property subject to each Mortgage Loan must be covered by a valid and subsisting policy of hazard insurance issued by a company lawfully doing business in the State in an amount equal to the lesser of 100% of the insurable value of said improvements at the time of the origination of said Mortgage Loan and the original principal amount of the Mortgage Loan, and such improvements must be fully completed except to the extent disclosed to and approved by the Agency. As of the Closing Date, the Mortgage Lender must certify that it has complied with the requirements of the Procedural Guide with respect to all Mortgage Loans offered for purchase (except to the extent waived in writing by the Agency).

Notwithstanding the warranties and certifications of the Mortgage Lender, the Agency reserves the right at all times to decline to purchase any Mortgage Loan that, in its reasonable opinion, does not conform to the requirements of Section 143 of the Code, and the regulations thereunder (“Section 143”), the Act, the Origination Agreement, the Servicing Agreement and the Procedural Guide. For a summary of certain requirements of Section 143, see “**CERTAIN FEDERAL INCOME TAX MATTERS.**”

If any representation of the Mortgage Lender in the Origination Agreement proves to have been untrue when made, or in the event of breach or failure of any warranty made therein or any term thereof, the Mortgage Lender will be liable to the Agency for all damages suffered by the Agency as a result thereof. In addition, the Mortgage Lender may be required to repurchase any Mortgage Loan if (a) the Agency discovers facts that existed as of the Closing Date that, among other things, cause the Mortgage Loan to be other than an eligible Mortgage Loan, or (b) the Mortgage Lender fails to obtain or maintain mortgage insurance upon which the Agency relies in purchasing the Mortgage Loan.

The Agency has reserved the right to act in the future as a direct lender to Eligible Borrowers pursuant to the Series 20 Program.

Contract Underwriting

The Agency has contracted with Mortgage Guaranty Insurance Corporation (“MGIC”) to provide credit and compliance underwriting services on Mortgage Loans to be originated under the Series 20 Program. Credit underwriting requires an analysis of the creditworthiness of borrowers and the condition of the property to be financed based upon Agency guidelines set forth in the Procedural Guide.

Compliance underwriting requires an analysis of eligibility criteria designed to satisfy federal and state laws, i.e. acquisition cost limits and income limits.

The Agency is planning to develop a delegated underwriting program for some of its participating lenders under the Series 20 program. This delegated underwriting program will allow participating lenders to be responsible for the initial underwriting of the Mortgage Loans. The Agency will contract with MGIC to provide credit and compliance underwriting services on these Mortgage Loans (as described in the above paragraph) after these Mortgage Loans have been purchased by the Agency. The participating lenders will still be subject to repurchase obligations and guidelines as described in the Origination Agreements.

Mortgage Loan Servicing Agreements

The Agency has entered or will enter into a Servicing Agreement with each mortgage loan servicer (a “Servicer”) that is to service Mortgage Loans under the Series 20 Program. It is anticipated that certain Mortgage Lenders will originate and service their own loans. The Mortgage Loans originated by Mortgage Lenders that are not acting as Servicers are to be serviced by the Agency (or a subservicer of the Agency) or assigned to a Servicer. Approximately 31% of the portfolio of Mortgage Loans under the Resolution is being serviced on behalf of the Agency by a subservicer.

Each Servicer is to collect on the terms and on the several payment dates specified in the mortgage notes, the Revenues and escrow payments, if any, on each Mortgage Loan in the same manner as is employed by the Servicer with respect to servicing its own mortgage loans and in accordance with the provisions of the Procedural Guide. Each month the Servicer may withhold, as its servicing fee, an amount equal to one-twelfth of three-eighths of one percent of the principal balance of each Mortgage Loan, but only to the extent monthly payments are received with respect to a Mortgage Loan. In the event of any default in the payment of any Mortgage Loan, the Agency, upon recommendation of the Servicer, is to commence, and prosecute to judgment, appropriate legal proceedings to collect such payments and to take such other action as the Agency may reasonably require. Under Vermont law, a mortgagor has a period of redemption of up to six months from the entry of judgment to pay all interest and principal due in order to maintain ownership, provided, however, that such redemption period may be reduced in the court’s discretion. Except for the prevention of waste, during the period of redemption, the Agency will be precluded from exercising rights of ownership in the mortgaged Eligible Residence, including the renting or selling of the same. A mortgagor or a mortgagee may request a public sale of mortgaged property. However, under Vermont law, no sale of a dwelling house of two units or less, when occupied by the owner as a principal residence, may take place within seven months of service of the foreclosure complaint, unless the court finds that the occupant is making waste of the property. The Servicer is also required to collect all insurance proceeds and remit the same in accordance with Agency requirements.

All collections of Revenues, after deducting the servicing fee, are to be received in trust by the Servicer for the Agency and deposited with a depository in an account or accounts in the name of the Trustee (which may be non-interest bearing) and retained until required by the Procedural Guide to be remitted to the Trustee.

Under each Servicing Agreement, the Servicer is required to obtain all municipal and other tax or assessment statements against the mortgaged Eligible Residence and pay the same in time to prevent any interest penalty; it is to advance on behalf of the Agency, in time to avoid an involuntary sale, any taxes, assessments or other charges for which escrow payments could be provided that are not paid when due and that could become a lien under Vermont law or federal law against the mortgaged premises superior to the lien of the Mortgage Loan; and it is to advance on behalf of the Agency any premiums for hazard insurance not paid when due within sufficient time to keep said policies in force.

Under each Servicing Agreement the Servicer is to notify the Agency of any Mortgage Loan that is two payments in arrears on a form prescribed by the Agency and at the same time is to recommend to the Agency the appropriate action to be taken to cure such delinquency or default. The Servicer is required to keep detailed books and records pertaining to each Mortgage Loan, and all Revenues, escrow payments, collections, and defaults on Mortgage Loans, all in accordance with generally accepted accounting principles and the Procedural Guide, and to make such books and records available for examination by the Agency or its designated agents at all times during the regular business hours of the Servicer.

A Servicer may assign its servicing obligations under the Servicing Agreement to another mortgage loan servicer or to the Agency, subject to the prior written approval of the Agency, provided that the Servicer shall remain liable to the Agency for any breach of duty or misconduct whatsoever of its assignee to the same extent as it would be liable if there were no assignment.

The Agency may terminate any Servicing Agreement if the Servicer thereunder initiates or suffers any proceedings of insolvency or reorganization under the Bankruptcy Code or other federal or state receivership laws or makes any common law assignment for the benefit of creditors, assigns its rights and duties under the Servicing Agreement without consent of the Agency, or fails to perform any one or more of its obligations under the Servicing Agreement or the Procedural Guide and continues in default thereof for a period of 60 days after notice by the Agency of said failure.

The Servicing Agreement requires each Servicer to maintain a blanket coverage fidelity bond in an amount and form acceptable to the Agency with a surety duly authorized to issue such coverage in the State. The fidelity bond is to cover all employees of the Servicer or other persons who, under the direction, control or permission of the Servicer, will from time to time deal with the collections of Revenues and escrow payments, earned interest, documents, papers or things of value relating to the Mortgage Loans of the Agency, and must insure the Servicer against loss resulting from dishonesty or fraud by such employees.

In the event that the Agency determines to finance Qualified Rehabilitation Loans, Cooperative Housing Loans, Loans for the construction of Residential Housing or Home Improvement Loans with amounts in the Series 20 Program Account, the Agency will make appropriate modifications to the Program Documents.

Mortgage Insurance Requirements

Mortgage Loans and Cooperative Housing Loans purchased with amounts in the Series 20 Program Account or the proceeds of prior Series of Bonds issued under the General Resolution must:

- be in an amount not more than 80% of the value of the property securing the Loan; or
- be insured or guaranteed by the USDA/RD, the FHA or the VA, or another agency or instrumentality of the United States or the State to which the powers of any of them have been transferred, or which is exercising similar powers with reference to the insurance or guarantee of Mortgage Loans, or be insured by a private mortgage insurance company qualified to do business in the State and to provide insurance on mortgages purchased by the Federal Home Loan Mortgage Corporation (“FHLMC”) or Fannie Mae, in either case provided that the insured portion of any claim is at least equal to the amount by which the Loan exceeds 80% of the appraised value of the property subject to the Mortgage; or
- be insured, guaranteed or otherwise secured by a program of self-insurance established by or on behalf of the Agency provided that the use of any such program does not

adversely affect the unenhanced ratings then assigned to the Bonds by any Nationally Recognized Credit Rating Agency.

The aforementioned insurance and guarantee programs provide different, although comparable, coverage for losses. In addition, any mortgage insurance or guarantee program requirements that may be applicable to Loans financed with the proceeds of additional Bonds may not provide comparable coverage for losses. There is no requirement that Home Improvement Loans, if any, be insured or guaranteed. See **“SECURITY FOR THE BONDS—Additional Security.”**

Pursuant to federal law, primary mortgage insurance with respect to residential mortgage loans, such as the Mortgage Loans, originated after July 28, 1999, will automatically terminate when the scheduled principal balance of the mortgage loan, based on the original amortization schedule for the mortgage loan, is reduced to 78% or less of the value of the mortgaged property at the time of origination, provided the mortgage loan is current.

For information concerning mortgage insurance and guarantee coverage with respect to the Agency’s existing Loans see **APPENDIX I** and for information concerning certain mortgage insurance and guarantee programs and procedures see **APPENDIX III**.

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SCHEDULE OF MORTGAGE LENDERS

The following schedule sets forth the Mortgage Lenders that have indicated their intention to participate in the Series 20 Program. The schedule may be amended to reflect the participation of additional Mortgage Lenders in, or the withdrawal of any mortgage lenders listed below from, the Series 20 Program. See “**SINGLE FAMILY MORTGAGE PURCHASE PROGRAM.**”

Mortgage Lenders for the Series 20 Program

Banknorth Mortgage Company⁽¹⁾
The Bank of Bennington
Beacon Mortgage Co. LLC
Brattleboro Savings and Loan Association
Charter One Bank
Chittenden Bank d/b/a Mortgage Service Center
Community National Bank
Connecticut River Bank, N.A.
Countrywide Home Loans, Inc.
CTX Mortgage Co.
The Factory Point National Bank
First Community Bank
GMAC Mortgage Corporation
Heritage Family Credit Union
Kittredge Mortgage Corporation
Lyndonville Savings Bank and Trust Company
Mascoma Savings Bank
Mortgage Financial Services, Inc.
The National Bank of Middlebury
National City Mortgage
New England Federal Credit Union
North Country Federal Credit Union
Northeast Home Loan, LLC
Northfield Savings Bank
Peoples Trust Company of St. Albans
Summit Financial Center Inc.
Union Bank
Universal Mortgage Corporation
Vermont Development Credit Union
Vermont Federal Credit Union
Vermont State Employees Credit Union
Wells Fargo Home Mortgage

⁽¹⁾ An affiliate of the Trustee for the Bonds.

SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION

The General Resolution 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 General Resolution, 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 General Resolution and below are set forth in **APPENDIX IV** to this Official Statement.

In addition to the provisions of the General Resolution summarized below, the Twenty-Fourth Supplemental Resolution sets forth provisions specific to the Series 20 Bonds and the terms and conditions of such Bonds as well as additional covenants and security provisions applicable to such Bonds (see “**THE SERIES 20 BONDS**” and “**SECURITY FOR THE BONDS**”). The Twenty-Fourth Supplemental Resolution also establishes additional procedures and requirements in order to meet the requirements of the Code such that interest on the Series 20 Bonds shall be and remain excludable from gross income for federal income tax purposes. See “**CERTAIN FEDERAL INCOME TAX MATTERS.**”

Resolution as Contract with Bondowners

The Resolution constitutes a contract among the Agency, the Trustee and the Bondowners. The pledge made in the Resolution and the provisions, covenants and agreements therein are for the equal benefit 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 Resolution.

Pledge of the Resolution

As security for the payment of the Principal Amount and redemption price of and interest on the Bonds, the Agency in the Resolution pledges and grants a security interest in (a) all Revenues, (b) all Loans and any other Revenue producing contracts and all rights and interests of the Agency incident thereto and the proceeds thereof, (c) subject to the provisions of the applicable supplemental resolution, all Additional Security, if any, and all the rights and interests incident thereto and the proceeds thereof, and (d) all moneys, securities and Reserve Deposits in all funds and accounts created by or pursuant to the Resolution (except the Rebate Fund), whether any of the foregoing is now existing or is hereafter acquired, subject only to the provisions of the Resolution permitting the application of amounts held thereunder for the purposes and on the terms and conditions set forth in the Resolution. The Resolution provides that, to the extent permitted by law, the foregoing pledge will be valid and binding from the time of the delivery by the Agency of the first Bond, will be effective as to all such rights and other pledged property whether now existing or hereafter coming into existence, whether now held or hereafter acquired by the Agency, and whether or not segregated or held in trust by the Agency. The Resolution further provides that the rights, Revenues, Loans, Reserve Deposits, contracts, other property and proceeds so pledged will immediately be subject to the lien of such pledge without any physical delivery or segregation thereof or further act and the lien of such pledge will be valid and binding against any and all parties having a claim of any kind, in tort, contract or otherwise, against the Agency, irrespective of whether such parties have notice thereof.

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 Resolution or as may be limited by law. The Bonds will be special obligations of the Agency. Under the Resolution the Agency may issue Fixed-Rate Bonds, Variable-Rate Bonds, Tender Bonds, Discount Bonds or Compound Interest Bonds. The Agency may issue a Series of Bonds by adopting a supplemental resolution and delivering to the Trustee, among other things:

- A counsel’s opinion stating in effect, among other things, that the Bonds are valid and binding special obligations of the Agency, enforceable in accordance with their terms and the terms of the Resolution and entitled to the benefits of the Act, as amended to the date of such opinion, and the Resolution;

- Certificates of an authorized officer of the Agency (a) setting forth a Projection of Revenues giving effect to the issuance of such Series and demonstrating, among other things, that expected Revenues or other funds available for the purpose will be sufficient to pay in the current and each subsequent Fiscal Year the Aggregate Debt Service when due on the outstanding Bonds and all Program Expenses or, if that is not the case, that in the judgment of the Agency the amount of Revenues and other funds available to pay in each Fiscal Year Aggregate Debt Service when due on all outstanding Bonds other than the Bonds of such new Series will be greater following issuance of such new Series of Bonds than would be the case if the Agency did not issue such new Series of Bonds, and (b) stating that as of the delivery of such Bonds and application of their proceeds, no Event of Default will have happened and will then be continuing; and
- An amount of cash, Investment Obligations, Reserve Deposits in a stated amount or other moneys, including proceeds of Bonds, such that following the issuance of the Bonds, the Bond Reserve Fund will at least equal the Bond Reserve Fund Requirement.

The Agency may, from time to time, issue one or more Series of Refunding Bonds upon compliance with the requirements of the Resolution and any applicable supplemental resolution to refund Bonds or any other obligations of the Agency issued to finance Loans qualifying under the Resolution.

The Agency may by resolution authorize the issuance of Notes in anticipation of the issuance of Bonds of a series. The principal and interest on such Notes and renewals thereof may be payable from and secured by any moneys of the Agency available therefor, from the proceeds of such Notes or from the proceeds of the sale of the Bonds in anticipation of which such Notes are issued on a priority over any other pledge of such proceeds created by the Resolution. The Agency may also pledge to the payment of such Notes the loans purchased with the proceeds of such Notes and the revenues received by the Agency on account of such loans; provided that upon delivery of the Bonds in anticipation of which such Notes were issued and application of the proceeds thereof, all such loans and revenues shall be and become Loans and Revenues subject to the pledge of the Resolution for the benefit of the Bonds.

Additional Security

The Resolution provides that, to the extent that it will not adversely affect the unenhanced ratings then assigned to any Bonds outstanding by any Nationally Recognized Credit Rating Agency, in connection with the issuance of any Series of Bonds, the Agency may obtain or cause to be obtained letters of credit, lines of credit, surety bonds, insurance policies, guarantees or similar obligations or other agreements or instruments (“Additional Security”) providing for or securing the payment of all or a portion of the Principal Installments or redemption price of and interest due or to become due on all or a portion of the Bonds of a Series or providing Reserve Deposits under the Resolution or providing for the purchase of such Bonds or a portion thereof by the issuer or obligor of any such Additional Security or providing for or securing the payment of all or a portion of the principal and interest and other payments to be made on the Loans allocable to such Series.

The obligations, if any, of the Agency related to any Additional Security may be secured by an agreement providing for the purchase, transfer or pledge of Bonds secured thereby, with such adjustments to interest rate, maturity or redemption provisions as the Agency may specify in the applicable supplemental resolution, or for the sale, transfer or pledge of Loans purchased with the proceeds of such Series to the issuer or obligor of such Additional Security or for such lien on Revenues, Loans, Reserve Deposits and other moneys and securities held under the Resolution as may otherwise be permitted by the Resolution. The Agency may also agree to reimburse (herein referred to as a “Reimbursement Obligation”) the issuer or obligor of any such Additional Security for amounts paid under the terms of such Additional Security together with interest thereon and expenses related thereto. Any Reimbursement

Obligation may be secured by a lien on and pledge of the Revenues, Loans, Reserve Deposits and other money, securities and rights held under the Resolution on a parity with the pledge created by the Resolution so long as such lien or pledge does not adversely affect the unenhanced ratings then assigned to the Bonds by any Nationally Recognized Credit Rating Agency.

Establishment of Funds and Accounts

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

- Program Fund
- Program Accounts
- Cost of Issuance Accounts
- Capitalized Interest Accounts
- Revenue Fund
- Debt Service Fund
- Bond Reserve Fund
- Rebate Fund
- Rebate Accounts
- Redemption Fund
- Optional Redemption Accounts
- Special Redemption Accounts

In addition, the Twenty-Fourth Supplemental Resolution establishes the Series 20 Loan Loss Claim Fund, the Series 20 Contingency Account and the Series 20 Premium Account. See “**SECURITY FOR THE BONDS—Additional Security.**”

Program Accounts

Upon the issuance, sale and delivery of any Series of Bonds, other than an issue of refunding Bonds, the Trustee will establish a separate Program Account within the Program Fund for such series. A Program Account will be used for the purchase or making of Loans. Loans may be purchased or made in part from moneys in one Program Account and in part from moneys in another Program Account. The Trustee, upon the written request of the Agency, will pay from a designated Program Account the amount stated in such written request to be payable to the designated Mortgage Lender or Lenders for or upon the purchase or making of the Loans specified in such request. The written request will certify that the amount of the payments requested does not exceed the purchase price of the Loans and that the Loans comply with the Resolution, the applicable supplemental resolution and the Act. Before disbursing to a Mortgage Lender the amounts specified in a written request, the Trustee will receive the original executed note evidencing the Loan to be so purchased or made, or, as applicable, the Loan Security so purchased, in either case, endorsed to the Agency.

All moneys transferred to a Program Account from the Revenue Fund pursuant to the Resolution (as described below under “Revenues and Revenue Fund”) will be used to purchase or make Loans in the manner provided above. No such moneys will be applied to the purchase or making of Loans unless the Agency provides (a) a counsel’s opinion to the effect that such purchase shall not adversely affect the exclusion of interest on any outstanding Bonds from gross income for Federal income tax purposes, and (b) a Projection of Revenue showing that following such purchase or origination expected Revenues and other funds available for the purpose will be sufficient to pay in the current and each subsequent Fiscal Year Aggregate Debt Service when due and all Program Expenses or, if not, that in the judgment of the Agency such purchase or origination will result in a greater amount of Revenues and other funds available

to pay in the current and each subsequent Fiscal Year Aggregate Debt Service when due and all Program Expenses then would be the case of such Loans were not purchased or made.

Notwithstanding anything in the Resolution to the contrary, the Trustee will transfer from any Program Account to the Debt Service Fund any amounts necessary for the payment, when due, of Principal Installments of and interest on the Bonds to the extent that at any time no moneys are available therefor in any other funds and accounts established under the Resolution.

Revenues and Revenue Fund

Except as provided in any supplemental resolution authorizing Reserve Deposits or Additional Security, all Revenues will promptly upon receipt by the Agency be deposited in the Revenue Fund.

On or before each interest payment date for the Bonds, the Trustee will transfer from the Revenue Fund the balance on deposit in such Fund as follows in the following order of priority:

- To the Debt Service Fund, the amount necessary so that the balance therein equals the sum of all Principal Installments and interest due or to become due on such interest payment date on the outstanding Bonds;
- To the providers of municipal bond insurance on any Series of Bonds outstanding, the amount of the premium payable to such insurer on such interest payment date with respect to the applicable municipal bond insurance policy;
- To the Bond Reserve Fund, the amount necessary so that the amount therein equals the Funded Bond Reserve Fund Requirement, calculated as of such interest payment date;
- To the Program Fund and the appropriate Program Account therein, an amount equal to all amounts withdrawn therefrom and applied to the payment of accrued interest on Loans when purchased, but only to the extent such amounts have not been previously restored to the Program Fund;
- To the Rebate Fund and the appropriate Rebate Account therein, the amount necessary so that the amount therein equals the Rebate Requirement;
- To one or more Program Accounts, as directed by the Agency, all or any portion of the remaining balance in the Revenue Fund allocable to such Accounts;
- To one or more Special Redemption Accounts in the Redemption Fund as directed by the Agency, all or any portion of the remaining balance allocable to such Accounts;
- Subject to the provisions of any supplemental resolution, to the payment or reimbursement of Program Expenses then due and payable, in such amounts and to such payees (including, in the case of reimbursements, the Agency) as may be specified in a certificate of the Agency delivered to the Trustee; and
- To the Agency for any of its lawful purposes free and clear of the pledge and lien of the Resolution, by payment to the Agency of all or any portion of the remaining balance in the Revenue Fund, but only upon receipt by the Trustee of a Projection of Revenues which shows that following such payment expected Revenues and other funds available for the purpose will be sufficient to pay in any Fiscal Year (a) Aggregate Debt Service on the outstanding Bonds when due, (b) all Program Expenses and (c) all required deposits,

if any, into all funds and accounts established under the Resolution and under any applicable supplemental resolution.

Debt Service Fund

The Trustee will pay out of the Debt Service Fund to the respective paying agents on or before each interest payment date on any Bonds, the amount required for the interest and Principal Installments payable on such date. Amounts in the Debt Service Fund with respect to any sinking fund installment shall, if so directed by the Agency, be applied by the Trustee to the purchase of Bonds of the Series, maturity, interest rate and tenor for which such sinking fund installment was established or to the optional redemption of such Bonds then redeemable by their terms. As soon as practicable after the 45th day preceding the due date of any such sinking fund installment, the Trustee will call for redemption on such due date Bonds of the Series, maturity, interest rate and tenor for which such sinking fund installment was established in an amount sufficient to complete the retirement of the Principal Amount of the Bonds of such Series, maturity, interest rate and tenor as specified for such sinking fund installment.

Bond Reserve Fund

If at any time there are insufficient amounts in the Capitalized Interest Accounts, the Debt Service Fund, the Revenue Fund and the Redemption Fund to pay the Principal Installments and interest on the Bonds of any Series then due, the Trustee will withdraw from the Bond Reserve Fund and deposit in the Debt Service Fund the amount necessary to meet the deficiency. Unless otherwise directed by the Agency, amounts so withdrawn from the Bond Reserve Fund shall be derived, first, from cash and Investment Obligations on deposit therein and, second, from draws or demands on Reserve Deposits or other Additional Security, if any, held as a part thereof upon the terms and conditions provided in such Reserve deposits or other Additional Security.

If at any time the amount on deposit in the Bond Reserve Fund exceeds the Funded Bond Reserve Fund Requirement, calculated as of such date, the Trustee will upon written direction of the Agency withdraw any such excess and deposit such excess in the Revenue Fund.

Redemption Fund

The Redemption Fund includes a Special Redemption Account and an Optional Redemption Account for each series. Except as provided in the Resolution or any supplemental resolution, amounts in the Special Redemption Account are to be used by the Trustee to purchase or redeem Bonds of the applicable Series at a price set forth in the applicable supplemental resolution. Notwithstanding the foregoing, all or any part of the moneys in a Special Redemption Account may be applied to the redemption of Bonds of any Series upon compliance with the requirements of the Resolution and receipt by the Trustee of a Counsel's Opinion to the effect that such application shall not adversely affect the exclusion from gross income of interest on any Bonds outstanding for federal income tax purposes. Amounts in the Optional Redemption Account are to be used by the Trustee to purchase or redeem Bonds of the applicable Series subject to redemption by operation of the Optional Redemption Account at a price set forth in the applicable supplemental resolution. Prior to any such purchase or redemption, the Agency must also deliver to the Trustee a Projection of Revenues satisfying the conditions stated above under **"SECURITY FOR THE BONDS—Projection of Revenues,"** provided that no Projection of Revenues shall be required for the application of any amounts in a Special Redemption Account to the redemption of Bonds of the Series to which such Account is applicable if such amounts shall be applied to the redemption of Bonds of each maturity and of similar tenor of such Series outstanding in the same proportion as the Bonds of such maturity and similar tenor outstanding bear to the Bonds of all maturities and of similar tenor of such Series outstanding.

Rebate Fund

Upon the issuance, sale and delivery of any Series of Bonds, the applicable supplemental resolution may but is not required to establish in the Rebate Fund a separate Rebate Account. The Series 20 Rebate Account will be established pursuant to the Twenty-Fourth Supplemental Resolution and amounts in the Series 20 Rebate Account will be used to rebate to the United States certain excess investment earnings as described below under “**CERTAIN FEDERAL INCOME TAX MATTERS—Requirements Related to Arbitrage.**”

Moneys of the Agency

All amounts paid to the Agency under the Resolution for deposit in its General Fund will be free and clear of any lien or pledge created by the Resolution and may be used for any lawful purpose of the Agency.

Investments and Deposits

Except as otherwise provided below, moneys held for the credit of any fund or account under the Resolution will be invested by the Trustee at the direction of the Agency in Investment Obligations which mature or are redeemable at the option of the owner thereof on such dates and in such amounts as may be necessary to provide moneys to meet the payments from such funds and accounts. Moneys in the Bond Reserve Fund may be invested by the Trustee at the direction of the Agency solely in the investments specified in clauses (1), (2), (3), (6), (8), (10) and (11) of the definition of Investment Obligations in **APPENDIX IV**. Investment Obligations purchased as an investment of moneys in any fund or account and Reserve Deposits held in any fund or account will be deemed at all times to be a part of such fund or account until transferred as provided in the Resolution.

In computing the amount in any fund or account held by the Trustee under the provisions of the Resolution, Investment Obligations will be valued at par if purchased at par or at amortized value if purchased at other than par. Valuation on any particular date shall include the amount of interest then earned or accrued to such date on any Investment Obligation. In computing the value of any Reserve Deposit held to the credit of any fund or account under the Resolution, such Reserve Deposit shall be valued at the unexpired, underway stated amount thereof.

Except as otherwise provided in a supplemental resolution, the income or interest earned by, or increment to, a fund or account due to the investment thereof will be transferred to the Revenue Fund except any income, interest or other increment earned on investment of the Rebate Fund, which amounts will be credited to such Fund.

Issuance of Additional Obligations

Except as permitted by the Resolution the Agency will not create or issue any obligations or create any additional indebtedness which will be secured by an equal or prior charge and lien on the Revenues, Loans, Reserve Deposits and other property pledged under the Resolution or which will be payable from any of the funds or accounts established by the Resolution, except that additional Series of Bonds may be issued from time to time pursuant to a supplemental resolution on a parity with the Series 20 Bonds so long as the issuance of such additional Bonds will not adversely affect the unenhanced ratings then assigned to the Bonds outstanding by any Nationally Recognized Credit Rating Agency.

Covenants as to the Program

The Agency will use the proceeds of the Bonds and other moneys held under the Resolution, to the extent not reasonably required for other Program purposes of the Agency, to purchase or make Loans, and will do all such acts and things necessary to receive and collect Revenues and will take all actions and proceedings reasonably necessary for the enforcement of all terms, covenants and conditions of the Loans.

The Agency shall diligently enforce and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of all Loans including the prompt payment of all Revenues and all other amounts due the Agency thereunder. The Agency shall at all times, to the extent permitted by law, defend, enforce, preserve and protect the rights and privileges of the Agency and of the Bondowners under or with respect to each Loan provided that the Agency shall have the power and authority to settle a default on any Loan on such terms as the Agency shall determine to be in the best interests of the Agency and the Bondowners and to forbear from taking action with respect to enforcement of a Loan if it determines such forbearance to be in the best interests of the Agency and the Bondowners.

Whenever it shall be necessary in order to protect and enforce the rights of the Agency under a Loan and to protect and enforce the rights and interest of Bondowners under the Resolution, the Agency shall take or cause to be taken steps to enforce any policy or certificate of insurance or guaranty or Additional Security relating to a Loan and to foreclose the mortgage or enforce the security interest created by such Loan and to collect, hold and maintain or to sell or otherwise dispose of the collateral securing the note, mortgage or other instrument which is in default under the provisions of such Loan and if the Agency deems such to be advisable, shall bid for and purchase such collateral at any sale thereof and acquire and take possession of such collateral.

The Agency may sell, assign, transfer or otherwise dispose of any Loan or any participation or other interest therein which is in default or delinquent in the payment of principal or interest thereon if the Agency determines that such action is in the best interests of the Agency and Bondowners and will result in a greater availability of Revenues to pay Aggregate Debt Service when due and Program Expenses than would be the case if such Loan is not sold, assigned, transferred or otherwise disposed of, in which case such Loan may be so disposed of by the Agency free and clear of the pledge of the Resolution.

The Agency may sell, assign, transfer or otherwise dispose of any Loan or any participation or other interest therein which is not in default or delinquent in the payment of principal or interest thereon, or transfer any such Loan to itself free and clear of the pledge of the Resolution and at such price as the Agency shall determine, provided that prior to any such disposition or transfer the Agency files with the Trustee a certificate of an Authorized Officer setting forth a Projection of Revenues showing that following such disposition or transfer anticipated Revenues, together with any other moneys available for such purposes, will be sufficient to pay in the current and each subsequent Fiscal Year Aggregate Debt Service when due and all Program Expenses, in which case such Loan may be disposed of or transferred by the Agency free and clear of the pledge of the Resolution. Except as otherwise provided in the supplemental resolution applicable to a particular Series of Bonds, the proceeds, if any, of sale, transfer or other disposition of any Loan which was not in default or delinquent in the payment of principal or interest thereon shall not constitute a Loan Prepayment under the Resolution and shall not be deposited directly or indirectly in a Special Redemption Account for any Series of Bonds outstanding.

Supplemental Resolutions

Any of the provisions of the Resolution may be amended by the Agency by a supplemental resolution with the written consent of the Owners of at least 60% in aggregate Principal Amount of the

outstanding Bonds at the time such consent is given; provided however, that no such modification or amendment may permit a change in the terms of redemption or maturity of any outstanding Bonds or of any installment of interest on such Bonds or a reduction in the Principal Amount or the redemption price of such Bonds or the rate of interest thereon without the consent of the Owner of such Bonds, or reduce the percentage of the Bonds the consent of the Owners of which is required to effect any such modification or amendment, or change or modify any of the rights or obligations of the Trustee or any paying agent without the filing with the Trustee of its written assent thereto. Notwithstanding anything in this paragraph to the contrary, the Agency may not modify or supplement the Resolution as described in this paragraph 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 but with the consent of the Trustee) supplemental resolutions to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution as theretofore in effect.

Events of Default

Events of Default specified in the Resolution include (a) failure to pay the Principal Installments or the redemption price of or interest on any Bond when due, (b) failure for 30 days after written notice thereof in the performance or observance of any other covenants, agreements or conditions specified in the Resolution, provided, however, that if such default cannot be remedied within such 30 day period, it will not constitute an Event of Default if the Agency institutes and diligently pursues corrective action until the default is remedied, and (c) the filing by the Agency of a petition seeking a composition of indebtedness under the federal bankruptcy laws, or a federal or State statute.

Remedies

Upon the happening and continuance of any Event of Default, the Trustee in its own name may proceed, and upon the written request of the Owners of not less than 25% in aggregate Principal Amount of the outstanding Bonds, must proceed, to protect and enforce its rights and the rights of the Bondowners by such suits, actions or proceedings as the Trustee shall deem most effectual to protect and enforce such rights, including for defaults other than a default in the performance of covenants, by declaring the Principal Amount of all Bonds then outstanding and the interest accrued thereon due and payable immediately.

Notwithstanding anything herein to the contrary, upon the occurrence and continuance of an Event of Default with respect to a Series of Bonds insured by a policy of municipal bond insurance, the related provider of such municipal bond insurance is entitled to control and direct the enforcement of all rights and remedies granted to the owners of the related Series of Bonds or the Trustee for the benefit of the owners of such Series of Bonds under the Resolution, including, without limitation: (a) the right to accelerate the principal of the related Series of Bonds and (b) the right to annul any declaration of acceleration, and the related municipal bond insurance provider is also entitled to approve all waivers of Events of Default.

Application of Revenues and Other Moneys After Default

If an Event of Default (other than a covenant default) happens and is not remedied, the Agency upon demand of the Trustee will assign, endorse and convey to the Trustee all Loans and will pay over to the Trustee upon receipt thereof all Revenues and other property pledged under the Resolution. Unless

otherwise directed by a court, all such Revenues and other property and any other moneys received or collected by the Trustee will be applied as provided in the Resolution.

Defeasance

If the Agency pays the Principal Amount and interest, and redemption price, if any, to become due on all outstanding Bonds and pays or provides for the payment of all fees and expenses of the Trustee and any paying agents, then the pledge of Revenues, Loans, Reserve Deposits, Additional Security, if any, or other property pledged by the Resolution and all other rights granted by the Resolution will be discharged and satisfied. All outstanding Bonds of any Series will, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning of the foregoing sentence if, among other things, there have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Obligations as defined in clauses (1), (2), (3) or (6) of the definition of Investment Obligations in **APPENDIX IV** the principal of and interest on which when due will provide moneys which will be sufficient, to pay when due the Principal Amount or redemption price, if applicable, of and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be.

Notwithstanding anything herein to the contrary, in the event that the principal and/or interest due on a Series of Bonds insured by a policy of municipal bond insurance shall be paid the provider of such municipal bond insurance, such Series of Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Agency, and the assignment and pledge under the Resolution and all covenants, agreements and other obligations of the Agency to the registered owners shall continue to exist and shall run to the benefit of the related provider of the municipal bond insurance, and the related provider of the municipal bond insurance shall be subrogated to the rights of such registered owners.

TRUSTEE

The Trustee for the Series 20 Bonds is Banknorth, N.A. (“Banknorth”), with corporate trust offices located in Williston, Vermont. The Trustee also serves as bond trustee for other outstanding Bonds of the Agency. In addition, Banknorth Mortgage Company, Inc. and its successor, First Massachusetts Bank, N.A. doing business as Banknorth Mortgage, has been and is an affiliate of the Trustee and is a Mortgage Lender under the Program.

Banknorth is a bank holding company incorporated in Maine and headquartered in Portland, Maine. Banknorth currently owns and operates banking subsidiaries in six states. In addition, Banknorth or its subsidiaries engage in permitted insurance agency activities, and it owns other non-operating subsidiaries.

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 certain Revenues, Loans and Funds and accounts established under the Resolution.

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 20 Bonds or the purchasing of Loans with the proceeds of the Series 20 Bonds or in any way contesting or affecting any authority for the issuance or validity of the Series 20 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 20 Bonds or the existence or powers of the Agency.

INDEPENDENT AUDITORS

The financial statements of the Agency for the year ended June 30, 2003 included in Appendix II have been audited by KPMG LLP, independent certified public accountants, whose report thereon is also included in Appendix II.

RATINGS

It is expected that Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's") and Moody's Investors Service, Inc. ("Moody's") will assign their municipal bond ratings of "AAA" and "Aaa," respectively, to the Series 20A Bonds with the understanding that upon delivery of the Series 20 Bonds a policy insuring the payment when due of principal of and interest on the Series 20 Bonds will be issued by FSA. 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 20 Bonds.

CONTINUING DISCLOSURE

The Agency has covenanted for the benefit of holders and beneficial owners of the Series 20 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 2005 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 each nationally recognized municipal securities information repository and with the state information repository designated as such by the State (the "State Repository"), if any. The notices of material events will be filed by the Agency with the Municipal Securities Rulemaking Board and with the State Repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in "**APPENDIX VII—FORM OF THE CONTINUING DISCLOSURE AGREEMENT.**" These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Agency has never failed to comply in all material respects with any previous undertakings with regard to said Rule 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 20 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 20 Bonds. Certain legal matters will be passed upon for the Agency by Elizabeth Mullikin Drake,

General Counsel of the Agency, and for the Underwriters by Orrick, Herrington & Sutcliffe LLP, New York, New York, counsel to the Underwriters.

UNDERWRITING

UBS Financial Services Inc., Citigroup Global Markets Inc. and A.G. Edwards & Sons, Inc. (collectively, the “Underwriters”) have jointly and severally agreed, subject to certain conditions, to purchase the Series 20A Bonds other than the Series 20A Bonds maturing on November 1, 2030 and May 1, 2035 (collectively, the “Underwritten Series 20A Bonds”) from the Agency at the prices set forth on the inside cover page hereof, less an underwriters’ discount and fee of \$211,486.45. The Series 20A Bonds maturing on November 1, 2030 and May 1, 2035 (together, the “Placed Series 20A Bonds”) are being sold directly to an institutional investor at a purchase price equal to the prices set forth on the inside cover page hereof. The ARCs are being purchased by UBS Financial Services Inc. at an aggregate purchase price of \$8,000,000. UBS Financial Services Inc. will be paid a fee in connection with its purchase of the ARCs of \$43,852.44. The obligations of the Underwriters to purchase the Underwritten Series 20A Bonds, the institutional investor to purchase the Placed Series 20A Bonds and of UBS Financial Services Inc. to purchase the ARCs are subject to certain terms and conditions set forth in the applicable Purchase Contract.

The Series 20 Bonds may be offered and sold to certain dealers, banks and others at prices lower than the initial public offering prices, and such initial offering prices may be changed from time to time, by the Underwriters.

TAX EXEMPTION

In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 20 Bonds is not includable in gross income for federal income tax purposes and such interest is a separate tax preference item for purposes of calculating the federal alternative minimum taxable income of individuals and corporations.

The Code provides that interest on obligations of a governmental unit such as the Agency issued to finance single family residences is excluded from gross income for federal income tax purposes only if certain requirements are met with respect to the terms, amount and purpose of the loans financed by the obligations, the nature of the residence and the mortgage and the eligibility of the borrower executing the mortgage. Such requirements must be satisfied on a continuing basis subsequent to the issuance of such obligations in order for interest thereon to remain excluded from gross income for federal income tax purposes. The Code requires that the Agency provide restrictions in all relevant documents to permit financing only in accordance with such requirements and that the Agency establish reasonable procedures to ensure compliance. See “**CERTAIN FEDERAL INCOME TAX MATTERS.**”

The Agency has included provisions in the Resolutions and the Procedural Guide and has established certain procedures to ensure compliance with the requirements of the Code relating to the Loans. The Agency believes that the procedures established for the purpose of fulfilling the requirements of the Code are sufficient to ensure that the proceeds of the Series 20 Bonds will be applied in accordance with such requirements in order for interest on the Series 20 Bonds to remain excluded from gross income for federal income tax purposes. In the opinion of Bond Counsel, the Procedural Guide together with the Resolutions establish procedures which, if followed, will cause such requirements to be satisfied.

The Code also establishes certain other requirements regarding the expenditure and investment of proceeds of the Series 20 Bonds and the payment of rebates to the United States. Failure by the Agency to comply subsequent to the date of issuance of the Series 20 Bonds with such requirements may cause interest on the Series 20 Bonds to become included in gross income retroactive to the date of issue of such

Bonds. The Agency has included provisions in the Resolutions to ensure compliance with these requirements and has covenanted to take all lawful action necessary under the Code to ensure that interest on the Series 20 Bonds will remain excluded from gross income for federal income tax purposes and to refrain from taking any action which would cause interest on the Series 20 Bonds to become included in gross income.

Although Bond Counsel has rendered its opinion that interest on the Series 20 Bonds is excluded from gross income for federal tax purposes, the accrual on receipt of interest on the Series 20 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion on the date of issuance of the Series 20 Bonds regarding any such consequences. Purchasers of the Series 20 Bonds, particularly purchasers that are corporations (including subchapter S corporations and foreign corporations operating branches in the United States) property or casualty insurance companies, banks, thrifts or other financial institutions or certain recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise entitled to claim the earned income credit and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations, are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Series 20 Bonds.

From time to time, there are legislative proposals in Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Series 20 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted, it would apply to bonds issued prior to enactment. Each purchaser of the Series 20 Bonds should consult his or her own tax advisor regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Premium Pac Bonds will be offered at a price in excess of the principal amount thereof. Under the Code, the difference between the principal amount of a Premium PAC Bond and the cost basis of a Premium PAC Bond to an Owner (other than an Owner who holds a Premium PAC Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) is "bond premium." An initial Owner of Premium PAC Bonds must amortize any premium in accordance with Section 171 of the Code. Owners of Premium PAC Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon sale, redemption or other disposition of Premium PAC Bonds and with respect to the state and local consequences of owning and disposing of Premium PAC Bonds.

Vermont Taxes

The Act provides that bonds and notes of the Agency, including the Series 20 Bonds, and the interest thereon are at all times free from all Vermont taxation, franchise fees or special assessments except for transfer, inheritance and estate taxes. The Series 20 Bonds and the income therefrom may be subject to taxation under the laws of states other than the State.

CERTAIN FEDERAL INCOME TAX MATTERS

General

Section 143 substantially restricts the use of tax-exempt bonds to finance single family housing. Under the Code, interest on bonds the proceeds of which are used to provide single family mortgages is not excluded from gross income for federal income tax purposes unless the bonds are part of a "qualified mortgage issue." An issue of bonds constitutes a "qualified mortgage issue" if all of the following requirements are met: (a) all proceeds of the issue (exclusive of proceeds applied to issuance costs and a

reasonably required reserve) are to be used to finance owner-occupied residences, (b) the mortgages financed with the issue meet certain eligibility requirements described below, (c) the yield that is earned and retained by the issuer of the bonds from such mortgages and from certain non-mortgage investments that are allocable to the issue, including investments that are held as part of a debt service reserve fund, does not exceed specified limitations (see “Requirements Related to Arbitrage” below), and (d) certain other requirements are met relating to the issue itself.

Residence Requirements

As required by Section 143, all Eligible Residences for which owner-financing is provided with the proceeds of the Series 20 Bonds must be single family residences consisting of one to four dwelling units located within the State (the Procedural Guide currently restricts such residences to not more than two dwelling units). Both the Agency and the Eligible Borrower to whom a Loan is made by a Mortgage Lender to finance an Eligible Residence (the “mortgagor”) must reasonably expect that the Eligible Residence is or will become the mortgagor’s principal residence within a reasonable time after the Loan is executed or assigned. Each mortgagor is required to certify at the closing of the Loan that such mortgagor has made or intends to make the Eligible Residence his principal residence within 60 days from the date of such closing, or 90 days in the case of a Qualified Rehabilitation Loan (as hereinafter defined). Under Section 143, the Agency may rely on such certification for purposes of satisfying this requirement.

Absence of Prior Home Ownership

Section 143 requires that at least 95% of the lendable proceeds of the Series 20 Bonds, after deducting the portion of such proceeds used to make Loans in “targeted areas,” Qualified Rehabilitation Loans or Home Improvement Loans, must be used to finance Eligible Residences for Eligible Borrowers who have not had a present ownership interest in a principal residence at any time during the three-year period before the Loan is made. Under Section 143, the Agency may rely on its or its agents’ examination of federal income tax returns and the mortgagors’ certifications for purposes of this requirement. The Procedural Guide requires each Mortgage Lender to obtain and examine (a) federal income tax returns of each mortgagor for the preceding three years, (b) a statement of such mortgagor in an affidavit to the effect that the mortgagor was not required to file any such return, or (c) a letter from the Internal Revenue Service stating that the mortgagor filed any such return on Form 1040A or 1040EZ.

Purchase Price Limitations

Section 143 requires that the “acquisition cost” of each Eligible Residence financed with the proceeds of the Series 20 Bonds may not exceed 90% (110% in the case of “targeted areas” as discussed below) of the “average area purchase price” applicable to such Eligible Residence. The determination of the average area purchase prices applicable to each Eligible Residence being financed must be made as of the date on which the Mortgage Lender commits to make the Mortgage Loan or, if earlier, the date of purchase of the Eligible Residence. The foregoing limitation does not apply to Qualified Rehabilitation Loans or Home Improvement Loans.

Targeted Areas

In order to comply with Section 143, the Agency must, for at least one year after it first begins purchasing Loans with amounts attributable to the Series 20 Bonds, make a portion of funds on deposit in the Series 20 Program Account available for Loans in “targeted areas” within the State. Areas that qualify as targeted areas are “qualified census tracts” and designated “areas of chronic economic distress.” Nine counties within the State have been designated as areas of chronic economic distress. According to 2000 census data, 53% of the State’s population resides in such counties. Section 143

specifically permits the purchase of Loans made to Eligible Borrowers who have had present ownership interests in principal residences within the three-year period prior to the making of the Mortgage Loans if the Eligible Residences financed with the proceeds of the Loans are located within a targeted area or if the Loan is a Qualified Rehabilitation Loan or a Home Improvement Loan.

Income Limitations

Section 143 provides that, except in the case of “targeted areas,” Loans are restricted to mortgagors where family incomes do not exceed 115% (100% in the case of families of two persons or less) of the greater of (a) the median family gross income for the area in which the Eligible Residence is located or (b) the statewide median family gross income. In the case of “targeted areas,” two-thirds of the amount of mortgage financing provided to mortgagors in “targeted areas” must be provided to those whose family incomes do not exceed 140% (120% in the case of families of two persons or less) of the greater of the median family gross income for the area or the statewide median family gross income and the remaining one-third may be provided to make Loans without regard to such income limitations. The Procedural Guide contains procedures necessary to enable the Agency to comply with the income limitations.

Recapture Provision

The recapture provision requires that upon the disposition of a residence financed with proceeds of qualified mortgage bonds, the mortgagor, under certain circumstances, is required to pay to the federal government an amount equal to a portion of the subsidy provided by such financing. The Recapture Provision only applies to residences sold within nine years of the date the mortgage loan is made. Recapture of the subsidy (not in excess of 50% of the mortgagor’s gain from the sale of the residence) phases in from the time of the purchase until four years after the purchase when full recapture occurs. Recapture phases out in years five through nine. Recapture is reduced (but not below zero) for mortgagors whose income (when the residence is disposed of) is below certain income limits.

Qualified Rehabilitation Loans

Qualified Rehabilitation Loans are subject to the following requirements:

- there is a period of at least twenty years between the date on which the building was first used and the date on which the physical work on such rehabilitation begins;
- in the rehabilitation process 50% or more of the existing external walls of such building are retained in place as external walls, 75% or more of the existing external walls of such building are retained in place as internal or external walls, and 75% or more of the existing internal structural framework of such building is retained in place;
- the expenditures for such rehabilitation are 25% or more of the mortgagor’s adjusted basis in the residence being rehabilitated (including the land on which the residence is located);
- the mortgagors adjusted basis in the residence does not exceed 90% (or if the residence is located in a targeted area, 110%) of the “average area purchase price” applicable to such residence; and
- the mortgagor is the first occupant of the residence after completion of the rehabilitation.

Home Improvement Loans

The Code requires that the mortgagor of each Home Improvement Loan certify (a) that the proceeds of the Home Improvement Loan will be used only to make alterations, repairs and improvements on, or in connection with, a residence owned by the mortgagor and located in the State, (b) that such alterations, repairs and improvements will substantially protect or improve the basic livability or energy efficiency of the residence and do not include the provision of, or improvements to, swimming pools, tennis courts, saunas or other recreational or entertainment facilities and (c) that the proceeds of the Home Improvement Loan will not be used to acquire or replace an existing mortgage or other debt for which the mortgagor is liable, except a construction loan, bridge loan or similar temporary initial financing having a term of 24 months or less. Pursuant to the Code, the principal amount of a Home Improvement Loan may not exceed \$15,000.

Other Mortgage Eligibility Requirements

Section 143 does not allow proceeds of a qualified mortgage issue to be used to acquire existing mortgages (thereby requiring the Agency to apply such proceeds only to newly-originated mortgages) or, except in certain limited circumstances including Qualified Rehabilitation Loans, to replace existing mortgages (thereby precluding refinancings of mortgages). This requirement does not prohibit the Agency from acquiring or replacing construction loans, bridge loans or other similar temporary initial financings. The requirements of the Procedural Guide are designed to meet these restrictions.

Section 143 also requires that each mortgage securing a mortgage loan purchased with the proceeds of a qualifying mortgage issue may only be assumed if the requirements relating to principal residence, three year lack of prior ownership (except as to mortgage loans made in “targeted areas” and Qualified Rehabilitation Loans and Home Improvement Loans), income limitations and acquisition cost are met with respect to the assumption. The determination as to compliance with these requirements are to be made as of the date on which the mortgage is being assumed. Accordingly, the Agency must make the required statistical study or otherwise determine (e.g., by reliance on “safe harbor” statistics published by the U.S. Treasury) the relevant average area purchase prices for each statistical area within the State on an annual basis and must assure compliance with the other applicable requirements of Section 143 as long as any Series 20 Bonds are outstanding. The Agency has so covenanted in the Resolutions and, to assure compliance with this requirement, will provide in the mortgage that no Loan may be assumed without the prior written consent of the Agency. Qualified Rehabilitation Loans may not be assumed.

Requirements Related to Arbitrage

In addition to the arbitrage requirements that apply to all tax-exempt bonds under Section 148 of the Code, including the rebate requirement described below, the effective interest rate on Mortgage Loans financed with the proceeds of the Series 20 Bonds may not exceed the yield on the Series 20 Bonds by more than one and one-eighth percentage points. Accordingly, the effective interest rate on such Mortgage Loans will be computed by the Agency in accordance with Section 143 taking into account all discount points to be paid by the seller and origination fees to be paid by the mortgagors. In addition, the Agency has reserved the right to adjust the interest rate on the Loans should circumstances indicate that such an adjustment is necessary to comply with the arbitrage requirements. The computation of such rate and yield in accordance with Section 143 results in an actual spread of less than one and one-eighth percentage points.

The rebate requirement set forth in Section 148 of the Code obligates the Agency to pay to the United States amounts earned on obligations which are not Loans (“Non-Loan Obligations”) (e.g., investments held as reasonably required reserves) in excess (plus the earnings on such excess) of the amounts which would have been earned on such investments if invested at a yield equal to the yield on

the Series of Bonds to which such investments are allocable computed in accordance with Section 148. The Agency has established accounting procedures to determine the amount of such excess investment earnings. Such amounts, if any, are expected to be deposited in the Rebate Accounts that are held by the Trustee but are not subject to the pledge or lien of the Resolution. The Agency has covenanted in the Supplemental Resolution that the amount required to be rebated by Section 148 will be paid to the United States. The Agency has also covenanted in the Resolution that if the amount on deposit in the Rebate Accounts is insufficient to make such payment the Agency will apply money in the General Fund to satisfy the deficiency. The Agency has covenanted in the General Resolution to take all lawful action necessary to ensure that interest on the Bonds will remain excludable from gross income for federal income tax purposes and will not use or permit the use of the proceeds of the Bonds or any other funds of the Agency, directly or indirectly, in any manner which would cause the interest on the Bonds to become includable in gross income for federal income tax purposes.

Good Faith Effort

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

- the issuer in good faith attempted to meet such requirements before the mortgages were executed;
- 95% of the proceeds devoted to owner-financing were devoted to residences with respect to which (at the time the mortgages were executed or assumed) all such requirements were met; and
- any failure to meet such requirements is corrected within a reasonable period after such failure is first discovered.

The good faith requirement described in (a) will be satisfied by the Agency establishing reasonable procedures, including reasonable investigations, to ensure compliance with the requirements under Section 143. The 95% requirement referred to in clause (ii) above will be considered to have been satisfied by the Agency procuring and examining affidavits from the mortgagors and sellers of residences evidencing compliance and requiring the procurement and examination by the Mortgage Lenders of income tax returns filed by the mortgagors with the Internal Revenue Service for the preceding three years (or statements in the mortgagors' affidavits that one or more of such returns were not required to have been filed). Calling the non-qualifying mortgage or replacing it with a qualifying mortgage will constitute correction of such failure under clause (iii) above.

The failure to meet the requirements of Section 143 will not adversely affect the tax treatment of interest on a bond if:

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

MISCELLANEOUS

The references herein to the Act, the Resolution, the Origination Agreements, the Purchase and Servicing Agreements and the Procedural Guide are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and reference is made to the Act, the Resolution and the Program Documents for full and complete statements of such provisions. The agreements of the Agency with the

Owners of the Series 20 Bonds are fully set forth in the Resolution and this Official Statement is not to be construed as a contract with the purchasers of the Series 20 Bonds. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Copies of the Act, the Resolution, the Origination Agreements, the Purchase and Servicing Agreements and the Procedural Guide are 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

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APPENDIX I

**CERTAIN INFORMATION RELATING TO THE AGENCY'S EXISTING
SINGLE FAMILY HOUSING BOND PROGRAM**

The following summarizes certain characteristics of mortgage loans purchased by the Agency with the proceeds of the Single Family Housing Bonds as of April 30, 2004 unless otherwise noted.

**Portfolio of Loans Outstanding
Under the Single Family Housing Bond Program**

Type	Number	Principal Amount	% of Principal Amount
Private Mortgage Insurance			
Mortgage Guaranty Insurance Corporation	1,638	\$132,875,953	42.82%
PMI Mortgage Insurance Company	1,350	75,359,426	24.28%
All Other Private Mortgage Insurance	36	2,215,100	0.71%
Federally Guaranteed	673	49,682,842	16.01%
<u>Uninsured⁽¹⁾</u>	<u>1,167</u>	<u>50,186,502</u>	<u>16.17%</u>
Total	4,864	310,319,823	100.00%

⁽¹⁾ Loan to value ratio of 75% or less (80% with respect to loans originated after May 13, 1999). See “**SINGLE FAMILY MORTGAGE PURCHASE PROGRAM—Mortgage Insurance Requirements.**”

**Delinquency Statistics
for the Single Family Housing Bond Program⁽¹⁾**

	No.	%
Total Loans Outstanding	4864	100.00%
Loans in Default 90 Days or More	32	0.66%
Loans in Foreclosure	30	0.62%
Single Family Residences Owned by Agency and Held for sale	6	0.12%

⁽¹⁾ Includes prior resolution Loans transferred to the Trustee in connection with the issuance of the Series 4 Bonds.

Since the adoption of the General Resolution in 1990, the Loan Loss Claims Funds securing loans in the Single Family Housing Loan Portfolio have paid a total of \$5,730,238 to cover losses as of March 31, 2004.

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APPENDIX II

**AUDITED FINANCIAL STATEMENTS AS OF AND FOR
THE YEAR ENDED JUNE 30, 2003
(WITH INDEPENDENT AUDITORS' REPORT THEREON)**

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VERMONT HOUSING FINANCE AGENCY

Financial Statements

June 30, 2003

(With Independent Auditors' Report Thereon)

VERMONT HOUSING FINANCE AGENCY

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P.O. Box 564
Burlington, VT 05402

Independent Auditors' Report

To the Honorable Elizabeth M. Ready
Auditor of the Accounts of the
State of Vermont and
The Commissioners
Vermont Housing Finance Agency:

We have audited the accompanying statement of net assets of each of the major funds of the Vermont Housing Finance Agency as of June 30, 2003, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each of the major funds of the Vermont Housing Finance Agency at June 30, 2003, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 Vermont Housing Finance Agency adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosure*, as of July 1, 2002.

The Management's Discussion and Analysis (MD&A) on pages 3 to 6 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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

September 4, 2003

Management Discussion and Analysis
Vermont Housing Finance Agency
June 30, 2003

This section of the Vermont Housing Finance Agency's (VHFA or Agency) annual financial report presents VHFA management's discussion and analysis of the Agency's financial performance during the fiscal year ended June 30, 2003. This report is intended to be read in conjunction with the Agency's financial statements and accompanying notes.

The Agency's financial statements include the operations of the major funds that the Agency has established to achieve its purpose. The financial transactions of the Agency are recorded in the funds which consist of a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses as appropriate. The Agency is a self-supporting entity and follows enterprise fund reporting. The Agency is not considered a component unit of the State of Vermont. VHFA is authorized to issue bonds and notes in amounts up to \$900 million outstanding to accomplish its corporate purposes.

This year VHFA implemented a new format for its financial statements to comply with Statement No. 34 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements and Management's Discussion and Analysis*. The annual financial report consists of three parts: Independent auditors report; Management's Discussion and Analysis (MD&A) (this section) and the financial statements, including notes to the financial statements.

Financial Highlights

Total assets decreased by \$85,030,282 or 10.1% from \$839,894,006 to \$754,863,724 at June 30, 2003 compared to June 30, 2002.

The balance in the outstanding loan portfolio decreased by \$49,827,619 or 9.8% from \$506,762,827 at June 30, 2002 to \$456,935,208 at June 30, 2003.

Outstanding debt decreased to \$667,308,916 from \$759,092,459 at the end of the prior year. This decrease of \$91,783,543 amounted to a 12.1% decrease.

Revenues exceeded expenses by \$6,693,875, an increase of \$1,655,515 or 32.9% over the prior year, of which \$280,273 represented an increase to unrestricted net assets.

The net increase in the fair value of investments was \$2,442,524 for the fiscal year ended June 30, 2003 compared to \$1,079,648 for the fiscal year ended June 30, 2002. This increase of \$1,362,876 represents a 126.2% increase.

Loan loss experience continues to show improvement and for FY03 there was a recovery of \$222,738. This resulted from a reduction in the loss reserve of \$561,560, which exceeded actual loan losses of \$338,822. Loan losses exceeded the loss reserve reduction in FY02 by \$291,629. The improvement over the two year period amounts to \$514,367.

Management Discussion and Analysis
Vermont Housing Finance Agency
June 30, 2003

Redemptions continued at historically high levels due to the high rate of prepayments experienced. VHFA redeemed bonds over and above scheduled bond maturities totaling \$67,470,000 compared to \$58,365,000 during FY02.

Interest earnings on bond program funds are limited to bond costs by U. S. Department of Treasury regulations. Accumulated excess earnings in the amount of \$2,417,314 at June 30, 2003 have been deducted from investment earnings compared to \$1,203,295 at June 30, 2002.

Financial Analysis

The following table summarizes the changes in assets, liabilities and net assets between June 30, 2003 and 2002.

	2003	2002	Change	Percentage
Assets				
Cash and investments	281,664,242	317,799,936	(36,135,694)	-11.4%
Loans receivable	456,935,208	506,762,827	(49,827,619)	-9.8%
Other assets	<u>16,264,274</u>	<u>15,331,243</u>	<u>933,031</u>	<u>6.1%</u>
Total assets	754,863,724	839,894,006	(85,030,282)	-10.1%
Liabilities				
Bonds and notes payable	667,308,916	759,092,459	(91,783,543)	-12.1%
Other liabilities	<u>10,091,660</u>	<u>10,032,274</u>	<u>59,386</u>	<u>0.6%</u>
Total liabilities	677,400,576	769,124,733	(91,724,157)	-11.9%
Net assets				
Restricted	68,004,664	61,608,722	6,395,942	10.4%
Unrestricted	<u>9,458,484</u>	<u>9,160,551</u>	<u>297,933</u>	<u>3.3%</u>
Total net assets	77,463,148	70,769,273	6,693,875	9.5%

Management Discussion and Analysis
Vermont Housing Finance Agency
June 30, 2003

The following table summarizes the changes in revenues and expenses between fiscal years 2003 and 2002.

	2003	2002	Change	Percentage
Revenues				
Interest on loans	36,472,268	37,250,253	(777,985)	-2.1%
Interest on investments	13,331,139	15,973,594	(2,642,455)	-16.5%
Increase in fair value-investments	2,442,524	1,079,648	1,362,876	126.2%
Fee income	550,219	704,055	(153,836)	-21.8%
Other revenues	<u>374,356</u>	<u>174,903</u>	<u>199,453</u>	<u>114.0%</u>
Total revenues	53,170,506	55,182,453	(2,011,947)	-3.6%
Expenses				
Financing costs	41,067,868	44,077,051	(3,009,183)	-6.8%
Operational expenses	3,767,871	3,532,080	235,791	6.7%
Mortgage servicing	1,168,464	1,350,683	(182,219)	-13.5%
Loan loss provision	(222,738)	291,629	(514,367)	-176.4%
Loss on bond redemptions	<u>695,166</u>	<u>892,650</u>	<u>(197,484)</u>	<u>-22.1%</u>
Total expenses	46,476,631	50,144,093	(3,667,462)	-7.3%
 Excess revenues	 6,693,875	 5,038,360	 1,655,515	 32.9%

Debt Administration

VHFA is a significant debt issuer, having outstanding at June 30, 2003 over \$667 million of bonds and notes, all subject to the debt limit of \$900 million. VHFA bond funds are held by a trustee, who ensures that bond resolution requirements are met including payments of debt service. Most of the debt issued by the Agency is tax-exempt and issued under the Internal Revenue Code and Treasury regulations governing either mortgage revenue bonds or residential rental projects.

Moody's Investors Service affirms a general obligation rating of A2 for VHFA. All bond issues are rated by Moody's Investors Service and Standard and Poor's with a minimum stand alone rating of single A. Many VHFA bond issues carry bond insurance, which upgrades the bond ratings to AAA.

Management Discussion and Analysis
Vermont Housing Finance Agency
June 30, 2003

A total of \$131,688,543 of bond and note principal payments were made during FY03. Of this amount \$67,470,000 represented retirement prior to scheduled maturity using a combination of optional and special redemption provisions.

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.

VERMONT HOUSING FINANCE AGENCY

Statement of Net Assets

June 30, 2003

	Operating Fund	Single-Family Mortgage Program Fund	Multi-Family Mortgage Program Fund	General Obligation Fund	Total
Assets:					
Current assets:					
Cash and cash equivalents	\$ 4,824,140	—	—	—	4,824,140
Restricted cash and cash equivalents	—	164,287,775	22,405,091	24,199	186,717,065
Investments	100,000	—	—	—	100,000
Restricted investments	—	33,000,000	—	—	33,000,000
Accrued interest receivable:					
Mortgage and construction loans and notes	1,065,453	1,762,169	436,754	—	3,264,376
Investments	3,341	2,190,624	438,018	16	2,631,999
Mortgage and construction loans and notes receivable, current	766,037	6,314,051	4,967,817	—	12,047,905
Deferred bond issuance costs	—	6,201	57,097	—	63,298
Receivables and prepaid expenses, current	108,286	442,110	789,550	—	1,339,946
Interfund receivables (payables)	2,812,213	(274,960)	(4,651,493)	2,114,240	—
Total current assets	9,679,470	207,727,970	24,442,834	2,138,455	243,988,729
Noncurrent assets:					
Restricted investments	—	47,106,106	9,916,931	—	57,023,037
Mortgage and construction loans and notes receivable, noncurrent	13,894,640	330,338,490	100,654,173	—	444,887,303
Deferred bond issuance costs, net	—	2,346,112	929,659	827	3,276,598
Deferred mortgage origination fees, net	87,609	815,899	—	—	903,508
Receivables and prepaid expenses, noncurrent	—	1,883,947	—	—	1,883,947
Land	775,000	—	—	—	775,000
Building (less accumulated depreciation of \$212,677)	788,157	—	—	—	788,157
Office furniture and fixtures (less accumulated depreciation of \$778,244)	343,978	—	—	—	343,978
Other assets and real estate owned	—	690,915	302,552	—	993,467
Total noncurrent assets	15,889,384	383,181,469	111,803,315	827	510,874,995
Total assets	\$ 25,568,854	590,909,439	136,246,149	2,139,282	754,863,724
Liabilities:					
Current liabilities:					
Bonds payable, current	\$ 6,347	8,135,000	5,118,913	—	13,260,260
Net bond and note premium (discount) expense, current	—	(64,341)	(119,823)	2,075	(182,089)
Deferred loan origination fees, current	21,098	—	2,089	—	23,187
Accounts payable	506,910	3,005,451	90,544	—	3,602,905
Escrowed cash deposits	3,294,920	3,175	556,377	—	3,854,472
Notes payable, current	121,296	33,000,000	—	1,950,000	35,071,296
Accrued interest payable	65,274	4,917,940	2,057,835	26,076	7,067,125
Total current liabilities	4,015,845	48,997,225	7,705,935	1,978,151	62,697,156
Noncurrent liabilities:					
Bonds payable, noncurrent	586,890	500,405,000	106,597,885	—	607,589,775
Unamortized discount on bonds, net	—	(2,844,107)	(1,578,423)	—	(4,422,530)
Notes payable, noncurrent	11,387,585	—	—	—	11,387,585
Deferred loan origination fees, noncurrent	120,050	—	28,540	—	148,590
Total noncurrent liabilities	12,094,525	497,560,893	105,048,002	—	614,703,420
Total liabilities	16,110,370	546,558,118	112,753,937	1,978,151	677,400,576
Commitments and contingencies (note 12)					
Net assets:					
Invested in capital assets	1,907,135	—	—	—	1,907,135
Restricted	—	44,351,321	23,492,212	161,131	68,004,664
Unrestricted	7,551,349	—	—	—	7,551,349
Total net assets	\$ 9,458,484	44,351,321	23,492,212	161,131	77,463,148

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2003

	<u>Operating Fund</u>	<u>Single-Family Mortgage Program Fund</u>	<u>Multi-Family Mortgage Program Fund</u>	<u>General Obligation Fund</u>	<u>Total</u>
Operating revenues:					
Interest income:					
Mortgage and construction loans receivable	\$ 939,115	26,422,860	8,771,419	338,874	36,472,268
Investments	—	12,065,386	1,213,964	34,415	13,313,765
Fee income:					
Multi-Family Mortgage Program:	410,467	—	98,512	—	508,979
Single Family Mortgage Program:	41,107	133	—	—	41,240
Net increase in fair value of investments	—	2,314,423	443,030	—	2,757,453
Miscellaneous income	59,427	—	—	—	59,427
Total operating revenues	<u>1,450,116</u>	<u>40,802,802</u>	<u>10,526,925</u>	<u>373,289</u>	<u>53,153,132</u>
Operating expenses:					
Financing costs, including interest and amortization of premium, discount, and costs of issuance	657,468	33,381,591	6,802,404	226,405	41,067,868
Mortgage service and contract administration fees	—	1,168,464	—	—	1,168,464
Salaries and benefits	2,344,195	—	—	—	2,344,195
Operating expenses	1,019,208	—	63,966	—	1,083,174
Professional fees	109,617	—	—	—	109,617
Trustee and assignee fees	230,885	—	—	—	230,885
Property disposition and loan loss expenses (recoveries)	—	(222,738)	—	—	(222,738)
Loss on bond redemptions	—	695,166	—	—	695,166
Total operating expenses	<u>4,361,373</u>	<u>35,022,483</u>	<u>6,866,370</u>	<u>226,405</u>	<u>46,476,631</u>
Operating income (loss)	<u>(2,911,257)</u>	<u>5,780,319</u>	<u>3,660,555</u>	<u>146,884</u>	<u>6,676,501</u>
Non-operating revenues:					
Interest income on investments	17,374	—	—	—	17,374
Income (loss) before transfers	<u>(2,893,883)</u>	<u>5,780,319</u>	<u>3,660,555</u>	<u>146,884</u>	<u>6,693,875</u>
Transfers to operating fund	3,672,917	(2,884,417)	(788,500)	—	—
Transfers from operating fund	<u>(481,101)</u>	<u>481,101</u>	<u>—</u>	<u>—</u>	<u>—</u>
Increase in net assets	297,933	3,377,003	2,872,055	146,884	6,693,875
Net assets at beginning of year	9,160,551	40,974,318	20,620,157	14,247	70,769,273
Net assets at end of year	\$ <u>9,458,484</u>	<u>44,351,321</u>	<u>23,492,212</u>	<u>161,131</u>	<u>77,463,148</u>

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY

Statement of Cash Flows

Year ended June 30, 2003

	Operating Fund	Single-Family Mortgage Program Fund	Multi-Family Mortgage Program Fund	General Obligation Fund	Total
Cash flows from operating activities:					
Interest collections on mortgages	\$ 848,975	26,907,721	8,137,928	364,918	36,259,542
Principal collections on mortgages	2,164,655	100,632,092	23,119,675	10,557,675	136,474,097
Purchases of mortgages	(3,202,912)	(54,715,110)	(25,139,264)	(5,186,852)	(88,244,138)
Purchases of down payment assistance mortgages	—	(457,576)	—	—	(457,576)
Fee income and other receipts	705,096	133	98,356	—	803,585
Salaries and benefit payments	(2,343,188)	—	—	—	(2,343,188)
Operating expense payments	(1,288,985)	—	(113,599)	—	(1,402,584)
Service fee and other payments	(116,010)	(1,148,792)	—	—	(1,264,802)
Transfers from (to) other programs	3,330,395	(4,176,868)	2,982,723	(2,136,250)	—
Net cash provided by operating activities	98,026	67,041,600	9,085,819	3,599,491	79,824,936
Cash flows from investing activities:					
Purchases of investments	(100,000)	—	—	—	(100,000)
Proceeds from sales and maturities of investments	100,000	35,322,081	1,670,319	—	37,092,400
Interest received on investments	37,755	12,024,495	1,163,175	38,947	13,264,372
Decrease in escrowed cash deposits	(53,638)	—	—	—	(53,638)
Cost of real estate owned	—	(955,460)	—	—	(955,460)
Proceeds from sales of real estate owned	—	3,045,741	—	—	3,045,741
Purchase of office furniture and fixtures	(190,340)	—	—	—	(190,340)
Net cash provided by (used for) investing activities	(206,223)	49,436,857	2,833,494	38,947	52,103,075
Cash flows from noncapital financing activities:					
Net proceeds from issuance of bonds payable	—	32,024,939	7,530,000	—	39,554,939
Principal payments on bonds	(6,347)	(73,870,000)	(14,359,675)	—	(88,236,022)
Interest payments on bonds	(660,575)	(33,631,424)	(6,780,676)	(354,618)	(41,427,293)
Proceeds from issuance of notes payable	375,000	—	—	—	375,000
Repayment of notes payable	(112,521)	(35,000,000)	—	(8,340,000)	(43,452,521)
Payments to bond insurers	—	(308,877)	(22,103)	—	(330,980)
Payments for cost of issuance	(113,173)	(160,947)	—	(37,762)	(311,882)
Net cash used for noncapital financing activities	(517,616)	(110,946,309)	(13,632,454)	(8,732,380)	(133,828,759)
Net increase (decrease) in cash and cash equivalents	(625,813)	5,532,148	(1,713,141)	(5,093,942)	(1,900,748)
Cash and cash equivalents at beginning of year	5,449,953	158,755,627	24,118,232	5,118,141	193,441,953
Cash and cash equivalents at end of year	\$ 4,824,140	164,287,775	22,405,091	24,199	191,541,205

VERMONT HOUSING FINANCE AGENCY

Statement of Cash Flows

Year ended June 30, 2003

	<u>Operating Fund</u>	<u>Single-Family Mortgage Program Fund</u>	<u>Multi-Family Mortgage Program Fund</u>	<u>General Obligation Fund</u>	<u>Total</u>
Reconciliation of cash flows from operating activities:					
Operating income (loss)	\$ (2,911,257)	5,780,319	3,660,555	146,884	6,676,501
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Net asset transfers from (to) other programs	3,191,816	(2,403,316)	(788,500)	—	—
Depreciation	172,680	—	—	—	172,680
Amortization of (discounts) premiums on bonds and notes payable	—	13,616	119,201	(49,795)	83,022
Amortization of costs of bond issuance	—	79,988	53,597	44,951	178,536
Amortization of deferred income	(4,952)	—	—	—	(4,952)
Losses on loans and real estate owned	—	388,673	—	—	388,673
Provision for loan losses	—	(561,558)	—	—	(561,558)
Net increase in fair value of investments	—	(2,310,249)	(132,275)	—	(2,442,524)
Loss on bond redemptions	—	695,166	—	—	695,166
Gain on sale of investments	—	(4,174)	(310,755)	—	(314,929)
Investment interest income	113,173	(12,065,386)	(1,330,306)	(38,947)	(13,321,466)
Bond interest expense	(17,374)	32,598,896	6,609,345	231,249	39,422,116
Changes in mortgage loans receivable	(380,789)	45,458,779	(1,561,087)	5,370,823	48,887,726
Changes in assets and liabilities:					
Decrease (increase) in other assets	—	311,887	(302,552)	—	9,335
Decrease (increase) in accrued interest receivable	(91,049)	443,970	(4,522)	30,576	378,975
Increase in other receivables and prepaid expenses	(8,201)	(461,054)	(766,919)	—	(1,236,174)
Decrease (increase) in interfund receivables and payables	138,579	(1,773,552)	3,771,223	(2,136,250)	—
Decrease (increase) in escrow cash deposits	—	980	(114,592)	—	(113,612)
Decrease (increase) in deferred mortgage origination fees, net	20,875	(358,850)	—	—	(337,975)
Decrease in deferred income	—	—	158,039	—	158,039
Increase (decrease) in accounts payable	(125,475)	1,207,465	25,367	—	1,107,357
Net cash provided by operating activities	\$ <u>98,026</u>	<u>67,041,600</u>	<u>9,085,819</u>	<u>3,599,491</u>	<u>79,824,936</u>

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2003

(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 not a component unit of the State of Vermont, but is classified as a related organization of the State of Vermont. The State of Vermont appoints a majority of the Agency's board of commissioners but the State of Vermont is not financially accountable for the Agency.

The Agency is empowered by the Act and subsequent amendments to issue bonds and notes in an amount not to exceed \$900,000,000 outstanding at any one time. 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 until the bonds and notes are fully discharged.

(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 Multi-family Mortgage Program fund, General Obligation fund, and the unrestricted Operating fund of the Agency.

(i) **Operating Fund**

This fund derives its revenue principally from fees and interest from mortgage lenders and mortgagors 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, 2003

(iii) 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 February 2003. 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.

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 trusteed accounts. As of June 30, 2003, reserve requirements totaled \$22,264,816 for the Single Family Mortgage Programs and \$9,539,315 for the Multi-Family Mortgage Programs. Amounts actually held in trusteed accounts as of June 30, 2003 exceeded the required balances in all cases.

(iv) General Obligation Fund

This fund has been established under the General Obligation Indenture adopted in January 2002, and are being used to provide construction loans to multi-family projects.

(c) Additional Program Information

Balance sheet and operating data of the Agency's Single Family and Multi-Family Mortgage Programs are delineated as follows:

	Balance sheet data		
	Total assets	Bonds payable	Net assets
Insured Mortgage Program	\$ 3,568,289	—	3,567,998
Mortgage Purchase Program	157,599	—	157,575
Home Mortgage Purchase Program	50,268,023	29,520,000	20,438,262
Housing Program	536,915,528	479,020,000	20,187,486
Total Single Family Mortgage Program Fund	\$ 590,909,439	508,540,000	44,351,321
Mortgage Program	\$ 77,187,134	69,205,000	6,737,499
Housing Program	37,225,611	22,330,000	15,102,063
Direct Placement Programs	13,808,489	13,446,798	286,287
Housing Development Program	8,024,915	6,735,000	1,366,363
Total Multi-Family Mortgage Program Fund	\$ 136,246,149	111,716,798	23,492,212

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2003

		Operating data		
		Revenues	Financing and related costs	Operating income (loss)
	\$	123,551	414	120,417
Insured Mortgage Program				
Mortgage Purchase Program		8,785	71	8,954
Home Mortgage Purchase Program		4,710,216	2,485,586	2,343,457
Housing Program		35,960,250	30,895,520	3,307,491
Total Single Family Mortgage Program Fund	\$	40,802,802	33,381,591	5,780,319
Mortgage Program	\$	5,110,767	3,911,405	1,135,396
Housing Program		3,737,167	1,430,307	2,306,860
Direct Placement Programs		903,361	912,532	(9,171)
Housing Development Program		775,630	548,160	227,470
Total Multi-Family Mortgage Program Fund	\$	10,526,925	6,802,404	3,660,555

(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 Statement of Governmental Accounting Standards No. 20, the Agency has elected not to apply Statements of Financial Accounting Standards issued after November 30, 1989.

The Agency adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (Statement No. 34) in 2003 (as amended by GASB Statements No. 37 and No. 38). Statement No. 34 requires the Agency to make several changes to the presentation of its basic financial statements in addition to requiring the section for Management's Discussion and Analysis as required supplementary information to precede the financial statements. In order to comply with the requirements of Statement No. 34, in 2003 the statement of net assets was modified to report a classified statement of net assets; the statement of revenues, expenses, and changes in net assets was formatted to report operating and nonoperating revenues and expenses; and the statement of cash flows was prepared using the direct method.

When both restricted and unrestricted net assets are available and appropriate to fund an expense, the Agency's practice is to use unrestricted net assets.

(b) Cash Equivalents

The Agency considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2003

(c) *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, 2003, the allowance for loan losses totaled \$856,155, relating to Single Family mortgages.

(d) *Investments*

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 increase (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 investments are based upon quoted market prices.

(e) *Depreciation*

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

(f) *Costs of Bond Issuance and Discount or Premium*

Bond discount, which represents underwriters' fees and costs of bond issuance on bonds payable and premiums on bonds and notes payable, are amortized over the lives of the respective issues using the straight-line method.

(g) *Income Tax Status*

The Agency is exempt from Federal and state income taxes.

(h) *Deferred Loan Origination Fees and Costs*

Loan origination fees and certain related costs are deferred and amortized over the estimated lives of the respective loans.

(i) *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.

At June 30, 2003, the estimated present value of future arbitrage rebates in the Single-Family Mortgage Program fund was \$2,417,314, all of which was recognized as a reduction in investment income and included in accounts payable in fiscal year 2003. There are no other arbitrage liabilities to be rebated in the other fund groups at June 30, 2003.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2003

(j) *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 in the Operating Fund is recorded as nonoperating revenue while investment income in all other funds is recorded as operating.

(k) *Use of Estimates*

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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.

(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 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 state insured mortgages; collateralized repurchase agreements secured by obligations of the Federal government 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.

Cash and cash equivalents are defined to be actual cash or investments which have original maturities of three months or less. This category also includes mortgage payments which are in transit to the trustee to be invested in collateralized repurchase agreements. 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. At June 30, 2003, gross unrealized gains and gross unrealized losses pertaining to these investments amounted to \$8,000,649 and \$1,808, respectively.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2003

Cash and Cash Equivalents

The Agency's cash and cash equivalents at June 30, 2003 are categorized below to give an indication of the level of custodial credit risk assumed. Category 1 includes deposits insured by Federal depository insurance. Category 2 includes deposits collateralized with securities held by the pledging financial institution or the Agency's trustee and registered in the Agency's name. Category 3 represents uncollateralized or uninsured deposits.

	Category			Fair value
	1	2	3	
Cash	\$ 1,410,662	731,980	2,437,462	4,580,104
Investment agreements with financial institutions	—	114,923,056	—	114,923,056
	\$ 1,410,662	115,655,036	2,437,462	119,503,160
Investment agreements with insurance companies				33,341,924
Money market accounts				38,696,121
				\$ 191,541,205

The bank balance of the Agency's cash at June 30, 2003 was \$4,775,574. The difference between the carrying amount and the bank balance represents outstanding deposits net of outstanding checks.

The money market accounts are invested in a portfolio of short-term U.S. Treasury obligations.

Investment agreements are structured for both short-term and long-term use in connection with the Agency's Single Family Mortgage programs. Financial institutions providing the agreements have been rated by Standard and Poor's Corporation and Moody's Investors Service, Inc. at debt ratings of A or higher.

Investments

A summary of fair value of the Agency's investments at June 30, 2003 is as follows:

	Fair value
U.S. Treasury and Government Agency securities	\$ 27,457,144
Certificate of deposit	100,000
Investment agreements	61,970,288
Common stock	595,605
	\$ 90,123,037

The certificate of deposit is insured by Federal depository insurance. The U.S. Treasury and Government Agency securities are held by a third party custodian in the name of the Agency's trustee. The common stock was received as a benefit of holding certain investment agreements.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2003

(4) Mortgage and Construction Loans Receivable

(a) Single Family Mortgage Loans Receivable

Single Family mortgage loans earn interest at annual rates ranging predominantly from 6.30% to 10.5%. Mortgage payments are received monthly by the Agency from which a service fee is generally retained by servicing lenders and the servicer.

At June 30, 2003, approximately 90% of the Single Family mortgage portfolios consist of primary insured mortgages.

Conventional mortgage loans, not requiring primary insurance, are limited to 75% 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 2% to 14%, and are collateralized by first mortgage liens on all real and personal property of the mortgaged premises. As of June 30, 2003, \$280,504 of the Multi-Family mortgage loans receivable under the Multi-Family Housing Program were financed from funds transferred from the Agency's General Fund, which includes interest for the initial three-year period during which no payments were required to be made.

(5) Real Estate Owned

Real estate owned at June 30, 2003 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 market 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, 2003, the valuation allowance totaled \$300,746.

During fiscal year 2003, the Agency recorded noncash investing transactions totaling \$1,701,343 in transfers of Single-Family Mortgage Program loans receivable to real estate owned.

(6) 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.

(7) Bonds Payable

All bonds payable are general or special obligations of the Agency and are collateralized by the 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 prices ranging from 100% to 103% of par value.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2003

Outstanding bonds payable at June 30, 2003 are as follows:

A.	Single Family Mortgage Program Fund:		
	Home Mortgage Purchase Program:		
	1989 Series B, maturing 2003 to 2024, interest at 7.4% to 7.6%	\$	<u>29,520,000</u>
	Housing Program:		
	Series 1, maturing 2003 to 2025, interest at 6.25% to 6.8%		3,020,000
	Series 3, maturing 2003 to 2025, interest at 6.1% to 6.875%		10,890,000
	Series 4, maturing 2003 to 2025, interest at 5.9% to 6.40%		21,205,000
	Series 5, maturing 2003 to 2027, interest at 5.8% to 7.0%		18,825,000
	Series 6, maturing 2003 to 2031, interest at 5.2% to 7.2%		35,300,000
	Series 7, maturing 2003 to 2031, interest at 5.2% to 6.3%		33,380,000
	Series 8, maturing in 2031, interest at 6.05%		25,625,000
	Series 9, maturing 2003 to 2037, interest at 4.1% to 6.0%		53,570,000
	Series 10, maturing 2003 to 2030, interest at 3.8% to 5.25%		28,795,000
	Series 11, maturing 2003 to 2030, interest at 4.45% to 5.95%		20,495,000
	Series 12, maturing 2003 to 2031, interest at 4.85% to 6.4%		25,105,000
	Series 13, maturing 2003 to 2031, interest at 4.6% to 5.97%		31,575,000
	Series 14, maturing 2004 to 2032, interest at 3.75% to 6.05%		30,665,000
	Series 15, maturing 2003 to 2032, interest at 3.2% to 5.375%		32,225,000
	Series 16, maturing 2004 to 2033, interest at 3.1% to 5.6%		76,345,000
	Series 17, maturing 2005 to 2034, interest at 1.85% to 5.1%		<u>32,000,000</u>
	Total Housing Program		<u>479,020,000</u>
	Total Single Family Mortgage Program Fund		<u>508,540,000</u>
B.	Multi-Family Mortgage Program Fund:		
	Mortgage Program:		
	1999 Series A, maturing 2004 to 2020, interest at 4.0% to 5.125%		4,530,000
	1999 Series B, maturing 2004 to 2030, interest at 4.6% to 6.0%		3,995,000
	1999 Series C and D, maturing 2004 to 2021, interest at 4.55% to 5.8%		28,555,000
	2000 Series A, maturing in 2039, interest at 5.9%		5,220,000
	2000 Series B, C, and D, maturing 2014 to 2031, interest at 5.65% to 6.7%		3,355,000

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2003

2001 Series A, B, C, and D, maturing 2031 to 2032, interest at 3.85% to 7.27%	\$ 5,785,000
2002 Series A and B, maturing 2003 to 2039, interest at 2.2% to 7.2%	12,335,000
2003 Series A, maturing 2023 to 2043, interest at 1.3% to 5.25%	<u>5,430,000</u>
Total	<u>69,205,000</u>
Housing Program:	
1995 Series A, maturing 2004 to 2014, interest at 5.35% to 6.15%	16,620,000
1997 Series A, maturing 2004 to 2029, interest at 4.6% to 5.75%	<u>5,710,000</u>
Total	<u>22,330,000</u>
Direct Placement Programs:	
Canterbury Inn Housing Program:	
1986 Series A, maturing 2003 to 2011, interest at 4.95% through 2004, variable to maturity at rate of 95% of Eleven General Obligation Bond Index	268,800
Northgate Housing Program:	
Eleven series of bonds, issued December 1989, maturing 2003 to 2031, interest at 7.085% to 9.23%	7,457,567
Highgate Housing Program:	
Two series of bonds, issued May 1991, maturing 2003 to 2031, interest at 6.45% to 7.741%	1,859,991
St. Johnsbury Housing Development Bond:	
Taxable bond, issued August 1990, maturing 2003 to 2005, interest at 7.5%	365,600
Pine Meadow Development Bond:	
Taxable bond, issued July 1991, maturing 2004 to 2016, interest at 6%	436,400
Whitney Hill Housing Development Bond:	
Taxable bond, issued January 1992, maturing 2003 to 2007, interest at 9%	1,123,800
Kilbourn Mobile Home Park Bond:	
Taxable bond, issued May 1996, maturing 2003 to 2016, interest at 7.5%	227,600
Black River Overlook Housing Project Bond:	
Taxable bond, issued September 1998, maturing 2003 to 2018, interest at 8%	307,040
Upper Valley Housing Bond:	
Issued February 2003, maturing 2004, interest at 1.6%	<u>1,400,000</u>
Total	<u>13,446,798</u>
Winchester Housing Development Program:	
1989 Series A, maturing 2009 to 2016, interest at 7.6% to 7.75%	<u>6,735,000</u>
Total Multi-Family Mortgage Program Fund	<u>111,716,798</u>
C. Operating Fund:	
Northgate Housing Site Acquisition, issued December 1989, maturing 2003 to 2031, interest at 7%	<u>593,237</u>
Total bonds payable	<u>\$ 620,850,035</u>

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2003

Future maturities on bonds payable (in 000's) as of June 30, 2003 are as follows:

Multi-Family Mortgage Program Fund								
	Mortgage Program		Housing Program		Direct Placement Programs		Housing Development Program	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:								
2004	\$ 1,730	3,847	1,375	1,304	1,734	912	280	513
2005	1,890	3,812	1,455	1,231	362	869	305	498
2006	1,980	3,718	1,540	1,152	389	840	325	474
2007	2,090	3,617	1,630	1,068	1,546	725	350	450
2008	2,200	3,508	1,730	976	452	675	380	393
2009-2013	12,895	15,632	9,395	3,172	2,019	2,864	2,375	1,633
2014-2018	14,695	11,730	1,740	1,209	2,181	2,159	2,720	492
2019-2023	12,035	7,339	1,300	854	1,630	1,388	—	—
2024-2028	5,880	5,097	1,750	433	1,631	873	—	—
2029-2033	6,685	3,188	415	24	1,503	212	—	—
2034-2038	5,035	1,494	—	—	—	—	—	—
2039-2043	2,090	188	—	—	—	—	—	—
Total	\$ 69,205	63,170	22,330	11,423	13,447	11,517	6,735	4,453

Single Family Mortgage Program Fund								
	Home Mortgage Purchase Program		Housing Program		Operating Fund		Agency Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:								
2004	\$ 525	2,227	7,610	25,176	6	42	13,260	34,021
2005	570	2,187	8,575	26,169	7	41	13,164	34,807
2006	615	2,144	8,415	25,798	8	41	13,272	34,167
2007	660	2,098	8,665	25,409	8	40	14,949	33,407
2008	705	2,048	8,925	25,004	9	39	14,401	32,643
2009-2013	4,440	9,339	53,565	117,895	55	187	84,744	150,722
2014-2018	6,435	7,336	79,970	100,304	77	165	107,818	123,395
2019-2023	9,310	4,433	99,380	74,606	108	134	123,763	88,754
2024-2028	6,260	583	117,295	42,860	151	90	132,967	49,936
2029-2033	—	—	82,570	11,148	164	30	91,337	14,602
2034-2038	—	—	4,050	234	—	—	9,085	1,728
2039-2043	—	—	—	—	—	—	2,090	188
Total	\$ 29,520	32,395	479,020	474,603	593	809	620,850	598,370

A one year historical summary of bonds payable, discount on bonds and premium on bonds (in 000's) for the year ended June 30, 2003 is as follows:

	Balance at June 30, 2002	Increases	Decreases	Balance at June 30, 2003	Amounts due within one year	Amounts due thereafter
Bonds payable	\$ 669,556	39,530	(88,236)	620,850	13,260	607,590
Discount on bonds	(6,545)	(245)	760	(6,030)	(275)	(5,754)
Premium on bonds	1,191	270	(117)	1,343	48	1,294

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2003

(8) 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, 2003, the Agency had outstanding borrowings totaling \$6,658,881 which are secured by investments and mortgage loans with a carrying value of \$8,104,149. These borrowings have interest rates ranging from 6.32% to 7.66% and mature through November 2018.

The Agency is operating under an unsecured variable rate line of credit of \$7,500,000 with Banknorth N.A. expiring in November 2004. At June 30, 2003, there was a \$4,750,000 balance outstanding at 1.86%.

The Agency has a \$100,000 note payable to the Vermont Community Foundation at a rate of 4%, maturing in November 2006.

As of June 30, 2003, the Agency had \$33,000,000 of notes payable in the Single Family Housing Program fund. These notes have interest rates ranging from 3.75% to 4.0% and mature between September 2003 and March 2004. The proceeds of these notes are invested in guaranteed investment contracts.

As of June 30, 2003, the Agency had \$1,950,000 of General Obligation fund notes payable. These notes have an interest rate of 2.9% and mature in July 2003. The proceeds were used to fund construction loans.

Future maturities on notes payable (in 000's) as of June 30, 2003 are as follows:

	<u>Operating Fund</u>		<u>Single Family Housing Program</u>		<u>General Obligation</u>		<u>Agency Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Year ending June 30:								
2004	\$ 121	561	33,000	756	1,950	28	35,071	1,346
2005	4,907	492	—	—	—	—	4,907	492
2006	142	452	—	—	—	—	142	452
2007	253	439	—	—	—	—	253	439
2008	164	426	—	—	—	—	164	426
2009-2013	1,222	1,894	—	—	—	—	1,222	1,894
2014-2018	3,433	1,135	—	—	—	—	3,433	1,135
2019-2023	1,267	67	—	—	—	—	1,267	67
Total	\$ <u>11,509</u>	<u>5,466</u>	<u>33,000</u>	<u>756</u>	<u>1,950</u>	<u>28</u>	<u>46,459</u>	<u>6,251</u>

A one year historical summary of the line of credit borrowings, notes payable and premium on notes payable (in 000's) for the year ended June 30, 2003 is as follows:

	<u>Balance at June 30, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2003</u>	<u>Amounts due within one year</u>	<u>Amounts due thereafter</u>
Short-term obligations:						
Line of credit	\$ 4,375	375	—	4,750	—	4,750
Long-term obligations:						
Notes payable	85,161	—	(43,452)	41,709	35,071	6,638
Premium on notes payable	233	—	(151)	82	45	37

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2003

(9) 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.

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, to cover loan losses incurred and to provide collateral for credit agreements.

(10) Pension Plan

Upon meeting certain eligibility requirements, the Agency's employees are eligible to participate in a noncontributory defined contribution pension plan. For the year ended June 30, 2003, the Agency had a total payroll of \$1,770,479, of which \$1,673,242 was covered by the pension plan. The Agency's contribution to the Plan is 10% of the covered payroll. Employees vest in benefits under the Plan at 20% per year of service and are fully vested after five years. Forfeitures of nonvested benefits by terminated employees reduce the Agency's contribution. The cost of the plan was \$167,325 for the year ended June 30, 2003, and is included in salaries and benefits expense.

(11) Loss on Bond Redemptions

During the year ended June 30, 2003, the Agency redeemed \$2,705,000 of its Single Family Home Mortgage Purchase Program Bonds, and \$64,765,000 of its Single Family Housing Program Bonds. Loss on bond redemptions of \$695,166 was recognized which represents the unamortized balance of bond discount and cost of issuance expenses associated with the bonds retired.

VERMONT HOUSING FINANCE AGENCY

Notes to Financial Statements

June 30, 2003

The following is a summary of the redeemed bonds:

<u>Single Family Home Mortgage Purchase Program</u>		<u>Single Family Housing Program</u>	
1989 Series B	\$ <u>2,705,000</u>	Series 1	\$ 2,240,000
		Series 3	8,085,000
		Series 4	3,700,000
		Series 5	4,575,000
		Series 6	6,525,000
		Series 7	5,425,000
		Series 8	4,800,000
		Series 9	9,500,000
		Series 10	2,645,000
		Series 11	4,345,000
		Series 12	3,855,000
		Series 13	3,220,000
		Series 14	485,000
		Series 15	275,000
		Series 16	5,090,000
			<u>\$ 64,765,000</u>

(12) Commitments and Contingencies

At June 30, 2003, the Agency had outstanding commitments in the amount of \$2,147,834 to purchase or finance mortgage loans pursuant to its normal funding from bond proceeds. In addition, there were commitments of \$3,982,041 for general loans or future program subsidy purposes.

Under the Single Family Mortgage Programs, the Agency has obtained surety bonds in the amount of \$16,135,795 expiring between 2025 and 2037, which satisfy the requirements of certain bond resolutions.

(13) 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 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 commercial insurance coverage. In addition, the Agency's bylaws provide for the indemnification of Agency commissioners and officers by the Agency. The Agency has not purchased commercial insurance coverage or otherwise reserved assets of the Agency in connection with this indemnification requirement.

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APPENDIX III

MORTGAGE INSURANCE PROGRAMS

The following description of certain mortgage insurance programs is only a brief outline and does not purport to summarize or describe all of the provisions of these programs. For a more complete description of the terms of these programs, reference is made to the provisions of the insurance and guaranty contracts embodied in the regulations of the FHA, the VA and USDA/RD, respectively.

Private Mortgage Insurance Programs

The General Resolution requires that, with respect to all Mortgage Loans and Cooperative Housing Loans to be purchased with the proceeds of Bonds and to be the subject of private mortgage insurance, each private mortgage insurer insuring such loans must be qualified to insure mortgages purchased by Fannie Mae or FHLMC. Both Fannie Mae and FHLMC require approval of private mortgage insurance companies before mortgages insured by those companies are eligible for purchase by them.

Among the considerations taken into account by Fannie Mae in determining whether to approve a private mortgage insurer are the following: (a) experienced mortgage insurers are expected to have policyholder's surplus of not less than \$5 million; (b) it is preferred that an insurer's principal insurance activity relate to loss resulting from nonpayment of mortgages and deeds of trust on residential structures, with total liability not in excess of twenty-five times its policyholders' surplus; (c) a private mortgage insurer must demonstrate that it possesses the technical expertise necessary to properly evaluate property and credit; and (d) an insurer must expressly consent to and comply with Fannie Mae's requirements for audit and reports concerning changes in personnel, financial structure, qualifications, and rates.

FHLMC eligibility requirements for approving private mortgage insurers presently provide that: (a) not more than 10% of an insurer's mortgage insurance risk may be represented by mortgage insurance covering property other than real property improved by a building or buildings designed for occupancy by one to four families, (b) an insurer shall not insure mortgages secured by properties in a single housing tract or contiguous tracts where the insurance risk applicable thereto is in excess of 10% of its policyholders' surplus, (c) no insurer shall have more than 20% of its total insurance in force in any one Standard Metropolitan Statistical Area nor may any combination of insurance in force in any one state exceed 60% of its total insurance in force, and (d) an insurer shall limit its insurance risk with respect to each insured to the maximum permitted under state law. Prior to insuring a loan for any mortgage lender, such mortgage lender should be thoroughly investigated and evaluated by the insurer in the areas of (a) quality of appraisal ability, (b) quality of underwriting ability, (c) net worth and quality of assets, and (d) ability and past performance of servicing staff and adequacy of servicing procedures. A report with respect to each lender demonstrating that the investigation and evaluation has been made must be retained by the insurer.

FHLMC also requires the private mortgage insurer to meet the following financial requirements: (a) policyholders' surplus must be maintained at not less than \$5 million of which at least \$3 million shall be represented by capital stock and capital surplus, of which not less than \$1,250,000 shall be represented by fully paid and non-assessable stock; (b) on annual policies an insurer shall maintain an unearned premium reserve computed on a monthly pro rata basis unless a greater unearned premium reserve is required by the state where the insurer is licensed, then such greater requirement shall be met, and on single premium policies issued for more than one year an insurer shall maintain an unearned premium reserve of not less than that computed under the laws of the state where the insured is licensed or more if

FHLMC determines that amount to be inadequate; (c) an insurer shall establish and maintain a contingency reserve in an amount equal to 50% of earned premiums; (d) an insurer shall maintain a loss reserve which includes a provision for claims incurred but not reported, including estimated losses on insured mortgages which have resulted in the conveyance of property which remains unsold, mortgages in the process of foreclosure or mortgages in default for four or more months; (e) an insurer shall maintain no less than 85% of its total assets in the form of marketable securities or other highly liquid investments which qualify as insurance company investments under the laws and regulations of the state of its domicile and the standards and interpretations of the National Association of Insurance Commissioners; and (f) an insurer shall not at any time have total insurance risk outstanding in excess of twenty-five times its policyholders' surplus. Approved private mortgage insurers must file quarterly and annual reports and an annual Certificate of Compliance with FHLMC.

Private mortgage insurance policies currently being issued by such private mortgage insurers contain provisions substantially as follows: (a) the private mortgage insurer must pay a claim, including unpaid principal, accrued interest and certain expenses, within 60 days of presentation of the claim by the Agency; (b) in order for the Agency to present a claim the Agency must have acquired, and tendered to the insurer, title to the property, free and clear of all liens and encumbrances, including any right of redemption by the mortgagor and must have restored the property to substantially its original condition, reasonable wear and tear excepted; (c) when a claim is presented, the insurer will have the option of paying the claim in full and taking title to the property and arranging for its sale or of paying the insured percentage of the claim and allowing the Agency to retain title to the property; and (d) claims may also be settled by the insurer at the option of the insured for actual losses where such losses are less than the insured percentage of the claim.

Federal Housing Administration Mortgage Insurance Programs

Section 203(b) of the National Housing Act, as amended (the "Housing Act"), authorizes the Federal Housing Administration of the Department of Housing and Urban Development (HUD) to insure mortgage loans of up to 30 years duration for the purchase of one-to-four family dwelling units.

Mortgage loans under the foregoing program must be in conformity with the maximum mortgage loan amount limitations and minimum down payment requirements specified in the Housing Act and regulations promulgated thereunder. In addition, the mortgagor under this program must establish to the satisfaction of the FHA that his income is adequate to meet the periodic payments required in the mortgage loan.

Currently, less than 1% of the Mortgage Loans financed with the proceeds of Prior Bonds are insured under FHA insurance programs.

Veterans Administration Guaranty Program

The Veterans Administration (VA) is authorized by Chapter 37 of Title 38 of the United States Code to make mortgage loan guaranties for the purchase by veterans of one-to-four family dwelling units. This program has no mortgage loan amount limitations, other than that the amount may not exceed the property's reasonable value as determined by the VA and requires no down payment from the purchaser. The maximum guaranty that may be issued by the VA under this program is a percentage of the original principal amount of the mortgage loan that varies depending upon the principal amount of the loan, but in no event will it exceed 50%. Currently, less than 1% of the Mortgage Loans financed with the proceeds of the Prior Bonds are insured under VA programs.

United States Department of Agriculture/Rural Development Guaranty Program

The United States Department of Agriculture/Rural Development (formerly, the Farmers Home Administration, "USDA/RD") is authorized to make mortgage loan guaranties for the purchase of new or the purchase and improvement of existing dwellings, provided that any such dwelling is to be used by the purchaser as a primary residence, that the loan is made to a borrower who is a low or moderate income family or person whose income does not exceed 115% of the median income of the area as determined by the Secretary and the interest rate on the mortgage loan is a fixed rate not exceeding the higher of the maximum interest rate set by the VA from time to time or the then applicable Fannie Mae posted yield for 30-year mortgage commitments, whichever is higher. Properties on which the USDA/RD guaranty may apply must be located in a rural area designated by the USDA/RD State Director. The mortgage loan amount may not exceed the maximum dollar amount specified in Section 203(b)(2) of the Housing Act or 100% the acquisition cost, the current market value or the sale price of the dwelling, whichever is less. The maximum guaranty that may be issued by USDA/RD is equal to 90% of the amount of the mortgage note. The amount paid by USDA/RD under the guaranty is equal to 100% of the loss on the first 35% of the original loan amount and 85% of the loss on the balance.

Guaranteed Mortgage Lenders are required to notify USDA/RD, within 20 days, when any guaranteed mortgage loan becomes 30 days delinquent.

Upon default (failure of the borrower to comply with any of the terms of the mortgage loan), USDA/RD may order the lender to foreclose or otherwise take title to the property. After acquisition and disposition of the acquired property the lender may file a claim for loss pursuant to the terms of the USDA/RD loan guaranty agreement with the mortgage lender.

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APPENDIX IV

DEFINITIONS OF CERTAIN TERMS

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

“Additional Security”: shall have the meaning set forth in the section entitled **“SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION—Additional Security.”**

“Aggregate Debt Service”: for any Fiscal Year means, as of any date of calculation, the sum of the amounts of Debt Service for such year with respect to all Series of Bonds outstanding.

“ARCs Outstanding Applicable Amount”: the amount of the Bonds which are calculated to be Outstanding based on the assumed receipt of Loan Prepayments received with respect to Series 20 Loans at 20% of the BMA Prepayment Model and redemption of the Series 20B Bonds in accordance with the Resolution.

“BMA Prepayment Model”: the standard or model developed by the Bond Markets Association (formerly the Public Securities Association) to measure prepayments on mortgage loans. The BMA Prepayment Model is based on an assumed rate of prepayment each month of the then unpaid principal balance of the Mortgage Loans. The BMA Prepayment Model has an increasingly large percentage of the mortgages prepaying each month for the first thirty (30) months of the mortgages’ life and then assumes a constant prepayment rate of six percent (6%) per annum of the unpaid principal balance for the remaining life of the mortgages.

“Bond Reserve Fund Requirement”: as of any date of computation, an amount at least equal to the aggregate of the Series Bond Reserve Fund Requirements for all Series of Bonds outstanding.

“Bondowner” and the terms *“Owner”* or *“owner”* when used with reference to Bonds, means the registered owner of any Bond.

“Compound Interest Bonds”: Bonds which provide for the addition of all or any part of accrued and unpaid interest thereon to the principal due thereon upon such terms and for such periods of time as may be determined by the applicable supplemental resolution.

“Cooperative Housing Loan”: an obligation secured by a pledge of a cooperative interest and a conditional assignment of the proprietary lease incidental thereto made by a member of a cooperative housing corporation which is located in the State and organized under the laws of the State; the term *“Cooperative Housing Loan”* may also include a participation in a loan to all members of a cooperative housing corporation but excludes a Loan on limited equity cooperative housing as defined in the Code.

“Debt Service”: means, with respect to any particular period and any Series of Bonds outstanding, an amount equal to the sum of (1) all interest payable on such Bonds during such period (other than interest, if any, included in the Principal Installments on such Bonds payable in such period) plus (2) the Principal Installment or Installments of such Bonds payable during such period. In the case of any Bonds bearing interest at a variable interest rate, Debt Service shall be calculated as provided in the applicable supplemental resolution.

“*Fiscal Year*”: means the period of twelve calendar months ending with June 30 of any year.

“*Fixed Rate Bonds*”: Bonds which bear a fixed rate or rates of interest during the term thereof.

“*Home Improvement Loan*”: a note, whether or not secured by a Mortgage, evidencing a loan to a borrower to finance alterations, repairs, and improvements on or in connection with Residential Housing to protect or improve the basic livability or energy efficiency of the property, as more fully described in any supplemental resolution;

“*Investment Obligation*”: Any of the following which at the time are legal investments for moneys of the Agency: (1) direct general obligations of the United States of America and obligations (including obligations of any federal agency or corporation) the payment of the principal and interest on which are unconditionally guaranteed by the full faith and credit of the United States of America; (2) any non-callable or irrevocably called, refunded bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (1) hereof and which at their time of purchase under the Resolution bear the highest rating available from each Nationally Recognized Credit Rating Agency then maintaining a credit rating on the Bonds; (3) obligations of any of the following: Bank for Cooperatives, Federal Intermediate Credit Banks, Federal Financing Bank, Federal Land Banks, Federal Home Loan Bank System, Federal Farm Credit Bank, Federal National Mortgage Association (excluding “stripped” securities), Export-Import Bank of the United States, Farmers Home Administration, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, Student Loan Marketing Association, or Tennessee Valley Authority; (4) public housing bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; (5) obligations of any state of the United States or of any political subdivision or public agency or instrumentality thereof, including the Agency, provided that at the time of their purchase under the Resolution such obligations are rated no lower than the rating assigned to the Bonds by each Nationally Recognized Credit Rating Agency then maintaining a credit rating on the Bonds; (6) direct obligations of or obligations guaranteed by the State provided that at the time of their purchase under the Resolution such obligations are rated no lower than the unenhanced rating assigned to the Bonds by each Nationally Recognized Credit Rating Agency then maintaining a credit rating on the Bonds; (7) prime commercial paper of a corporation incorporated under the laws of any state of the United States of America, having at the time of their purchase the highest rating category available from each Nationally Recognized Credit Rating Agency then maintaining a credit rating on the Bonds; (8) interest bearing time deposits, certificates of deposit or other similar banking arrangements with banks, provided such deposits are either made with banks having a rating no lower than the rating on the Bonds or are fully collateralized and secured by obligations described in clauses (1) through (6) above, which at all times have a market value (exclusive of accrued interest) at least equal to such deposit so secured, including interest; (9) shares of a diversified open-end money market fund which has either been rated by each Nationally Recognized Credit Rating Agency then maintaining a credit rating on the Bonds at a level which will not adversely affect the unenhanced ratings on the Bonds or which is invested in obligations described in clauses (1) through (6) above; (10) repurchase agreements for obligations of the type specified in clauses (1), (2) and (3) above, provided either such repurchase agreement is an unconditional obligation of the provider thereof and the provider is rated at a level which will not adversely affect the unenhanced rating on the Bonds or such repurchase agreements are fully collateralized and secured by such obligations which have a market value (exclusive of accrued interest) at least equal to the purchase price of such repurchase agreements; and (11) investment agreements with banks, bank holding companies, insurance companies or other financial institutions, or any other investment obligation or deposit, the investment in which will not adversely affect the then current unenhanced ratings, if any,

assigned to the Bonds by each Nationally Recognized Credit Rating Agency then maintaining a credit rating on the Bonds.

“Loan”: a Mortgage Loan, a Home Improvement Loan, a Cooperative Housing Loan, a Loan Security or a Residential Housing Loan which (1) complies, at the time or purchase by the Agency, with the provisions of the Act and the Resolution and any additional provisions provided in any supplemental resolution, (2) is purchased or made with proceeds of Bonds or other moneys held under the Resolution, (3) is held under the Resolution, (4) represents a loan or other form of financing (or an interest therein) for the purchase, construction, rehabilitation, refinancing or improvement of Residential Housing, and (5) if a variable rate loan, the purchase or making of which will not adversely affect the ratings on the Bonds.

“Loan Loss”: the amount of any loss realized by the Agency upon the default on a Loan held under the Resolution for the account of a Series of Bonds, which amount shall not exceed the sum of (a) the unpaid principal balance of the Loan at the date of the default, (b) the amount of accumulated delinquent interest due on the Loan, and (c) the amount of advances made by or for the account of the Agency with respect to such Loan, less the sum of (d) the amount of all rents, sale proceeds, foreclosure proceeds, insurance settlements, self-insurance proceeds (other than Loan Loss Claim Fund Withdrawals) and other payments collected or received by the Agency from or on account of such Loan, (e) the amount of cash remaining in any escrow account maintained for such Loan, (f) the amount paid under any fire and extended coverage policy which is in excess of the amount applied to the restoration of the property or the payment of the Loan and (g) the amount of any Loan Loss on account of such Loan previously paid from amounts on deposit in a Loan Loss Claim Fund or a Home Improvement Loan Loss Claim Fund, as applicable.

“Loan Loss Claim Fund Deposits”: any one or more of the following to the extent its deposit in a Loan Loss Claim Fund will not adversely affect the then current unenhanced ratings, if any, assigned to the Bonds by each Nationally Recognized Credit Rating Agency then maintaining a credit rating on the Bonds: (a) irrevocable and unexpired letters of credit issued by banking institutions, (b) irrevocable policies of insurance in full force and effect issued by insurers, (c) irrevocable guarantees by banks, bank holding companies, insurance companies or surety companies or (d) any other similar security or source thereof; in any case deposited or held under the Resolution for the credit of a Loan Loss Claim Fund and providing for the payment of sums available to pay Loan Loss Claim Fund Withdrawals.

“Loan Prepayments”: all payments on a Loan which reduce or eliminate the principal balance due on the Loan by reason of the prepayment of all or a part of such principal before the due date thereof, including, without limitation, amounts paid on account of acceleration, sale or other disposition of such Loan or of the collateral securing such Loan and the proceeds of any private or governmental insurance or guaranty, or any Additional Security applicable to such Loan, but excluding the portion, if any, of such amounts representing the principal which would have been due or past due on such Loan had such Loan not been prepaid.

“Loan Principal Payments”: all payments, other than Loan Prepayments, on a Loan which reduce or eliminate the principal balance due on a Loan, including without limitation, scheduled payments of principal on such Loan and the current or past due portion, if any, of amounts paid with respect to principal on account of (a) acceleration of the due date of such Loan, (b) sale or other disposition of such Loan or the collateral securing such Loan, and (c) receipt of proceeds of any private or governmental mortgage insurance or guaranty or any Additional Security applicable to such Loan.

“Loan Security”: a security, instrument of indebtedness or other obligation of or guaranteed by a Mortgage Lender, the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, PMI Mortgage Insurance Company or other

agency or instrumentality of the United States of America or the State, payable from or representing an interest in Loans or interests therein and as more fully described in the applicable supplemental resolution authorizing the issuance of a Series of Bonds for the purchase of such Loan Securities.

“Mortgage”: a mortgage deed, deed of trust, or other instrument which shall constitute a lien on real property in fee simple or on a leasehold under a lease having a remaining term, at the time such mortgage is acquired, which does not expire for at least that number of years beyond the maturity date of the obligation secured by the mortgage as is equal to the number of years remaining until the maturity date of the obligation or on a cooperative interest (as defined in the Act) or on an interest in a mobile home. *“Mortgage”* shall also include any mortgage or obligation guaranteed by the PMI Mortgage Insurance Company or its successor.

“Mortgage Lender”: any bank or trust company, Fannie Mae approved mortgage banker, savings bank, savings and loan association, industrial bank, credit union, national banking association, federal savings and loan association, federal credit union or other financial institution or governmental agency or instrumentality which customarily provides or otherwise aids in the financing of mortgage loans on Residential Housing; where the context requires, *“Mortgage Lender”* shall also mean and include a seller of Loans to the Agency or a servicer of Loans for the Agency or the issuer, guarantor or other obligor on a Loan Security.

“Mortgage Loan”: (a) an obligation which is secured by a Mortgage or note or bond constituting a lien on land and improvements in the State; or (b) an obligation secured by an owner-occupant’s interest in a mobile home provided that: (i) the mobile home is to be sited in a manner intended for continuous residential occupancy by the owner-occupant on land owned by the owner and the obligation is secured by a Mortgage which constitutes a first lien on the mobile home and the real property to which it is affixed; or (ii) the mobile home is to be sited in a manner intended for continuous residential occupancy on land leased by the owner-occupant and the obligation is secured by a note or otherwise and collateral or conditional assignment of a lease of real property which constitutes a first lien upon the mobile home and lease.

“Nationally Recognized Credit Rating Agency”: any credit rating agency which is nationally recognized for skill and expertise in rating the credit of obligations similar to the Bonds and which has assigned and currently maintains a rating on any outstanding Bonds at the request of the Agency and any successor to any such agency by merger, conversion, consolidation or otherwise.

“Premium PAC Bonds”: the Series 20A Bonds in the aggregate principal amount of \$5,480,000 maturing May 1, 2034.

“Premium PAC Bond Outstanding Applicable Amount”: the amount of the Premium PAC Bonds which are calculated to be Outstanding based on the assumed receipt of Loan Prepayments received with respect to Mortgage Loans allocable to the Series 20 Bonds at 75% of the BMA Prepayment Model and redemption of the Series 20A Bonds in accordance with the Resolution.

“Principal Amount”: with respect to any Bond and at any date of computation, the stated principal thereof or, with respect to any Compound Interest Bond or Discount Bond, the amount designated as the Principal Amount thereof pursuant to the applicable Supplemental Resolution.

“Principal Installment”: as of any particular date of computation, an amount of money equal to the sum of (1) the Principal Amount of outstanding Bonds which mature on a single future date, reduced by the aggregate Principal Amount of such outstanding Bonds which would at or before said future date be retired by reason of the payment when due and application in accordance with the Resolution of

sinking fund installments payable at or before said future date and (2) the amount of any sinking fund installment payable on said future date.

“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 Mortgage Lenders or others), (c) the maintenance in full force and effect of any Additional Security or any Reserve Deposits, (4) any policy or policies of insurance on or relating to Loans maintained by the Agency pursuant to any supplemental resolution 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.

“Projection of Revenues”: a certificate of an authorized officer setting forth for the current and each succeeding Fiscal Year the Agency’s estimate of: (a) all Revenues, other than Loan Prepayments, reasonably expected to be received, (b) the aggregate amount of Loan Prepayments, if any, which the Agency expects to receive and the amount of such Loan Prepayments and other Revenues which will be applied to the purchase or making of Loans; (c) all other Revenues, including investment income to be earned and the rates or yields used in estimating such amounts; (d) the amounts, if any, expected by the Agency to be withdrawn from the Bond Reserve Fund; (e) any other funds expected by the Agency to be available for and applied to the payment of Aggregate Debt Service and Program Expenses; (f) the Aggregate Debt Service on all Bonds expected by the Agency to be outstanding during such Fiscal Year; (g) the Agency’s program expenses for such Fiscal Year based upon the Agency’s previous experience; (h) the Rebate Requirement, if any, for all Series of Bonds outstanding; and (i) such other amounts, funds, projections or calculations as may be required by any supplemental resolution.

“Qualified Rehabilitation Loan”: a Mortgage Loan or a Cooperative Housing Loan that is a “qualified rehabilitation loan” within the meaning of Section 143(k)(5) of the Code and which meets the requirements of the Resolution.

“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 resolution.

“Reserve Deposits”: any one or more of the following to the extent its deposit under the Resolution for the account of the Bond Reserve Fund will not adversely affect the then current unenhanced ratings, if any, assigned to the Bonds by each Nationally Recognized Credit Rating Agency then maintaining a credit rating on the Bonds: (a) irrevocable and unexpired letters of credit issued by banking institutions, (b) irrevocable policies of insurance in full force and effect issued by insurers, (c) irrevocable guarantees by banks, bank holding companies or insurance companies and (d) such other security or source thereof or other amounts as may be specified in a supplemental resolution and pledged to the payment of the Bonds or Loans securing Bonds (whether or not held under the Resolution); and in any case providing for the payment of sums available to pay the Principal Installments of and interest on Bonds, the principal of and interest on Loans or other costs in the manner provided in the Resolution.

“Residential Housing”: owner-occupied, single family dwellings located or to be located in the State comprised of one-to-four residential housing units, including without limitation cooperative interests (as defined in the Act) and mobile homes, designed primarily to provide permanent dwelling accommodations for persons and families.

“Residential Housing Loan”: an unsecured note, bond or other obligation representing a loan on, or financing of, Residential Housing.

“Revenues”: (a) all amounts paid or required to be paid on or with respect to Loans, including without limitation interest payments on Loans, Loan Principal Payments and Loan Prepayments, but excluding commitment fees payable by Mortgage Lenders to the Agency and amounts payable by borrowers for the origination or servicing of Loans, (b) all payments received on account of Reserve Deposits and, to the extent provided in the applicable supplemental resolution, on account of any Additional Security and (c) all interest, investment gains and other income received on moneys or securities held pursuant to the Resolution and paid or to be paid into the Revenue Fund.

“Series” or *“series”*: when used with respect to less than all of the Bonds, means and refers to all of the Bonds delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate or other provisions, and any Bond thereafter delivered in lieu of or in substitution for any of such Bonds pursuant to the General Resolution.

“Series 20 Bonds Cumulative Applicable Amount”: the amounts based on the assumed receipt of Loan Prepayments received with respect to Mortgage Loans allocable to the Series 20 Bonds at 400% of the BMA Prepayment Model and redemption of the Series 20 Bonds in accordance with the Resolution.

“Series 20 Cumulative Loan Prepayments”: the amount of Loan Prepayments of Mortgage Loans allocable to the Series 20 Bonds expressed on a cumulative basis.

“Tender Bonds”: Bonds issued as Fixed Rate Bonds which include an option exercisable by either the Agency or the Owners thereof to have such Bonds either repurchased or redeemed by the Agency or the Trustee prior to the maturity thereof.

“Twenty-Fourth Supplemental Resolution”: the Twenty-Fourth Supplemental Single Family Housing Bond Resolution adopted by the Agency on May 27, 2004 authorizing the issuance and sale of the Series 20 Bonds.

APPENDIX V

CERTAIN INFORMATION REGARDING CREDIT ENHANCEMENT PROVIDERS

The information in this Appendix V has been provided for inclusion herein by Financial Security Assurance Inc., MBIA Insurance Corporation and Ambac Assurance Corporation, respectively. None of such information or any of the statements referred to in this Appendix V is guaranteed as to accuracy or completeness by the Agency or the Underwriters of the Series 20 Bonds or is to be construed as a representation by the Agency or such Underwriters. Furthermore, neither the Agency nor the Underwriters of the Series 20 Bonds makes any representations as to the financial condition or resources of MBIA, Ambac Assurance or Financial Security Assurance Inc. or as to the absence of material adverse changes in the information contained in the statements referred to above.

Financial Security Assurance Inc.

Financial Security Assurance Inc. ("FSA") is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A.. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or FSA is liable for the obligations of FSA.

At March 31, 2004, FSA's total policyholders' surplus and contingency reserves were approximately \$2,156,705,000 and its total unearned premium reserve was approximately \$1,391,897,000 in accordance with statutory accounting practices. At March 31, 2004, FSA's total shareholders' equity was approximately \$2,430,264,000 and its total net unearned premium reserve was approximately \$1,190,846,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. FSA makes no representation regarding the Bonds or the advisability of investing in the Bonds. FSA makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that FSA has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

MBIA

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing

minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading **“APPENDIX V—CERTAIN INFORMATION REGARDING CREDIT ENHANCEMENT PROVIDERS—MBIA Insurance Corporation.”** Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information

The following documents filed by the Company with the Securities and Exchange Commission (the “SEC”) are incorporated herein by reference:

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2003; and
- (2) The Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Series 20 Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of \$9.9 billion (unaudited), total liabilities of \$6.2 billion (unaudited), and total capital and surplus of \$3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2004 MBIA had admitted assets of \$10.3 billion (unaudited), total liabilities of \$6.5 billion (unaudited), and total capital and surplus of \$3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 20 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 20 Bonds. MBIA does not guaranty the market price of the Series 20 Bonds nor does it guaranty that the ratings on the Series 20 Bonds will not be revised or withdrawn.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$7,670,000,000 (unaudited) and statutory capital of approximately \$4,683,000,000 (unaudited) as of March 31, 2004. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Obligations.

Ambac Assurance makes no representation regarding the Series 20 Bonds or the advisability of investing in the Series 20 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented in this Appendix V.

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the

SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference.

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

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;
2. The Company's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004; and
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004;

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

APPENDIX VI

PROPOSED FORM OF OPINION OF BOND COUNSEL

_____, 2004

Vermont Housing Finance Agency
Burlington, Vermont

Vermont Housing Finance Agency
Single Family Housing Bonds
Series 20A
Series 20B

We have acted as Bond Counsel in connection with the issuance by the Vermont Housing Finance Agency (the "Agency") of \$_____ aggregate principal amount of its Single Family Housing Bonds, Series 20A (the "Series 20A Bonds") and \$_____ aggregate principal amount of its Single Family Housing Bonds, Series 20B (ARCs) (the "Series 20B Bonds" and, together with the Series 20A Bonds, the "Series 20 Bonds"). The Series 20 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 Single Family Housing Bond Resolution adopted on September 20, 1990, as amended (the "General Resolution") and the Agency's Twenty-Fourth Supplemental Single Family Housing Bond Resolution adopted on May 27, 2004 (as supplemented by the Series Certificate of the Chair and Executive Director of the Agency, dated the date hereof, the "Twenty-Fourth Supplemental Resolution"). The General Resolution and the Twenty-Fourth Supplemental Resolution are referred to herein, collectively, as the "Resolutions."

The Series 20 Bonds are being issued to make moneys available to purchase loans made to finance the purchase or improvement of single family housing in the State of Vermont (the "State") by persons and families of low and moderate income and to make deposits in certain funds and accounts under the Resolutions. The Series 20 Bonds, as well as any bonds previously issued and outstanding under the General Resolution and any additional bonds to be issued thereunder (collectively, the "Bonds"), are equally and ratably secured by the General Resolution.

The Series 20 Bonds are dated, mature in the years, in the respective principal amounts and bear interest at the rates per annum set forth in the Twenty-Fourth Supplemental Resolution. The interest rates on the Series 20 Bonds are subject to further adjustment in the manner set forth in the Resolutions and the Series 20 Bonds are subject to mandatory tender for purchase on certain dates as provided in the Resolutions. The Series 20 Bonds are also subject to redemption prior to maturity upon the terms and conditions and at the redemption prices provided therein and in the Resolutions.

In rendering this opinion we have reviewed the Resolutions and certain other documents, certificates and other materials delivered in connection with the issuance of the Series 20 Bonds. The Agency has covenanted in the Resolutions to do all things necessary to assure that interest on the Series 20 Bonds will not be includable in gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code") and the regulations promulgated thereunder. Under Sections 143 and 148 of the Code, certain requirements must be met subsequent to the delivery of the Series 20 Bonds in order that interest on the Series 20 Bonds not be includable in gross income for federal

income tax purposes under the Code. Certain covenants of the Agency and other parties, as well as affidavits and other procedures, are set forth in the documents relating to the issuance of the Series 20 Bonds and the Agency's single family mortgage purchase program to comply with the requirements of the Code. We have examined such documents and such covenants, affidavits and other procedures and are of the opinion that they are sufficient to enable the Agency to comply with the requirements of the Code.

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 adopt the Resolutions and to authorize, issue and deliver the Series 20 Bonds.

(b) The Resolutions have been duly and lawfully adopted by the Agency, are in full force and effect and are valid and binding upon the Agency and enforceable in accordance with their terms and no other authorization for the Resolutions is required. The Resolutions create the valid pledge which they purport to create of (i) the Revenues, (ii) all Loans and any other Revenue-producing contracts and all rights and interests of the Agency incident thereto and the proceeds thereof, and (iii) all moneys, securities and Reserve Deposits, if any, in all funds and accounts created by or pursuant to the Resolutions (except the Rebate Fund), subject only to the provisions of the Resolutions permitting the application of amounts held thereunder for the purposes and on the terms and conditions set forth in the Resolutions.

(c) The Series 20 Bonds have been duly authorized, executed, issued and delivered by the Agency in accordance with the Act and the Resolutions and constitute valid and binding special obligations of the Agency, which has no taxing power, enforceable in accordance with their terms and the terms of the Resolutions and entitled to the benefits of the Act and the Resolutions. The Series 20 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 but shall be payable solely from the revenues or assets of the Agency pledged to the payment thereof.

(d) Under existing laws, regulations, rulings and judicial decisions, assuming continuing compliance by the Agency with the enforcement by the Agency of the Resolutions, interest on the Series 20 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code and such interest is a separate tax preference item for purposes of calculating the alternative minimum tax imposed by the Code on individuals and corporations. No opinion as to the exclusion from gross income of interest on any of the Series 20 Bonds is expressed subsequent to any date on which action is taken pursuant to the Resolutions for which action the Resolutions require a legal opinion to the effect that taking such action will not adversely affect such exclusion, should the undersigned not deliver an opinion as of such date to such effect.

The accrual or receipt of interest on the Series 20 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

The foregoing opinions are qualified only to the extent that the enforceability of the Series 20 Bonds and the Resolutions 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,

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APPENDIX VII

FORM OF CONTINUING DISCLOSURE AGREEMENT

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APPENDIX VII
CONTINUING DISCLOSURE AGREEMENT

Vermont Housing Finance Agency
Single Family Housing Bonds,
Series 20A
Series 20B

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by the Vermont Housing Finance Agency (the “Agency”) and Banknorth, N.A., Williston, Vermont (the “Trustee”) in connection with the offering and sale of \$23,795,000 aggregate principal amount of the Agency’s Single Family Housing Bonds, Series 20A (AMT) (the “Series 20A Bonds”) and \$8,000,000 aggregate principal amount of the Agency’s Single Family Housing Bonds, Series 20B (AMT) (the “Series 20B Bonds” and together with the Series 20A Bonds, the “Bonds”) all as more fully described in the official statement of the Agency dated _____, 2004 (the “Official Statement”). The Bonds are being issued pursuant to a resolution of the Agency adopted on September 20, 1990, as heretofore amended and supplemented (the “General Resolution”) and the Agency’s Twenty-Fourth Supplemental Single Family Housing Bond Resolution adopted on May 27, 2004 (the “Twenty-Fourth Supplemental Resolution”). The General Resolution and the Twenty-Fourth Supplemental Resolution are herein called the “Resolution.” The Agency and the Trustee covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Agency and the Trustee for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, 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:

“Annual Report” shall mean any Annual Report provided by the Agency pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Disclosure Representative” shall mean the Director of Finance of the Agency or his or her designee, or such other officer or employee as the Agency shall designate in writing to the Trustee from time to time.

“Dissemination Agent” shall mean the Agency, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Agency and which has filed with the Trustee a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and

Exchange Commission are available as public information on the SEC's Internet site at <http://www.sec.gov/info/municipal/nrmsir.htm>.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and the State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Vermont.

"State Repository" shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The Agency shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of the Agency's fiscal year (presently June 30), commencing with the report for the 2005 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Agency may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Agency's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the Agency shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Agency and the Dissemination Agent to determine if the Agency is in compliance with the first sentence of this subsection (b).

(c) If the Trustee is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Trustee shall send a notice to the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) file a report with the Agency and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Agency's Annual Report shall contain or include by reference the following:

1. 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 manner as the Annual Report when they become available.

2. The financial information and operating data of the Agency for the prior fiscal year generally consistent with the financial information and operating data contained in the Official Statement under the headings "THE AGENCY - Operations to Date" and "- Outstanding Indebtedness" and "SECURITY FOR THE BONDS" and in "APPENDIX I - CERTAIN INFORMATION RELATING TO THE AGENCY'S EXISTING SINGLE FAMILY HOUSING BOND PROGRAM" thereto.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Agency or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Agency shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Agency shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on credit enhancements reflecting financial difficulties;
10. substitution of credit or liquidity providers, or their failure to perform;
11. release, substitution or sale of property securing repayment of the Bonds.

(b) The Trustee shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Agency promptly notify the Trustee in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the Agency obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the Agency shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Agency has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Agency shall promptly notify the Trustee in writing. Such notice shall instruct the Trustee to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the Agency determines that the Listed Event would not be material under applicable federal securities laws, the Agency shall so notify the Trustee in writing and instruct the Trustee not to report the occurrence pursuant to subsection (f).

(f) If the Trustee has been instructed by the Agency to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository, if any. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 6. Management Discussion of Items Disclosed in Annual Reports or as Significant Events. If an item required to be disclosed in the Agency's Annual Report under Section 4, or as a Listed Event under Section 5, would be misleading without discussion, the Agency shall additionally provide a statement clarifying the disclosure in order that the statement made will not be misleading in the context in which it was made.

SECTION 7. Termination of Reporting Obligation. The Agency's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Agency shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 8. Dissemination Agent. The Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Agency pursuant to this Disclosure Agreement.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Agency and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Agency), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it 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 an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of

Holder, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Agency shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Agency. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Agency shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. (a) In the event of a failure of the Agency or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall), or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency or Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement.

(b) Notwithstanding the foregoing, no Holder or Beneficial Owner of the Bonds shall have the right to challenge the content or adequacy of the information provided pursuant to Sections 3, 4 or 5 of this Disclosure Agreement by mandamus, specific performance or other equitable proceedings unless Holders or Beneficial Owners of Bonds representing at least 66 2/3% in aggregate principal amount of the Bonds shall join in such proceedings.

(c) A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the Agency or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article X of the General Resolution is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Resolution. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Agency agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Agency: Vermont Housing Finance Agency
164 St. Paul Street
Burlington, Vermont 05401-4634
Attention: Chief Financial Officer
Telephone/Fax: (802) 864-5743/(802) 864-5746

To the Trustee: Banknorth, N.A.
2300 St. George Road
Williston, Vermont 05495
Attention: Trust Department
Telephone/Fax: (802) 872-2050/(802) 879-2216

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Agency, the Trustee, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: August __, 2004

VERMONT HOUSING FINANCE AGENCY

By: _____
Title: Authorized Officer

BANKNORTH, N.A., as Trustee

By: _____
Title: Authorized Officer

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD AND
STATE REPOSITORY OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Vermont Housing Finance Agency (the "Agency")

Name of Bond Issue: \$23,795,000 Single Family Housing Bonds, Series 20A (AMT)
\$8,000,000 Single Family Housing Notes, Series 20B (AMT)

Date of Issuance: August __, 2004

NOTICE IS HEREBY GIVEN that the Agency has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement dated August __, 2004 between the Agency and Trustee. The Agency anticipates that the Annual Report will be filed by _____.

Dated: _____

BANKNORTH, N.A.,
on behalf of AGENCY

cc: Agency

APPENDIX VIII

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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**FINANCIAL
SECURITY
ASSURANCE®**

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No.: -N

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security") for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

APPENDIX IX

ARCs PROVISIONS

The following Auction Procedures apply to Series 20B Bonds which bear interest at the Auction Rate.

DEFINITIONS

In addition to the words and terms elsewhere defined in this Official Statement, the following words and terms as used in this Appendix IX and elsewhere in this Official Statement shall have the following meanings with respect to Series 20B Bonds in an Auction Period unless the context or use indicates another or different meaning or intent:

“AA Financial Commercial Paper Rate” means, on any date of determination, (a) for Auction Periods of 35 days or less, the interest equivalent of commercial paper having a maturity of 30 days, (b) for Auction Periods greater than 35 days and less than 75 days, the interest equivalent of commercial paper having a maturity of 60 days, (c) for Auction Periods greater than 75 days and less than 105 days, the interest equivalent of commercial paper having a maturity of 90 days; as each such rate is published on the Business Day prior to such date by the Board of Governors of the Federal Reserve System on its World Wide Web site <http://www.federalreserve.gov/releases/cp/histrates.txt>, or any successor publication (“H.15(519)”) under the caption “AA financial.” In the event that such publication has not been published in a timely manner, the “AA” Financial Commercial Paper Rate shall be calculated by the Market Agent, and shall be the bond equivalent yield of the arithmetic mean of the offered rates as of 11:00 A.M., New York City time, on the determination date of three leading dealers of U.S. dollar commercial paper in The City of New York (which may include the Market Agent) selected by the Market Agent, for U.S. dollar commercial paper having a maturity of 30, 60 or 90 days, as applicable, placed for financial issuers whose bond rating is “AA” or the equivalent, from a nationally recognized securities rating agency; provided, however, that if the dealers selected as aforesaid by the Market Agent are not quoting as mentioned in this sentence (and if the Market Agent, in its discretion, determines that such quotations can not be obtained from any three leading dealers of U.S. dollar commercial paper in the City of New York) such rate shall be the same rate as in effect for the immediately preceding Auction Period. For purposes of this definition, the “interest equivalent” of a rate stated on a discount basis (a “discount rate”) for commercial paper of a given day’s maturity shall be equal to the product of (A) 100 times (B) the discount rate times (C) the quotient (rounded upwards to the next higher one-thousandth (.001) of 1%) of (x) the applicable number of days in a year (365 or 366) divided by (y) the difference between (1) 360 and (2) the product of the discount rate (expressed in decimals) times the applicable number of days in which such commercial paper matures.

“After-Tax Equivalent Rate” means, on any date of determination, the interest rate per annum equal to the product of:

- (i) the “AA” Financial Commercial Paper Rate on such date; and
- (ii) 1.00 minus the Statutory Corporate Tax Rate on such date.

“All-Hold Rate” means, on any date of determination, the interest rate per annum equal to 90% (as such percentage may be adjusted pursuant to the provisions summarized under the caption “ADJUSTMENT OF PERCENTAGES” in this Appendix IX) of the lesser on such date of:

- (a) the After-Tax Equivalent Rate on such date; or

(b) the Kenny Index on such date;

rounded to the nearest one thousandth (.001) of 1%; provided that in no event shall the All-Hold Rate be more than the Maximum Auction Rate or less than zero.

“*Applicable Number of Business Days*” means the greater of two Business Days or one Business Day plus the number of Business Days by which the Auction Date precedes the first day of the next succeeding Auction Period.

“*Applicable Percentage*” means, on any date of determination, the percentage determined (as such percentage may be adjusted pursuant to summarized under the caption “ADJUSTMENT OF PERCENTAGES” in this Appendix IX) based on the lower of the prevailing credit ratings on the Series 20B Bonds in effect at the close of business on the Business Day immediately preceding such date, as set forth below:

Moody’s	S&P	Applicable Percentage
“Aaa”	“AAA”	175%
“Aa3” to “Aa1”	“AA-” to “AA+”	175%
“A3” to “A1”	“A-” to “A+”	175%
“Baa3” to “Baa1”	“BBB-” to “BBB+”	200%
Below “Baa3”	Below “BBB-”	265%

provided, that, in the event that the Series 20B Bonds are not rated by any nationally recognized securities rating agency, the Applicable Percentage shall be 265%, and, provided further, that if a Payment Default shall have occurred and be continuing, the Applicable Percentage shall be 265%.” For purposes of this definition, Moody’s Investors Service, Inc.’s rating categories of “Aaa,” “Aa,” “A” and “Baa,” and Standard & Poor’s, a division of the McGraw-Hill Companies, Inc.’s rating categories of “AAA,” “AA,” “A,” and “BBB” refer to and include the respective rating categories correlative thereto if either or both of such rating agencies have changed or modified their generic rating categories or if Moody’s Investors Service, Inc. or Standard & Poor’s, a division of the McGraw-Hill Companies, Inc. no longer rates the Series 20B Bonds and has been replaced. If the Series 20B Bonds are not rated by a Rating Agency, the requirement of a rating by such Rating Agency shall be disregarded.

“*Auction*” means each periodic implementation of the Auction Procedures.

“*Auction Agreement*” means the Auction Agency Agreement, dated as of July 1, 2004, relating to the Series 20B Bonds between the Trustee and the Auction Agent, and any similar agreement with a successor Auction Agent, in each case as from time to time amended or supplemented.

“*Auction Agent*” means any person appointed as such pursuant to the provisions of the Twenty-Fourth Supplemental Resolution.

“*Auction Date*” means September 16, 2004 and thereafter, the Business Day immediately preceding the first day of each Auction Period, other than (a) each Auction Period commencing after the ownership of the Series 20B Bonds is no longer maintained in book-entry form by the Depository; (b) each Auction Period commencing after the occurrence and during the continuance of a Payment Default; or (c) any Auction Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Auction Date for one or

more Auction Periods may be changed pursuant to the provisions summarized under the caption “CHANGES IN AUCTION PERIOD OR AUCTION DATE” in this Appendix IX.

“*Auction Period*” means (a) the Initial Period and (b) each successive 35 day period thereafter, commencing on a Friday (or the Business Day following the last day of the prior Auction Period, if the prior Auction Period does not end on a Thursday) and ending on (and including) a Thursday (unless such Thursday is not followed by a Business Day, in which case such Auction Period will end on the next succeeding day that is followed by a Business Day), as the same may be changed pursuant to the provisions summarized under the caption “CHANGES IN AUCTION PERIOD OR AUCTION DATE” in this Appendix IX.

“*Auction Procedures*” means the procedures summarized under the caption “AUCTION PROCEDURES” of this Appendix IX.

“*Auction Rate*” means the rate of interest per annum on any Auction Date that results from the implementation of the Auction Procedures, and determined as described under the caption “AUCTION PROCEDURES” of this Appendix IX.

“*Authorized Denomination*” means, during any Auction Period, \$50,000 and integral multiples thereof.

“*Available Bond*” has the meaning assigned to such term in the provisions under the caption “AUCTION PROCEDURES—Determination of Sufficient Clearing Bids, Auction Rate and Winning Bid Rate” in this Appendix IX.

“*Bid*” has the meaning assigned to such term in the provisions under the caption “AUCTION PROCEDURES—Orders by Existing Holders and Potential Holders” in this Appendix IX.

“*Bidder*” has the meaning assigned to such term in the provisions under the caption “AUCTION PROCEDURES—Orders by Existing Holders and Potential Holders” in this Appendix IX.

“*Broker-Dealer*” means UBS Financial Services Inc. or any other broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that (i) is a Participant (or an affiliate of a Participant), (ii) that has been selected by the Agency with the approval of the Market Agent and (iii) has entered into a Broker-Dealer Agreement that remains effective.

“*Broker-Dealer Agreement*” means (a) the Broker-Dealer Agreement, dated as of July 1, 2004, between the Auction Agent and UBS Financial Services Inc. and (b) each other agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, in each case as from time to time amended or supplemented.

“*Broker-Dealer Fee*” means the fee to be paid to the Broker-Dealers for the services rendered by them under the Broker-Dealer Agreement.

“*Business Day*” means a day which is not (a) a Saturday, Sunday or legal holiday on which banking institutions in the State of New York are authorized by law to close, (b) a day on which the New York Stock Exchange is closed, or (c) April 14, April 15, December 30, December 31, or such other dates as may be agreed to in writing by the Market Agent, the Auction Agent, the Broker-Dealer, the Trustee and the Agency.

“*Change of Preference Law*” means, with respect to any Holder of Series 20B Bonds, any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury, after the Closing Date which (i) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (ii) imposes or would impose or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any holder of bonds the interest on which is excluded from federal gross income under Section 103 of the Code.

“*Commission*” means the Securities and Exchange Commission.

“*Default Rate*” on any date of determination means the interest rate per annum equal to the lesser of (i) the Applicable Percentage of the Kenny Index or (ii) the Maximum Interest Rate.

“*Depository*” means DTC or another recognized securities depository selected by the Agency which maintains a book entry system for the Series 20B Bonds.

“*Existing Holder*” means (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the Existing Holder Registry at the close of business on the Business Day immediately preceding the Auction Date for such Auction and (b) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a Person who is a qualified owner of Series 20B Bonds.

“*Existing Holder Registry*” means the register maintained by the Auction Agent pursuant to the Auction Agreement.

“*Hold Order*” has the meaning set forth in the provisions under the caption “AUCTION PROCEDURES—Orders by Existing Holders and Potential Holders” in this Appendix IX.

“*Interest Amount*” with respect to the Series 20B Bonds bearing interest at the Auction Rate, means the amount of interest distributable in respect of each \$1,000 in principal amount (taken, without rounding, to .0001 of one cent) of Series 20B Bonds for any Auction Period or part thereof, as calculated in accordance with the provisions of the Twenty-Fourth Supplemental Resolution.

“*Interest Payment Date*” means (i) each May 1 and November 1 commencing May 1, 2005; (ii) each Mandatory Tender Date, (iii) any date on which Series 20B Bonds are redeemed pursuant to the provisions of the Twenty-Fourth Supplemental Resolution; and (iv) the final maturity of the Series 20B Bonds.

“*Kenny Index*” means the applicable index most recently made available by Kenny S&P Evaluation Services (“Kenny”) or any successor thereto (the “Indexing Agent”) based upon 30-day yield evaluations at par of securities, the interest on which is excluded from gross income for federal income tax purposes under the Code, of not less than five “Intermediate Grade” component issuers selected by the Indexing Agent which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time to time by the Indexing Agent in its discretion. The securities on which the Kenny Index is based shall not include any securities the interest on which is subject to a “minimum tax” or similar tax under the Code, unless all such securities are subject to such tax. In the event that Kenny no longer publishes an index satisfying the above definition of the Kenny Index or the Market Agent reasonably concludes that the Kenny Index will not be announced in a timely manner, then the Market Agent shall announce a rate based upon the same criteria

used by Kenny to determine the Kenny Index and the rate announced by the Market Agent for each Auction Date thereafter shall be used in lieu of the Kenny Index for each Auction Date.

“*Market Agent*” means the market agent or market agents appointed pursuant to the Twenty-Fourth Supplemental Resolution, and its or their successors or assigns.

“*Market Agent Agreement*” means the Market Agent Agreement, dated as of July 1, 2004, relating to the Series 20B Bonds between the Trustee and the Market Agent, and any similar agreement with a successor Market Agent, in each case as from time to time amended or supplemented.

“*Maximum Auction Rate*” means on any date of determination, the interest rate per annum equal to the lesser of:

(a) the Applicable Percentage of the higher of (i) the After-Tax Equivalent Rate on such date or (ii) the Kenny Index on such date; or

(b) the Maximum Interest Rate;

rounded to the nearest one thousandth (.001) of 1%.

“*Maximum Interest Rate*” means the lesser of 15% per annum and the maximum rate permitted by law.

“*Order*” has the meaning assigned to such term in the provisions under the caption “AUCTION PROCEDURES—Orders by Existing Holders and Potential Holders” in this Appendix IX.

“*Participant*” means a member or participant in the Depository.

“*Payment Default*” means the occurrence of an Event of Default under the Resolution consisting of a failure to pay (i) any installment of interest payable on the Series 20B Bonds when due and payable or (ii) any principal or premium, if any, payable on any of the Series 20B Bonds when the same shall become due and payable, either at maturity, by proceedings for redemption, upon acceleration or otherwise, which in any such case, is followed by the failure of the Bond Insurer to make, in accordance with the Policy, due and punctual payments described in (i) and (ii), if so required by the Policy.

“*Potential Holder*” means, any Person (including an Existing Holder that is (a) a Broker-Dealer when dealing with the Auction Agent and (b) a potential beneficial owner when dealing with a Broker-Dealer) who may be interested in acquiring Series 20B Bonds (or, in the case of an Existing Holder thereof, an additional principal amount of Series 20B Bonds).

“*Securities Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“*Sell Order*” has the meaning assigned to such term in the provisions under the caption “AUCTION PROCEDURES—Orders by Existing Holders and Potential Holders” in this Appendix IX.

“*Statutory Corporate Tax Rate*” means, as of any date of determination, the highest tax rate bracket (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of every corporation as set forth in Section 11 of the Code or any successor section without regard to any minimum additional tax provision or provisions, regarding changes in rates during a taxable year.

“*Submission Deadline*” means 1:00 P.M., New York City time, on such Auction Date or any other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

“*Submitted Bid*” has the meaning assigned to such term in the provisions under the caption “AUCTION PROCEDURES—Determination of Sufficient Clearing Bids, Auction Rate and Winning Bid Rate” in this Appendix IX.

“*Submitted Hold Order*” has the meaning assigned to such term in the provisions under the caption “AUCTION PROCEDURES—Determination of Sufficient Clearing Bids, Auction Rate and Winning Bid Rate” in this Appendix IX.

“*Submitted Order*” has the meaning assigned to such term in the provisions under the caption “AUCTION PROCEDURES—Determination of Sufficient Clearing Bids, Auction Rate and Winning Bid Rate” in this Appendix IX.

“*Submitted Sell Order*” has the meaning assigned to such term in the provisions under the caption “AUCTION PROCEDURES—Determination of Sufficient Clearing Bids, Auction Rate and Winning Bid Rate” in this Appendix IX.

“*Sufficient Clearing Bids*” has the meaning assigned to such term in the provisions under the caption “AUCTION PROCEDURES—Determination of Sufficient Clearing Bids, Auction Rate and Winning Bid Rate” in this Appendix IX.

“*Winning Bid Rate*” has the meaning assigned to such term in the provisions under the caption “AUCTION PROCEDURES—Determination of Sufficient Clearing Bids, Auction Rate and Winning Bid Rate” in this Appendix IX.

AUCTION PROCEDURES

Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding (i) each Auction Period commencing after the ownership of the Series 20B Bonds is no longer maintained in book-entry form by the Depository; (ii) each Auction Period commencing after the occurrence and during the continuance of a Payment Default; or (iii) any Auction Period commencing less than the Applicable Number of Business Days after the cure of a Payment Default). If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the following manner:

Orders by Existing Holders and Potential Holders

- (i) Prior to the Submission Deadline on each Auction Date:
 - (A) each Existing Holder of Series 20B Bonds may submit to a Broker-Dealer information as to:
 - (I) the principal amount of Outstanding Series 20B Bonds, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding Auction Period;
 - (II) the principal amount of Outstanding Series 20B Bonds, if any, which such Existing Holder offers to sell if the Auction Rate for the next

succeeding Auction Period shall be less than the rate per annum specified by such Existing Holder; and/or

(III) the principal amount of Outstanding Series 20B Bonds, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding Auction Period; and

(B) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of Series 20B Bonds which each such Potential Holder offers to purchase if the Auction Rate for the next succeeding Auction Period shall not be less than the rate per annum specified by such Potential Holder.

The communication to a Broker-Dealer of information referred to in clause (A)(I), (A)(II), (A)(III) or (B) of this paragraph (i) is hereinafter referred to as an "Order" and collectively as "Orders" and each Existing Holder and each Potential Holder placing an Order is hereinafter referred to as a "Bidder" and collectively as "Bidders"; an Order containing the information referred to in (x) clause (A)(I) of this paragraph (i) is hereinafter referred to as a "Hold Order" and collectively as "Hold Orders," (y) clause (A)(II) or (B) of this paragraph (i) is hereinafter referred to as a "Bid" and collectively as "Bids" and (z) clause (A)(III) of this paragraph (i) is hereinafter referred to as a "Sell Order" and collectively as "Sell Orders."

(ii) (A) Subject to the provisions summarized under the caption "Submissions by Broker-Dealers to the Auction Agent," a Bid by an Existing Holder shall constitute an irrevocable offer to sell:

(I) the principal amount of Outstanding Series 20B Bonds specified in such Bid if the Auction Rate determined as provided in the provisions summarized under this caption shall be less than the rate specified in such Bid; or

(II) such principal amount or a lesser principal amount of Outstanding Series 20B Bonds to be determined as set forth in clause (D) of paragraph (i) under the caption "*Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Series 20B Bonds*," if the Auction Rate determined shall be equal to the rate specified in such Bid; or

(III) such principal amount or a lesser principal amount of Outstanding Series 20B Bonds to be determined as set forth in clause (C) of paragraph (ii) under the caption "*Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Series 20B Bonds*," if the rate specified shall be higher than the Maximum Interest Rate and Sufficient Clearing Bids have not been made.

(B) Subject to the provisions summarized under the caption "Submissions by Broker-Dealers to the Auction Agent," a Sell Order by an Existing Holder shall constitute an irrevocable offer to sell:

(I) the principal amount of Outstanding Series 20B Bonds specified in such Sell Order; or

(II) such principal amount or a lesser principal amount of Outstanding Series 20B Bonds as set forth in clause (C) of paragraph (ii) under

the caption “Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Series 20B Bonds,” if Sufficient Clearing Bids have not been made.

(C) Subject to the provisions summarized under the caption “*Submissions by Broker-Dealers to the Auction Agent*,” a Bid by a Potential Holder shall constitute an irrevocable offer to purchase:

(I) the principal amount of Outstanding Series 20B Bonds specified in such Bid if the Auction Rate determined shall be higher than the rate specified in such Bid; or

(II) such principal amount or a lesser principal amount of Outstanding Series 20B Bonds as set forth in clause (E) of paragraph (i) under the caption “*Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Series 20B Bonds*” if the Auction Rate determined shall be equal to the rate specified in such Bid.

Submissions by Broker-Dealers to the Auction Agent

(i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

(A) the name of the Bidder placing such Order;

(B) the aggregate principal amount of Series 20B Bonds that are the subject of such Order;

(C) to the extent that such Bidder is an Existing Holder:

(I) the principal amount of Series 20B Bonds, if any, subject to any Hold Order placed by such Existing Holder;

(II) the principal amount of Series 20B Bonds, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and

(III) the principal amount of Series 20B Bonds, if any, subject to any Sell Order placed by such Existing Holder; and

(D) to the extent such Bidder is a Potential Holder, the rate and amount specified in such Potential Holder’s Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of 1%.

(iii) If an Order or Orders covering all Outstanding Series 20B Bonds held by any Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder

covering the principal amount of Outstanding Series 20B Bonds held by such Existing Holder and not subject to an Order submitted to the Auction Agent.

(iv) Neither the Agency, the Trustee, the Bond Insurer nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder.

(v) If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding Series 20B Bonds held by such Existing Holder, such Orders shall be considered valid as follows and in the following order of priority:

(A) all Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of Series 20B Bonds held by such Existing Holder, and if the aggregate principal amount of Series 20B Bonds subject to such Hold Orders exceeds the aggregate principal amount of Series 20B Bonds held by such Existing Holder, the aggregate principal amount of Series 20B Bonds subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Outstanding Series 20B Bonds held by such Existing Holder;

(B) (I) any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding Series 20B Bonds held by such Existing Holder over the aggregate principal amount of Series 20B Bonds subject to any Hold Orders referred to in clause (A) of this paragraph (v);

(II) subject to subclause (I) of this clause (B), if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of Outstanding Series 20B Bonds subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess and the stated amount of Series 20B Bonds subject to each Bid with the same rate shall be reduced pro rata to cover the stated amount of Series 20B Bonds equal to such excess;

(III) subject to subclause (I) and (II) of this clause (B), if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(IV) in any such event, the aggregate principal amount of Outstanding Series 20B Bonds, if any, subject to Bids not valid under this clause (B) shall be treated as the subject of a Bid by a Potential Holder at the rate therein specified; and

(C) all Sell Orders shall be considered valid up to and including the excess of the principal amount of Outstanding Series 20B Bonds held by such Existing Holder over the aggregate principal amount of Series 20B Bonds subject to valid Hold Orders referred to in clause (A) of this paragraph (v) and valid Bids referred to in clause (B) of this paragraph (v).

(vi) If more than one Bid for Series 20B Bonds is submitted on behalf of any Potential Holder, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of Series 20B Bonds not equal to an Authorized Denomination therefor shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of Series 20B Bonds not equal to an Authorized Denomination therefor shall be rejected.

(viii) Any Bid submitted by an Existing Holder or a Potential Holder specifying a rate lower than the All-Hold Rate shall be treated as a Bid specifying the All-Hold Rate and any such Bid shall be considered as valid and shall be selected in the ascending order of the respective rates in the Submitted Bids.

(ix) An Existing Holder that offers to purchase additional Series 20B Bonds is, for purposes of such offer, treated as a Potential Holder.

(x) Any Bid specifying a rate higher than the Maximum Interest Rate will (a) be treated as a Sell Order if submitted by an Existing Holder and (b) not be accepted if submitted by a Potential Holder.

Determination of Sufficient Clearing Bids, Auction Rate and Winning Bid Rate

(i) Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a “Submitted Hold Order,” a “Submitted Bid” or a “Submitted Sell Order,” as the case may be, or as a “Submitted Order” and collectively as “Submitted Hold Orders,” “Submitted Bids” or “Submitted Sell Orders,” as the case may be, or as “Submitted Orders”) and shall determine:

(A) the excess of the total principal amount of Outstanding Series 20B Bonds over the sum of the aggregate principal amount of Outstanding Series 20B Bonds subject to Submitted Hold Orders (such excess being hereinafter referred to as the “Available Bond”); and

(B) from such Submitted Orders whether:

(I) the aggregate principal amount of Outstanding Series 20B Bonds subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Auction Rate;

exceeds or is equal to the sum of:

(II) the aggregate principal amount of Outstanding Series 20B Bonds subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Auction Rate; and

(III) the aggregate principal amount of Outstanding Series 20B Bonds subject to Submitted Sell Orders

(in the event such excess or such equality exists, other than because the sum of the principal amounts of Series 20B Bonds in subclauses (II) and (III) above is zero because all of the Outstanding Series 20B Bonds are subject to Submitted Hold Orders, such Submitted Bids in subclause (I) above being hereinafter referred to collectively as “Sufficient Clearing Bids”); and

(C) if Sufficient Clearing Bids have been made, the lowest rate specified in such Submitted Bids (which shall be the “Winning Bid Rate”) such that if:

(I) (aa) each such Submitted Bid from Existing Holders specifying such lowest rate and (bb) all other Submitted Bids from Existing Holders specifying lower rates were rejected, thus entitling such Existing Holders to continue to hold the principal amount of Series 20B Bonds subject to such Submitted Bids; and

(II) (aa) each such Submitted Bid from Potential Holders specifying such lowest rate and (bb) all other Submitted Bids from Potential Holders specifying lower rates were accepted,

the result would be that such Existing Holders described in subclause (I) above would continue to hold an aggregate principal amount of Outstanding Series 20B Bonds which, when added to the aggregate principal amount of Outstanding Series 20B Bonds to be purchased by such Potential Holders described in subclause (II) above, would equal not less than the Available Bond.

(ii) Promptly after the Auction Agent has made the determinations pursuant to paragraph (i) under this subcaption, the Auction Agent shall advise the Trustee of the Maximum Auction Rate and the All-Hold Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Auction Period as follows:

(A) if Sufficient Clearing Bids have been made, that the Auction Rate for the next succeeding Auction Period shall be equal to the Winning Bid Rate so determined;

(B) if Sufficient Clearing Bids have not been made (other than because all of the Outstanding Series 20B Bonds are subject to Submitted Hold Orders), then the Auction Rate for the next succeeding Auction Period shall be equal to the Maximum Auction Rate; or

(C) if all Outstanding Series 20B Bonds are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Auction Period shall be equal to the All Hold Rate.

Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Series 20B Bonds. Existing Holders shall continue to hold the principal amount of Series 20B Bonds that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to paragraph (i) under this subcaption, Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraph (iv) under this subcaption, Submitted Bids

shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of Series 20B Bonds subject to such Submitted Bids;

(B) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of Series 20B Bonds subject to such Submitted Bids;

(C) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring such Potential Holder to purchase the aggregate principal amount of Series 20B Bonds subject to such Submitted Bids;

(D) Each Existing Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of Series 20B Bonds subject to such Submitted Bid, unless the aggregate principal amount of Outstanding Series 20B Bonds subject to all such Submitted Bids shall be greater than the principal amount of Series 20B Bonds (the "remaining principal amount") equal to the excess of the Available Bond over the aggregate principal amount of Series 20B Bonds subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted Bid of such Existing Holder shall be rejected in part, and such Existing Holder shall be entitled to continue to hold the principal amount of Series 20B Bonds subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of Series 20B Bonds obtained by multiplying the remaining principal amount by a fraction the numerator of which shall be the principal amount of Outstanding Series 20B Bonds held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding Series 20B Bonds subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and

(E) Each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of Series 20B Bonds obtained by multiplying the excess of the aggregate principal amount of Available Bond over the aggregate principal amount of Series 20B Bonds subject to Submitted Bids described in clauses (B), (C) and (D) of this paragraph (i) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding Series 20B Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Outstanding Series 20B Bonds subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding Series 20B Bonds are subject to Submitted Hold Orders), subject to the provisions of paragraph (iv) under this subcaption, Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate shall be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of Series 20B Bonds subject to such Submitted Bids;

(B) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate shall be accepted, thus requiring each Potential Holder to purchase the aggregate principal amount of Series 20B Bonds subject to Such Submitted Bids; and

(C) Each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Auction Rate and the Submitted Sell Order of each Existing Holder shall be accepted, thus entitling each Existing Holder that submitted any Such Submitted Bid or Submitted Sell Order to sell the Series 20B Bonds subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of Series 20B Bonds obtained by multiplying the aggregate principal amount of Series 20B Bonds subject to Submitted Bids described in clause (B) of this paragraph (ii) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding Series 20B Bonds held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding Series 20B Bonds subject to all such Submitted Bids and Submitted Sell Orders.

(iii) If all Outstanding Series 20B Bonds are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(iv) If, as a result of the procedures described in paragraph (i) or (ii) under this subcaption, any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of Series 20B Bonds that is not equal to an Authorized Denomination therefor the Auction Agent shall, in such manner as it shall, in its sole discretion, determine, round up or down the principal amount of Series 20B Bonds to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of Series 20B Bonds purchased or sold by each Existing Holder or Potential Holder shall be equal to an Authorized Denomination therefor, even if such allocation results in one or more of such Potential Holders not purchasing any Series 20B Bonds.

Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of Series 20B Bonds to be purchased and the aggregate principal amount of Series 20B Bonds to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of Series 20B Bonds to be sold differs from such aggregate principal amount of Series 20B Bonds to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, Series 20B Bonds.

CALCULATION OF RATES DURING AUCTION RATE PERIODS

The Auction Agent shall calculate the Maximum Interest Rate, the Maximum Auction Rate, the All Hold Rate, and the "AA" Financial Commercial Paper Rate on each Auction Date. The determination by the Auction Agent of each of such rates will (in the absence of manifest error) be final and binding upon all Holders and upon all other parties. If the ownership of the Series 20B Bonds is no longer

maintained in book entry form by the Depository, the Trustee shall calculate the Maximum Auction Rate on the Business Day immediately preceding the first day of each Auction Period commencing after the delivery of certificates representing the Series 20B Bonds. If a Payment Default shall have occurred, the Trustee shall calculate the Default Rate on the first day of (i) each Auction Period commencing after the occurrence and during the continuance of such Payment Default and (ii) any Auction Period commencing less than the Applicable Number of Business Days after the cure of any Payment Default.

NOTIFICATION OF RATES, AMOUNTS AND PAYMENT DATES

The Trustee shall determine the aggregate amount of interest distributable on the next succeeding Interest Payment Date to the Holders of the Series 20B Bonds. So long as the ownership of the Series 20B Bonds is maintained in book entry form by the Depository, the Trustee shall advise the Depository of each record date for the Series 20B Bonds at least two Business Days prior thereto.

Promptly after the date of delivery of the Series 20B Bonds and in any event at least 10 days prior to each Interest Payment Date thereafter, the Trustee shall:

(i) so long as no Payment Default has occurred and is continuing and the ownership of the Series 20B Bonds is maintained in book entry form by the Depository, confirm the Auction Agent's determination of (A) the date of such next Interest Payment Date and (B) the amount payable to the Auction Agent on each Interest Payment Date and notify the Auction Agent of any discrepancy therein; and

(ii) advise the Depository, so long as the ownership of the Series 20B Bonds is maintained in book entry form by the Depository, of the Auction Rate and the interest amount calculated in accordance with the provisions of the Twenty-Fourth Supplemental Resolution in respect of the next succeeding Interest Payment Date.

In the event that any day that is scheduled to be an Interest Payment Date shall be changed after the Trustee shall have given the notice referred to in clause (i) of the preceding sentence, not later than 9:15 A.M., New York City time, on the Business Day next preceding the earlier of the new Interest Payment Date or the old Interest Payment Date, the Trustee shall, by such means as the Trustee deems practicable, give notice of such change to the Auction Agent, so long as no Payment Default has occurred and is continuing and the ownership of the Series 20B Bonds is maintained in book entry form by the Depository.

ADJUSTMENT IN PERCENTAGES

The Market Agent shall adjust the percentage used in determining the All Hold Rate, the Applicable Percentage used in determining the Maximum Interest Rate and the Applicable Percentage of the Kenny Index used in determining the Default Rate, if any such adjustment is necessary, in the judgment of the Market Agent, to reflect any Change of Preference Law such that Series 20B Bonds paying the Maximum Auction Rate, Series 20B Bonds paying the All Hold Rate and Series 20B Bonds paying the Default Rate shall have substantially equal market values before and after such Change of Preference Law. In making any such adjustment, the Market Agent shall obtain the consent of the Bond Insurer and take the following factors, as in existence both before and after such Change of Preference Law, into account:

- (i) short term taxable and tax exempt market rates and indices of such short term rates;

- (ii) the market supply and demand for short term tax exempt securities;
- (iii) yield curves for short term and long term tax exempt securities or obligations having a credit rating that is comparable to the Series 20B Bonds;
- (iv) general economic conditions; and
- (v) economic and financial factors present in the securities industry that may affect or that may be relevant to the Series 20B Bonds.

The Market Agent shall effectuate an adjustment in the percentage used in determining the All Hold Rate, the Applicable Percentage used in determining the Maximum Auction Rate and the percentage of the Kenny Index used to determine the Default Rate by delivering to the Agency, the Trustee and the Auction Agent at least 10 days prior to the Auction Date on which the Market Agent desires to effect such change a favorable opinion of nationally recognized bond counsel to the effect that such adjustment is authorized by the Twenty-Fourth Supplemental Resolution, is permitted under State law and will not have an adverse effect on the exclusion of interest on the Series 20B Bonds from gross income for federal income tax purposes authorizing the adjustment of the percentage used in determining the All Hold Rate, the Applicable Percentage used in determining the Maximum Auction Rate and the Applicable Percentage of the Kenny Index used to determine the Default Rate, which shall be specified in such certificate.

CHANGES IN AUCTION PERIODS OR AUCTION DATE.

Changes in Auction Period or Periods.

- (i) While Series 20B Bonds are in an Auction Rate Period, the Market Agent:
 - (A) in order to conform with then current market practice with respect to similar securities, shall; or
 - (B) in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the Series 20B Bonds and with the written consent of the Agency, may

change, from time to time, the length of one or more Auction Periods (an “Auction Period Adjustment”). The Agency shall not consent to such change in the length of the Auction Period, if such consent is required above, unless the Agency shall have received from the Market Agent not less than three days nor more than 20 days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent shall initiate the Auction Period Adjustment by giving written notice to the Trustee, the Auction Agent, the Agency, the Bond Insurer and the Depository at least 10 days prior to the Auction Date for such Auction Period.
- (ii) Any such changed Auction Period shall not be less than 7 days, and if such Auction Period is less than 21 days, such change has been consented to in writing by the Bond Insurer.
- (iii) The Auction Period Adjustment shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given the Auction immediately preceding the proposed change.

(iv) The Auction Period Adjustment shall take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 A.M. on the Business Day before the Auction Date for the first such Auction Period, a certificate from the Market Agent, authorizing the Auction Period Adjustment specified in such certificate and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. If the condition referred to in (A) above is not met, the Auction Rate for the next Auction Period shall be determined pursuant to the Auction Procedures and the Auction Period shall be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met but the condition referred to in (B) above is not met, the Auction Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be the Auction Period determined without reference to the proposed change. In connection with any Auction Period Adjustment, the Auction Agent shall provide such further notice to such parties as is specified in the Auction Agent Agreement.

(v) If Auction Periods are changed as provided in the Twenty-Fourth Supplemental Resolution and if an Auction is scheduled to occur for the next Auction Period on a date that was reasonably expected to be a Business Day, but such Auction does not occur because such date is later not considered to be a Business Day, the Auction shall nevertheless be deemed to have occurred, and the applicable Auction Rate in effect for the next Auction Period will be the Auction Rate in effect for the preceding Auction Period and such Auction Period will generally be 35 days in duration, beginning on the calendar day following the date of the deemed Auction and ending on (and including) a Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding Business Day). If the preceding Auction Period was other than generally 35 days in duration, the Auction Rate for the deemed Auction will instead be the rate of interest determined by the Market Agent on equivalently rated auction securities with a comparable length of auction period.

Changes in the Auction Date. While Series 20B Bonds are in an Auction Rate Period, the Market Agent:

(i) in order to conform with then current market practice with respect to similar securities, shall; or

(ii) in order to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Series 20B Bonds and with the written consent of the Agency, may

specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" with respect to one or more specified Auction Periods. The Agency shall not consent to such change in the Auction Date, if such consent is required in subparagraph (ii) above, unless the Agency shall have received from the Market Agent not less than three days nor more than 20 days prior to the effective date of such change a written request for consent together within a certificate demonstrating the need for change in reliance on such factors. The Market Agent shall provide notice of any determination to specify an earlier Auction Date for one or more Auction Periods by means of a written notice delivered at least 10 days prior to the proposed changed Auction Date to the Trustee, the Auction Agent, the Agency, the Bond Insurer and the Depository.

SETTLEMENT PROCEDURES FOR ARCs

(a) No later than 3:00 P.M. on each Auction Date, the Auction Agent shall notify by telephone or other electronic communication acceptable to the parties the Broker-Dealers that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Holder or Potential Holder of:

- (i) the Auction Rate fixed for the succeeding Auction Period;
- (ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;
- (iii) if such Broker-Dealer (a “Seller’s Broker-Dealer”) submitted a Bid or a Sell Order on behalf of an Existing Holder, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Series 20B Bonds, if any, to be sold by such Existing Holder;
- (iv) if such Broker-Dealer (a “Buyer’s Broker-Dealer”) submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Series 20B Bonds, if any, to be purchased by such Potential Holder;
- (v) if the aggregate principal amount of Series 20B Bonds to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted Bids or Sell Orders exceeds the aggregate principal amount of Series 20B Bonds to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Buyer’s Broker-Dealers (and the Participant, if any, of each such other Buyers Broker-Dealer) acting for one or more purchasers of such excess principal amount of Series 20B Bonds and the principal amount of Series 20B Bonds to be purchased from one or more Existing Holders on whose behalf such Broker-Dealer acted by one or more Potential Holders on whose behalf each of such other Buyer’s Broker-Dealers acted; and
- (vi) if the principal amount of Series 20B Bonds to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid exceeds the amount of Series 20B Bonds to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller’s Broker-Dealers (and the Participant, if any, of each such Seller’s Broker-Dealer) acting for one or more sellers of such excess principal amount of Series 20B Bonds and the principal amount of Series 20B Bonds to be sold to one or more Potential Holders on whose behalf such Broker-Dealer acted by one or more Existing Holders on whose behalf each of such Seller’s Broker-Dealers acted;
- (vii) unless previously provided, a list of all Auction Rates and related Auction Periods (or portions thereof) since the last Interest Payment Date; and
- (viii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder shall:

- (i) advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) instruct each Potential Holder on whose behalf such Broker-Dealer Submitted a Bid that was accepted, in whole or in part, to instruct such Bidder's Participant to pay to such Broker-Dealer (or its Participant) through DTC the amount necessary to purchase the principal amount of Series 20B Bonds to be purchased pursuant to such Bid against receipt of such principal amount of Series 20B Bonds;

(iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Holder's Participant to deliver to such Broker-Dealer (or its Participant) through DTC the principal amount of Series 20B Bonds to be sold pursuant to such Bid or Sell Order against payment therefor;

(iv) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Auction Period;

(v) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Holder on whose behalf such Broker-Dealer Submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it pursuant to paragraph (b)(ii) above, and any Series 20B Bonds received by it pursuant to paragraph (b)(iii) above, among the Potential Holders, if any, on whose behalf such Broker-Dealer Submitted Bids, the Existing Holders, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealers identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

(i) each Potential Holder and Existing Holder with an Order in the Auction on such Auction Date shall instruct its Participant as provided in (b)(ii) or (b)(iii) above, as the case may be;

(ii) each Seller's Broker-Dealer that is not a Participant in DTC shall instruct its Participant to (A) pay through DTC to the Participant of the Existing Holder delivering Series 20B Bonds to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary, including accrued interest, if any, to purchase such Series 20B Bonds against receipt of such Series 20B Bonds, and (B) deliver such Series 20B Bonds through DTC to a Buyer's Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not a Participant in DTC shall instruct its Participant to (A) pay through DTC to a Seller's Broker-Dealer (or its Participant) identified following such Auction pursuant to (a)(vi) above the amount necessary, including accrued interest, if any, to purchase the Series 20B Bonds to be purchased pursuant to (b)(ii) above against receipt of such Series 20B Bonds, and (B) deliver such Series 20B Bonds through DTC to the Participant of the purchaser thereof against payment therefor.

(e) On the first Business Day of the Auction Period next succeeding each Auction Date:

(i) each Participant for a Bidder in the Auction on such Auction Date referred to in (d)(i) above shall instruct DTC to execute the transactions described under (b)(ii) or (b)(iii) above for such Auction, and DTC shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Participant shall instruct DTC to execute the transactions described in (d)(ii) above for such Auction, and DTC shall execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Participant shall instruct DTC to execute the transactions described in (d)(iii) above for such Auction, and DTC shall execute such transactions.

(f) If an Existing Holder selling Series 20B Bonds in an Auction fails to deliver such Series 20B Bonds (by authorized book entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of Series 20B Bonds that is less than the principal amount of Series 20B Bonds that otherwise was to be purchased by such Potential Holder (but only in Authorized Denominations). In such event, the principal amount of Series 20B Bonds to be so delivered shall be determined solely by such Broker-Dealer (but only in Authorized Denominations). Delivery of such lesser principal amount of Series 20B Bonds shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or non delivery of Series 20B Bonds, which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or non delivery in accordance with the provisions of the Auction Agreement and the Broker-Dealer Agreement.

MARKET AGENT

The Trustee shall enter into a Market Agent Agreement with UBS Financial Services Inc., as the initial Market Agent. The Market Agent shall serve as such under the terms and provisions summarized in this Appendix G and of the Market Agent Agreement. The Market Agent, including any successor appointed pursuant to the Twenty-Fourth Supplemental Resolution, shall be a member of the National Association of Securities Dealers, Inc. having capitalization of at least \$25,000,000, and be authorized by law to perform all the duties imposed upon it by the Twenty-Fourth Supplemental Resolution and the Market Agent Agreement. The Market Agent may be removed at any time by the Agency, at the direction of the Bond Insurer, by an instrument signed by the Agency and filed with the Trustee, the Bond Insurer, the Auction Agent and the Market Agent, provided that such removal shall not take effect until the appointment of a successor Market Agent. The Market Agent may resign upon 30 days' written notice delivered to the Agency, the Bond Insurer and the Trustee. The Agency shall use its best efforts to appoint a successor Market Agent, acceptable to the Bond Insurer, that is a qualified institution, effective as of the effectiveness of any such resignation or removal. Notwithstanding that the Market Agent is the agent of the Trustee under the Market Agent Agreement, the Trustee shall not be liable in any way for any action taken, suffered, or omitted, or for any error of judgment made by the Market Agent, whether in the performance of its duties under the Market Agent Agreement or otherwise.

AUCTION AGENT

Deutsche Bank Trust Company Americas shall serve as the initial Auction Agent for the Series 20B Bonds. The Trustee is directed to enter into an agreement with the Auction Agent which shall provide as follows: The Auction Agent shall be (i) a bank or trust company duly organized under the laws

of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, The City of New York, and having a combined capital stock, surplus and undivided profits of at least \$15,000,000 or (ii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$15,000,000 and, in either case, authorized by law to perform all the duties imposed upon it hereunder and under the Auction Agreement. The Auction Agent may resign and be discharged of the duties and obligations created by the Twenty-Fourth Supplemental Resolution by giving at least 90 days' written notice to the Agency, the Trustee, the Bond Insurer and the Market Agent (30 days' written notice if the Auction Agent has not been paid its fee for more than 30 days after such fee is due). The Auction Agent may be removed at any time by the Agency, at the direction of the Bond Insurer, by an instrument signed by the Agency and filed with the Trustee, the Auction Agent, the Bond Insurer and the Market Agent upon at least 90 days' notice; provided that, if required by the Market Agent, an agreement in substantially the form of the Auction Agreement shall be entered into with a successor Auction Agent.

In the event that the Auction Agent shall resign or be removed or dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Agency shall appoint a successor as Auction Agent acceptable to the Bond Insurer, and the Trustee shall thereupon enter into an Auction Agreement with such successor.

The Auction Agent shall be acting as agent for the Trustee in connection with Auctions. In the absence of bad faith or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts necessary to make such judgment.

BROKER-DEALERS

The Auction Agent shall enter into a Broker-Dealer Agreement with UBS Financial Services Inc., as the initial Broker-Dealer. The Market Agent may from time to time approve one or more additional persons to serve as Broker-Dealers under Broker-Dealer Agreements, provided, that any such Broker-Dealer shall be acceptable to the Agency and the Bond Insurer. Any Broker-Dealer may be removed at any time by the Agency or the Bond Insurer, but, so long as any Series 20B Bonds are in the Auction Rate Period, there shall be at least one Broker-Dealer appointed and acting as such.



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