

New Issue

In the opinion of Bond Counsel, assuming compliance with certain covenants and agreements which are intended to ensure compliance with the Internal Revenue Code of 1986, as amended (the "Code"), under existing laws, regulations, rulings and judicial decisions, interest on the Series Bonds is excludable from gross income for federal income tax purposes. Bond Counsel is further of the opinion that interest on the Series Bonds is not a specific preference item or included in corporations' calculations of adjusted current earnings for purposes of the federal alternative minimum tax. For information regarding certain requirements for and exceptions to such exclusion, see "TAX MATTERS" herein. The Vermont Housing Finance Agency Act provides that the Series Bonds and the interest thereon are exempt from all Vermont taxation, franchise fees or special assessments except for transfer, inheritance and estate taxes.

VERMONT HOUSING FINANCE AGENCY

\$12,000,000

**Mortgage Revenue Bonds
(Mortgage Backed Securities Program)
Series 2011A (Non-AMT)[†]**

\$18,000,000

**Mortgage Revenue Bonds
(Mortgage Backed Securities Program)
Series 2009A, Subseries A-2 (Non-AMT)[†]**

Dated: Series 2011A Bonds—Date of Delivery
Subseries A-2 Bonds—December 21, 2009
(Interest accrual commencing November 22, 2011)

Due: As shown on inside front cover

The Series 2011A Bonds (the "Series 2011A Bonds") of the Vermont Housing Finance Agency (the "Agency") are issuable only as fully registered bonds and, when issued, are expected to be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (the "Securities Depository"). Purchases and sales by the beneficial owners of the Series Bonds can be made in book-entry form only. Beneficial owners will not receive certificates evidencing their ownership interests in the Series Bonds. See "**APPENDIX IV—BOOK ENTRY SYSTEM**" herein.

Interest on the Series 2011A Bonds will be payable on February 1, 2012, semi-annually thereafter on February 1 and August 1 of each year, and on the maturity thereof. Interest on the Series 2011A Bonds is payable by Wells Fargo Bank, National Association, as trustee (the "Trustee"), to the Securities Depository. The Securities Depository is to credit such payment to its Participants (as hereinafter described), who are to remit interest payments to the beneficial owners of the Series 2011A Bonds. Principal and premium, if any, will be payable by the Trustee in the same manner.

The Agency has previously issued \$102,000,000 aggregate principal amount of its Mortgage Revenue Bonds (Mortgage Backed Securities Program) Series 2009A (Escrow Bonds) (the "Series 2009A Bonds") and, in connection with the issuance of the Series 2011A Bonds, expects to convert and re-designate a portion of such Series 2009A Bonds to Mortgage Revenue Bonds (Mortgage Backed Securities Program), Series 2009A, Subseries A-2 (the "Subseries A-2 Bonds"). See "**NEW ISSUE BOND PROGRAM**" herein. The Subseries A-2 Bonds, together with the Series 2011A Bonds are hereinafter referred to as the "Series Bonds." The Subseries A-2 Bonds will pay interest on January 22, 2012 and thereafter on each February 1 and August 1, commencing February 1, 2012. *The current owner(s) of the Series 2009A Bonds will retain ownership of the Subseries A-2 Bonds upon the conversion thereof and re-designation; any disclosure regarding the Subseries A-2 Bonds is intended as (i) a supplement to the Official Statement of the Agency dated December 9, 2009 and relating to the initial issuance of the Series 2009A Bonds and (ii) as redemption and portfolio disclosure for the purchasers of the Series 2011A Bonds.*

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

The Series 2011A Bonds are being issued and the Subseries A-2 Bonds are being converted to provide funds for the purchase of Federal Agency Certificates (hereinafter defined) comprised of Single Family Loans (hereinafter defined) made to finance the purchase or improvement of single family housing located in the State of Vermont (the "State").

The Series Bonds are special obligations of the Agency payable solely from and secured solely by a pledge of revenues of the Indenture, Federal Agency Certificates deposited in the Indenture, Additional Security (as hereinafter defined), if any, and funds and accounts established under the Indenture (other than the rebate fund established for any Series of Bonds and amounts held in an escrow fund where such deposits are designated in any Supplemental Indenture as security solely for the payment of any Bonds related to the proceeds in such escrow account). The Series Bonds will not constitute a debt of the State or any political subdivision thereof, and neither the State nor any of its political subdivisions are liable thereon. Neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal of or the interest on the Series Bonds.

The Series 2011A Bonds will be purchased when, as and if issued by the Agency as described herein, and subject to the approval of legality by Kutak Rock LLP, Bond Counsel. A portion of the Series 2009A Bonds will be converted and redesignated as the Subseries A-2 Bonds upon the issuance and delivery of the Series 2011A Bonds and certain other conditions. Certain legal matters will be passed upon for the Agency by George N. Demas, Esq., General Counsel of the Agency. Certain legal matters will be passed upon for the Underwriters by their counsel, Nixon Peabody LLP, Boston, Massachusetts. It is expected that the Series Bonds will be available for delivery in book-entry form in New York, New York at DTC on or about November 22, 2011.

Citigroup

BofA Merrill Lynch

November 2, 2011

[†] Interest on the Series Bonds is not included in corporations' calculations of adjusted current earnings under the alternative minimum tax provisions of the Code. See "**TAX MATTERS**" herein.

MATURITY SCHEDULE

Series 2011A Bonds (Non-AMT)

\$3,460,000 Series 2011A Serial Bonds

Due Date	Principal Amount	Interest Rate	Due Date	Principal Amount	Interest Rate
February 1, 2013	\$100,000	0.65%	February 1, 2018	\$175,000	2.40%
August 1, 2013	160,000	0.75	August 1, 2018	175,000	2.40
February 1, 2014	160,000	1.00	February 1, 2019	180,000	2.75
August 1, 2014	160,000	1.10	August 1, 2019	185,000	2.75
February 1, 2015	160,000	1.40	February 1, 2020	185,000	3.05
August 1, 2015	165,000	1.50	August 1, 2020	190,000	3.05
February 1, 2016	165,000	1.90	February 1, 2021	195,000	3.25
August 1, 2016	165,000	2.00	August 1, 2021	195,000	3.25
February 1, 2017	170,000	2.05	February 1, 2022	200,000	3.40
August 1, 2017	170,000	2.15	August 1, 2022	205,000	3.40

\$5,000,000 4.50% PAC Bonds due February 1, 2026
\$3,540,000 4.10% Term Bonds due February 1, 2028

Series 2009A Bonds, Subseries A-2 (Non-AMT)¹

\$18,000,000² Subseries A-2 Term Bond due August 1, 2041

Price of all Series Bonds: 100%

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

¹ The Subseries A-2 Bonds are not offered hereby.

² A portion of the Agency's \$102,000,000 Mortgage Revenue Bonds (Mortgage Back Securities Program), Series 2009A (Escrow Bonds) in aggregate principal amount of \$18,000,000 will be converted and re-designated as the Series 2009A Bonds, Subseries A-2 (the "Subseries A-2 Bonds") upon the issuance and delivery of the Series 2011A Bonds (such date being the "Release Date"). The Subseries A-2 Bonds will bear interest from (and including) the Release Date to (but excluding) January 22, 2012 at a rate equal to the lesser of (a) the interest rate for Four Week Treasury Bills as of the Business Day prior to the Release Date plus 60 basis points or (b) the Permanent Rate. Thereafter, the Subseries A-2 Bonds shall bear interest at the Permanent Rate to maturity. The "Permanent Rate" will be calculated on or about November 15, 2011, will be based on the sum of (i) the lowest 10-Year Constant Maturity Treasury Rates, as reported by the Treasury in the period beginning September 22, 2011 and ending November 14, 2011, plus (ii) 60 basis points, but will not be greater than 2.32%.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the Agency. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the Series Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by the Agency and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and, except for information provided by the Agency, is not to be construed as a representation of the Agency. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency since the date hereof. The Series 2011A 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.

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

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

IN CONNECTION WITH THE OFFERING OF THE SERIES 2011A BONDS, THE UNDERWRITERS MAY OVER-ALLOT AND EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH SERIES 2011A BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

INTRODUCTORY STATEMENT	1
THE NEW ISSUE BOND PROGRAM	3
THE AGENCY	4
ESTIMATED SOURCES AND USES OF FUNDS	8
THE SERIES BONDS	8
SECURITY FOR THE BONDS	16
INVESTMENTS AND INVESTMENT AGREEMENTS UNDER THE INDENTURE	18
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION MORTGAGE-BACKED SECURITIES	18
FANNIE MAE MORTGAGE-BACKED SECURITIES	21
FREDDIE MAC MORTGAGE-BACKED SECURITIES	24
THE MASTER SERVICER	27
SINGLE FAMILY PROGRAM	28
SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE	32
TRUSTEE	44
PLEDGE AND AGREEMENT OF THE STATE	44
NO LITIGATION	45
INDEPENDENT AUDITORS	45
RATINGS	45
CONTINUING DISCLOSURE	45
APPROVAL OF LEGALITY	46
UNDERWRITING	46
TAX MATTERS	47
MISCELLANEOUS	48

APPENDIX I	AUDITED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2011
APPENDIX II	BONDS OUTSTANDING UNDER THE INTENTURE
APPENDIX III	DEFINITIONS OF CERTAIN TERMS
APPENDIX IV	BOOK ENTRY SYSTEM
APPENDIX V	FORM OF CONTINUING DISCLOSURE AGREEMENT
APPDENIX VI	PROPOSED FORMS OF OPINION OF BOND COUNSEL

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Mortgage Revenue Bonds
(Mortgage Backed Securities Program)
Series 2011A (Non-AMT)

\$18,000,000
Mortgage Revenue Bonds
(Mortgage Backed Securities Program)
Series 2009A, Subseries A-2 (Non-AMT)¹

This Official Statement of the Vermont Housing Finance Agency (the “Agency”) is provided for the purpose of setting forth information concerning the Agency’s Mortgage Revenue Bonds (Mortgage Backed Securities Program), Series 2011A to be issued in the principal amount of \$12,000,000 (the “Series 2011A Bonds”), the Trust Indenture, by and between the Agency and Wells Fargo Bank, National Association, as trustee (the “Trustee”), dated as of December 1, 2009 (the “Trust Indenture”), its resolution of November 19, 2009 authorizing the issuance and sale of bonds and notes for the financing of Single Family Loans, and the 2011A Supplemental Indenture to be dated as of November 1, 2011 (the “2011A Supplemental Indenture”).

Additionally, this Official Statement is furnished to provide certain information relating to the conversion and re-designation of a portion of the Agency’s Mortgage Revenue Bonds (Mortgage Backed Securities Program), Series 2009A (Escrow Bonds) (the “Series 2009A Bonds”) as the Mortgage Revenue Bonds (Mortgage Backed Securities Program), Series 2009A Bonds, Subseries A-2 (the “Subseries A-2 Bonds” and, together with the Series 2011A Bonds, the “Series Bonds”). See “**NEW ISSUE BOND PROGRAM**” herein.

The Series 2009A Bonds were issued pursuant to the Series 2009A Supplemental Indenture dated December 1, 2009, as amended on October 1, 2010 (as so amended, the “Series 2009A Supplemental Indenture”) and the New Issue Bond Program described under the heading “**NEW ISSUE BOND PROGRAM**” herein. The Subseries A-2 Bonds are being converted pursuant to the Series 2009A Supplemental Indenture as supplemented by the Series 2011A Supplemental Indenture. See “**NEW ISSUE BOND PROGRAM**” and “**THE SERIES BONDS**” for certain information pertaining to the conversion of the Subseries A-2 Bonds.

If the Subseries A-2 Bonds are not converted on the Release Date as described under “**NEW ISSUE BOND PROGRAM**” herein, the issuance of the Series 2011A Bonds may be cancelled.

The Trust Indenture, the Series 2011A Supplemental Indenture and the Series 2009A Supplemental Indenture are sometimes collectively referred to herein as the “Indenture.” Certain terms not defined elsewhere in this Official Statement are defined in **APPENDIX III** hereto.

INTRODUCTORY STATEMENT

The Series Bonds will be secured under the provisions of the Trust Indenture. The Series 2011A Bonds will be issued and the Subseries A-2 Bonds will be released and redesignated in accordance with the provisions of the Trust Indenture, the Series 2011A Supplemental Indenture, the Series 2009A Supplemental Indenture 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 issuance of the Series 2011A Bonds, the Agency issued the Series 2009A Bonds (the “Prior Bonds”) in the principal amount of \$102,000,000 (inclusive of the \$18,000,000 principal amount of proceeds to be released as the Subseries A-2 Bonds), all of which is currently outstanding. Additional Series of bonds or notes may be

¹ The Subseries A-2 Bonds are not offered hereby.

issued by the Agency on parity with the Series Bonds and other Series of bonds or notes outstanding under the Trust Indenture, provided that each additional Series is authorized by a supplemental indenture executed in accordance with and under the provisions of the Trust Indenture and the Act. The Prior Bonds, the Series Bonds and additional bonds or notes issued under the Trust Indenture are hereinafter sometimes collectively called the “Bonds.”

The Act provides that the Agency constitutes a public instrumentality of the State of Vermont (the “State”) exercising public and essential governmental functions, and the exercise by the Agency of the powers conferred by the Act is deemed to be an essential governmental function of the State. The Act authorizes the Agency to issue bonds and notes in such principal amounts as the Agency may determine. As of September 30, 2011, the Agency had \$700,680,792 principal amount of debt outstanding. For information regarding the Agency’s outstanding indebtedness, see **“THE AGENCY—Outstanding Indebtedness.”**

Pursuant to the provisions of the Act and the Indenture, the Agency has authorized the issuance of the Series 2011A Bonds and the conversion of the Subseries A-2 Bonds to make funds available, together with available funds of the Agency, to finance Single Family Loans through the purchase of GNMA Certificates, Fannie Mae Certificates and Freddie Mac Certificates (each as defined in **APPENDIX III** herein, and collectively, the “Federal Agency Certificates”). The Federal Agency Certificates are comprised of mortgage loans 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.) For additional information regarding (i) the Agency’s program of purchasing Federal Agency Certificates and (ii) the Federal Agency Certificates, see **“GOVERNMENT NATIONAL MORTGAGE ASSOCIATION MORTGAGE BACKED SECURITIES,” “FANNIE MAE MORTGAGE BACKED SECURITIES,”** and **“FREDDIE MAC MORTGAGE BACKED SECURITIES”** herein.

It is anticipated that a portion of the proceeds of the Series Bonds in the principal amount of \$5,882,459 and on deposit in the Series 2011A/Subseries A-2 Single Family Program Account will be used to purchase Federal Agency Certificates on the date of delivery of the proceeds of the Series Bonds.

All Bonds issued under the Indenture, including the Series Bonds, are secured, to the extent and as provided in such Indenture, by the Trust Estate. The Trust Estate includes all (a) Revenues, (b) Federal Agency Certificates deposited in the Indenture, (c) Additional Security, if any, and (d) all moneys and securities held in funds and accounts of this Indenture, including Bond proceeds (other than proceeds deposited (i) in trust for the retirement of any outstanding Bonds or other indebtedness of the Agency or (ii) in an escrow account where such funds of such account are designated in any Supplemental Indenture as security solely for the payment of any Bonds related to the proceeds in such escrow account), and other assets from time to time held by the Trustee under and subject to the terms of this Indenture or any Supplemental Indenture (other than amounts held in the Rebate Fund, if any).

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AGENCY PAYABLE SOLELY FROM AND SECURED SOLELY BY A PLEDGE OF REVENUES OF THE INDENTURE, FEDERAL AGENCY CERTIFICATES DEPOSITED IN THE INDENTURE, ADDITIONAL SECURITY, IF ANY, AND FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE (OTHER THAN THE REBATE FUND ESTABLISHED FOR ANY SERIES OF BONDS AND AMOUNTS HELD IN AN ESCROW FUND WHERE SUCH DEPOSITS ARE DESIGNATED IN ANY SUPPLEMENTAL INDENTURE AS SECURITY SOLELY FOR THE PAYMENT OF ANY BONDS RELATED TO THE PROCEEDS IN SUCH ESCROW ACCOUNT). THE BONDS WILL NOT CONSTITUTE A DEBT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, AND NEITHER THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS ARE LIABLE THEREON. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE BONDS.

THE NEW ISSUE BOND PROGRAM

The Agency issued \$102,000,000 aggregate principal amount of Series 2009A Bonds as escrow bonds under the Single Family New Issue Bond Program (the “New Issue Bond Program”) announced by the United States Department of the Treasury (the “Treasury”), Fannie Mae and Freddie Mac. The Series 2009A Bonds were purchased by Fannie Mae and Freddie Mac (the “GSEs”) pursuant to the New Issue Bond Program and proceeds derived from the sale of the Series 2009A Bonds and certain Agency funds in an aggregate amount equal to \$102,000,000 were deposited in escrow in the Series 2009A Escrow Account (the “Series 2009A Escrow Account”) established by the Series 2009A Supplemental Indenture. Under the New Issue Bond Program, the GSEs exchanged the Series 2009A Bonds for securities issued by the GSEs (“GSE Securities”) backed by the Series 2009A Bonds which were purchased by the Treasury. The GSE Securities are not part of the security for the Series 2009A Bonds. The Series 2009A Bonds bear interest at a short-term variable rate (such interest being equal to the interest earnings on the allocable funds in the Series 2009A Escrow Account) and may be converted to a long-term rate on up to six dates on or before December 31, 2011, unless otherwise extended (each such date, a “Release Date”). If any portion of the proceeds of the Series 2009A Bonds is not released on a Release Date by December 31, 2011, the remaining escrowed funds must be used to redeem such unconverted Series 2009A Bonds on February 1, 2012 at a redemption price equal to the principal amount thereof plus interest accrued to the date of redemption, without premium.

The release of amounts held in the Series 2009A Escrow Account for the purchase of Federal Agency Certificates depends upon compliance with various conditions set forth in agreements with the GSEs and in the Series 2009A Supplemental Indenture, including a requirement that the Agency shall have sold additional bonds to investors in accordance with standard bond underwriting practices (the “Market Bonds”) in an aggregate principal amount at least equal to two-thirds of the amount of funds released. For purposes of the New Issue Bond Program, the Series 2011A Bonds constitute Market Bonds and, upon the satisfaction of the conditions precedent to the release of escrowed funds, the Agency expects to release \$18,000,000 from the Series 2009A Escrow Account (the “Released Series 2009A Proceeds”) on the Release Date that is the date of issuance of the Series 2011A Bonds (the “Release Date”) for deposit in the Series 2011A/Subseries A-2 Single Family Program Account. The portion of the Series 2009A Bonds corresponding to the released Series 2009A Proceeds will be redesignated as the Subseries A-2 Bonds on the Release Date. The Agency previously released an aggregate principal amount of \$18,000,000 of proceeds of the Series 2009A Bonds in one prior release. Upon the release of the Released Series 2009A Proceeds, approximately \$66,000,000 will remain on deposit in the Series 2009A Escrow Account and available for future releases. No assurance can be provided (i) that the Agency will release any or all such amount or (ii) that the Agency will continue to issue Bonds under the Trust Indenture.

If proceeds of the Subseries A-2 Bonds are not released on the Release Date, the issuance of the Series 2011A Bonds may be cancelled.

The Subseries A-2 Bonds and the Series 2011A Bonds will be treated as a single “issue” of bonds under the Internal Revenue Code of 1986, as amended, and, therefore, the requirements of applicable federal tax law must be satisfied with respect to each of the Series 2011A Bonds and Subseries A-2 Bonds in order that interest on the Series 2011A Bonds and Subseries A-2 Bonds not be included in gross income for federal income tax purposes. See “**TAX MATTERS**” herein.

THE AGENCY

Purpose and Powers

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

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

Management

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

The present commissioners are:

Thomas N. Pelletier – Chair, term expires January 31, 2015. Mr. Pelletier has been President and Chief Executive Officer of Northfield Savings Bank in Northfield since 1998. He serves as a Director of Public Television of Vermont and the Norwich University Applied Research Institutes, Ltd. He is also a member of the Community Bankers Council of the American Bankers Association. Mr. Pelletier has served in leadership positions on a number of Boards, including President of Green Mountain United Way and Chair of the New England Insurance Trust, Vermont Bankers Association, Central Vermont Economic Development Corporation and Carrabassett Valley Academy. He earned his B.A. in political science with a concentration in economics from University of Maine at Orono.

Gustave “Gus” Seelig – Vice Chair, Executive Director of the Vermont Housing and Conservation Board, ex-officio member. Mr. Seelig has served as the Executive Director of the Vermont Housing and Conservation Board since its inception in 1987. The Board administers a variety of state and federal programs which have resulted in an investment by the State of 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.

Lamont Barnett – Term expires January 31, 2014; subject to Senate confirmation. Mr. Barnett is an owner of The Rock and Hammer, a retail jewelry store in downtown Bellows Falls. Mr. Barnett

currently serves as President of the Bellows Falls Downtown Alliance. In addition he currently serves on the Board of the Bellows Falls Area Development Corporation and the Board of Civil Authority. He has been active leader in the re-development of the Bellows Falls community and was instrumental in securing over \$10 million in government grants.

Dagyne T. Canney – Term expires January 31, 2014. Ms. Canney is owner and principal broker of Prudential Green Mountain Realty in Rutland, where she has sold real estate for 32 years. She serves as President of the Rutland County Board of Realtors. In addition, Ms. Canney serves on the Governor's Economic Advisory Board and is a member of the Judicial Nominating Committee. She was formerly a Director of the Vermont Association of Realtors, member and Vice Chair of the Vermont Real Estate Commission and a director to the Rutland Region Chamber of Commerce. Ms. Canney is a graduate of the University of Vermont.

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

Lisa Mitiguy Randall – Term expires January 31, 2012. Ms. Randall is Vice President of Lending and Marketing at Vermont Federal Credit Union. She was formerly the Development Director of Mater Christi School, Senior Vice President, Retail Services, New England Federal Credit Union, a Vice President of BancBoston Mortgage Corporation and the Bank of Vermont and held a variety of positions at The Howard Bank, N.A., all in Burlington, Vermont. She has served on a number of boards of charitable organizations. She is a graduate of the University of Vermont.

Steven Kimbell – Commissioner of Vermont Department of Banking, Insurance, Securities and Health Care Administration, ex-officio member. Mr. Kimbell was born in Oak Park, Illinois on March 21, 1944. He attended public schools in the suburban Chicago area, received a B.A. from the University of Illinois in 1966 and a J.D. from the University of Michigan Law School in 1969. He served on active duty in the United States Marine Corps from January, 1970, until December, 1972.

Mr. Kimbell moved to Vermont in 1973 and found work as a staff attorney at Vermont Legal Aid, Inc., in Burlington. In 1978 he left that job to manage Madeleine Kunin's campaign for Lieutenant Governor of Vermont. Following the campaign, Mr. Kimbell opened a law practice in Fairfax, Vermont, where he worked until 1982, when he left to manage Madeleine Kunin's campaign for governor of Vermont. After that campaign, he returned to his law practice. In 1984, after Madeleine Kunin was elected Governor of Vermont, Kimbell accepted the position of State Planning Director in her administration, serving in that capacity until July, 1986, when he returned to private practice. In 1987, Mr. Kimbell partnered with Bob Sherman to form the government and public affairs firm of Kimbell & Sherman, where he worked until retirement in 2010. Mr. Kimbell lives in Tunbridge, Vermont.

Elizabeth "Beth" Pearce – State Treasurer, ex officio member. Ms. Pearce was appointed Vermont State Treasurer in January 2011. The appointment, by Governor Peter Shumlin, followed the resignation of Treasurer Jeb Spaulding who was appointed Secretary of Administration. Treasurer Pearce has more than 30 years of experience in government finance at both the state and local levels. She served as Vermont's Deputy Treasurer for more than seven years before assuming her current role as Treasurer. As Deputy Treasurer, she was responsible for a full range of operations including retirement administration of the three state-wide systems for State employees, teachers, and municipal employees.

She also was responsible for unclaimed property, accounting, budget, debt and capital financing, cash management, investment of short-term funds in State custody, and risk management.

Prior to joining the Vermont State Treasurer's Office, she served as Deputy Treasurer for Cash Management at the Massachusetts State Treasurer's Office from 1999-2003; Deputy Comptroller for the Town of Greenburgh, New York; and as the Accounting Manager and Financial Operations Manager for the Town of West Hartford, Connecticut. In addition, she has served as a fiscal officer with the Massachusetts Department of Social Services and as a project director for the Massachusetts Executive Office of Human Services. Ms. Pearce has a B.A. from the University of New Hampshire. She has prepared financial reports that have received the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association.

Lawrence Miller – Secretary of the Vermont Agency of Commerce and Community Development, ex-officio member. Mr. Miller oversees Economic Development, Tourism and Marketing, Historic Preservation and Housing and Community Affairs for the State. He was appointed by as Secretary on January 6, 2011. Prior to joining the state, Mr. Miller was chairman and CEO of Danforth Pewter, which he transitioned from a wholesale business to a multi-channel retail company. He was also the founder of Vermont's Otter Creek Brewing, Inc., a leading specialty microbrewery that he owned and operated from 1990 to 2002. As a longtime leader in Vermont's business community, Mr. Miller has direct experience with the Agency of Commerce and Community Development as a client and volunteer. He lives in Ripton, Vermont.

The following are the principal staff members of the Agency:

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

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

David S. 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.

Jacklyn R. Santerre is the Agency's Director of Homeownership Programs. Ms. Santerre has been with the Agency since 1984, most recently serving as Assistant Director of Homeownership Programs. Prior to joining the Agency, she was a loan processor and office manager for the Lomas and Nettleton Company in Burlington, Vermont for four years.

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

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

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

As of September 30, 2011 the Agency had 34.66 full time equivalent employees who are responsible for the operation and management of the Agency. Of these employees, 8.16 are charged with responsibility for the single family program and 9.5 are charged with responsibility for the multifamily program. Included on the staff of the Agency are professionals with experience in mortgage underwriting and portfolio and investment management.

Operations to Date

Pursuant to the Act and agreements with bondowners, a substantial portion of the Agency's assets are pledged to secure specific obligations or are otherwise restricted. The Agency maintains separate restricted funds for each of its programs financed by the issuance of bonds under a particular general bond resolution or trust indenture. Such funds and programs have separate sets of self-balancing accounts set up in accordance with the Act and the various general bond resolutions and trust indentures. Assets and revenues of such funds and programs are restricted by various resolutions and agreements and are not available in any manner other than as provided in the various general bond resolutions or trust indentures adopted by the Agency for its programs. Money in excess of restricted fund requirements is transferred periodically from these restricted funds to the General Fund. All of the Agency's outstanding bonds other than the Bonds and the Agency's Single Family Housing 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 special obligations of the Agency, and no revenues, money or assets of the Agency are pledged to the payment of the Bonds except as specifically set forth in the Indenture or the related supplemental indentures.

Outstanding Indebtedness

Since September 1974, the Agency has issued \$3,000,789,043 aggregate principal amount of bonds and notes, of which \$700,680,792 was outstanding as of September 30, 2011, to finance its various programs. The proceeds of the bonds have been or will be used to make mortgage loans to sponsors of multifamily residential housing units for persons and families of low and moderate income in the State, to purchase mortgage loans on single family residential housing units for persons and families of low and moderate income in the State, to make loans to mortgage lenders to finance such single family housing and to make loans to finance certain other multifamily housing developments. The bonds are secured pursuant to the terms of the resolutions or trust indentures under which they were issued.

For additional information with respect to outstanding indebtedness of the Agency, see **APPENDIX I—Audited Financial Statements As Of And For the Year Ended June 30, 2011.**

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds:

Principal Amount of the Series 2011A Bonds	\$12,000,000.00
Premium on Series 2011A PAC Bonds	399,700.00
Released Series 2009A Proceeds (Subseries A-2)	18,000,000.00
Agency Contribution	<u>238,907.18</u>
Total Sources	\$30,638,607.18

Uses of Funds:

Deposit to Series 2011A/Subseries A-2 Single Family Program Account	\$29,920,725.93
Series 2011A/Subseries A-2 Account of the Revenue Fund	445,000.00
Costs of Issuance	125,000.00
Underwriters' Discount	<u>147,881.25</u>
Total Uses	\$30,638,607.18

THE SERIES BONDS

The Series 2011A Bonds

The Series 2011A Bonds will be dated the date of initial delivery and will be issued as fully registered bonds without coupons and are to mature on the dates and bear interest at the rates shown on the inside cover page of this Official Statement. The Series 2011A Bonds are issued in denominations of \$5,000 and any multiple thereof. Interest is payable on the Series 2011A Bonds on February 1, 2012 and semi-annually thereafter on August 1 and February 1 of each year and on the maturity date thereof. Interest on the Series 2011A Bonds shall be calculated on the basis of a 360 day year of twelve 30-day months.

The Subseries A-2 Bonds

The Subseries A-2 Bonds are being converted to a long-term interest rate in the aggregate principal amount of \$18,000,000 and will mature, subject to redemption as hereinafter described, on August 1, 2041. The Subseries A-2 Bonds will bear interest from their Release Date to (but excluding)

January 22, 2012 at an annual rate equal to the lesser of (a) the interest rate for Four Week Treasury Bills as of the second Business Day prior to the Release Date plus 60 basis points or (b) the Permanent Rate. Thereafter, the Subseries A-2 Bonds will bear interest at the annual rate equal to the Permanent Rate to maturity or earlier redemption. The Permanent Rate, which will be calculated on or about November 15, 2011, will be based on the sum of (i) the lowest 10-Year Constant Maturity Treasury rate, as reported by the Treasury in the period beginning September 22, 2011 and ending November 14, 2011, plus (ii) 60 basis points, but will not be greater than 2.32% per annum.

Redemption Provisions

Sinking Fund Redemption. The Series 2011A Bonds maturing on February 1, 2026 and February 1, 2028 and the Subseries A-2 Bonds 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 2011A PAC Bonds Due February 1, 2026

Due	Principal Amount	Due	Principal Amount
February 1, 2013	\$ 95,000	February 1, 2020	\$200,000
August 1, 2013	170,000	August 1, 2020	200,000
February 1, 2014	170,000	February 1, 2021	205,000
August 1, 2014	170,000	August 1, 2021	210,000
February 1, 2015	175,000	February 1, 2022	215,000
August 1, 2015	175,000	August 1, 2022	215,000
February 1, 2016	175,000	February 1, 2023	220,000
August 1, 2016	180,000	August 1, 2023	225,000
February 1, 2017	180,000	February 1, 2024	230,000
August 1, 2017	185,000	August 1, 2024	240,000
February 1, 2018	185,000	February 1, 2025	245,000
August 1, 2018	190,000	August 1, 2025	145,000
February 1, 2019	190,000	February 1, 2026 [†]	15,000
August 1, 2019	195,000		

[†] Maturity

Series 2011A Bonds Due February 1, 2028

Due	Principal Amount	Due	Principal Amount
February 1, 2023	\$210,000	February 1, 2026	\$475,000
August 1, 2023	215,000	August 1, 2026	500,000
February 1, 2024	220,000	February 1, 2027	515,000
August 1, 2024	220,000	August 1, 2027	525,000
February 1, 2025	225,000	February 1, 2028 [†]	100,000
August 1, 2025	335,000		

[†] Maturity

Subseries A-2 Bonds Due August 1, 2041

Due	Principal Amount	Due	Principal Amount
February 1, 2028	\$440,000	February 1, 2035	\$650,000
August 1, 2028	540,000	August 1, 2035	660,000
February 1, 2029	550,000	February 1, 2036	660,000
August 1, 2029	560,000	August 1, 2036	670,000
February 1, 2030	570,000	February 1, 2037	680,000
August 1, 2030	570,000	August 1, 2037	690,000
February 1, 2031	580,000	February 1, 2038	700,000
August 1, 2031	590,000	August 1, 2038	710,000
February 1, 2032	600,000	February 1, 2039	720,000
August 1, 2032	610,000	August 1, 2039	730,000
February 1, 2033	610,000	February 1, 2040	740,000
August 1, 2033	620,000	August 1, 2040	750,000
February 1, 2034	630,000	February 1, 2041	760,000
August 1, 2034	640,000	August 1, 2041 [†]	770,000

[†] 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 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.

The amounts accumulated for each sinking fund installment may be applied by the Trustee to the purchase of the Series Bonds for which such sinking fund installment is established at any time prior to the 21st day preceding the due date of such sinking fund installment. In the event that Series 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 Bonds of such maturities (and may be applied to reduce the sinking fund installments of such Series Bonds subject to sinking fund redemption) as the Agency may determine.

Optional Redemption. The Series 2011A Bonds are subject to redemption at the option of the Agency, either as a whole or in part at any time on and after August 1, 2021, from such maturities of Series 2011A Bonds of similar tenor selected by the Agency and by lot if within a maturity of Series 2011A Bonds of similar tenor, from money deposited in the Series 2011A/Subseries A-2 Account in the Debt Service Fund at a redemption price of 100% of the principal amount thereof, plus accrued interest, if any, to the date of redemption.

The Subseries A-2 Bonds shall be subject to optional redemption in whole or in part at any time.

The Agency shall select the principal amounts of each maturity and interest rate of Series 2011A Bonds and Subseries A-2 Bonds to be redeemed pursuant to this subsection, and the Trustee shall select by lot the Series 2011A Bonds and Subseries A-2 Bonds of a particular maturity and interest rate to be so redeemed.

Special Redemption.

(a) *Unexpended Proceeds.*

(i) Series 2011A Bonds and the Subseries A-2 Bonds shall be subject to special redemption, at the option of the Agency, prior to maturity, at any time, in whole or in part, from moneys representing Series 2011A Bond and Subseries A-2 Bond proceeds not used to purchase Federal Agency Certificates.

(ii) If the Agency has not expended all proceeds of the Series 2011A Bonds and the Subseries A-2 Bonds and the related Delivery Period has not been extended, then Series Bonds are subject to mandatory redemption from such unexpended proceeds upon the expiration of the related Delivery Period.

“*Delivery Period*” or “*Delivery Periods*” means the period of time for the purchase of Federal Agency Certificates from the Servicer, (A) for \$5,882,459 principal amount of the proceeds on deposit in the Series 2011A/Subseries A-2 Single Family Program Account, the date of delivery of the proceeds of the Series 2011A/Subseries A-2 Bonds, (B) for \$12,426,493 principal amount of the proceeds on deposit in the Series 2011A/Subseries A-2 Single Family Program Account, ending on June 1, 2012, and (C) for \$11,691,048 principal amount of the proceeds on deposit in the Series 2011A/Subseries A-2 Single Family Program Account, ending on October 1, 2012, or such earlier date on which all Federal Agency Certificates have been purchased, unless extended by the Agency in accordance with requirements outlined in “**SINGLE FAMILY PROGRAM—Acquisition of Series 2011A/Subseries A-2 Federal Agency Certificates**” herein; provided, however that the Delivery Period may not extend beyond May 22, 2015.

(iii) For purposes of any redemption from unexpended proceeds, each Federal Agency Certificate purchased by the Agency from amounts on deposit in the Series 2011A/Subseries A-2 Single Family Program Account is deemed to have been purchased with proceeds of the Series 2011A Bonds and the Subseries A-2 Bonds on a proportionate basis.

(iv) In the event any Series 2011A Bonds or Subseries A-2 Bonds are to be redeemed as a result of unexpended proceeds, the Series 2011A Bonds and the Subseries A-2 Bonds, subject to subsection (iii) hereof, are to be selected at random by the Trustee within a maturity from such maturities of the Series 2011A Bonds and Subseries A-2 Bonds and in such amounts as shall be determined by the Agency, and redeemed at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the redemption date, without premium (except that any Series 2011A PAC Bonds are to be redeemed at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest, plus the unamortized premium thereon as determined by the Agency by straight-line amortization of the original issue premium of 7.994% between the date of issue and February 1, 2021 (as of which date the premium would reduce to \$0)).

(b) *Excess Revenues.* Any moneys on deposit in the Revenue Fund attributable to Excess Revenues may, at the option of the Agency and subject to the requirements of the Indenture, be applied to the redemption, in whole or in part, at any time, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest, without premium, of Outstanding Bonds under the Indenture (including the Series 2011A Bonds and the Subseries A-2

Bonds, but with respect to the Series 2011A PAC Bonds, not in excess of the maximum cumulative redemption amounts shown below) from such series and maturities as the Agency may select at its option; subject, however, to any provisions to the contrary in any Supplemental Indenture relating to a Series of Bonds.

As used herein, “Excess Revenues” means the Revenues, including prepayments other than Series 2011A Principal Payments and excluding Subseries A-2 Principal Payments, on deposit in the Revenue Fund received in excess of (i) the maturing principal and Sinking Fund Installments and any required mandatory redemptions, together with interest from time to time and payable, on Bonds Outstanding under the Indenture, (ii) amounts, if any, needed to maintain the Reserve Fund at the Reserve Requirement, if any, and (iii) amounts required by the Agency to pay fees and other costs in connection with the Bonds associated with maintaining the program, including amounts to be paid under swap agreements, liquidity facilities, remarketing agreements and other similar instruments, if any.

(c) *10 Year Rule Requirements.* To comply with certain provisions of federal tax law, all available prepayments and regularly scheduled repayments of mortgage principal from Single Family Loans backing Federal Agency Certificates financed with proceeds of the Series 2011A Bonds and the Subseries A-2 Bonds and received 10 years or more after the delivery of such Bonds, are required to be applied no later than the close of the first semiannual period beginning after the date of receipt to the retirement of the Series 2011A Bonds and the Subseries A-2 Bonds through payment thereof at maturity or by redemption; provided, no such redemption shall be required if the amount available and required to be used to redeem the Series 2011A Bonds or Subseries A-2 Bonds is less than \$100,000. The following percentages of scheduled payments and prepayments of mortgage principal from Single Family Loans backing Federal Agency Certificates allocated to the proceeds of the Series 2011A Bonds and Subseries A-2 Bonds received on or after the following dates are subject to the 10-year rule:

<u>Dates</u>	<u>Percentages</u>
November 22, 2011 to November 21, 2021	0.00%
November 22, 2021 and thereafter	100.00

(d) *Subseries A-2 Principal Payments.* The Subseries A-2 Bonds are subject to special mandatory redemption from Subseries A-2 Principal Payments (as hereinafter defined). While any Series 2011A Bonds are Outstanding, after the application of all repayments and prepayments of mortgage principal financed with proceeds of the Series 2011A Bonds and Subseries A-2 Bonds to the extent necessary to make regularly scheduled principal payments on the Series 2011A Bonds and Subseries A-2 Bonds, either at maturity or pursuant to sinking fund installments pursuant to paragraph (a) above, a pro rata portion (calculated based on the outstanding principal amount of the Subseries A-2 Bonds divided by the outstanding principal amount of the Series Bonds) of all remaining repayments and prepayments of mortgage principal financed with proceeds of the Series 2011A Bonds and Subseries A-2 Bonds received by or on behalf of the Agency (the “Subseries A-2 Principal Payments”) will be applied to the redemption of the Subseries A-2 Bonds and will not be available to redeem the Series 2011A Bonds.

(e) *Series 2011A Principal Payments.* After the application of all repayments and prepayments of mortgage principal financed with proceeds of the Series 2011A Bonds and Subseries A-2 Bonds to the extent necessary to make regularly scheduled principal payments on the Series 2011A Bonds and Subseries A-2 Bonds, either at maturity or pursuant to Sinking Fund Installments, a pro rata portion (calculated based on the outstanding principal amount of the Series 2011A Bonds divided by the outstanding principal amount of the Series Bonds) of all

remaining repayments and prepayments of mortgage principal from Single Family Loans backing Federal Agency Certificates financed with proceeds of the Series 2011A Bonds and Subseries A-2 Bonds received by or on behalf of the Agency (such amounts herein referred to as the “2011A Principal Payments”) shall be applied to redeem the Series 2011A PAC Bonds, but only to the extent that the outstanding principal amount of the Series 2011A PAC Bonds following such redemption is not less than the Series 2011A PAC Bond Outstanding Applicable Amount as of such date as set forth in the table below.

The Series 2011A PAC Bond Outstanding Applicable Amount is as follows:

Date	Series 2011A PAC Bond Outstanding Applicable Amount†	Date	Series 2011A PAC Bond Outstanding Applicable Amount†
November 22, 2011	\$5,000,000	August 1, 2017	\$1,765,000
August 1, 2012	4,950,000	February 1, 2018	1,475,000
February 1, 2013	4,795,000	August 1, 2018	1,210,000
August 1, 2013	4,545,000	February 1, 2019	955,000
February 1, 2014	4,215,000	August 1, 2019	735,000
August 1, 2014	3,865,000	February 1, 2020	510,000
February 1, 2015	3,480,000	August 1, 2020	330,000
August 1, 2015	3,105,000	February 1, 2021	155,000
February 1, 2016	2,730,000	August 1, 2021	10,000
August 1, 2016	2,395,000	February 1, 2022	-0-
February 1, 2017	2,065,000	and thereafter	

†Based on an approximation of 75% PSA prepayment speed. (See “Projected Weighted Average Lives of the Series 2011A PAC Bonds” below for a discussion of the PSA Prepayment Model.) Amounts actually to be redeemed pursuant to this provision will be reduced proportionately to the extent any of the Series 2011A PAC Bonds are redeemed from unexpended proceeds of the Series 2011A Bonds.

If there are Series 2011A Principal Payments remaining after the above redemption in accordance with the table above, any excess Series 2011A Principal Payments are to be used as follows: (1) to the extent required by applicable federal tax law, (a) to redeem Outstanding Series 2011A Bonds (other than Series 2011A PAC Bonds) and Subseries A-2 Bonds from such maturities as selected by the Agency, or (b) if no Series 2011A Bonds are Outstanding other than Series 2011A PAC Bonds, to redeem Outstanding Series 2011A PAC Bonds and Subseries A-2 Bonds as selected by the Agency, in each case on any date, in whole or in part, at a price equal to the principal amount thereof to be redeemed plus accrued interest, without premium, or (c) if there are no Series 2011A Bonds Outstanding, to redeem Subseries A-2 Bonds on any date, in whole or in part, at a price equal to the principal amount thereof to be redeemed plus accrued interest, without premium; or (2) to the extent not required by applicable federal tax law to redeem Series Bonds, at the option of the Agency, to redeem any Outstanding Bonds, including the Series 2011A Bonds (other than Series 2011A PAC Bonds, unless no other Series 2011A Bonds are Outstanding) or the Subseries A-2 Bonds at a price equal to the principal amount thereof to be redeemed plus accrued interest, without premium, or for any other purpose authorized under the Indenture.

To the extent that Series 2011A Principal Payments are insufficient to redeem Series 2011A PAC Bonds such that a principal amount greater than the Series 2011A PAC Bond Outstanding Applicable Amount for such Series 2011A PAC Bonds remains on such redemption date, the Agency will apply excess 2011A Principal Payments from a prior period, to the extent not otherwise applied as described above, to redeem Series 2011A PAC Bonds to the Outstanding Applicable Amount for such redemption date.

To the extent Series 2011A PAC Bonds are to be redeemed more than once in a semiannual period or on a date that is not a regularly scheduled Interest Payment Date, the Agency will not redeem Series 2011A PAC Bonds on a cumulative basis as of any date in an aggregate principal amount greater than the sum of (i) the Maximum Cumulative Amount in the table below for the immediately preceding regularly scheduled Interest Payment Date and (ii) the proportionate amount (based on the number of days elapsed since the immediately preceding regularly scheduled Interest Payment Date and the total number of days in the period (calculated on the basis of a 360-day year of twelve 30-day months)) of the difference between the Maximum Cumulative Amount set forth in the table below for the next succeeding regularly scheduled Interest Payment Date and the Maximum Cumulative Amount for the immediately preceding regularly scheduled Interest Payment Date.

The Series 2011A PAC Bond Maximum Cumulative Amount is as follows:

Redemption Period	Maximum Cumulative Amounts	Redemption Period	Maximum Cumulative Amounts
November 22, 2011	\$ -0-	August 1, 2017	\$3,235,000
August 1, 2012	50,000	February 1, 2018	3,525,000
February 1, 2013	205,000	August 1, 2018	3,790,000
August 1, 2013	455,000	February 1, 2019	4,045,000
February 1, 2014	785,000	August 1, 2019	4,265,000
August 1, 2014	1,135,000	February 1, 2020	4,490,000
February 1, 2015	1,520,000	August 1, 2020	4,670,000
August 1, 2015	1,895,000	February 1, 2021	4,845,000
February 1, 2016	2,270,000	August 1, 2021	4,990,000
August 1, 2016	2,605,000	February 1, 2022	5,000,000
February 1, 2017	2,935,000	and thereafter	-0-

Projected Weighted Average Lives of the Series 2011A PAC Bonds. The following information is provided to allow potential investors to evaluate the Series 2011A PAC Bonds which are the subject of special redemption described above.

The weighted average life of a bond refers to the average length of time that will elapse from the date of issuance of such bond to the date each installment of principal is paid weighted by the principal amount of such installment. The weighted average life of the Series 2011A PAC Bonds will be influenced by, among other things, the rate at which Federal Agency Certificates are purchased and the rate at which principal payments (including scheduled payments and principal prepayments) are made on the Single Family Loans backing the Federal Agency Certificates financed with proceeds of the Series 2011A Bonds and Subseries A-2 Bonds. An investor owning less than all of the Series 2011A PAC Bonds may experience redemption at a rate that varies from the average life of the Series 2011A PAC Bonds.

Levels of prepayment on mortgage loans are commonly measured by a prepayment standard or model. The standard used in this Official Statement is The Standard Prepayment Model of The Securities Industry and Financial Markets Association, formerly The Bond Market Association and formerly the Public Securities Association (the “PSA Prepayment Model”). The PSA Prepayment Model represents an assumed monthly rate of prepayment of the then outstanding principal balance of a pool of mortgage loans. The PSA Prepayment Model does not purport to be either an historical description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including Single Family Loans backing Federal Agency Certificates financed with proceeds of the Series 2011A Bonds and Subseries A-2 Bonds. “100% PSA” assumes prepayment rates of 0.2 percent per year of the then-unpaid balance of the pool of mortgage

loans in the first month of the life of the pool of mortgage loans and an additional 0.2 percent per year in each month thereafter (for example, 0.4 percent per year in the second month) until the thirtieth month. Beginning in the thirtieth month and in each month thereafter during the life of the pool of mortgage loans, 100% PSA assumes a constant prepayment rate of 6 percent per year. Multiples will be calculated from this prepayment rate standard, e.g. “200% PSA” assumes prepayment rates will be 0.4 percent per year in month one, 0.8 percent per year in month two, reaching 12 percent per year in month thirty and remaining constant at 12 percent per year thereafter. “0% PSA” assumes no prepayments of principal of a pool of mortgage loans will occur for the life of the pool of mortgage loans. The following table, entitled “Projected Weighted Average Lives for the Series 2011A PAC Bonds” assumes, among other things, that (i) the Single Family Loans backing the Federal Agency Certificates financed with proceeds of the Series 2011A Bonds and Subseries A-2 Bonds prepay at the indicated percentages of the PSA Prepayment Model, (ii) all proceeds of the Series 2011A Bonds and Subseries A-2 Bonds in the Series 2011A/Subseries A-2 Single Family Program Account are used to purchase Federal Agency Certificates, (iii) all Federal Agency Certificates financed with the proceeds of the Series 2011A Bonds and Subseries A-2 Bonds will be acquired by June 1, 2012, (iv) all scheduled principal and interest payments or prepayments on Single Family Loans backing Federal Agency Certificates financed with proceeds of the Series 2011A Bonds and Subseries A-2 Bonds are received thirty days after the date on which due or assumed to be made and there are no foreclosures or repurchases of such Single Family Loans, and (v) the Series 2011A PAC Bonds are not redeemed pursuant to optional redemption. Based solely on such assumptions, some or all of which are unlikely to reflect actual experience, the following table provides projected weighted average life information for the Series 2011A PAC Bonds.

Projected Weighted Average Lives for the Series 2011A PAC Bonds

PSA Prepayment	Series 2011A PAC Bonds Weighted Average Life†
0%	7.5 years
25	6.6
50	5.7
75	5.0
100	5.0
200	5.0
300	5.0
400	5.0
500	5.1

†The weighted average life may be affected if Series 2011A PAC Bonds are redeemed with Excess Revenues or from unexpended proceeds of the Series 2011A Bonds, as described above.

No assurance can be given that prepayments of principal of the Single Family Loans backing Federal Agency Certificates financed with proceeds of the Series 2011A Bonds and Subseries A-2 Bonds will conform to any level of a particular prepayment projection, schedule or model or that prepayments will be available to be applied to redemptions of any of the Series 2011A Bonds, including the Series 2011A PAC Bonds. The rates of principal prepayments on Single Family 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 Single Family Loans are originated. In general, if prevailing interest rates fall significantly below the interest rates on the Single Family Loans backing Federal Agency Certificates financed by the Series 2011A Bonds and Subseries A-2 Bonds, such Single Family Loans may be likely to prepay at higher rates than if prevailing interest rates remain at or above the interest rates on such Single Family Loans. Conversely, if prevailing interest rates rise above

the interest rates on the Single Family Loans backing Federal Agency Certificates financed by the Series 2011A Bonds and Subseries A-2 Bonds, the rate of prepayments might be expected to decrease. Foreclosures or repurchases of Single Family Loans will also affect the expected special redemption schedules. The Agency cannot predict the number of Single Family Loans backing Federal Agency Certificates financed by the Series 2011A Bonds and Subseries A-2 Bonds that may become delinquent, repurchased or foreclosed. For these reasons, the Agency cannot offer any assurances as to the rate at which the Single Family Loans backing Federal Agency Certificates financed by the Series 2011A Bonds and Subseries A-2 Bonds will prepay and offers no assurance that the scheduled amounts will, in fact, be available to effect any redemptions as described herein.

Notice of Redemption of Bonds. When the Trustee receives notice from the Agency, according to the provisions of the Indenture, of its election to redeem Bonds, the Trustee is to give notice of such redemption to the Owner or Owners of the Series Bonds as appropriate (DTC, in the event that such Bonds are in book-entry form), which notice is to specify the series, maturities and tenor of the Bonds to be redeemed, the redemption date and the places where amounts due upon redemption will be payable. The Indenture provides that with respect to the Series Bonds the Trustee is to mail a copy of the notice of redemption not less than 20 days before the redemption date, to the Owners of all such Series Bonds to be redeemed. Failure to mail any such notice to the Owner of any Series Bonds or any defect in such notice will not affect the validity of the redemption of any other Series Obligation for which the required notice was given.

SECURITY FOR THE BONDS

All Bonds issued under the Indenture, including the Series Bonds, are secured, to the extent and as provided in such Indenture, by the Trust Estate. The Trust Estate includes all (a) Revenues, (b) Federal Agency Certificates deposited in the Indenture, (c) Additional Security, if any, and (d) all moneys and securities held in funds and accounts of this Indenture, including Bond proceeds (other than proceeds deposited (i) in trust for the retirement of any outstanding Bonds or other indebtedness of the Agency or (ii) in an escrow account where such funds of such account are designated in any Supplemental Indenture as security solely for the payment of any Bonds related to the proceeds in such escrow account), and other assets from time to time held by the Trustee under and subject to the terms of this Indenture or any Supplemental Indenture (other than amounts held in the Rebate Fund, if any).

In accordance with the 2009A Supplemental Indenture, amounts on deposit in the Series 2009A Escrow Account and investments thereon are pledged solely to secure the Series 2009A Bonds prior to Conversion, unless and until there is a default under the Indenture, in which case such funds will be applied as required by the Indenture.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AGENCY PAYABLE SOLELY FROM AND SECURED SOLELY BY A PLEDGE OF REVENUES OF THE INDENTURE, FEDERAL AGENCY CERTIFICATES DEPOSITED IN THE INDENTURE, ADDITIONAL SECURITY, IF ANY, AND FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE (OTHER THAN THE REBATE FUND ESTABLISHED FOR ANY SERIES OF BONDS AND AMOUNTS HELD IN AN ESCROW FUND WHERE SUCH DEPOSITS ARE DESIGNATED IN ANY SUPPLEMENTAL INDENTURE AS SECURITY SOLELY FOR THE PAYMENT OF ANY BONDS RELATED TO THE PROCEEDS IN SUCH ESCROW ACCOUNT). THE BONDS WILL NOT CONSTITUTE A DEBT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, AND NEITHER THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS ARE LIABLE THEREON. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE BONDS.

Additional Security

In addition to the security provided for the Bonds under the Trust Indenture, a Supplemental Indenture may provide for additional security under the Indenture. Such Additional Security, to the extent the provision thereof will not adversely affect the ratings assigned to any Bonds outstanding by any Rating Agency, may be in the form of Cash Equivalents. See “**SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Cash Equivalents.**”

Additional Bonds

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

Enforceability of Remedies

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

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**INVESTMENTS AND INVESTMENT
AGREEMENTS UNDER THE INDENTURE**

Amounts deposited in all Funds and Accounts (except the Rebate Account of the Revenue Fund and the Costs of Issuance Account of the Program Fund) under the Indenture and not immediately used for the purchase of Federal Agency Certificates are invested in Permitted Investments. For a discussion of Permitted Investments, please see **APPENDIX III—Definitions of Certain Terms**. Permitted Investments held under the Indenture as of September 30, 2011 are set forth in the below table:

Permitted Investments Held Under the Indenture as of September 30, 2011

<u>Series of Bonds</u>	<u>Fund or Account</u>	<u>Permitted Investment or Investment Agreement Provider</u>	<u>Maturity</u>	<u>Interest Rate</u>
2009B	Escrow Fund	Global Escrow Agreement	February 1, 2012	Variable
2010A/ Subseries 2009A-1	2010A/Subseries A-1 Single Family Program Account	Bayerische Landesbank	October 31, 2011	0.32%
2010A/ Subseries 2009A-1	2010A/Subseries A-1 Account of the Revenue Fund	Wells Fargo Advantage Government Money Market Fund	N/A	Variable

**GOVERNMENT NATIONAL MORTGAGE
ASSOCIATION MORTGAGE-BACKED SECURITIES**

This summary does not purport to be comprehensive and is qualified in its entirety by reference to the GNMA Mortgage-Backed Securities Guide and to the documents referred to therein and herein for full and complete statements of their provisions. Additional information is available at www.ginniemae.gov.

The Government National Mortgage Association is a wholly owned corporate instrumentality of the United States within the Department of Housing and Urban Development with its principal office in Washington, D.C.

Each GNMA Security is to be issued under either the GNMA I Program or the GNMA II Program. Although there are a number of differences between GNMA I Securities and GNMA II-Custom Pool Securities, those differences do not adversely affect the availability of Revenues with which to pay principal of and interest on Outstanding Bonds. Each GNMA Security is to be backed by a pool of mortgage loans in a minimum aggregate amount of \$25,000 and multiples of \$1 in excess of \$25,000. The Master Servicer is required to pay to the Trustee (in the case of a GNMA I Security) or to the Central Paying and Transfer Agent (in the case of a GNMA II-Custom Pool Security), and such Central Paying and Transfer Agent shall be required to pay to the Trustee, as the owner of the GNMA Security, the regular monthly installments of principal and interest on the mortgage loans backing the GNMA Security (less such Master Servicer’s servicing fee, which includes the GNMA guaranty fee), whether or not the Master Servicer receives such installments, plus any mortgage prepayments received by the Master Servicer in the previous month. The Government National Mortgage Association guarantees the timely payment of the principal of and interest on the GNMA Security.

In order to issue GNMA Securities, the Master Servicer must first apply to and receive from the Government National Mortgage Association a commitment to guarantee securities. Such a commitment authorizes the Master Servicer to issue GNMA Securities up to a stated amount during a one-year period following the date of the commitment. The Master Servicer is required to pay the application fee to the Government National Mortgage Association for such commitments. The amount of commitments to guarantee GNMA Securities that the Government National Mortgage Association can approve in any federal fiscal year is limited by statute and administrative procedures. The total annual amount of available commitments is established in appropriation acts and related administrative procedures.

The issuance of each GNMA Security by the Master Servicer is subject to the following conditions, among others: (i) the purchase by the Master Servicer of mortgage loans in a minimum aggregate principal amount at least equal to the minimum size permitted by the Government National Mortgage Association for each GNMA Security (such origination being subject, among other conditions, to the availability of FHA mortgage insurance, RD guarantees, and VA guarantees), (ii) the submission by the Master Servicer to the Government National Mortgage Association of certain documents required by the Government National Mortgage Association in form and substance satisfactory to the Government National Mortgage Association, (iii) the Master Servicer's continued compliance, on the date of issuance of the GNMA Security, with all of the Government National Mortgage Association's eligibility requirements, specifically including, but not limited to, certain net worth requirements, (iv) the Master Servicer's continued approval by the Government National Mortgage Association to issue GNMA Securities, and (v) the Master Servicer's continued ability to issue, execute and deliver the GNMA Security, as such ability may be affected by such Master Servicer's bankruptcy, insolvency or reorganization. In addition, the issuance of a GNMA Security by the Master Servicer is subject to the condition that the Government National Mortgage Association must have entered into a guaranty agreement with the Master Servicer. The conditions to the Government National Mortgage Association entering into such an agreement may change from time to time, and there can be no assurance that the Master Servicer will be able to satisfy all such requirements in effect at the time a GNMA Security is to be issued. Moreover, there can be no assurance that all of the above conditions will be satisfied at the time a GNMA Security is to be issued by the Master Servicer for purchase by the Trustee.

GNMA Security

The Government National Mortgage Association is authorized by Section 306(g) of Title III of the National Housing Act of 1934, as amended (the "Housing Act") to guarantee the timely payment of the principal of, and interest on, securities that are based on and backed by a pool composed of, among other things, mortgage loans insured by FHA under the Housing Act, guaranteed by the USDA/RD under the National Affordable Housing Act of 1990, as amended, or guaranteed by the VA under the Servicemen's Readjustment Act of 1944, as amended. Section 306(g) further provides that "[T]he full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection." An opinion dated December 9, 1969, of an Assistant Attorney General of the United States states that such guarantees under Section 306(g) of mortgage-backed securities of the type to be delivered to the Trustee by the Lenders are authorized to be made by the Government National Mortgage Association and "would constitute general obligations of the United States backed by its full faith and credit."

Government National Mortgage Association Borrowing Authority

In order to meet its obligations under such guaranty, the Government National Mortgage Association, in its corporate capacity under Section 306(d) of Title III of the Housing Act, may issue its general obligations to the United States Treasury (the "Treasury") in an amount outstanding at any one time sufficient to enable the Government National Mortgage Association, with no limitations as to amount, to perform its obligations under its guaranty of the timely payment of the principal of and interest

on the GNMA Securities. The Treasury is authorized to purchase any obligations so issued by the Government National Mortgage Association and has indicated in a letter dated February 13, 1970, from the Secretary of the Treasury to the Secretary of Housing and Urban Development (“HUD”) that the Treasury will make loans to the Government National Mortgage Association, if needed, to implement the aforementioned guaranty.

The Government National Mortgage Association is to warrant to the Trustee, as the owner of the GNMA Securities, that, in the event it is called upon at any time to honor its guaranty of the payment of principal and interest on any GNMA Security, it shall, if necessary, in accordance with the aforesaid Section 306(d), apply to the Treasury Department of the United States for a loan or loans in amounts sufficient to make such payment.

Servicing of the Mortgage Loans

Under contractual arrangements that will be entered into by and between the Master Servicer and the Government National Mortgage Association, and pursuant to the Program Documents, the Master Servicer is responsible for servicing and otherwise administering the mortgage loans in accordance with generally accepted practices of the mortgage lending industry and the Government National Mortgage Association Servicer’s Guide.

The monthly remuneration of the Master Servicer, for its servicing and administrative functions, and the guaranty fee charged by the Government National Mortgage Association, are based on the unpaid principal amount of the GNMA Securities outstanding. In compliance with the Government National Mortgage Association regulations and policies, the total of these servicing and guaranty fees equals 0.50%, calculated on the principal balance of each GNMA Security outstanding on the last day of the month preceding such calculation. Each GNMA Security carries an interest rate that is fixed at 0.50% below the interest rate on the underlying mortgage loans because the servicing and guaranty fees are deducted from payments on the mortgage loans before such payments are forwarded to the Trustee.

It is expected that interest and principal payments on the mortgage loans received by the Master Servicer will be the source of money for payments on the GNMA Securities. If such payments are less than the amount then due, the Master Servicer is obligated to advance its own funds to ensure timely payment of all scheduled payments of principal and interest due on the GNMA Securities. The Government National Mortgage Association guarantees such timely payment in the event of the failure of the Master Servicer to pass through an amount equal to such scheduled payments (whether or not made by the mortgagors).

The Master Servicer is required to advise the Government National Mortgage Association in advance of any impending default on scheduled payments so that the Government National Mortgage Association, as guarantor, will be able to continue such payments as scheduled on the third business day after the twentieth day of each month. However, if such payments are not received as scheduled, the Trustee has recourse directly to the Government National Mortgage Association.

Guaranty Agreement

The Government National Mortgage Association guaranty agreement to be entered into by the Government National Mortgage Association and the Master Servicer upon issuance of a GNMA Security, pursuant to which the Government National Mortgage Association guarantees the payment of principal of and interest on such GNMA Security (the “GNMA Guaranty Agreement”), provides that, in the event of a default by the Master Servicer, including (i) a failure to make any payment due under the GNMA Security, (ii) a request to the Government National Mortgage Association to make a payment of principal or interest on a GNMA Security and the utilization thereof by the Master Servicer, (iii) insolvency of the

Master Servicer, or (iv) default by the Master Servicer under any other terms of the GNMA Guaranty Agreement, the Government National Mortgage Association has the right, by letter to the Master Servicer, to effect and complete the extinguishment of the Master Servicer's interest in the mortgage loans, and the mortgage loans shall thereupon become the absolute property of the Government National Mortgage Association, subject only to the unsatisfied rights of the owner of the GNMA Security. In such event, the GNMA Guaranty Agreement provides that on and after the time the Government National Mortgage Association directs such a letter of extinguishment to the Master Servicer, the Government National Mortgage Association shall be the successor in all respects to the Master Servicer in its capacity under the GNMA Guaranty Agreement and the transaction and arrangements set forth or arranged for therein, and shall be subject to all responsibilities, duties, and liabilities (except the Master Servicer's indemnification of the Government National Mortgage Association), theretofore placed on the Master Servicer by the terms and provisions of the GNMA Guaranty Agreement, provided that at any time the Government National Mortgage Association may enter into an agreement with any other eligible issuer of GNMA Securities under which the latter undertakes and agrees to assume any part or all such responsibilities, duties or liabilities theretofore placed on the Master Servicer, and provided that no such agreement shall detract from or diminish the responsibilities, duties or liabilities of the Government National Mortgage Association in its capacity as guarantor of the GNMA Security, or otherwise adversely affect the rights of the owner thereof.

Payment of Principal of and Interest on the GNMA Securities

Regular monthly installment payments on each GNMA Security are required to begin on the fifteenth day (in the case of a GNMA I Security) and on the nineteenth day, or the twentieth day if the nineteenth day is not a business day (in the case of a GNMA II-Custom Pool Security), of the first month following the date of issuance of such GNMA Security and will be equal to the aggregate amount of the scheduled monthly principal and interest payments on each mortgage loan in the mortgage pool backing the GNMA Security, less the monthly servicing and guaranty fees of one-twelfth of 0.50% of the outstanding principal balance. In addition, each payment is required to include any mortgage prepayments on mortgage loans underlying the GNMA Security.

FANNIE MAE MORTGAGE-BACKED SECURITIES

General

The following summary of the Fannie Mae MBS Program (as defined below), the Fannie Mae Securities, Fannie Mae's mortgage purchase and servicing standards and other documents referred to herein does not purport to be complete and is qualified in its entirety by reference to Fannie Mae's Prospectus, as defined below, the Fannie Mae Single Family Selling and Servicing Guides and the other documents referred to therein and herein.

Fannie Mae is subject to the supervision and regulation of the Federal Housing Finance Agency to the extent provided in the Housing and Economic Recovery Act of 2008. The FHFA has placed Fannie Mae into conservatorship.

Information on Fannie Mae and its financial condition is contained in Fannie Mae's most current annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K that are filed with the Securities and Exchange Commission (the "SEC"). Fannie Mae files reports, proxy statements and other information with the SEC. Materials that it files with the SEC are also available from the SEC's website, "www.sec.gov." In addition, these materials may be inspected, without charge, and copies may be obtained at prescribed rates, at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. Investors may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The periodic reports filed by Fannie Mae with

the SEC are also available on Fannie Mae's website at <http://www.fanniemae.com/ir/sec> or from Fannie Mae at the Office of Investor Relations at 202-752- 7115. The Agency takes no responsibility for information contained in these documents or on these websites.

Fannie Mae

Fannie Mae is a government-sponsored enterprise that was chartered by the U.S. Congress in 1938, organized and existing under the Federal National Mortgage Association Charter Act, 12 U.S.C. 1716 et seq. (the "Charter"). Fannie Mae has a public mission to support liquidity and stability in the secondary mortgage market, where existing mortgage loans are purchased and sold. Fannie Mae securitizes mortgage loans originated by lenders in the primary mortgage market into mortgage-backed securities ("Fannie Mae MBS"), which can then be bought and sold in the secondary mortgage market. Fannie Mae also participates in the secondary mortgage market by purchasing mortgage loans (often referred to as "whole loans") and mortgage-related securities, including Fannie Mae MBS, for Fannie Mae's mortgage portfolio. In addition, Fannie Mae makes other investments to increase the supply of affordable housing, however, pursuant to the Charter, Fannie Mae may not lend money directly to consumers in the primary mortgage market. *Although Fannie Mae is a corporation chartered by the U.S. Congress, the conservator of Fannie Mae is a U.S. Government agency, and the United States Department of Treasury ("Treasury") owns senior preferred stock and a warrant to purchase common stock of Fannie Mae, the U.S. Government (including Treasury) does not guarantee, directly or indirectly, the securities or other obligations of Fannie Mae.*

On September 6, 2008, the Director of the Federal Housing Finance Agency ("FHFA"), the safety, soundness and mission regulator of Fannie Mae, placed Fannie Mae into conservatorship and appointed FHFA as the conservator. As the conservator, FHFA succeeded to all rights, titles, powers and privileges of Fannie Mae, and of any stockholder, officer or director of Fannie Mae with respect to Fannie Mae and the assets of Fannie Mae. As such, FHFA has the authority to conduct all business of Fannie Mae. Pursuant to the Housing and Economic Recovery Act of 2008, FHFA, as conservator, may take "such action as may be necessary to put the regulated entity in a sound and solvent condition." Fannie Mae has no control over FHFA's actions or the actions it may direct Fannie Mae to take. The conservatorship has no specified termination date; Fannie Mae does not know when or how the conservatorship will be terminated. In addition, the Board of Directors of Fannie Mae does not have any fiduciary duties to any person or entity except to FHFA, as conservator. Accordingly, the Board of Directors is not obligated to consider the interests of Fannie Mae or the stockholders of Fannie Mae unless specifically directed to do so by FHFA, as conservator. The United States Department of Housing and Urban Development, however, remains Fannie Mae's regulator with respect to fair lending matters.

Mortgage-Backed Security Program

Fannie Mae has implemented a mortgage-backed securities program pursuant to which Fannie Mae issues securities backed by pools of mortgage loans (the "MBS Program"). **The obligations of Fannie Mae, including its obligations under the Fannie Mae Securities, are obligations solely of Fannie Mae and are not guaranteed by the United States Government (including Treasury) and do not constitute a debt or obligation of the United States or any agency or instrumentality thereof, including Treasury and FHFA, other than Fannie Mae.**

The terms of the MBS Program are governed by the Fannie Mae Selling and Servicing Guides (the "Fannie Mae Guides"), as modified by the Pool Purchase Contract, and, in the case of mortgage loans such as the Single Family Loans exchanged with Fannie Mae, a Trust Indenture dated as of November 1, 1981, as amended (the "Trust Indenture"), and a supplement thereto to be issued by Fannie Mae in connection with each pool. The MBS Program is further described in a prospectus issued by Fannie Mae (the "Fannie Mae Prospectus"). The Fannie Mae Prospectus is updated from time to time.

Copies of the Fannie Mae Prospectus and Fannie Mae's most recent annual and quarterly reports and proxy statements are available without charge from Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016, Attention: Vice President for Investor Relations, (telephone: (202) 752-6724).

Pool Purchase Contract

It is expected that Fannie Mae and the Master Servicer will enter into a Pool Purchase Contract, pursuant to which the Master Servicer will be permitted to deliver, and Fannie Mae will agree to purchase mortgage loans in exchange for, Fannie Mae Securities. The purpose of the Pool Purchase Contract is to provide for certain additions, deletions and changes to the Fannie Mae Guides relating to the purchase of mortgage loans. In the event of a conflict between the Pool Purchase Contract and the Fannie Mae Guides, the Pool Purchase Contract will control. The description set forth below assumes that the Pool Purchase Contract will be executed substantially in the form presented by Fannie Mae to the Master Servicer as of the date hereof.

Under the Pool Purchase Contract, Fannie Mae will purchase both mortgage loans eligible under the guidelines set forth in the Fannie Mae Guides and mortgage loans originated under the Community Home Buyer's Program which conform to the conditions set forth in the Pool Purchase Contract.

Pursuant to the requirements of the Fannie Mae Guides, as amended, the original principal balance of each mortgage loan to be sold to Fannie Mae may not exceed the amount established from time to time by Fannie Mae. The mortgage loans must be mortgage loans with loan-to-value ratios not in excess of 97%; mortgage loans with loan-to-value ratios exceeding 80% must have the principal amount of the indebtedness in excess of 75% of the appraised value of the home insured by a policy of primary mortgage insurance. The provider of the mortgage insurance must be acceptable to Fannie Mae.

Under the Pool Purchase Contract, the 97% loan-to-value limitation for mortgage loans will be based upon the lower of (1) the acquisition cost plus rehabilitation cost, if any, of a home, or (2) the appraised value of a home after completion of any rehabilitation. The maximum combined loan-to-value ratio is 105% where subordinate financing is provided, so long as the mortgage loan does not exceed a 97% loan-to-value ratio. The Pool Purchase Contract also provides that, in underwriting mortgage loans for the Community Home Buyer's Program, certain exceptions will be made from the Fannie Mae Guides for down payment requirements and for determining whether a household's income satisfies the requirements for purchase by Fannie Mae.

The Pool Purchase Contract obligates the Master Servicer to service the mortgage loans in accordance with the requirements of the Fannie Mae Guides and the Pool Purchase Contract.

Fannie Mae Securities

Each Fannie Mae Security will represent the entire interest in a specified pool of mortgage loans purchased by Fannie Mae from the Master Servicer and identified in records maintained by Fannie Mae. The Pool Contract requires that each Fannie Mae Security be in a minimum amount of \$250,000 (or, in each case, such lesser amounts as may be approved by Fannie Mae). The mortgage loans backing each Fannie Mae Security are to bear interest at a rate higher than each Fannie Mae Security (the "pass-through rate"). The difference between the interest rate on the mortgage loans and the pass-through rate on the Fannie Mae Security is to be collected by the Master Servicer and used to pay the Master Servicer's servicing fee and Fannie Mae's guaranty fee.

Fannie Mae will guarantee to the registered holder of the Fannie Mae Securities that it will distribute amounts representing scheduled principal and interest at the applicable pass-through rate on the mortgage loans in the pools represented by such Fannie Mae Securities, whether or not received, and the

full principal balance of any foreclosed or other finally liquidated mortgage loan, whether or not such principal balance is actually received. **The obligations of Fannie Mae under such guarantees are obligations solely of Fannie Mae and are not backed by, nor entitled to the faith and credit of the United States. If Fannie Mae were unable to satisfy such obligations, distributions to the Trustee, as the registered holder of the Fannie Mae Securities, would consist solely of payments and other recoveries on the underlying mortgage loans and, accordingly, monthly distributions to the Trustee, as the holder of the Fannie Mae Securities, and payments on Outstanding Bonds would be affected by delinquent payments and defaults on such mortgage loans.**

Payments on the Mortgage Loans; Distributions on the Fannie Mae Securities

Payments on a Fannie Mae Security will be made on the 25th day of each month (beginning with the month following the month such Fannie Mae Security is issued), or, if such 25th day is not a business day, on the first business day next succeeding such 25th day. With respect to each Fannie Mae Security, Fannie Mae will distribute to the Trustee an amount equal to the total of (i) the principal due on the mortgage loans in the related pool underlying such Fannie Mae Security during the period beginning on the second day of the month prior to the month of such distribution and ending on the first day of such month of distribution, (ii) the stated principal balance of any mortgage loan that was prepaid in full during the second month next preceding the month of such distribution (including as prepaid for this purpose at Fannie Mae's election any mortgage loan repurchased by Fannie Mae because of Fannie Mae's election to repurchase the mortgage loan after it is delinquent, in whole or in part, with respect to four consecutive installments of principal and interest; or because of Fannie Mae's election to repurchase such mortgage loan under certain other circumstances), (iii) the amount of any partial prepayment of a mortgage loan received in the second month next preceding the month of distribution, and (iv) one month's interest at the pass-through rate on the principal balance of the Fannie Mae Security as reported to the Trustee (assuming the Trustee is the registered holder) in connection with the previous distribution (or, respecting the first distribution, the principal balance of the Fannie Mae Security on its issue date).

For purposes of distributions, a mortgage loan will be considered to have been prepaid in full if, in Fannie Mae's reasonable judgment, the full amount finally recoverable on account of such mortgage loan has been received, whether or not such full amount is equal to the stated principal balance of the mortgage loan. Fannie Mae may, in its discretion, include with any distribution principal prepayments, both full and partial, received during the month prior to the month of distribution but is under no obligation to do so.

FREDDIE MAC MORTGAGE-BACKED SECURITIES

General

The following summary of the Freddie Mac Guarantor Program, the Freddie Mac Securities, Freddie Mac's mortgage purchase and servicing standards and other documents referred to herein does not purport to be complete and is qualified in its entirety by reference to Freddie Mac's Mortgage Participation Certificates Offering Circular, applicable Offering Circular Supplements, Freddie Mac's Information Statement, any Information Statement Supplements, the Freddie Mac Securities and any other documents made available by Freddie Mac. Copies of the Offering Circular, Information Statement and any supplements to those documents and other information can be obtained by calling Freddie Mac's Investor Inquiry Department (telephone (800) 336-3672) or by accessing Freddie Mac's World Wide Web site. Freddie Mac is a publicly traded company listed on the New York Stock Exchange (symbol: FRE). The Agency takes no responsibility for any such information.

Freddie Mac is subject to the supervision and regulation of the FHFA to the extent provided in HERA. The FHFA has placed Freddie Mac into conservatorship.

Information on Freddie Mac and its financial condition is contained in annual, quarterly and current reports, proxy statements and other information that Freddie Mac files with the SEC. You may read and copy any document Freddie Mac files with the SEC at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. These SEC filings are also available to the public from the SEC's website at <http://www.sec.gov>. The Agency takes no responsibility for information contained in these documents or on these websites.

Freddie Mac

Freddie Mac is a shareholder-owned government-sponsored enterprise created on July 24, 1970 pursuant to the Federal Home Loan Mortgage Corporation Act, Title III of the Emergency Home Finance Act of 1970, as amended, 12 U.S.C. §§ 1451-1459 (the "Freddie Mac Act"). Freddie Mac's statutory mission is (i) to provide stability in the secondary market for residential mortgages; (ii) to respond appropriately to the private capital market; (iii) to provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities); and (iv) to promote access to mortgage credit throughout the United States (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage financing. Neither the United States nor any agency or instrumentality of the United States is obligated, either directly or indirectly, to fund the mortgage purchase or financing activities of Freddie Mac or to guarantee Freddie Mac's securities or obligations.

Freddie Mac's principal business consists of the purchase of (i) first-lien, conventional residential mortgages subject to certain maximum loan limits and other underwriting requirements under the Freddie Mac Act and (ii) securities backed by such mortgages. Freddie Mac finances its mortgage purchases and mortgage-backed securities purchases through the issuance of a variety of securities, primarily pass-through mortgage participation certificates and unsecured debt, as well as with cash and equity capital.

On September 7, 2008, the Director of the Federal Housing Finance Agency ("FHFA") appointed FHFA as conservator of Freddie Mac in accordance with the Federal Housing Finance Reform Act of 2008 (the "Reform Act") and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. On September 7, 2008, in connection with the appointment of FHFA as conservator, Freddie Mac and the U.S. Department of the Treasury ("Treasury") entered into a Senior Preferred Stock Purchase Agreement. Also, pursuant to its authority under the Reform Act, Treasury announced that it has established the Government Sponsored Enterprise Credit Facility (a lending facility to ensure credit availability to Freddie Mac, Fannie Mae, and the Federal Home Loan Banks that will provide secured funding on an as needed basis under terms and conditions established by the Treasury Secretary to protect taxpayers) and a program under which Treasury will purchase Government Sponsored Enterprise (including Freddie Mac) mortgage-backed securities (MBS) in the open market. The announcements by FHFA and Treasury and descriptions of these programs are available at their respective websites: <http://www.OFHFO.gov> and <http://www.Treasury.gov>.

Freddie Mac Guarantor Program

Freddie Mac has established a mortgage purchase program pursuant to which Freddie Mac purchases a group of mortgages from a single seller in exchange for a Freddie Mac certificate representing an undivided interest in a pool consisting of the same mortgages (the "Guarantor Program"). Freddie Mac approves the institutions that may sell and service mortgages under the Guarantor Program on an individual basis after consideration of factors such as financial condition, operational capability and mortgage origination and/or servicing experience. Most sellers and servicers are HUD-approved mortgagees or FDIC-insured financial institutions.

Freddie Mac Securities

Freddie Mac Securities will be mortgage pass-through securities issued and guaranteed by Freddie Mac under its Guarantor Program. Freddie Mac Securities are issued only in book-entry form through the Federal Reserve Banks' book-entry system. Each Freddie Mac Security represents an undivided interest in a pool of mortgage loans. Payments by borrowers on the mortgage loans in the pool are passed through monthly by Freddie Mac to record holders of the Freddie Mac Securities representing interests in that pool.

Payments on Freddie Mac Securities begin on or about the fifteenth day of the first month following issuance. Each month, Freddie Mac passes through to record holders of Freddie Mac Securities their proportionate share of principal payments on the mortgage loans in the related pool and one month's interest at the applicable pass-through rate. The pass-through rate for an Freddie Mac Securities is determined by subtracting from the lowest interest rate on any of the mortgage loans in the pool the applicable servicing fee and Freddie Mac's management and guarantee fee, if any. The interest rates on the mortgages in a pool formed under Freddie Mac's Guarantor Program must fall within a range from the pass-through rate on the Freddie Mac Securities plus the minimum servicing fee through the pass-through rate plus 200 basis points.

Freddie Mac guarantees to each record holder of a Freddie Mac Security the timely payment of interest at the applicable pass-through rate on the principal balance of the holder's Freddie Mac Security. Freddie Mac also guarantees to each holder of a Freddie Mac Security (i) the timely payment of the holder's proportionate share of monthly principal due on the related mortgage loans, as calculated by Freddie Mac, and (ii) the ultimate collection of the holder's proportionate share of all principal of the related mortgage loans, without offset or reduction, no later than the payment date that occurs in the month by which the last monthly payment on the Freddie Mac Security is scheduled to be made.

Freddie Mac may pay the amount due on account of its guarantee of ultimate collection of principal on a mortgage at any time after default, but not later than 30 days following (i) the foreclosure sale of the mortgaged property, (ii) if applicable, the payment of an insurance or guaranty claim by the mortgage insurer or guarantor or (iii) the expiration of any right of redemption that the borrower may have, whichever is the last to occur. In no event, however, will Freddie Mac make payments on account of this guarantee later than one year after an outstanding demand has been made on the borrower for accelerated payment of principal or for payment of the principal due at maturity.

The obligations of Freddie Mac under its guarantees of the Freddie Mac Securities are obligations of Freddie Mac only. The Freddie Mac Securities, including the interest thereon, are not guaranteed by the United States and do not constitute debts or obligations of the United States or any agency or instrumentality of the United States other than Freddie Mac. If Freddie Mac were unable to satisfy its obligations under its guarantees, distributions on the Freddie Mac Securities would consist solely of payments and other recoveries on the related mortgages; accordingly, delinquencies and defaults on the mortgage loans would affect distributions on the Freddie Mac Securities and could adversely affect payments on Outstanding Bonds.

Mortgage Purchase and Servicing Standards

All mortgage loans purchased by Freddie Mac must meet certain standards established by the Freddie Mac Act. In addition, Freddie Mac has established its own set of mortgage purchase standards, including credit, appraisal and underwriting guidelines. These guidelines are designed to determine the value of the real property securing a mortgage loan and the creditworthiness of the borrower. Freddie Mac's administration of its guidelines may vary based on its evaluation of and experience with the seller

of the mortgage loans, the loan-to-value ratio and age of the mortgage loans, the type of property securing the mortgage loans and other factors.

Freddie Mac has also established servicing policies and procedures to support the efficient and uniform servicing of the mortgage loans it purchases. Each servicer must perform diligently all services and duties customary to the servicing of mortgage loans in a manner consistent with prudent servicing standards. The duties performed by a servicer include collection and remittance of principal and interest to Freddie Mac; administration of escrow accounts; collection of insurance or guaranty claims; property inspections; and, if necessary, foreclosure. Freddie Mac monitors servicers' performance through periodic and special reports and inspections.

In the event of an existing or impending delinquency or other default on a mortgage loan, Freddie Mac may attempt to resolve the default through a variety of measures. In determining which measures to pursue with respect to a given mortgage loan and when to initiate such measures, Freddie Mac seeks to minimize the costs that may be incurred in servicing the mortgage, as well as Freddie Mac's possible exposure under its guarantees. However, the measures that Freddie Mac may choose to pursue to resolve a default will not affect Freddie Mac's guarantees. In any event, Freddie Mac generally repurchases from a pool any mortgage loan that has remained delinquent for at least 120 consecutive days and makes payment of principal to record holders pursuant to Freddie Mac's guarantee of ultimate collection of principal.

THE MASTER SERVICER

U.S. Bank Home Mortgage, a division of U.S. Bank National Association, currently serves as Master Servicer for the Agency's MBS Program, including the Federal Agency Certificates to be financed with proceeds of the Series Bonds. The Agency entered into a Mortgage Pooling and Servicing Agreement, dated as of January 1, 2009 (the "Servicing Agreement"), with U.S. Bank Home Mortgage, a division of U.S. Bank National Association, as master servicer (the "Master Servicer"), for a term ending June, 2012 (subject to renewal and termination rights). The Federal Agency Certificates acquired with proceeds of the Series Bonds are expected to be serviced by U.S. Bank Home Mortgage.

THE FOLLOWING INFORMATION ABOUT THE MASTER SERVICER RELATES TO AND WAS SUPPLIED BY U.S. BANK NATIONAL ASSOCIATION. SUCH INFORMATION HAS NOT BEEN VERIFIED BY THE AGENCY, THE UNDERWRITERS, THEIR COUNSEL OR BOND COUNSEL AND IS NOT GUARANTEED AS TO COMPLETENESS OR ACCURACY BY, AND IS NOT TO BE CONSTRUED AS A REPRESENTATION OF, THE AGENCY, THE UNDERWRITERS, THEIR COUNSEL OR BOND COUNSEL.

As of September 30, 2011, the Master Servicer serviced 166,581 single-family Mortgage Revenue Bond mortgage loans with an aggregate principal balance of approximately \$13.2 billion. The Master Servicer currently services single-family mortgage loans for State and Local Housing Finance Authorities, mutual savings banks, life insurance companies, savings and loan associations, commercial banks, as well as Fannie Mae, GNMA and Freddie Mac.

The holding company for U.S. Bank National Association is U.S. Bancorp, the 5th largest financial services holding company in the United States. As of September 30, 2011, according to its unaudited quarterly financial statements, U.S. Bancorp had total assets of approximately \$330.1 billion and a net worth of \$33.2 billion. For the nine months ending September 30, 2011, the Master Servicer through its U.S. Bank Home Mortgage Division, originated and purchased single-family Mortgage Revenue Bond mortgage loans in the total principal amount of approximately \$1,914.5 billion.

The Master Servicer is (i) an FHA- and VA-approved lender in good standing. (ii) a GNMA-approved seller and servicer of mortgage loans and an issuer of mortgage-backed securities guaranteed by GNMA, (iii) a Fannie Mae approved seller and servicer of Fannie Mae Securities and (iv) a FHLMC approved seller and servicer of FHLMC securities.

The Master Servicer is not liable for the payment of the principal of Outstanding Bonds or the interest or redemption premium, if any thereon.

SINGLE FAMILY PROGRAM

General

Pursuant to the Act and the Indenture, the Agency has established a program to use the proceeds of Bonds to purchase Federal Agency Certificates backed by pools of Single Family Mortgage Loans made to Eligible Borrowers (hereinafter defined) from mortgage lenders (the “Single Family Program”). Mortgage Loans backing such Federal Agency Certificates may be comprised of Single Family Mortgage Loans, Residential Housing Loans or any other single family Mortgage Loan that meet the requirements of the Act and the applicable supplemental indenture and that are made to finance the purchase of Single Family Housing (collectively, the “Single Family Mortgage Loans”).

History and Transition to “MBS” Model

Effective for commitments made on or after May 1, 2009, the Agency changed its single-family housing lending program from a “whole loan” model to an “MBS” (mortgage-backed securities) model. The Agency has entered into the Servicing Agreement with the initial Master Servicer for a term ending June, 2012 (subject to renewal and termination rights). Pursuant to the Servicing Agreement, the Master Servicer is to acquire Single Family Mortgage Loans meeting Single Family Program requirements and pool such Single Family Mortgage Loans into Federal Agency Certificates to be purchased by the Trustee on behalf of the Agency. (See “—**Procedures for Origination, Purchase and Pooling**” below.) For additional information regarding the initial Master Servicer, see “**THE MASTER SERVICER**” herein.

Procedures for Origination, Purchase and Pooling

The Agency has published its procedural guide that establishes standards and requirements for participation in the Single Family Program and certain requirements for origination of mortgage loans, including provisions for compliance with the requirements of applicable federal law (the “Procedural Guide”). The Master Servicer has also published its lending manual for the Single Family Program. The Agency and the Master Servicer respond to inquiries by interested Lenders by directing them to the appropriate page on the Agency’s or Master Servicer’s website delineating information regarding the requirements a lender must satisfy to be eligible to participate in the Single Family Program. Each Lender that meets Single Family Program requirements and participates in the Single Family Program must execute a Mortgage Origination and Sale Agreement (the “Participation Agreement”), which incorporates the Procedural Guidelines and the Master Servicer’s lending manual by reference. The Procedural Guide, the Participation Agreements and the Servicing Agreement are hereinafter collectively called the “Single Family Program Documents.” The eligibility criteria and procedures set forth in the Single Family Program Documents have been established by the Agency and the Master Servicer. The provisions of the Single Family Program Documents, except those required by the Act and those required by the Indenture (which may only be modified by amendment of the Indenture) may be modified by the Agency and the Master Servicer from time to time or waived on a case-by-case basis.

Acquisition of Series 2011A/Subseries A-2 Federal Agency Certificates

During the Delivery Period, the Master Servicer is to acquire Single Family Mortgage Loans from Lenders and pool the Single Family Mortgage Loans into Series 2011A/Subseries A-2 Federal Agency Certificates as provided in the Servicing Agreement. The Trustee is to disburse moneys from the

Series 2011A/Subseries A-2 Single Family Program Account for the acquisition of Federal Agency Certificates pursuant to the Series 2011A Supplemental Indenture. The Trustee is to pay the Master Servicer an amount equal to 100% of the principal amount of each Federal Agency Certificate acquired from the Master Servicer, plus accrued interest, if any, less a Servicing Release Premium, and any applicable fees or charges payable to a Fannie Mae, Freddie Mac or GNMA, as the case may be, and not paid by the mortgagor.

The Agency may at any time transfer any proceeds of the Series Bonds in the Series 2011A/Subseries A-2 Single Family Program Account to the Debt Service Fund to be applied to the redemption of Series Bonds. In addition, the Agency shall transfer any remaining proceeds of the Series Bonds in the Series 2011A/Subseries A-2 Single Family Program Account to the Debt Service Fund to be applied to the redemption of Series Bonds at the end of the Delivery Period; provided that the Agency may (instead of redeeming Series Bonds from unexpended proceeds) extend the Delivery Period with respect to all or any portion of the unexpended amounts remaining in the Series 2011A/Subseries A-2 Single Family Program Account, for such period or periods as the Agency shall determine consistent with the final sentence of this paragraph, but only if the Agency delivered to the Trustee on or prior to any redemption date the following: (a) an opinion of Bond Counsel that such extension will not cause the interest on the Series 2011A Bonds and/or the Subseries A-2 Bonds, as applicable, to be includable in gross income for purposes of federal income taxation, and (b) a Certificate of the Agency (i) designating the new ending date for the Delivery Period, (ii) certifying that the Agency has received cash flow projections, or other financial analysis satisfactory to satisfy the guidelines of the Rating Agencies as described in (v) below, from an investment banking firm, financial consulting firm or accounting firm, in each case nationally recognized with respect to the cash-flow analysis of mortgage revenue bonds, the interest on which is excluded from gross income for federal income tax purposes, which shows that such extension will not adversely affect the availability of Revenues sufficient to make timely payment of principal of and interest on the Series 2011A Bonds and/or the Series A-2 Bonds, as applicable, in the current and each subsequent Bond Year, and all Program Expenses, and that at all times the assets of the Indenture will equal or exceed the liabilities of the Indenture, which cash flows shall accompany the Certificate, (iii) certifying that, to the extent necessary to satisfy the guidelines for the cash flow projections as disclosed by the Rating Agencies, a Permitted Investment has been arranged for investment of amounts in the Series 2011A/Subseries A-2 Single Family Program Account to a date not earlier than the ending date of the extended Delivery Period, (iv) designating the amount of any additional deposits required to meet cash flow projections and the Rating Agencies' guidelines to be made into funds held under the Indenture in connection with such extension, which deposits shall be made on or before the date of expiration of the then-current Delivery Period and shall be made only from the Agency's funds, and (v) certifying that the Agency has notified the Rating Agencies that such extension is being planned and has provided such Rating Agencies copies of the cash flow projections, or other financial analysis satisfactory to satisfy the guidelines of the Rating Agencies, together with such other documentation as the Rating Agencies may request, and has received a rating confirmation with respect to the Series 2011A Bonds and/or the Subseries A-2 Bonds, as applicable.

On any date or dates subsequent to any extension of the Delivery Period, the Agency may transfer any unexpended proceeds relating to the Series Bonds remaining in the Series 2011A/Subseries A-2 Single Family Program Account to the Debt Service Fund to be applied to redemption of Series Bonds. At the end of the Delivery Period, including any extension thereof, the Trustee is to transfer all amounts relating to the Series Bonds remaining in the Series 2011A/Subseries A-2 Single Family Program Account to the Debt Service Fund to be applied to the redemption of Series Bonds. The Delivery Period may not be extended beyond the dates set forth in the applicable definitions under "Certain Defined Terms" in Appendix III to this Official Statement.

The Agency may participate each Series 2011A/Subseries A-2 Federal Agency Certificate between different sources of funds of the Agency, so long as the interest of each has equal priority as to

lien in proportion to the amount of the Series 2011A/Subseries A-2 Security secured, but such interests need not be equal as to interest rate.

Servicing of Federal Agency Certificates

A servicer of mortgage loans backing a Federal Agency Certificate must be a GNMA, Fannie Mae and Freddie Mac approved servicer experienced in servicing pools of mortgage loans for GNMA, Fannie Mae and Freddie Mac under their respective guaranteed mortgage-backed securities programs and be subject to the standards set forth in the GNMA Servicer's Guide, the Fannie Mae Single Family Selling and Servicing Guide and the Freddie Mac guidelines.

The Agency has entered into the Servicing Agreement with the Master Servicer to service mortgage loans backing Federal Agency Certificates. For additional information regarding the initial Master Servicer, see "**THE MASTER SERVICER**" in this Official Statement. The Series 2011A Supplemental Indenture provides that in the event the Servicing Agreement is cancelled or terminated for any reason, the Agency shall proceed with due diligence to engage a successor Master Servicer, subject to the provisions of the Servicing Agreement and the requirements of Fannie Mae, Freddie Mac or GNMA, as applicable. During the period necessary to engage such successor, the Trustee shall, subject to the approval of Fannie Mae, Freddie Mac or GNMA, as applicable, cause to be performed the duties and responsibilities of the Master Servicer, under the Servicing Agreement and is to be compensated therefor, in addition to the compensation payable to it under the Indenture or any other instrument, in the same manner and amounts as provided under the Servicing Agreement.

Series 2011A/Subseries A-2 Single Family Program

The Supplemental Indenture limits the Series 2011A/Subseries A-2 Single Family Program to the purchase of Federal Agency Certificates backed by Single Family Mortgage Loans (excluding Single Family Mortgage Loans for the construction of Single Family Housing). The Agency has reserved the right to make appropriate modifications to the Series 2011A/Subseries A-2 Program and to amend the Program Documents (hereinafter defined) in order to purchase Federal Agency Certificates backed by Single Family Mortgage Loans for the construction of Single Family 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 Rating Agency.

Approximately \$29,920,725.93 is expected to be on deposit in the Series 2011A/Subseries A-2 Single Family Program Account and available to purchase Federal Agency Certificates. The Agency's program of purchasing Federal Agency Certificates comprised of pools of Single Family Mortgage Loans from proceeds of the Series Bonds is referred to herein as the "Series 2011A/Subseries A-2 Single Family Program."

The Agency expects that amounts on deposit in the Series 2011A/Subseries A-2 Single Family Program Account will be used primarily to purchase Eligible Mortgage Loans. An Eligible Single Family Mortgage Loan is a Single Family Mortgage Loan made by a Mortgage Lender to an Eligible Borrower to finance the purchase of eligible single family 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 Single Family Mortgage Loan, unless the residence financed is located in certain "targeted areas," (b) who otherwise meet the requirements of the Agency in the Procedural Guide, and (c) 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 Single Family Mortgage Loan is made.

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 June 24, 2011, the maximum gross family income for Eligible Borrowers ranges from \$66,700 to \$80,000 for families of one or two persons and from \$76,700 to \$90,000 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 June 24, 2011, the maximum purchase price for new and existing single family residences ranges from \$247,000 to \$287,000. The maximum purchase price for residences with two dwelling units is \$287,000.

Mortgagors who sell a home purchased with a Single Family Mortgage Loan within nine years of the date of the purchase of such home may be subject to a federal recapture tax. For Mortgage Loans made on or after February 1, 2006, the Agency has agreed to reimburse Single Family Mortgagors for any recapture tax actually paid by single Family Mortgagors.

Single Family Mortgage Loan Origination and Purchase Agreements/Participation Agreements

The Agency and the Master Servicer have entered, or will enter, into an Origination Agreement with each of the Single Family Mortgage Lenders, pursuant to which the Single Family Mortgage Lenders agree to originate from time to time and sell to the Master Servicer and, unless the Agency directs otherwise, to service on its behalf, an unspecified principal amount of eligible Single Family Mortgage Loans. Such Single Family Mortgage Loans are purchased by the Master Servicer in an amount equal to 100% of the principal amount of each Federal Agency Certificate, plus accrued interest, if any, less the applicable Servicing Release Premium, and any applicable fees or charges payable to a Fannie Mae, Freddie Mac or GNMA, as the case may be, and not paid by the mortgagor.

Although a single Family Mortgage Lender is not required to originate a specified principal amount of Single Family Mortgage Loans, once the Single Family Mortgage Lender has originated Single Family Mortgage Loans and the Agency has reserved funds for those Single Family Mortgage Loans, such Single Family Mortgage Loans must be offered for sale and delivered to the Master Servicer.

Under the Agency’s current Single Family Program Documents, the Origination Agreements relate only to eligible Single Family 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 Single Family Mortgage Loan will be a maximum of 30 years, and that each eligible Single Family 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 Act for uninsured Single Family Mortgage Loans.

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

the provisions of the Act, and (d) each Single Family Mortgage Loan is an eligible Single Family Mortgage Loan.

In addition to the representations and warranties made by the Single Family Mortgage Lenders with respect to Single Family Mortgage Loans to be purchased by the Master Servicer, certain other conditions, some of which are outlined below, must exist or must be warranted to exist by the Single Family Mortgage Lender at each date on which the Master Servicer buys Single Family Mortgage Loans (the “Closing Date”). The Single Family 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 Master Servicer, as assignee of the Single Family Mortgage Loans. The assignment to the Master Servicer of each Single Family Mortgage Loan must convey a valid first lien on an Eligible Residence as to which the Mortgagor has marketable record title. The improvements upon the real property subject to each Single Family 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 Single Family Mortgage Loan and the original principal amount of the Single Family Mortgage Loan, and such improvements must be fully completed except to the extent disclosed to and approved by the Master Servicer. As of the Closing Date, the Single Family Mortgage Lender must certify that it has complied with the requirements of the Procedural Guide with respect to all Single Family Mortgage Loans offered for purchase (except to the extent waived in writing by the or the Master Servicer).

Notwithstanding the warranties and certifications of the Single Family Mortgage Lender, the Agency and the Master Servicer reserves the right at all times to decline to purchase any Single Family 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 Single Family Procedural Guide and the Master Servicer lending manual.

If any representation of the Single Family 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 Single Family Mortgage Lender will be liable to the Master Servicer for all damages suffered by the Master Servicer as a result thereof. In addition, the Single Family Mortgage Lender may be required to repurchase any Single Family Mortgage Loan if (a) the Agency or the Master Servicer discovers facts that existed as of the Closing Date that, among other things, cause the Single Family Mortgage Loan to be other than an eligible Single Family Mortgage Loan, or (b) the Single Family Mortgage Lender fails to obtain or maintain mortgage insurance upon which the Master Servicer relies in purchasing the Single Family Mortgage Loan.

The Agency has reserved the right to act in the future as a direct lender to Eligible Borrowers pursuant to its Single Family Program.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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

Indenture as Contract with Bondowners

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

benefit, protection and security of all owners of the Bonds, all of which, regardless of their times of issue or maturity, rank equally without preference, priority or distinction of any Bond over another except as expressly provided in the Indenture.

Pledge of the Indenture

The Indenture creates a continuing pledge and lien on the Trust Estate to secure the full and final payment of the principal and redemption price of and interest on all the Outstanding Bonds. The Trust Estate includes (a) Revenues, (b) Federal Agency Certificates deposited in the Indenture, (c) Additional Security, if any, and (d) all moneys and securities held in funds and accounts of this Indenture, including Bond proceeds (other than proceeds deposited (i) in trust for the retirement of any outstanding Bonds or other indebtedness of the Agency or (ii) in an escrow account where such funds of such account are designated in any Supplemental Indenture as security solely for the payment of any Bonds related to the proceeds in such escrow account), and other assets from time to time held by the Trustee under and subject to the terms of this Indenture or any Supplemental Indenture (other than amounts held in the Rebate Fund, if any).

The Bonds are special obligations of the agency payable solely from and secured solely by a pledge of revenues of the Indenture, Federal Agency Certificates deposited in the Indenture, Additional Security, if any, and funds and accounts established under the Indenture (other than the rebate fund established for any Series of Bonds and amounts held in an escrow fund where such deposits are designated in any Supplemental Indenture as security solely for the payment of any Bonds related to the proceeds in such escrow account). The Bonds will not constitute a debt of the State or any political subdivision thereof, and neither the State nor any of its political subdivisions are liable thereon. Neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal of or the interest on the Bonds.

Authorization and Issuance of Bonds

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

- A Counsel's Opinion with respect to the issuance of the Bonds in a form acceptable to the Agency as specified in the Supplemental Indenture;
- A copy of the Supplemental Indenture authorizing such Bonds, which shall specify, among other things, the terms and conditions of the Bonds and the related Reserve Requirement;
- A Certificate stating that (i) the principal amount of the Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed herein or by law, (ii) upon the issuance and delivery of such Bonds, the Reserve Requirement will be met; and (iii) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, the Agency shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture; and
- Evidence that the Rating Agency has confirmed that such Series will have a Rating no lower than the Rating assigned to Bonds issued prior to the issuance of such Series of Bonds to be issued.

The Agency may, from time to time, issue one or more Series of Bonds as a Refunding Issue upon compliance with the requirements of the Indenture and any applicable Supplemental Indenture to refund Bonds or any other obligations of the Agency.

Cash Equivalents

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

Qualified Hedge Agreements

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

Establishment of Funds and Accounts

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

- Program Fund
- Revenue Fund
- Debt Service Fund
- Reserve Fund
- Rebate Fund
- Cost of Issuance Fund
- Program Expense Fund

Unless otherwise provided in a Supplemental Indenture or a Certificate, the Trustee shall establish in each Fund a separate Account for each Series of Bonds. Except as otherwise provided, the proceeds of a particular Series of Bonds issued pursuant to a Supplemental Indenture and the earnings on investments of moneys in the Funds or Accounts relating to a particular Series of Bonds, when required to be deposited in any Fund, shall be deposited or credited to the Account established therein for that

particular Series of Bonds. Withdrawals from Funds and Accounts in connection with a particular Series of Bonds may be made and used (including for purposes of redemption) for such Series of Bonds as well as any other Series of Bonds unless specifically prohibited in a related Supplemental Indenture. For purposes of investment, the Trustee and the Agency may consolidate the Accounts required to be established in a particular Fund into one Fund so long as adequate records are maintained as to the amounts held in each such Fund allocable to each Series of Bonds.

Program Fund

Program Fund moneys may be withdrawn solely for (i) the acquisition of Federal Agency Certificates from the Servicer pursuant to the Servicing Agreement on each Purchase Date (and to make the transfer to the applicable subaccount of the Revenue Fund as described below), (ii) deposit to the applicable subaccount of the Redemption Account of the Debt Service Fund for the redemption of Bonds pursuant to the applicable Supplemental Indenture and (iii) transfers to the applicable subaccount of the Rebate Fund. Provision is also made for a subaccount of a related Program Account for the purpose of purchase of Federal Agency Certificates with loans originated on properties in Targeted Areas. The Trustee shall not disburse moneys from the Program Fund for the acquisition of a Federal Agency Certificate unless (i) such Federal Agency Certificate shall be acquired in accordance with the Indenture, (ii) such Federal Agency Certificate will bear interest at the applicable Pass-Through Rate and (iii) the Federal Agency Certificate will be held by the Trustee as described below in “—**Deposit of Series Revenues.**”

The Trustee may also, to the extent amounts are insufficient in the Revenue Fund to pay principal of or interest on the Bonds or any Sinking Fund Installment when due, transfer (after transferring amounts in any capitalized interest account established in connection with a Supplemental Indenture and the Reserve Fund) moneys from the Program Fund (to the extent of amounts available therein) to the Revenue Fund to pay principal of or interest on the Bonds and any Sinking Fund Installments. Additionally, if not otherwise restricted by any Supplemental Indenture amounts or assets credited to the Program Fund may, upon the direction of an Authorized Officer, be transferred or credited by the Trustee to the Revenue Fund or another Fund or Account or to the Agency at such times as directed by such Authorized Officer.

Deposit of Series Revenues

They Agency will cause all Revenues to be deposited with the Trustee. Investment earnings (net of losses) on each Fund and Account established under the Indenture (other than the Rebate Fund and Cost of Issuance Fund) shall be credited to the Revenue Fund unless otherwise provided in the Indenture. The Federal Agency Certificates acquired by the Trustee on behalf of the Agency shall be held at all times by the Trustee in trust for the benefit of the Owners and shall be registered in the name of the Trustee or its nominee or held in book-entry form as described in the Indenture.

Revenue Fund

Except as otherwise provided in the Trust Indenture or any Supplemental Indenture, Revenues shall be deposited in the revenue Fund as and when received by the Trustee; provided that Prepayments shall be deposited in the applicable subaccount of the Prepayment Account of the Revenue Fund.

On the dates specified the related Supplemental Indenture, and except as otherwise provided in a Supplemental Indenture, the Trustee shall transfer from the Revenue Fund and deposit into one or more of the following Funds and pay to the entities entitled to payment, the amounts set forth below and in the following order of priority:

- To the Debt Service Fund, an amount sufficient, together with money on deposit therein, to pay the interest on the Bonds of such Series due on such Interest Payment Date or date of redemption of all or a portion of the Bonds, or to make payments to any Provider of a Qualified Hedge Agreement (other than fees, expenses or termination payments payable to such Provider, which are designated as Program Expenses hereunder) if so required pursuant to the terms of any Qualified Hedge Agreement entered into with respect to a Series of Bonds, and to the Redemption Account of the Debt Service Fund an amount sufficient, together with money on deposit therein, to pay the principal of Bonds due on the next Principal Payment Date;
- At the direction of the Agency, to the Rebate Fund, if and to the extent required by the Rebate Analyst;
- After providing for the payments required by (i) and (ii) above, to the related subaccount of the Program Expense Fund the amount necessary to pay Program Expenses then due and payable with respect to such Series;
- If so specified by the related Supplemental Indenture, to the related subaccount of Program Fund for the purchase of Federal Agency Certificates;
- If so specified by the related Supplemental Indenture and not otherwise restricted by any other Supplemental Indenture, to release to the Agency free and clear of the lien of this Indenture upon the filing by the Agency with the Trustee of (A) a request signed by an Authorized Officer of the Agency and (B) a Parity Certificate; and
- Commencing with the Interest Payment Date specified in the applicable Supplemental Indenture, to the applicable subaccount of the Redemption Account of the Debt Service Fund the amounts in excess of \$10,000 remaining in the applicable subaccount of the Revenue Fund following the payments required to be made pursuant to clauses above for redemption of the related Series of Bonds, or if no Bonds of such Series remain Outstanding, to such other subaccount of the Redemption Account of the Debt Service Fund specified in a Certificate of the Agency delivered to the Trustee.

Amounts on deposit in the applicable subaccount of the Prepayment Account of the Revenue Fund shall be transferred to the applicable subaccount of the Redemption Account of the Debt Service Fund of the Debt Service Fund at the times specified in the related Supplemental Indenture.

Prior to the date no moneys remain on deposit in the applicable subaccount of the Program Fund or the Targeted Area Program Account, moneys in the applicable subaccount of the Capitalized Interest Account shall be withdrawn solely for transfer to the applicable subaccount of the Rebate Fund or the Debt Service Fund or to the Redemption Account of the Debt Service Fund (but only to make the payment required pursuant to the provisions of the applicable Supplemental Indenture regarding mandatory redemption) in the event other moneys on deposit in the applicable subaccount of the Revenue Fund are insufficient to make required deposits into such funds pursuant to the Indenture or in the event that amounts on deposit in the Redemption Account of the Debt Service Fund are insufficient to make the payments required pursuant to the applicable Supplemental Indenture's provisions regarding mandatory redemption. Unless a later date is specified in a Supplemental Indenture, on the first Interest Payment Date following the date no moneys remain on deposit in the applicable subaccount of the Program Fund or the Targeted Area Program Account, the Trustee shall transfer all other moneys remaining on deposit in the applicable subaccount of the Capitalized Interest Account to the applicable subaccount of the Revenue Fund or shall transfer such amounts to the Agency, if not otherwise restricted by any Supplemental Indenture hereto and the Agency shall have filed with the Trustee (i) a Request of the

Agency specifying the amount of funds to be released, (ii) a Projection of Revenues Certificate and (iii) if required by the related Supplemental Indenture, a confirmation from the Rating Agency that such action shall not adversely affect the rating on the related Series of Bonds.

Debt Service Fund

The Debt Service Fund is comprised of an Interest Account and a Redemption Account of the Debt Service Fund.

With respect to the Interest Account:

- The Trustee shall withdraw from the applicable subaccount of the Interest Account on each Interest Payment Date or redemption date, an amount equal to the unpaid interest due on the related Series of Bonds Outstanding on such Interest Payment Date or redemption date, as applicable, and shall cause such amount to be applied to the payment of such interest when due.
- If Bonds are to be redeemed on any day other than an Interest Payment Date, the Trustee will withdraw from the applicable subaccount of the Interest Account on the date of such redemption, an amount equal to the interest due and payable on such date and cause such amount to be applied to the payment of said interest when due.
- All withdrawals and transfers from the Interest Account shall be made not earlier than the Interest Payment Date or redemption date to which they relate, and the amounts so withdrawn or transferred shall, for all purposes of this Indenture, be deemed to remain in and be part of the Interest Account of the Debt Service Fund until such Interest Payment Date or redemption date.
- Any investment earnings (net of losses) on moneys held in the Interest Account shall be credited to, and any losses charged against, the related subaccount of the Revenue Fund upon receipt.

With respect to the Redemption Account of the Debt Service Fund:

- The Trustee shall apply all amounts deposited in the applicable subaccount of the Redemption Account of the Debt Service Fund to pay the principal of the related Series of Bonds (whether at maturity or by sinking fund redemption), and redeem such Bonds in the manner and upon the terms and conditions specified in the applicable Supplemental Indenture at the next succeeding practicable permitted date of redemption for which, at the time of such deposit, notice of redemption can be but has not been given in accordance with the applicable Supplemental Indenture; provided, however, that prior to giving such notice of redemption, the Trustee shall, at the direction of the Agency, apply the amount in the applicable subaccount of the Redemption Account of the Debt Service Fund (or in the applicable subaccount of the Revenue Fund to the extent the Trustee determines that such amounts would otherwise be transferred to the applicable subaccount of the Redemption Account of the Debt Service Fund on the following Interest Payment Date) to the purchase of Bonds of the related Series at public or private sale as and when and at such price (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account of the Debt Service Fund) as the Agency may, in its discretion, determine; provided, however, such purchase price (plus any commission) shall not exceed the par value of such Bonds. All Bonds so purchased or redeemed shall be cancelled and destroyed by the Trustee (unless otherwise directed by the Agency).

- Investment earnings (net of losses) on all moneys on deposit in the Redemption Account of the Debt Service Fund shall be credited to the applicable subaccount of the Revenue Fund.

Reserve Fund

An amount equal to the Reserve Requirement shall be maintained in the Reserve Fund, from the proceeds of the sale of the Bonds or such other sources as specified by a direction of an Authorized Officer. The Trustee shall, to the extent the amount in the Revenue Fund is insufficient to pay principal of and interest on the Bonds and any Sinking Fund Installments and any amounts required to be paid to the Provider of a Hedge Agreement (other than fees, expenses or termination payments payable to such Provider) unless otherwise provided in such Hedge Agreement or any related Supplemental Indenture, transfer from the Reserve Fund (after transferring any amounts in any capitalized interest account established pursuant to a Supplemental Indenture (to the extent of amounts available therein and therefor)) to the Revenue Fund to pay the principal of and interest on the Bonds and any Sinking Fund Installments and any amounts required to be paid to the Provider of a Hedge Agreement (other than fees, expenses or termination payments payable to such Provider) unless otherwise provided in such Hedge Agreement or any related Supplemental Indenture. The Trustee shall notify the Agency in writing prior to any such withdrawal from the Reserve Fund. Within six months of any such withdrawal, the Agency shall, if permitted under the Act or applicable laws of the State, deposit in the Reserve Fund an amount sufficient to replenish the Reserve Fund to the Reserve Requirement.

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

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

Deficiencies in the Interest Account or Redemption Account of the Debt Service Fund

In the event that the amount in the Interest Account is insufficient to pay interest on the Bonds when due, the Trustee shall transfer to the Interest Account the amount of such deficiency by withdrawing said amount from the following Funds (first, from the applicable subaccounts established for the related Series of Bonds, and only if such insufficiency persists thereafter from subaccounts related to any other Series of Bonds), at the direction of the Agency, in the following order of priority: (i) the Revenue Fund, including the Prepayment Account therein, (ii) the Capitalized Interest Account, (iii) any other Fund or Account established pursuant to this Indenture other than (A) the Rebate Fund and (B) the Redemption Account to the extent that moneys therein have been set aside for the redemption of Bonds with respect to which notice of redemption has previously been given, and (iv) the Reserve Fund.

In the event that the amount in the Redemption Account is insufficient to pay the principal of the Bonds when due, the Trustee shall transfer to the Redemption Account the amount of such deficiency by withdrawing said amount from the following Funds (first, from the applicable subaccounts established for the related Series of Bonds, and only if the insufficiency persists thereafter from subaccounts related to any other Series of Bonds), at the direction of the Agency, in the following order of priority: (i) the Revenue Fund, including the Prepayment Account therein, (ii) the Capitalized Interest Account, (iii) any other Fund or Account established pursuant to this Indenture except (A) the Interest Account and (B) the Rebate Fund, and (iv) the Reserve Fund.

Rebate Fund

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

Cost of Issuance Fund

Amounts on deposit in the applicable subaccount of the Cost of Issuance Fund shall be expended only to pay Costs of Issuance upon receipt of written instructions from the Agency. If not otherwise restricted by any Supplemental Indenture hereto, any moneys remaining in the applicable subaccount of the Cost of Issuance Fund on such dates as set forth in the applicable Supplemental Indenture and not specifically committed to the payment of such costs shall be transferred to the Agency to be used for any public purposes of the Agency. Investment earnings (net of losses) on any moneys on deposit in the Cost of Issuance Fund shall be credited to the Agency.

Program Expense Fund

Moneys in the applicable subaccount of the Program Expense Fund shall be used solely to pay Program Expenses for the related Series of Bonds on the date such fees are due and payable.

Depositories of Moneys and Investment of Funds

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

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

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

At the direction of an Authorized Officer, the Trustee shall sell outright or pursuant to a repurchase agreement at the best price reasonably obtainable, or present for redemption, any obligation purchased by it as an investment whenever it shall be necessary in order to provide moneys to meet any

payment or transfer from the Fund or Account for which such investment was made. When transferring moneys from one Fund or Account to another, investments need not be liquidated, and all or a portion of such invested moneys may be credited to a particular Fund or Account from another

Issuance of Additional Obligations

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

Supplemental Indentures

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

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

Notwithstanding anything contained in the foregoing paragraphs, with the consent of all of the holders of all the Bonds then Outstanding, the terms and provisions of the Indenture, and the rights and obligations of the Agency and the holders of the Bonds, in any particular, may be modified or amended in any respect upon the execution by the Agency and filing in accordance with the provisions of a Supplemental Indenture of the Agency making such modification or amendment; provided, however, that

no such modification or amendment shall change or modify any of the rights, obligations, duties, remedies, immunities and privileges of the Trustee without the written consent of the Trustee.

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

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

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

Notwithstanding any of the foregoing, during anytime that Program Bonds issued under the New Issue Bond Program are outstanding the Agency may not amend, supplement or otherwise modify in any material respect the Indenture or any other related document without the prior written consent of the GSEs; provided, however, that the consent of the GSEs shall not be required with respect to Supplemental Indentures entered into solely for the purpose of providing for the issuance of a Series of Bonds pursuant to the Trust Indenture. With respect to amendment to the Indenture or the Supplemental Indenture, the determination of the GSEs as to the materiality of an amendment shall be controlling.

Events of Default

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

Remedies

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

- The Trustee may declare the principal amount of all Bonds Outstanding and the interest accrued thereon to be immediately due and payable, whereupon such principal amount and

interest shall thereupon become immediately due and payable, if an Event of Default pursuant to clause (i) under “—**Events of Default**” above;

- The books and records of the Agency relating to the Bonds shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys, but only to the extent that such inspection and use does not challenge, in the Agency’s discretion, the confidentiality of such books and records as well as other related communications of the Agency; and
- The Agency, whenever the Trustee shall demand, will account as if it were the trustee of an express trust for all money, securities and Funds and Accounts pledged or held under the Indenture for such period as shall be stated in such demand.

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 Indenture, 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 Moneys After Default

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

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

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

and owing thereon, payment shall be made ratably according to the amount of principal due on such date to the persons entitled thereto without any discrimination or privilege;

- To the payment of any amounts due and payable to any bond insurer; and
- To the payment of fees, expenses and termination payments due and payable under a Qualified Hedge Agreement.

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

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

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

Discharge of Lien

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

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

Notwithstanding the foregoing, in the case of Bonds which by their terms may be redeemed prior to their stated maturity, no deposit under the immediately preceding paragraph shall be deemed a payment

of such Bonds as aforesaid until the Agency shall have given the Trustee, in form satisfactory to the Trustee, irrevocable instruction:

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

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

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

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

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

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

TRUSTEE

The Trustee for the Series Bonds is Wells Fargo Bank, National Association (“Wells Fargo”), with corporate trust offices located in Philadelphia, Pennsylvania. The Trustee also acts as Paying Agent for the Series Bonds. Payments of principal, premiums, if any, and interest on the Series Bonds are payable at the Paying Agent’s corporate trust office in Minneapolis, Minnesota.

PLEDGE AND AGREEMENT OF THE STATE

Under the Act, the State pledges and agrees with the Owners of bonds of the Agency that the State will not limit or restrict the rights vested in the Agency to perform its obligations and to fulfill the terms of any agreement made with the Owners of its bonds or in any way impair the rights and remedies of the Owners of the bonds until the bonds and interest thereon are fully met, paid and discharged.

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

NO LITIGATION

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

INDEPENDENT AUDITORS

The financial statements of the Agency for the year ended June 30, 2011 included in Appendix I have been audited by Reznick Group, P.C., independent certified public accountants, whose report thereon is also included in Appendix I. Reznick Group, P.C. has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Reznick Group, P.C. also has not performed any procedures relating to this Official Statement.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings Inc. ("Fitch") have assigned their municipal bond ratings of "Aaa" and "AAA" respectively, to the Series Bonds, but Moody's has assigned its rating a negative outlook. On August 2, 2011 Moody's confirmed the "Aaa" bond rating of the government of the United States with a negative outlook. Moody's also announced on that date that as a result of its bond rating of the United States government, the rating outlook of certain housing bonds supported or guaranteed by the United States government (which includes bonds secured by mortgage-backed securities guaranteed by GNMA, Fannie Mae and Freddie Mac, such as all Bonds issued under the Indenture) had also been revised to negative.

Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings can only be obtained from the rating agency furnishing the same. There is no assurance such ratings will be continued for any given period of time or that they will not be changed by the rating agency furnishing the same, if, in the judgment of such rating agencies, circumstances so warrant. Any such change of such ratings may have an effect upon the market price or the marketability of the Series Bonds.

CONTINUING DISCLOSURE

In connection with the issuance of the Series 2011A Bonds, the Agency has covenanted 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 2011 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events, if any, will be filed by the Agency with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in "**APPENDIX V—FORM OF THE CONTINUING DISCLOSURE AGREEMENT.**" These covenants have been made in order to assist the Underwriters

in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). During the past five years, the Agency has complied in all material respects with its obligations under all previous undertakings to provide annual reports or notices of material events.

APPROVAL OF LEGALITY

All legal matters related to the authorization, issuance, sale and delivery of the Series 2011A Bonds and the release and redesignation of the Subseries A-2 Bonds are subject to the approval of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel. The unqualified approving opinions of Bond Counsel in substantially the forms attached hereto as **APPENDIX VI** will be delivered with the Series Bonds. Certain legal matters will be passed upon for the Agency by George N. Demas, General Counsel of the Agency, and for the Underwriters by Nixon Peabody LLP, Boston, Massachusetts, counsel to the Underwriters.

UNDERWRITING

Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (together, the “Underwriters”) have jointly and severally agreed, subject to certain conditions, to purchase all of the Series 2011A Bonds from the Agency at the prices set forth on the inside cover page hereof, less an underwriters’ discount of \$147,881.25. The Underwriters are not acting as placement agents with respect to the Subseries A-2 Bonds and the Subseries A-2 Bonds are not being offered or remarketed hereby.

The obligations of the Underwriters to purchase the Series 2011A Bonds are subject to certain terms and conditions set forth in the purchase contract for the Series 2011A Bonds. The Series 2011A 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.

Certain of the Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Such Underwriters and their respective affiliates, from time to time, may have performed and in the future may perform, various investment banking services for the Agency, for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, such Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Agency.

Citigroup Inc., a parent company of Citigroup Global Markets Inc. (“Citi”), an underwriter of the Series 2011A Bonds, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citi will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of his arrangement, Citi will compensate Morgan Stanley Smith LLC for its selling efforts with respect to the Series 2011A Bonds.

Citi has also entered into a master distribution agreement (the “Master Distribution Agreement”) with TheMuniCenter L.L.C. (“TMC”), for the distribution to retail investors of certain municipal securities offerings at their original issue prices. TMC has established an electronic primary offering application platform through which certain TMC approved users that are also broker-dealers or municipal securities dealers can submit orders for and receive allocations of new issue municipal securities at the original issue price for their retail customers. Pursuant to the Master Distribution Agreement (if

applicable for this transaction), Citi may share with TMC a portion of its underwriting compensation with respect to any Series 2011A Bonds that are allocated to a TMC user. The TMC users permitted to participate in the offering of the Series 2011A Bonds may also share a portion of the underwriting compensation received by Citi with respect to any Series 2011A Bonds allocated to such TMC user pursuant to the terms of a Member Addendum to the TMC user's Trading Authorization User Agreement with TMC. Citigroup Financial Products Inc., an affiliate of CGMI, owns a 31.35% equity interest in TheDebtCenter L.L.C., the parent company of TMC.

TAX MATTERS

In the opinion of Bond Counsel, and assuming compliance by the Agency with covenants in the Indenture described in the succeeding paragraphs, under existing laws, regulations, rulings and judicial decisions, interest on the Series Bonds is excluded from gross income for federal income tax purposes. The forms of such Bond Counsel opinion are attached hereto as **APPENDIX VI**.

Bond Counsel is further of the opinion that interest on the Series Bonds is not a separate tax preference item or included in corporations' calculations of adjusted current earnings for purposes of the federal alternative minimum tax.

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; use of proceeds to finance Single Family Housing are limited with respect to (a) the terms, amount and purpose of the single family mortgage loans pooled into the Federal Agency Certificates financed by the obligations, (b) the single family nature of the residences and the mortgages pooled into the Federal Agency Certificates and (c) the eligibility of the borrowers executing such single family mortgages. 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.

The Agency has included provisions in the Series 2011A Supplemental Indenture 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 Bonds will be applied in accordance with such requirements in order for interest on the Series Bonds to remain excluded from gross income for federal income tax purposes. In the opinion of Bond Counsel, the Series 2011A Supplemental Indenture and the Procedural Guide 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 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 Bonds with such requirements may cause interest on the Series Bonds to become included in gross income retroactive to the date of issue of such Bonds. The Agency has included provisions in the Supplemental Indenture 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 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 Bonds to become included in gross income.

Although Bond Counsel has rendered its opinion that interest on the Series Bonds is excluded from gross income for federal tax purposes, the accrual on receipt of interest on the Series 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 Bonds regarding any such consequences. Purchasers of the Series 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 Bonds.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Series 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. An example is the American Jobs Act of 2011 (S. 1549), proposed by the President and introduced in the Senate on September 13, 2011. If enacted as introduced, a provision of S. 1549 would limit the amount of exclusions (including tax-exempt interest) and deductions available to certain high income taxpayers for taxable years after 2012, and as a result could affect the market price or marketability of the Bonds. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Series Bonds. Purchasers of the Series Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending or proposed legislation, regulatory initiatives or litigation.

Backup Withholding

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Series Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The new reporting requirement does not in and of itself affect or alter the excludability of interest on the Series Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Vermont Taxes

The Vermont Housing Finance Agency Act provides that the Series Bonds and the interest thereon are exempt from all Vermont taxation, franchise fees or special assessments except for transfer, inheritance and estate taxes.

MISCELLANEOUS

The references herein to the Act and the Indenture, and the references to the Participation Agreements, the Servicing Agreement and the Procedural Guide in “**SINGLE FAMILY PROGRAM**” herein are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and reference is made to the Act, the Indenture and such Agreements and Documents for full and complete statements of such provisions. The agreements of the Agency with the Owners of the Series Bonds are fully set forth in the Indenture and this Official Statement is not to be construed as a contract with the

purchasers of the Series Bonds. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Copies of the Act, the Indenture, 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.

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

VERMONT HOUSING FINANCE AGENCY

/s/ Sarah E. Carpenter

Executive Director

APPENDIX I

**AUDITED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011
(WITH INDEPENDENT AUDITORS' REPORT THEREON)**

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VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Financial Statements and
Required Supplementary Information

June 30, 2011

(With Independent Auditors' Report Thereon)

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis – Required Supplementary Information (Unaudited)	3
Statement of Net Assets	9
Statement of Revenues, Expenses and Changes in Net Assets	10
Statement of Cash Flows	11
Notes to Financial Statements	13

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities and each major fund of the Vermont Housing Finance Agency (the Agency), a component unit of the State of Vermont, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 respective financial position of the business-type activities and each major fund of the Agency, as of June 30, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Reznick Group, P.C.

Baltimore, Maryland
September 30, 2011

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Management's Discussion and Analysis

June 30, 2011

This section of the Vermont Housing Finance Agency's (the Agency) annual Financial Report presents management's discussion and analysis of its financial performance and significant changes in financial position for the fiscal year ended June 30, 2011. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole.

Overview of the Agency

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

The majority of the Agency's funding has been provided from the proceeds of sales of tax-exempt and taxable bonds and notes, and advances from lending institutions. Since September 1974, the Agency has issued \$3 billion aggregate principal amount of bonds, notes and line of credit borrowings, of which \$700.5 million was outstanding as of June 30, 2011, to finance its various programs. The proceeds of the debt have been or will be used to make mortgage loans to sponsors of multi-family residential housing units for persons and families of low and moderate income in the State, to purchase mortgage backed securities (MBS) or mortgage loans on single family residential housing units for persons and families of low and moderate income in the State, and to make loans to finance multi-family housing developments. The bonds are secured pursuant to the terms of the resolutions under which they were issued.

Overview of the Financial Statements

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

Summary of Net Assets

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

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

The following table summarizes the net assets of the Agency as of June 30, 2011 with comparative data from the prior fiscal year.

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Management's Discussion and Analysis

June 30, 2011

	<u>2011</u>	<u>2010</u>	<u>Percentage change 2011 – 2010</u>
Assets:			
Cash and investments	\$ 205,917,558	230,493,037	(10.7)%
Loans receivable, net	500,197,528	579,130,499	(13.6)
Mortgage backed securities	70,877,082	49,560,221	43.0
Other assets	31,346,297	33,614,412	(6.7)
Total assets	<u>808,338,465</u>	<u>892,798,169</u>	<u>(9.5)</u>
Liabilities:			
Bonds and notes payable	700,534,931	783,853,074	(10.6)
Other liabilities	22,530,790	24,006,756	(6.1)
Total liabilities	<u>723,065,721</u>	<u>807,859,830</u>	<u>(10.5)</u>
Net assets:			
Invested in capital assets	1,564,897	1,614,858	(3.1)
Restricted:			
Bond and other requirements	73,064,490	67,976,013	7.5
Excess yield loans	8,072,137	8,102,137	(0.4)
Unrestricted	2,571,220	7,245,331	(64.5)
Total net assets	<u>\$ 85,272,744</u>	<u>84,938,339</u>	<u>0.4%</u>

Total assets decreased by \$84.5 million or 9.5% for fiscal year ended June 30, 2011 when compared to the year ended June 30, 2010. The change in assets is primarily the result of:

- Overall cash and investments decreased by \$24.6 million, or 10.7 %, from June 30, 2010 primarily from the issuance of \$30 million of the proceeds of the New Issue Bond Program because escrow bonds were converted to Mortgage Backed Securities.
- Mortgage loans receivable decreased a net of \$78.9 million or 13.6% due mainly to the collection of outstanding mortgages. Because almost all single family mortgages are now being securitized as mortgage backed securities, as mortgages pay down they will not be backfilled with new loans. However, the balance in mortgage backed securities will increase. Total loan originations in the twelve months were \$70.4 million including \$29.4 million of loans originated using MBS or the Fannie Mae cash window. Loans totaling \$8.0 million were originated under the IRS Section 1602 Tax Credit Exchange and the HUD Tax Credit Assistance programs.
- Loans originated using federal funds (Section 1602 and TCAP) are pass-through in nature and will not be realized by the Agency and, as such, are fully reserved at year-end. The addition of these reserves accounts for the net increase in the loan loss provision for the year.

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Management's Discussion and Analysis

June 30, 2011

The following table summarizes the change in mortgage loans receivable for the year ended June 30, 2011, with comparative data from the prior fiscal year:

	Fiscal year ended June		Percentage
	2011	2010	Change
			2011-2010
Mortgage loans receivable:			
Beginning balance	\$ 579,130,499	681,004,431	(15.0)%
Whole loan originations	33,016,204	20,846,947	58.37
IRS Section 1602 program originations	3,536,283	9,306,000	(62.0)
HUD TCAP program originations	4,490,310	846,236	430.62
Cash window loan sales	142,333	1,491,358	(90.5)
Principal collections	(107,452,686)	(77,454,369)	38.73
Loans converted to MBS	—	(41,225,500)	(100.0)
Loans transferred to REO status	(3,703,575)	(3,679,957)	0.64
Loan loss provision	(792,914)	(361,053)	119.61
Loan loss provision – 1602/TCAP	(8,026,593)	(10,152,236)	(20.9)
Less cash window sales	(142,333)	(1,491,358)	(90.5)
Ending mortgage loans receivable balance	<u>\$ 500,197,528</u>	<u>579,130,499</u>	<u>(13.6)%</u>

The following table summarizes the change in mortgage backed securities for the fiscal year ended June 30, 2011:

	Fiscal year
	ended
	June 30, 2011
Mortgage backed securities (MBS):	
Beginning balance	\$ 49,560,221
Loans converted to MBS	—
MBS purchased	29,227,726
Principal paydowns	(8,177,465)
Unamortized discount points	(94,936)
Amortization on MBS	5,204
Appreciation in fair value	356,332
Ending MBS balance	<u>\$ 70,877,082</u>

Total liabilities of the Agency decreased by \$84.8 million, or 10.5% for the fiscal year ended June 30, 2011 when compared to the year ended June 30, 2010, primarily as a net result of:

- The change in bonds payable was a net decrease of \$78.8 million, which reflects \$12 million of new issue bonds and \$75.4 million of redemptions and \$15.4 million of schedules maturities.

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Management's Discussion and Analysis

June 30, 2011

- For fiscal year 2010 the Agency was required to implement GASB 53, Accounting and Financial Reporting for Derivative Instruments. In accordance with the provisions of GASB 53 the Agency has recorded \$13 million in offsetting assets and liabilities; noncurrent deferred inflow of resources, and noncurrent change in fair value of derivative instrument interest rate swaps, respectively. These balances are reported under other assets, and other liabilities, and account for the increases in both of these balance sheet categories in fiscal year 2011.

Discussion of changes in Statement of Revenues, Expenses and Changes in Net Assets

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

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Management's Discussion and Analysis

June 30, 2011

The following summarizes the changes for the fiscal year ended June 30, 2011 with comparative data from the prior fiscal year:

	Fiscal year ended June 30,		Percentage
	2011	2010	change
			2011 – 2010
Operating revenues:			
Interest on loans	\$ 31,968,003	36,178,804	(11.6)%
Interest on mortgage backed securities	2,915,256	2,289,389	27.3
Interest on investments	4,084,592	4,288,008	(4.7)
Fee income	1,152,554	1,121,336	2.8
Gain on bond redemptions	136,132	130,944	4.0
Other revenue	119,139	77,594	53.5
Total operating revenues	<u>40,375,676</u>	<u>44,086,075</u>	<u>(8.4)</u>
Operating expenses:			
Financing costs	33,321,502	37,635,656	(11.5)
Operational expenses	4,237,684	4,155,311	2.0
Mortgage servicing	794,966	928,043	(14.3)
Loan loss provision	1,869,598	767,865	143.5
Total operating expenses	<u>40,223,750</u>	<u>43,486,875</u>	<u>(7.5)</u>
Operating income (loss)	<u>151,926</u>	<u>599,200</u>	<u>(74.6)</u>
Nonoperating revenues:			
Net appreciation (depreciation) in fair value of investments	182,479	3,518,628	(94.8)
Federal programs:			
Federal grant revenue	14,627,233	15,305,110	(4.4)
Federal grant expense	(14,383,895)	(15,025,510)	(4.3)
Administration and period costs	(243,338)	(279,600)	(13.0)
Excess (deficiency) of revenues over expenses	<u>334,405</u>	<u>4,117,828</u>	<u>(91.9)</u>
Net assets – beginning of year	<u>84,938,339</u>	<u>80,820,511</u>	<u>5.1</u>
Net assets – end of year	<u>\$ 85,272,744</u>	<u>84,938,339</u>	<u>0.4%</u>

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Management's Discussion and Analysis

June 30, 2011

The Agency's net operating income was \$151,926 for the fiscal year ended June 30, 2011, compared to a net operating income of \$599,200 for the fiscal year ended June 30, 2010. When net nonoperating revenues are included the overall excess of revenues over expenses for the fiscal year ended June 30, 2011 was \$334,405 compared with a net excess of revenues over expenses in the previous fiscal year of \$4.1 million (due mainly to the difference in net appreciation in fair value of investments).

Income and expense highlights include:

- Interest income on loans and mortgage backed securities decreased by \$3.6 million (9.3%) reflecting the effect of net portfolio runoff and the reduced spread on the whole loans converted to MBS.
- Interest income on investments decreased by \$203.4 thousand (4.7%) due to a reduction in the investment portfolio balance and lower reinvestment rates.
- Financing costs decreased \$4.3 million (11.5%) relative to the same period prior year due to the net reduction in outstanding bonds and notes payable of \$83.3 million and the reduction of rates paid on variable rate debt.
- Operational expenses had a modest increase of less than 2% compared to the prior year. The overall increase is primarily the result of an increase in salary and benefits costs of \$142 thousand, due mainly to filling some vacant positions. Operational expenses continue to be down considerably from fiscal year 2009 because of a deliberate effort to reduce costs.

Budgetary Information

The Agency prepares an annual budget of income, expenses, and fund transfers for its Operating Fund. The operating budget is prepared by staff, and reviewed and approved prior to the start of the fiscal year by the Agency's Board of Commissioners.

The Agency relies on fund transfers from bond programs and Operating Fund cash-on-hand to bridge the gap between annual operating expenses and operating income.

For fiscal year 2011, the Agency budgeted \$1.64 million in operating revenues and \$5.01 million in operating expenses. Actual operating revenues of \$2 million and expenses of \$4.73 million resulted in positive budget variances of \$360 thousand and \$280 thousand respectively. Net fund transfers for the period was \$478 thousand.

Federal grant revenues and expenses related to the Agency's participation in programs under the American Recovery and Reinvestment Act of 2009 (ARRA) and the Federal Housing and Economic Recovery Act of 2008 (HERA) are reported in the Operating Fund, but are not part the Agency's operating budget.

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 information, please contact the Chief Financial Officer at VHFA, 164 St. Paul St., Burlington, VT 05401 or visit our website at www.vhfa.org.

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Statement of Net Assets

June 30, 2011

Assets	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Bond Fund	Multi-Family Mortgage Program Fund	Total
Cash and cash equivalents	\$ 1,842,551	—	—	—	1,842,551
Investments	100,000	—	—	—	100,000
Accrued interest receivable:					
Mortgage and notes	1,152,225	1,592,369	506,669	311,313	3,562,576
Investments	680	511,140	4,907	302,046	818,773
Mortgage backed securities	—	204,353	64,946	—	269,299
Current portion of mortgage loans receivable	302,328	6,618,633	2,978,750	3,048,389	12,948,100
Current portion of mortgage backed securities	—	1,123,634	295,052	—	1,418,686
Current costs of bond issuance expense	—	77,423	37,608	43,822	158,853
Current portion of deferred mortgage originating fees, net	—	233,778	37,592	—	271,370
Current receivables and prepaid expenses	1,649,083	1,009,961	340,075	64,874	3,063,993
Interfund receivables (payables)	456,309	494,099	19,607	(970,015)	—
Total current assets	<u>5,503,176</u>	<u>11,865,390</u>	<u>4,285,206</u>	<u>2,800,429</u>	<u>24,454,201</u>
Noncurrent assets:					
Restricted cash and cash equivalents	2,467,704	120,872,845	10,552,136	43,557,565	177,450,250
Restricted investments	—	21,459,213	—	5,065,544	26,524,757
Noncurrent portion of mortgage loans receivable, net	13,840,057	268,102,939	110,705,372	94,601,060	487,249,428
Noncurrent portion of mortgage backed securities	—	52,690,535	16,767,861	—	69,458,396
Deferred costs of bond issuance, net	—	2,143,721	512,900	913,183	3,569,804
Deferred mortgage origination fees, net	—	180,566	116,223	—	296,789
Noncurrent receivables and prepaid expenses	(3,528)	881,330	830,277	38,342	1,746,421
Land	775,000	—	—	—	775,000
Building (less accumulated depreciation of \$412,844)	587,990	—	—	—	587,990
Office furniture and fixtures (less accumulated depreciation of \$1,688,756)	201,907	—	—	—	201,907
Noncurrent deferred inflow of resources related to interest rate swaps	—	8,124,386	4,026,267	837,619	12,988,272
Other assets and real estate owned	—	2,519,835	515,415	—	3,035,250
Total noncurrent assets	<u>17,869,130</u>	<u>476,975,370</u>	<u>144,026,451</u>	<u>145,013,313</u>	<u>783,884,264</u>
Total assets	<u>\$ 23,372,306</u>	<u>488,840,760</u>	<u>148,311,657</u>	<u>147,813,742</u>	<u>808,338,465</u>
Liabilities and Net Assets					
Liabilities:					
Current liabilities:					
Current notes payable and lines of credit	\$ 2,934,979	—	—	12,908,961	15,843,940
Current bonds payable	11,670	91,630,000	2,830,000	19,747,271	114,218,941
Accrued interest payable	44,202	2,903,543	994,623	1,798,910	5,741,278
Current unamortized bond and note premium (discount), net	—	(17,054)	(78,109)	(58,777)	(153,940)
Current deferred loan origination fees	9,398	—	—	—	9,398
Current deferred income	4,952	—	—	—	4,952
Accounts payable	494,339	927,792	130,839	57,542	1,610,512
Escrowed cash deposits	1,632,739	16,742	—	—	1,649,481
Arbitrage rebate payable	—	116,765	—	—	116,765
Total current liabilities	<u>5,132,279</u>	<u>95,577,788</u>	<u>3,877,353</u>	<u>34,453,907</u>	<u>139,041,327</u>
Noncurrent liabilities:					
Noncurrent notes payable and lines of credit	8,576,224	—	—	3,689,910	12,266,134
Noncurrent bonds payable	511,884	343,990,000	118,755,000	94,949,032	558,205,916
Fair value of derivative instrument – interest rate swaps	—	8,124,386	4,026,267	837,619	12,988,272
Unamortized bond and note premium (discount), net	—	(1,277,397)	(149,220)	(649,819)	(2,076,436)
Arbitrage rebate payable	—	24,619	—	67,791	92,410
Deferred program income	2,181,206	—	—	—	2,181,206
Noncurrent deferred mortgage loan origination fees	270,312	—	—	—	270,312
Noncurrent deferred income	96,580	—	—	—	96,580
Total noncurrent liabilities	<u>11,636,206</u>	<u>350,861,608</u>	<u>122,632,047</u>	<u>98,894,533</u>	<u>584,024,394</u>
Total liabilities	<u>16,768,485</u>	<u>446,439,396</u>	<u>126,509,400</u>	<u>133,348,440</u>	<u>723,065,721</u>
Net assets:					
Invested in capital assets	1,564,897	—	—	—	1,564,897
Restricted for:					
Bond resolutions	2,467,704	42,401,364	21,802,257	14,465,302	81,136,627
Unrestricted	2,571,220	—	—	—	2,571,220
Total net assets	<u>6,603,821</u>	<u>42,401,364</u>	<u>21,802,257</u>	<u>14,465,302</u>	<u>85,272,744</u>
Total liabilities and net assets	<u>\$ 23,372,306</u>	<u>488,840,760</u>	<u>148,311,657</u>	<u>147,813,742</u>	<u>808,338,465</u>

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Statement of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2011

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Bond Fund	Multi- Family Mortgage Program Fund	Total
Operating revenues:					
Interest income:					
Mortgage and construction loans	\$ 797,187	17,703,730	7,248,822	6,218,264	31,968,003
Investments	2,712	3,296,597	70,634	714,649	4,084,592
Mortgage backed securities	73,095	1,995,876	846,285	—	2,915,256
Fee income:					
Multi-Family Mortgage Programs	985,944	—	148,982	—	1,134,926
Single Family Mortgage Programs	17,608	20	—	—	17,628
Gain (loss) on bond redemptions	—	13,627	122,505	—	136,132
Other revenue	119,139	—	—	—	119,139
Total operating revenues	<u>1,995,685</u>	<u>23,009,850</u>	<u>8,437,228</u>	<u>6,932,913</u>	<u>40,375,676</u>
Operating expenses:					
Financing costs, including interest and amortization of premium, discount and costs of issuance, net	583,634	19,598,079	7,059,321	6,080,468	33,321,502
Mortgage service and contract administration fees	—	591,949	184,621	18,396	794,966
Salaries and benefits	3,153,177	—	—	—	3,153,177
Operating expenses	661,262	18,270	6,250	3,134	688,916
Professional fees	123,003	59,441	18,585	5,000	206,029
Trustee and assignee fees	186,162	3,400	—	—	189,562
Property disposition and loan loss reserves (recoveries)	22,463	1,183,191	213,944	450,000	1,869,598
Total operating expenses	<u>4,729,701</u>	<u>21,454,330</u>	<u>7,482,721</u>	<u>6,556,998</u>	<u>40,223,750</u>
Operating income (loss)	<u>(2,734,016)</u>	<u>1,555,520</u>	<u>954,507</u>	<u>375,915</u>	<u>151,926</u>
Nonoperating revenues (expenses):					
Net appreciation in fair value of investments	—	94,428	95,980	(7,929)	182,479
Federal programs:					
Federal grant revenue	14,627,233	—	—	—	14,627,233
Federal grant expenses	(14,383,895)	—	—	—	(14,383,895)
Administration and period costs	(243,338)	—	—	—	(243,338)
Income (loss) before transfers	<u>(2,734,016)</u>	<u>1,649,948</u>	<u>1,050,487</u>	<u>367,986</u>	<u>334,405</u>
Net transfers to (from) operating fund	<u>477,648</u>	<u>34,405</u>	<u>—</u>	<u>(512,053)</u>	<u>—</u>
Increase (decrease) in net assets	<u>(2,256,368)</u>	<u>1,684,353</u>	<u>1,050,487</u>	<u>(144,067)</u>	<u>334,405</u>
Net assets at beginning of year	<u>8,860,189</u>	<u>40,717,011</u>	<u>20,751,770</u>	<u>14,609,369</u>	<u>84,938,339</u>
Net assets at end of year	<u>\$ 6,603,821</u>	<u>42,401,364</u>	<u>21,802,257</u>	<u>14,465,302</u>	<u>85,272,744</u>

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Statement of Cash Flows

Year ended June 30, 2011

	<u>Operating Fund</u>	<u>Single Family Mortgage Program Fund</u>	<u>Multiple Purpose Program Fund</u>	<u>Multi-Family Mortgage Program Fund</u>	<u>Total</u>
Cash flows from operating activities:					
Interest collections on mortgages	\$ 811,299	18,133,835	7,315,038	6,316,644	32,576,816
Interest collections on mortgage backed securities	—	1,866,661	814,120	—	2,680,781
Principal collections on mortgages	5,454,465	50,971,434	19,972,121	31,080,745	107,478,765
Principal collections on mortgage backed securities	—	6,588,734	1,563,808	—	8,152,542
Federal grant revenues	8,026,593	—	—	—	8,026,593
Purchases of mortgages	(15,348,364)	(502,089)	(21,450)	(25,170,895)	(41,042,798)
Purchases of mortgage backed securities	—	(27,789,924)	(1,379,247)	—	(29,169,171)
Discount on purchases of mortgage backed securities	—	51,599	4,501	—	56,100
Fee income and other receipts	958,733	20	148,982	—	1,107,735
Salaries and benefits payments	(2,984,771)	—	—	—	(2,984,771)
Operating expense payments	(822,427)	(82,495)	(24,835)	(26,530)	(956,287)
Admin and period cost payments federal programs	(243,338)	—	—	—	(243,338)
Foreclosed property (gain) loss	22,463	100,971	(75,003)	—	48,431
Payment on prepaid origination fees	—	584	—	—	584
Service fee and other payments	—	(594,553)	(182,096)	—	(776,649)
Net cash provided by (used for) operating activities	<u>(4,125,347)</u>	<u>48,744,777</u>	<u>28,135,939</u>	<u>12,199,964</u>	<u>84,955,333</u>
Cash flows from investing activities:					
Proceeds from sales and maturities investments	—	444,145	—	—	444,145
Interest received on investments	3,788	1,983,189	74,202	767,582	2,828,761
Decrease (increase) in escrowed cash deposits	277,910	(2,481)	—	—	275,429
Cost of real estate owned	—	(636,077)	(125,905)	—	(761,982)
Proceeds from sales of real estate owned	—	2,613,736	655,094	—	3,268,830
Increase in deferred costs	—	(123,650)	—	—	(123,650)
New Bond deferred bond cost incurred	—	36,013	—	—	36,013
Payment to IRS to rebate excess earnings	—	19,352	—	—	19,352
Net cash provided by (used for) investing activities	<u>281,698</u>	<u>4,334,227</u>	<u>603,391</u>	<u>767,582</u>	<u>5,986,898</u>
Cash flows from noncapital financing activities:					
Net proceeds from issuance of bonds payable	—	12,000,000	—	—	12,000,000
Principal payments on bonds	(10,906)	(65,145,000)	(22,150,000)	(3,470,488)	(90,776,394)
Interest payments on bonds and notes payable	(567,168)	(18,446,408)	(6,786,390)	(5,932,865)	(31,732,831)
Proceeds from issuance of notes payable	2,649,011	—	—	18,934,167	21,583,178
Repayment of notes payable	(193,757)	—	—	(25,931,169)	(26,124,926)
Payments to bond insurers	—	(277,370)	(67,478)	(13,426)	(358,274)
Payments for cost of issuance	(39,985)	—	—	(3,273)	(43,258)
Transfers from (to) other funds	(225,201)	(23,099)	(102,228)	(1,055,171)	(1,405,699)
Net cash provided by (used for) noncapital financing activities	<u>1,611,994</u>	<u>(71,891,877)</u>	<u>(29,106,096)</u>	<u>(17,472,225)</u>	<u>(116,858,204)</u>
Cash flows from capital related financing activities:					
Federal grant receipts for NSP properties	6,607,262	—	—	—	6,607,262
Purchase of NSP properties held for sale	(6,357,302)	—	—	—	(6,357,302)
Proceeds from sales of NSP Properties	1,772,707	—	—	—	1,772,707
Purchase of office furniture and fixtures	(64,177)	—	—	—	(64,177)
Net cash provided by capital related financing activities	<u>1,958,490</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,958,490</u>
Net increase (decrease) in cash and cash equivalents	(273,165)	(18,812,873)	(366,766)	(4,504,679)	(23,957,483)
Cash and cash equivalents at beginning of year	4,583,420	139,685,718	10,918,902	48,062,244	203,250,284
Cash and cash equivalents at end of year	<u>\$ 4,310,255</u>	<u>120,872,845</u>	<u>10,552,136</u>	<u>43,557,565</u>	<u>179,292,801</u>

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Statement of Cash Flows

Year ended June 30, 2011

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Program Fund	Multi-Family Mortgage Program Fund	Total
Reconciliation of cash flows from operating activities:					
Operating income (loss)	\$ (2,734,016)	1,555,520	954,507	375,915	151,926
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	114,138	—	—	—	114,138
Amortization of (discounts) premiums on bonds and notes payable, net	—	40,012	53,626	—	93,638
Amortization of costs of bond issuance and other fees	—	95,609	38,597	59,322	193,528
Amortization of deferred income/fees	—	—	257,524	43,821	301,345
Amortization of discount on MBS purchase	—	(2,144)	(2,953)	—	(5,097)
Advances for cost of issuance	39,985	—	—	—	39,985
Loss (gain) on bond redemptions	—	(14,059)	(122,505)	—	(136,564)
Investment interest income	(2,712)	(3,296,165)	(70,634)	(714,649)	(4,084,160)
Bond and note interest expense	583,634	19,165,065	6,638,036	5,960,546	32,347,281
Bond insurance expense	—	296,009	71,538	16,669	384,216
Federal grants revenues	8,026,593	—	—	—	8,026,593
Federal grants admin & period costs	(243,338)	—	—	—	(243,338)
Changes in assets and liabilities:					
Decrease (increase) in mortgage loans receivable	(9,893,899)	50,463,601	19,950,671	6,359,851	66,880,224
Decrease (increase) in mortgage backed securities	—	(21,147,447)	192,015	—	(20,955,432)
Decrease in other assets	—	—	182,709	—	182,709
Decrease (increase) in accrued interest receivable	14,112	300,890	34,051	(3,811)	345,242
Decrease (increase) in other receivables and prepaid expenses	(56,519)	1,290,490	(43,768)	102,191	1,292,394
Increase in deferred mortgage origination fees, net	—	(110)	—	—	(110)
Increase (decrease) in accounts payable	26,675	(2,494)	2,525	109	26,815
Net cash provided by (used for) operating activities	<u>\$ (4,125,347)</u>	<u>48,744,777</u>	<u>28,135,939</u>	<u>12,199,964</u>	<u>84,955,333</u>
Supplemental noncash operating/investing activities:					
Mortgage loans receivable converted to real estate owned amounted to \$3,703,575 in fiscal year 2011.					
Supplemental noncash financing activities:					
The fair value of investments increased \$182,479 in fiscal year 2011.					

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

(1) Authorizing Legislation and Nature of Funds

(a) *Authorizing Legislation*

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

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

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

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

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

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

(i) Operating Fund

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

Federal grant revenues and expenses related to the Agency's participation in programs under the American Recovery and Reinvestment Act of 2009 (ARRA) and the Federal Housing and Economic Recovery Act of 2008 (HERA) are reported in the Operating 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, the Single Family Housing Bond Resolution adopted in September 1990, and the Mortgage Revenue Bond (Mortgage Backed Securities Program) indenture adopted in December 2009 under the

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

federal New Issue Bond Program (NIBP). Monies from these programs have been used by the Agency to purchase mortgage backed securities or mortgage loans on single family residential housing units for persons and families of low and moderate income in Vermont.

(iii) Multiple Purpose Program Fund

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

(iv) Multi-Family Mortgage Program Fund

This fund has been established under the Multi-Family Mortgage Bond Resolution adopted in February 1977, the Multi-Family Housing Bond Resolution adopted in September 1981, the Multi-Family HFA initiative adopted in December 2009 under the federal NIBP, and various individualized taxable and tax exempt bond resolutions adopted between December 1985 and May 2007. Monies from these programs are used by the Agency to make and finance mortgage loans to sponsors of multi-family residential housing units for persons and families of low and moderate income within the State of Vermont.

(v) Reserve Requirements

Under various bond resolutions of the Agency, certain amounts from bond proceeds are required to be set aside and maintained for potential debt service requirements in trusted accounts. As of June 30, 2011, reserve requirements totaled \$12,669,897 for the Single Family Mortgage Programs, \$6,442,809 for the Multi-Family Mortgage Programs and \$4,670,579 for the Multiple Purpose Programs. Amounts held in reserve accounts as of June 30, 2011 exceeded the required balances in all cases.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

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

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

(b) Net Assets

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

- *Invested in Capital Assets* – Capital assets, net of accumulated depreciation, and cost of construction or improvement of those assets.
- *Restricted* – Net assets subject to externally imposed stipulations, including those for excess yield loans and purposes restricted resources derived from federal programs.
- *Unrestricted* – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Commissioners or may otherwise be limited by contractual agreements with outside parties.

(c) Cash Equivalents

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

(d) Mortgage Loans Receivable

Mortgage loans receivable are carried at their uncollected principal balances less an allowance for loan losses on mortgages. The loan loss allowances are established based on historical loss experience. Future additions to the allowance may be necessary based on changes in economic conditions. At June 30, 2011, the allowance for loan losses for the Agency totaled \$24,037,187, broken out as follows: \$674,923 related to Single Family mortgage loans, \$1,815,655 for Multiple Purpose mortgage loans, \$1,250,000 for Multi-family mortgage loans and \$20,296,609 in the General fund. The allowance in the General Fund is comprised of \$2,117,780 for operating fund mortgage loans and \$18,178,829 for federally funded mortgage loans made under Section 1602 and the Tax Credit Assistance Program (TCAP).

Included in Multi-Family mortgage loans receivable is approximately \$9.9 million of mortgages funded by excess yield. The Agency estimates that it may be required to forgive or restructure up to this amount of these loans prior to the final maturities of the related 1999 and 2007 bond issues, in order to be in compliance with federal tax laws.

(e) Mortgage Backed Securities

Mortgage backed securities consist of Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Government National Mortgage Association (GNMA) certificates. Mortgage backed securities are reported at fair value on the statement of net assets, and the net increase (decrease) in the fair value is recognized in the statement of revenues, expenses, and changes in net assets.

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

(f) Investments

Investments are comprised of short-term investments other than cash equivalents that mature in one year or less, and long-term investments with maturities in excess of one year. Investments are 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 guaranteed investment contracts (GICs) are recorded at contract value. Fair values of all other investments are based upon quoted market prices.

(g) Depreciation

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

(h) Derivative Instruments – Interest Rate Swaps

The Agency has entered into interest rate swap agreements with counterparties in order to achieve a lower overall cost of funds for certain bond issuances. In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the interest rate swap instruments are reported at fair value on the statement of net assets.

All of the Agency's interest rate swaps are deemed to be effective cash flow hedges and therefore the fair value adjustment is reported as a deferred inflow on the statement of net assets.

(i) Amortization

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

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

(j) Income Tax Status

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

(k) 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.

(l) 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

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

not greater than that amount which would have been earned had the funds been invested at the yield on the bonds as defined by the IRS. Excess earnings must be rebated every five years. In 2011 \$616,215 was rebated to the IRS.

(m) *Operating and Nonoperating Revenues and Expenses*

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

Grants received from federal, state and local governments are recognized as nonoperating revenue as the related expenditures are incurred.

(n) *Use of Estimates*

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

(3) *Cash, Cash Equivalents and Investments*

For mortgage program investments, bond resolution requirements mandate specific classes of investment vehicles. Qualified investments are: direct obligations of the United States of America; obligations unconditionally guaranteed by the United States of America; indebtedness issued by certain federal agencies; bank time deposits evidenced by certificates of deposits insured by the Federal Depository Insurance Corporation (FDIC) and, if in excess of insured limits, collateralized in full by the aforementioned federal government investments; obligations of the State of Vermont, and/or federal or state insured mortgages; collateralized repurchase agreements secured by obligations of the federal government; GICs with the collateral held by or at the direction of the appropriate trustee; and, investment agreements with banks or bank holding companies rated in the top categories by nationally recognized rating agencies.

The Agency has an investment policy with an overriding goal of providing optimum coverage of risk exposure and maintaining liquidity necessary for future cash needs while maximizing the return on investments. All investment agreements with banks or bank holding companies, insurance companies or other financial institutions must be rated at least "A" by nationally recognized credit rating agencies or have posted adequate collateral to minimize the Agency's risk. All bonds are issued by U.S. Treasury or U.S. government agencies such as FNMA, FHLMC and FHLB, and had implied credit ratings of AAA at the time of purchase and continued to hold those ratings at June 30, 2011. In August of 2011, Standard & Poors (S&P) downgraded the long-term debt rating of the U.S. Government from AAA to AA+. S&P

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

subsequently lowered its credit rating on both Fannie Mae (FNMA) and Freddie Mac (FHLMC) one level from AAA to AA+, noting that the two companies were directly reliant on the U.S. government and have been under U.S. government conservatorship since 2008. The debt of the U.S. Government, FNMA and FHLMC continue to be rated Aaa by Moody's Investment Services.

(a) Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Agency's deposits may not be recovered. The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. The deposits (including certificates of deposit) at June 30, 2011, were \$6.2 million. Of these, \$2.6 million were exposed to custodial credit risk as uninsured and uncollateralized.

(b) Cash and Investments

The Agency's cash and investments at June 30, 2011 are presented below (in thousands).

Investments by Type					
June 30, 2011					
Investment type	Fair value	Investment maturities (in years)			
		Less than 1	1 – 5	6 – 10	More than 10
Cash	\$ 6,114	6,114	—	—	—
Money market	42,173	42,173	—	—	—
Certificate of deposit	100	100	—	—	—
Guaranteed investment contracts	48,761	30,684	—	—	18,077
US Bank Global (NIBP escrow bond)	100,321	100,321	—	—	—
U.S. Treasury securities	7,086	—	7,086	—	—
Government agency securities	1,362	—	607	—	755
Mortgage backed securities	70,877	1,419	—	392	69,066
	\$ 276,794	180,811	7,693	392	87,898

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

The following table provides information on the credit ratings associated with the Agency's cash and investments at June 30, 2011 (in thousands):

<u>Investment type</u>	<u>Fair value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>NR</u>
Cash	\$ 6,114	—	—	—	6,114
Money market	42,173	—	—	—	42,173
Certificate of deposit	100	—	—	—	100
Guaranteed investment contracts	48,761	—	16,199	32,562	—
US Bank Global (NIBP escrow bond)	100,321	100,321	—	—	—
U.S. Treasury securities	7,086	7,086	—	—	—
Government agency securities	1,362	1,362	—	—	—
Mortgage backed securities	70,877	70,877	—	—	—
	<u>\$ 276,794</u>	<u>179,646</u>	<u>16,199</u>	<u>32,562</u>	<u>48,387</u>

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of the Agency's investment in a single issuer. More than 18% of the Agency's cash and investments are invested in guaranteed investment contracts. AIG, Bayern LB, Transamerica, Ixis and Societe Generale are 30.93%, 30.16%, 19.83%, 4.95%, and 4.09%, respectively, of the Agency's total guaranteed investment contracts (GICs). The Agency's investment policy does not limit the amount invested in a single issue.

(d) Interest Rate Risk – Investments

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

(4) Mortgage and Construction Loans Receivable

(a) Single Family Mortgage Loans Receivable

Single Family mortgage loans earn interest at annual rates ranging from 4.75% to 10.00%. Mortgage payments are received monthly by the Agency from which a service fee is generally retained by servicing lenders or the subservicer.

At June 30, 2011, approximately 67.4% of the Single Family mortgage portfolios consist of primary insured mortgages.

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

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

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

Multi-Family mortgage loans receivable earn interest at annual rates ranging predominantly from 1.50% to 14.00%, and are collateralized by first mortgage liens on all real and personal property of the mortgaged premises.

(5) Capital Assets

Capital asset activity for the year ended June 30, 2011 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Capital assets not being depreciated:				
Land	\$ 775,000	—	—	775,000
Total capital assets not being depreciated	<u>775,000</u>	<u>—</u>	<u>—</u>	<u>775,000</u>
Capital assets being depreciated:				
Building	1,000,834	—	—	1,000,834
Building improvements	663,890	23,450	—	687,340
Computer equipment	962,588	40,727	—	1,003,315
Furniture and fixtures	200,008	—	—	200,008
Total capital assets being depreciated	<u>2,827,320</u>	<u>64,177</u>	<u>—</u>	<u>2,891,497</u>
Less accumulated depreciation for:				
Building	(387,823)	(25,021)	—	(412,844)
Building improvements	(648,196)	(7,428)	—	(655,624)
Computer equipment	(761,115)	(77,421)	—	(838,536)
Furniture and fixtures	(190,328)	(4,268)	—	(194,596)
Total accumulated depreciation	<u>(1,987,462)</u>	<u>(114,138)</u>	<u>—</u>	<u>(2,101,600)</u>
Total capital assets being depreciated, net	<u>839,858</u>	<u>(49,961)</u>	<u>—</u>	<u>789,897</u>
Capital assets, net	<u>\$ 1,614,858</u>	<u>(49,961)</u>	<u>—</u>	<u>1,564,897</u>

Current period depreciation expense of \$114,138 was charged to the operating fund.

(6) Real Estate Owned

Real estate owned at June 30, 2011 consists of properties held pending sale as a result of foreclosure by the Agency. Real estate owned is carried at the lower of cost or fair value less estimated costs to sell. A valuation allowance has been established to account for the reduction in value of properties held. At June 30, 2011, the valuation allowance totaled \$679,013.

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

(7) Escrowed Cash Deposits

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

(8) Bonds Payable

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

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

Outstanding bonds payable at June 30, 2011 are as follows:

A. Single Family Mortgage Program Fund:

Housing Program:

Series 9, maturing 2011 to 2037, interest at 4.900% to 5.400%	\$ 8,470,000
Series 10, maturing 2011 to 2030, interest at 4.700% to 5.250%	4,650,000
Series 11, maturing 2011 to 2030, interest at 5.450% to 5.950%	1,590,000
Series 12, maturing 2011 to 2031, interest at 5.800% to 6.400%	1,885,000
Series 13, maturing 2011 to 2031, interest at 5.250% to 5.970%	4,245,000
Series 14, maturing 2012 to 2032, interest at 4.875% to 5.675%	5,785,000
Series 15, maturing 2011 to 2032, interest at 4.600% to 5.375%	9,115,000
Series 16, maturing 2012 to 2033, interest at 4.950% to 5.600%	15,060,000
Series 17, maturing 2011 to 2034, interest at 3.182% to 5.100%	12,945,000
Series 18, maturing 2012 to 2034, interest at 4.000% to 4.950%	12,900,000
Series 19, maturing 2011 to 2035, interest at 3.300% to 5.000%	15,260,000
Series 20, maturing 2011 to 2035, interest at 4.166% to 5.500%	16,110,000
Series 21, maturing 2011 to 2035, interest at 3.100% to 5.000%	24,950,000
Series 22, maturing 2011 to 2035, interest at 3.900% to 5.000%	24,205,000
Series 23, maturing 2011 to 2035, interest at 3.850% to 5.000%	37,355,000
Series 24, maturing 2011 to 2036, interest at 3.950% to 5.000%	25,095,000
Series 25, maturing 2011 to 2037, interest at 4.200% to 6.000%	32,440,000
Series 26, maturing 2011 to 2038, interest at 3.875% to 5.750%	36,925,000
Series 27, maturing 2011 to 2038, interest at 4.000% to 5.500%	<u>32,635,000</u>
Total Housing Program	<u>321,620,000</u>

Mortgage Revenue Bonds (Mortgage Backed Securities Program):

Series 2009A (NIBP Escrow Bonds), maturing 2041, interest at floating rate	<u>84,000,000</u>
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Series 2010A, Subseries A-1, maturing 2012 to 2041, interest at .075% to 4.5%	<u>30,000,000</u>
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Total Mortgage Revenue Bond Program	<u>114,000,000</u>
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Total Single Family Mortgage Program Fund	<u>\$ 435,620,000</u>
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VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

B. Multiple Purpose Bond Program Fund:

Multiple Purpose Bonds:

2007 Series A and B, maturing 2011 to 2038, interest at 4.000% to 5.750%	\$ 43,890,000
2007 Series C, maturing 2011 to 2038, interest at 4.3.99% to 5.750%	50,640,000
2008 Series C, maturing 2011 to 2040, interest at 2.7% to 5.350%	27,055,000
Total Multiple Purpose Bonds	<u>\$ 121,585,000</u>

C. Multi-Family Mortgage Program Fund:

Mortgage Program:

1999 Series A, maturing 2012 to 2020, interest at 5.000% to 5.125%	\$ 2,710,000
1999 Series B, maturing 2012 to 2030, interest at 5.650% to 6.000%	3,330,000
1999 Series C and D, maturing 2012 to 2021, interest at 5.400% to 5.800%	14,295,000
2000 Series A, maturing 2012 to 2039, interest at 5.900%	4,780,000
2000 Series B, C, and D, maturing 2011 to 2031, interest at 5.650% to 6.700%	1,635,000
2001 Series A, B, C, and D, maturing 2011 to 2032, interest at 5.400% to 7.270%	4,405,000
2002 Series A and B, maturing 2011 to 2039, interest at 4.750% to 7.200%	10,895,000
2003 Series A, maturing 2011 to 2043, interest at 5.050% to 5.250%	3,975,000
2003 Series C, maturing 2012 to 2034, interest at 4.150% to 5.100%	9,735,000
2004 Series A, B, and C, maturing 2011 to 2046, interest at 3.900% to 6.300%	13,155,000
2004 Series D, maturing 2011 to 2039, interest at 4.650% to 4.900%	2,600,000
2005 Series A, B, C, and D, maturing 2011 to 2035, interest at 4.400% to 5.750%	4,050,000
Total Mortgage Program	<u>75,565,000</u>

Direct Placement Program:

Northgate Housing Program:

Four series of bonds, maturing 2012 to 2032, interest at 7.085% to 8.25%	\$ 5,324,989
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Highgate Housing Program:

Two series of bonds, maturing 2012 to 2031, interest at 6.450% to 7.741%	2,475,000
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Kilbourn Mobile Home Park Bond:

Taxable bond, maturing 2012 to 2017, interest at 7.500%	171,200
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T.D. Banknorth Borrowing – Chittenden Housing Corp. Bond:

Maturing 2012, interest at 5.410%	3,551,820
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Multi-Family variable rate demand bonds, Series 1

Maturing 2012 to 2038, interest at 4.180% to 5.490%	3,965,000
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Multi-Family variable rate demand bonds, Series 2

Maturing 2012 to 2038, interest at 3.756% to 4.610%	653,294
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Total Direct Placement Programs	<u>16,141,303</u>
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VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

HFA Initiative Multifamily Bonds:

2009 Series A, (NIBP Escrow Bonds) maturing 2051, interest at floating rate	\$ 16,290,000
2009 Series B, maturing 2051, interest at 3.61%	<u>6,700,000</u>
Total HFA Initiative Bonds	<u>22,990,000</u>
Total Multi-Family Mortgage Program Fund	<u>114,696,303</u>

D. Operating Fund:

Northgate Housing Site Acquisition, maturing 2010 to 2031, interest at 7%	<u>523,554</u>
Total bonds payable	<u>\$ 672,424,857</u>

All calendar year 2011 maturities on bonds payable occur after June 30, 2011.

NIBP Escrow Bonds are subject to mandatory redemption on December 31, 2011.

Future maturities on bonds payable as of June 30, 2011 are as follows (in thousands):

	Multi-Family Mortgage Programs						Multiple Purpose Programs	
	Mortgage Program		Direct Placement Programs		HFA Initiative Multifamily Bonds		Multiple Purpose Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:								
2012	\$ 3,010	4,132	337	793	16,400	282	2,830	5,749
2013	3,115	3,972	3,823	742	120	244	2,540	5,630
2014	2,175	3,812	324	693	120	240	2,365	5,520
2015	2,305	3,690	334	672	120	235	2,205	5,413
2016	2,300	3,565	355	650	120	231	2,295	5,309
2017 – 2021	19,785	15,020	2,259	2,812	610	1,089	14,685	24,656
2022 – 2026	10,510	10,585	2,452	2,111	1,150	931	19,025	20,629
2027 – 2031	13,345	7,344	3,330	1,245	1,200	718	22,840	15,455
2032 – 2036	12,930	3,576	2,002	437	1,350	498	29,700	9,093
2037 – 2041	5,175	880	925	49	1,770	208	23,100	1,654
2042 – 2046	840	128	—	—	30	1	—	—
2047 – 2051	75	2	—	—	—	—	—	—
Total	<u>\$ 75,565</u>	<u>56,706</u>	<u>16,141</u>	<u>10,204</u>	<u>22,990</u>	<u>4,677</u>	<u>121,585</u>	<u>99,108</u>

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

	Single Family Mortgage Programs							
	Housing Program		Mortgage Revenue Bonds		Operating Fund		Agency totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:								
2012	\$ 7,335	14,874	84,295	876	12	37	114,219	26,742
2013	7,410	14,556	600	916	13	36	17,621	26,096
2014	7,720	14,228	610	910	14	35	13,327	25,437
2015	8,580	13,880	620	901	14	34	14,178	24,825
2016	9,660	13,482	635	890	15	33	15,380	24,159
2017 – 2021	56,855	60,136	3,485	4,190	94	147	97,773	108,051
2022 – 2026	67,220	45,777	4,230	3,538	132	110	104,719	83,681
2027 – 2031	74,250	29,265	5,280	2,618	185	56	120,431	56,703
2032 – 2036	71,015	11,149	6,350	1,728	45	3	123,392	26,484
2037 – 2041	11,575	615	7,540	690	—	—	50,085	4,096
2042 – 2046	—	—	355	5	—	—	1,225	134
2047	—	—	—	—	—	—	75	2
Total	\$ 321,620	217,962	114,000	17,262	524	491	672,425	406,410

A summary of bonds payable, discount on bonds, and premium on bonds and arbitrage rebate payable activity for the year ended June 30, 2011 is as follows (in thousands):

	Balance at			Balance at	Amounts due	Amounts due
	June 30, 2010	Increases	Decreases	June 30, 2011	within one year	thereafter
Bonds payable	\$ 751,201	12,000	(90,776)	672,425	114,219	558,206
Discount on bonds	(5,219)	—	743	(4,476)	(228)	(4,248)
Premium on bonds	3,231	—	(843)	2,388	99	2,289
Arbitrage rebate payable	1,217	288	(1,296)	209	117	92

The Agency has entered into interest rate swap agreements with counterparties in connection with the Single Family Housing Bonds, Variable Rate Demand Bonds (VRDB) and T.D. Banknorth – Chittenden Housing Bond in order to obtain a synthetic fixed interest rate at a cost expected to be less than that associated with variable rate debt. The T.D. Banknorth – Chittenden Housing Bond swap matured on June 28, 2011. Under the swap agreement, the swap provider pays the Agency an amount based on the London InterBank Offered Rate (LIBOR) or the Securities Industry and Financial Markets Association (SIFMA), and the Agency pays the swap provider an amount at a fixed rate of interest.

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

Using rates as of June 30, 2011, debt service requirements of the variable rate bonds and net swap payments, assuming current interest rates remain constant, were as follows (in thousands):

	<u>Variable rate</u>		<u>Interest rate swaps, net</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
Fiscal year ending June 30:				
2012	\$ 995	372	4,792	6,159
2013	1,030	368	4,756	6,154
2014	1,075	364	4,719	6,158
2015	1,975	359	4,675	7,009
2016	2,865	351	4,602	7,818
2017 – 2021	22,355	1,566	20,953	44,874
2022 – 2026	26,590	1,108	15,782	43,480
2027 – 2031	29,130	719	10,850	40,699
2032 – 2036	31,580	283	5,179	37,042
2037 – 2040	14,410	21	819	15,250
	<u>\$ 132,005</u>	<u>5,511</u>	<u>77,127</u>	<u>214,643</u>

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

A summary of the swap agreement follows:

<u>Issue</u>	<u>Counter-Party</u>	<u>Ratings (Moody's/ S&P)</u>	<u>Effective date</u>	<u>Notional amount</u>	<u>Termination date</u>	<u>Termination option date</u>	<u>Fixed swap payment rate</u>	<u>Variable receivable rate</u>	<u>Fair value at 30-Jun-11</u>
Series 17	UBS AG	Aa3/A+	4/23/2003	\$ 3,885,000	5/1/2019	—	3.182%	70% of LIBOR	\$ (240,214)
Series 19	UBS AG	Aa3/A+	4/8/2004	5,850,000	11/1/2027	—	3.492%	70% of LIBOR	(537,130)
Series 20	UBS AG	Aa3/A+	8/12/2004	6,100,000	5/1/2028	11/1/2014	4.166%	70% of LIBOR	(557,357)
Series 21	UBS AG	Aa3/A+	11/30/2004	8,700,000	5/1/2029	—	3.682%	SIFMA + 0.10% (if LIBOR < 3.00%) 68% of LIBOR (if LIBOR > 3.00%)	(883,325)
Series 22	UBS AG	Aa3/A+	6/8/2005	13,800,000	11/1/2034	5/1/2012	3.731%	65% of LIBOR +0.28%	(891,142)
Series 23	UBS AG	Aa3/A+	10/26/2005	14,500,000	11/1/2034	11/1/2014	3.569%	65% of LIBOR +0.28%	(1,116,165)
Series 24	UBS AG	Aa3/A+	4/19/2006	10,440,000	11/1/2035	5/1/2015	3.973%	65% of LIBOR +0.28%	(980,652)
Series 25	UBS AG	Aa3/A+	7/12/2006	12,945,000	11/1/2036	11/1/2015	4.251%	65% of LIBOR +0.28%	(1,539,184)
Series 26	UBS AG	Aa3/A+	10/26/2006	13,450,000	5/1/2037	5/1/2016	3.897%	65% of LIBOR +0.28%	(1,379,217)
MP2007 A	UBS AG	Aa3/A+	7/24/2007	12,800,000	5/1/2037	5/1/2017	4.197%	65% of LIBOR +0.28%	(1,586,522)
MP2007 C	UBS AG	Aa3/A+	9/12/2007	16,500,000	11/1/2037	5/1/2017	3.990%	65% of LIBOR +0.28%	(1,830,629)
MP2008 C	Wells Fargo	Aa2/AA	9/24/2008	10,670,000	5/1/2040	—	3.167%	SIFMA + 0.05%	(609,116)
MF Series 1-A	Key Bank	A3/A-	1/25/2007	620,000	1/1/2022	—	4.240%	SIFMA + 0.15%	(76,975)
MF Series 1-B	Key Bank	A3/A-	1/25/2007	1,695,000	1/1/2022	—	4.180%	SIFMA + 0.10%	(209,103)
MF Series 1-C	Key Bank	A3/A-	1/25/2007	1,650,000	1/1/2022	—	5.490%	LIBOR + 0.05%	(313,872)
MF Series 2-A	Key Bank	A3/A-	1/24/2008	1,245,000	1/5/2023	—	3.800%	SIFMA + 0.15%	(103,510)
.F Series 2-B	Key Bank	A3/A-	1/24/2008	260,000	1/5/2023	—	3.756%	SIFMA + 0.10%	(21,746)
MF Series 2-C	Key Bank	A3/A-	1/24/2008	970,000	1/5/2023	—	4.610%	LIBOR + 0.05%	(112,413)
				<u>\$ 136,080,000</u>					<u>\$ (12,988,272)</u>

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

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

(9) Notes Payable

The Agency may borrow from the Federal Home Loan Bank (FHLB) in an amount not to exceed assets pledged to the FHLB. As of June 30, 2011, the Agency had outstanding borrowings totaling \$5,320,422 which are secured by mortgage loans with a carrying value of \$5,905,162. These borrowings have interest rates ranging from 6.3% to 7.7% and mature through December 2018.

The Agency is operating under unsecured variable rate lines of credit that total \$79.6 million with lending institutions expiring in 2011 and 2012. At June 30, 2011, there was a \$20,289,651 balance outstanding at interest rates of 1.4% to 3.0%. The lines of credit were entered into in order to fund working capital, and to be used for specific construction projects financed by the Agency.

The Agency has a \$500,000 note payable to the Vermont Community Foundation at a rate of 3.0%, maturing in November 2011. The note is uncollateralized.

The Agency has a \$2,000,000 note payable to the MacArthur Foundation at a rate of 2.0%, maturing through October 2019. The proceeds of this note will be used to provide low cost pre-development, energy, and equity bridge loans to multi-family housing projects.

The Agency has an unsecured line of credit with a bank for \$10,000,000 for the purpose of acquiring mortgage backed securities prior to the issuance of single family bonds. This line of credit bears interest at a floating rate based on overnight LIBOR. There was no balance outstanding at June 30, 2011.

Future maturities on notes payable and line of credit borrowings as of June 30, 2011 are as follows (in thousands):

	<u>Operating fund</u>		<u>Multi family Direct placement program</u>		<u>Agency totals</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Year ending June 30:						
2012	\$ 2,935	521	12,909	227	15,844	748
2013	1,729	442	3,690	16	5,419	458
2014	246	375	—	—	246	375
2015	340	356	—	—	340	356
2016	694	331	—	—	694	331
2017 – 2020	5,567	436	—	—	5,567	436
Total	\$ 11,511	2,461	16,599	243	28,110	2,704

A summary of line of credit borrowings and notes payable activity for the year ended June 30, 2011 is as follows (in thousands):

	<u>Balance at June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2011</u>	<u>Amounts due within one year</u>	<u>Amounts due thereafter</u>
Line of credit borrowings	\$ 25,638	20,583	(25,931)	20,290	15,100	5,190
Notes payable	7,014	1,000	(194)	7,820	744	7,076
	\$ 32,652	21,583	(26,125)	28,110	15,844	12,266

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

(10) Asset Restrictions

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

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

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

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

Net assets derived from purpose restricted resources provided under contractual agreements with federal agencies are restricted to the underlying purpose.

(11) Retirement Plan

Upon meeting certain eligibility requirements, the Agency's employees are eligible to participate in the Vermont Housing Finance Agency 403(b) Plan, a noncontributory defined contribution pension plan. For the year ended June 30, 2011, the Agency had a total payroll of \$2,225,005 of which \$2,208,749 was covered by the pension plan. The Agency's contribution to the Plan is 10% of the covered payroll. Employees are 30% vested in benefits under the plan upon hire, and vest in the remaining 70% on a pro-rata basis over the next five years of service. Forfeitures on nonvested benefits by terminated employees reduce the Agency's contribution. The cost of the plan was \$218,813 for the year ended June 30, 2011, and is included in salaries and benefits expense. The Agency does not provide any postemployment benefits other than the 403(b) plan.

(12) Gain on Bond Redemptions

During the year ended June 30, 2011, the Agency redeemed \$56.3 million of its Single-Family Housing Program Bonds, \$19.1 million of its Multiple Purpose Bonds, and none of its Multi-Family Mortgage Bonds. A gain on bond redemptions of \$136,132 was recognized which represents the unamortized balance of bond premium and discount and cost of issuance costs associated with the bonds retired.

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

The following is a summary of the redeemed bonds:

Single Family Housing Program:	
Series 9	\$ 1,320,000
Series 10	990,000
Series 11	380,000
Series 12	235,000
Series 13	835,000
Series 14	1,165,000
Series 15	1,255,000
Series 16	3,665,000
Series 17	2,165,000
Series 18	2,020,000
Series 19	3,805,000
Series 20	2,115,000
Series 21	3,285,000
Series 22	5,720,000
Series 23	4,920,000
Series 24	5,280,000
Series 25	6,275,000
Series 26	6,805,000
Series 27	4,100,000
	<u>56,335,000</u>
	<u><u>\$ 56,335,000</u></u>
Multiple Purpose Bonds:	
2007 Series A, B	\$ 8,640,000
2007 Series C	6,555,000
2008 Series C	3,860,000
	<u>19,055,000</u>
	<u><u>\$ 19,055,000</u></u>

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

(13) Federal Programs

In fiscal year 2011, the Agency participated in the following federal funding programs under the American Recovery and Reinvestment Act of 2009 (ARRA) and Federal Housing and Economic Recovery Act of 2008 (HERA):

On July 1, 2009 VHFA entered into an agreement with the United States Department of Housing and Urban Development (HUD) to administer \$5.4 million of funding available to eligible Vermont housing development under Federal Tax Credit Assistance Program (TCAP). The TCAP program, authorized by the American Recovery and Reinvestment Act pays for capital items in developments that receive Section 42 Housing Credits. As of June 30, 2011, the Agency had distributed \$5.3 million from this program.

On August 26, 2009 VHFA made its first distribution under Section 1602 of the American Recovery and Reinvestment Act of 2009 which authorized the United States Department of the Treasury to issue grants to State housing credit agencies in lieu of low-income housing credits. The program allows states to exchange up to 100% of returned and unused pre-2009 ceiling credits and 40% of 2009 per capita and national pool credits for cash. VHFA administered the distribution of the cash to eligible housing developments to pay for capital items. As of June 30, 2011, VHFA had exchanged approximately \$1.7 million of credits for \$14.2 million in awarded funds and made distributions of \$12.8 million.

On June 15, 2009 VHFA signed a memorandum of agreement with the State of Vermont to administer \$7 million out of \$19.6 million of Neighborhood Stabilization Program (NSP) funds allocated to the State under the Federal Housing and Economic Recovery Act of 2008. VHFA's portion to administer is called the Homeownership Acquisition and Rehabilitation Program (HARP). The NSP-HARP funds were used to purchase single family homes that have been foreclosed upon, rehabilitate each home with a focus on energy efficiency, and resell the homes to income eligible homebuyers. Sales proceeds are recycled to acquire additional properties until 2013 to leverage the original \$7.0 million to a goal of \$10 million over the next three years. The NSP program requires all States receiving these funds to fully obligate those funds by no later than September 30, 2010 or return them to HUD. Vermont was one of the first states in the country to fully allocate the NSP funds it had received within the first 9 months of the program start up. As of June 30, 2011, VHFA had purchased 40 homes worth \$4.9 million and sold 19 homes at an aggregate price of \$3.0 million.

On May 11, 2011 VHFA signed a memorandum of agreement with the State of Vermont to administer \$2.9 million out of \$5.0 million of Neighborhood Stabilization Program (NSP-3) funds allocated to the State under the Federal Housing and Economic Recovery Act of 2008. VHFA's portion to administer is called the Homeownership Acquisition and Rehabilitation Program (HARP). The NSP-HARP funds were used to purchase single family homes that have been foreclosed upon, rehabilitate each home with a focus on energy efficiency, and resell the homes to income eligible homebuyers. Sales proceeds are recycled to acquire additional properties until 2014 to leverage the original \$2.9 million to a goal of \$4.0 million over the next three years. The NSP program requires all States receiving these funds to fully obligate those funds by no later than March 3, 2014. Given the recent start to the NSP -3 program, only two homes were acquired in the month prior to the fiscal year end, at a total value of \$273,000. No homes were sold prior to June 30, 2011 under the NSP-3 Program.

VERMONT HOUSING FINANCE AGENCY
(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2011

During fiscal year 2011, the Agency administered the “Section 8 Housing Assistance Payment Program” (HAP) under Annual Contribution Contracts (ACC) with the Department of Housing and Urban Development (HUD) for 19 housing developments (377 units). Under the ACC, VHFA receives funds from HUD with which to make housing assistance payments to an owner of assisted housing pursuant to Housing Assistance Payment Contracts entered into by HUD with the owners. Under the Section 8 program, the owner must determine the portion of the gross rent to be paid by tenants in accordance with HUD schedules and criteria, typically 30% of the tenant’s adjusted income (as defined by HUD). The balance of the monthly contract rent is paid by VHFA in the form of monthly housing assistance payments. The Agency distributed \$3.1 million in HAP payments under this program during the year ended June 30, 2011.

(14) Commitments and Contingencies

At June 30, 2011, the Agency had outstanding commitments in the amount of \$8,147,643 to purchase mortgage loans or mortgage backed securities pursuant to its normal funding from bond proceeds. In addition, there were commitments of \$30,729,796 for general loans or future program subsidy purposes.

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

(15) Risk Management

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

(16) Subsequent Events

The events that occur after the date of the Statement of Net Assets but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the Statement of Net Assets are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date of the Statement of Net Assets require disclosure in the accompanying notes. Management evaluated the activity of VHFA through September 30, 2011 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.

APPENDIX II

**BONDS OUTSTANDING UNDER THE INDENTURE
AS OF SEPTEMBER 30, 2011**

<u>Series or Subseries</u>	<u>Original Principal Amount</u>	<u>Outstanding Principal Amount as of September 30, 2011</u>	<u>Principal Amount of Federal Agency Certificates Outstanding</u>	<u>Federal Agency Certificate Interest Rate(s)</u>
2009A	\$102,000,000	\$84,000,000*	N/A*	N/A*
2010A/2009A-1	30,000,000	\$30,000,000	\$29,702,576	3.625 – 4.625%

* \$84,000,000 principal amount of the Series 2009B Bonds is held in escrow and is not available to purchase Federal Agency Certificates until compliance with various conditions; \$18,000,000 of such amount is anticipated to be released to purchase Federal Agency Certificates on November 22, 2011, as described in this Official Statement (See “**NEW ISSUE BOND PROGRAM**” herein).

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APPENDIX III

DEFINITIONS OF CERTAIN TERMS

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

“*Additional Security*” shall have the meaning given such term in any Supplemental Indenture.

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

“*Certificate*,” “*Statement*,” “*Request*,” “*Requisition*” and “*Order*” mean, respectively, a written certificate, statement, request, requisition or order executed as follows: (a) if by the Agency, any person as may be designated and authorized to sign for the Agency and (b) if by a Lender or a Servicer, by such person as may be designated and authorized to sign for such Lender or Servicer, as applicable. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

“*Costs of Issuance*” means the Agency’s administrative fee, if any, and all items of expense directly or indirectly payable by or reimbursable to the Agency and related to the authorization, issuance, sale, delivery and/or remarketing of a Series of Bonds.

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

“*Delivery Period*” or “*Delivery Periods*” means the period of time for the purchase of Federal Agency Certificates from the Servicer, (A) for \$5,882,459 principal amount of the proceeds on deposit in the Series 2011A/Subseries A-2 Single Family Program Account, the date of delivery of the proceeds of the Series 2011A/Subseries A-2 Bonds, (B) for \$12,426,493 principal amount of the proceeds on deposit in the Series 2011A/Subseries A-2 Single Family Program Account, ending on June 1, 2012, and (C) for \$11,691,048 principal amount of the proceeds on deposit in the Series 2011A/Subseries A-2 Single Family Program Account, ending on October 1, 2012, or such earlier date on which all Federal Agency Certificates have been purchased, unless extended by the Agency in accordance with requirements outlined in “**SINGLE FAMILY PROGRAM—Acquisition of Series 2011A/Subseries A-2 Federal Agency Certificates**” herein; provided, however that the Delivery Period may not extend beyond May 22, 2015.

“*Fannie Mae*” means Fannie Mae, a government sponsored enterprise organized and existing under the Federal National Mortgage Association Charter Act (12 U.S.C. Section 1716 et seq.), and any successor thereto.

“*Fannie Mae Certificate*” means a single pool, guaranteed mortgage, pass-through certificate, including a participation interest therein, bearing interest at the Pass-Through Rate, issued by Fannie Mae, guaranteed as to timely payment of interest and principal by Fannie Mae and backed by Conventional Mortgage Loans, which will mature not later than the date set forth in the applicable Supplemental Indenture.

“*Fannie Mae Certificate Purchase Price*” means the percentage of the principal balance of the applicable pool of Mortgage Loans on record at Fannie Mae on the first day of the month of purchase as set forth in the applicable Supplemental Indenture.

“*Federal Agency Certificates*” means, collectively, the GNMA Certificates, the Fannie Mae Certificates and the Freddie Mac Certificates.

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

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

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

“*Freddie Mac*” means the Federal Home Loan Mortgage Corporation or any successor thereto.

“*Freddie Mac Certificate*” means a mortgage participation certificate, including a participation interest therein, issued by Freddie Mac and representing an undivided interest in a pool of Conventional Mortgage Loans identified by a particular alphanumeric number and CUSIP number, guaranteed as to timely payment of principal and interest by Freddie Mac and bearing interest at the Pass-Through Rate, which will mature not later than the date set forth in the applicable Supplemental Indenture.

“*Freddie Mac Certificate Purchase Price*” means the percentage of the principal balance of the applicable pool of Mortgage Loans on record at Freddie Mac on the first day of the month of purchase as set forth in the applicable Supplemental Indenture.

“*GNMA*” means the Government National Mortgage Association, a wholly owned corporate instrumentality of the United States within the Department of Housing and Urban Development or any successor to its functions. Its powers are prescribed generally by Title III of the National Housing Act, as amended (12 U.S.C. 1716 et seq.) and any successor to its functions.

“*GNMA Certificate*” means a fully modified, mortgage-backed security (which may be issued under either the GNMA I Program or the GNMA II Program), including a participation interest therein, bearing interest at the Pass-Through Rate, issued by a Servicer, registered in the name of the Trustee and guaranteed as to timely payment of principal and interest by GNMA pursuant to Section 306(g) of Title III of the National Housing Act of 1934 and the regulations promulgated thereunder backed by FHA-Insured Mortgage Loans or VA Guaranteed Mortgage Loans made by a Lender and purchased by a Servicer, which will mature not later than the date set forth in the applicable Supplemental Indenture.

“*GNMA Certificate Purchase Price*” means the percentage of the principal balance of the applicable pool of Mortgage Loans on record at GNMA on the first day of the month of purchase, as set forth in the applicable Supplemental Indenture.

“*GNMA Guaranty Agreement*” means the one or more guaranty agreements in the form set forth in the GNMA Guide between each Servicer and GNMA now or hereafter in effect pursuant to which GNMA has agreed or will agree to guarantee GNMA Certificates backed by Mortgage Loans.

“*GNMA Guide*” means the GNMA Mortgage-Backed Securities Guide Section 5500.3, as amended from time to time.

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

“*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 indenture.

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

“*Lender*” means a lending institution executing the Operating Agreement and meeting the criteria established by the Program.

“*Master Servicer*” is U.S. Bank Home Mortgage, a division of U.S. Bank National Association pursuant to the Mortgage Pooling and Servicing Agreement dated January 1, 2009, as amended, between the Agency and the Master Servicer.

“*Mortgage*” means a deed of trust, mortgage or other similar instrument or instruments creating a lien on real property and the improvements thereon securing a Mortgage Loan.

“*Mortgage Loan*” or “*Home Mortgage Loan*” means a first lien loan, including a participation interest therein, made by a Lender on behalf of the Agency with respect to a Home pursuant to and in accordance with the Act, the applicable Operating Agreement, this Indenture and the Program, evidenced by a Note and secured by a Mortgage, which, together with the applicable Mortgagor and Home, meets the applicable requirements of the Act, such Operating Agreement, this Indenture and the Program.

“*Mortgagor*” means the maker of, and any other party obligated on, a Note in connection with the acquisition of a Home through the borrowing of money pursuant to a Mortgage Loan and includes, where appropriate, a subsequent owner of such Home who purchases such Home subject to the related Mortgage or who assumes such Note, and who, in each case, meets the applicable requirements of the Act, the Operating Agreements, this Indenture and the Program.

“*Note*” means the promissory note or other document or documents evidencing the obligation of a Mortgagor to repay a Mortgage Loan.

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

“*Parity Certificate*” means a certificate of the Agency giving effect to any action contemplated to be taken in connection with the filing thereof, showing that (a) the sum of (i) the moneys, Permitted Investments and cash then credited to the Program Fund, the Revenue Fund, and the Debt Service Fund and any accrued interest on any of the foregoing, (ii) the unpaid principal amount of all Federal Agency Certificates credited to the Program Fund and any accrued interest thereon and (iii) such additional Series Revenues, if any, as may be specified by a Supplemental Indenture exceeds (b) an amount equal to 100% (or such higher percentage as may be specified in a Supplemental Indenture) of the Principal Amount of Outstanding Bonds of all Series plus accrued interest to the date of calculation. The Parity Certificate requirement of 100% is for the date of calculation and throughout the life of the Bonds based upon cash flow stress test scenarios provided by any Rating Agency maintaining a rating on the Bonds at the request of the Agency.

“*Pass-Through Rate*” means the rate of interest on a Federal Agency Certificate equal to the rate set forth in the applicable Supplemental Indenture.

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

Determination, or in a Supplemental Indenture if at the time of inclusion such inclusion will not, in and of itself, adversely affect the then current Rating on the Bonds.

“Prepayments” means any moneys received or recovered by the Agency or the Trustee from any unscheduled payment of or with respect to principal on any Federal Agency Certificate prior to the scheduled payments of principal called for by such Federal Agency Certificates, whether (a) by voluntary prepayment made by the Mortgagor, (b) as a consequence of the damage, destruction or condemnation of the Home or any part thereof or (c) in the event of a default thereon by the Mortgagor.

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

“Program Expenses”: any fee, premium or other item of expense directly or indirectly payable by or reimbursable to the Agency and related to (a) the compensation and expenses of the Trustee and any other paying agents, (b) the servicing of Loans (singular or pooled) financed by or pledged to secure Bonds (whether by the Agency or mortgage lenders or servicers), (c) the maintenance in full force and effect of any Additional Security, (d) any policy or policies of insurance on or relating to Loans maintained by the Agency pursuant to any supplemental indenture, (e) any fees or termination payments which (i) are not equivalent to regular Bond debt service payments and (ii) are due and payable to any Provider pursuant to a Qualified Hedge Agreement and (f) reasonable costs and expenses incurred by the Agency in connection with the administration of the Agency’s programs pursuant to which the Federal Agency Certificates are financed or 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” means a certificate of an Authorized Officer setting forth for the current and each succeeding Fiscal Year in which Bonds are scheduled to be Outstanding the Agency’s estimate of:

- (i) the Revenues, other than Federal Agency Certificate prepayments, reasonably expected to be received on all Federal Agency Certificates purchased or Federal Agency Certificates expected to be purchased with funds in or to be in the Program Fund;
- (ii) the aggregate amount of Federal Agency Certificate prepayments, if any, which the Agency expects to receive and the amount of such Federal Agency Certificate prepayments and other Revenues which will be applied to the purchase of Federal Agency Certificates;
- (iii) all other Revenues, including the interest to be earned and other income to be derived from investment of amounts held or to be held under the Trust Indenture or otherwise with respect to the programs financed thereby and the rates or yields used in estimating such amounts;
- (iv) the amounts, if any, expected by the Agency to be withdrawn from the Reserve Fund but only if the amount on deposit in the Reserve Fund is expected to at least equal the Reserve Requirement immediately after such withdrawal;
- (v) other funds expected by the Agency to be available for and applied to the payment of aggregate debt service on all Outstanding Bonds and Program Expenses;

(vi) the aggregate debt service on all Bonds expected by the Agency to be Outstanding during such Fiscal Year;

(vii) the Agency's Program Expenses for such Fiscal Year based upon the Agency's previous experience;

(viii) the Rebate Requirement, if any, for all Series of Bonds expected by the Agency to be Outstanding during such Fiscal Year and the funds expected to be available in the Rebate Fund or otherwise for and applied to the satisfaction of such Rebate Requirement, if any; and

(ix) such other amounts, funds, projections or calculations as may be required by any Supplemental Indenture.

In such certificate the Agency shall take into account its prior experience with respect to the origination, purchase and prepayment of Federal Agency Certificates. Except when issuing a Series of Bonds, the Agency shall not estimate Revenues from Federal Agency Certificates expected to be purchased in the future by application of the proceeds of Bonds which have not been issued. Every Projection of Revenues shall set forth in reasonable detail the relevant financial and other assumptions on which it is based.

It shall be sufficient, if a Projection of Revenues has been filed with the same person within the preceding 12 months, to file a certificate of an Authorized Officer stating that (A) the expectations and assumptions reflected in the most recent Projection of Revenues filed with such person have not materially changed and (B) either the transaction then being requested was expected and reflected in all material respects in such Projection of Revenues or the transaction then being requested will not materially change the expectations and assumptions reflected in such Projection of Revenues.

"Projection of Revenues Certificate" means a certificate from an Authorized Officer to the effect that the action proposed to be taken is consistent with the assumptions set forth in the last Projection of Revenues filed with the Trustee.

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

"Purchase Date" means the first Business Day of each month and any other day acceptable to the Trustee and the Servicer and on which the Servicer delivers Federal Agency Certificates to the Trustee for purchase, with moneys on deposit in the Program Fund, as provided in the applicable Supplemental Indenture.

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

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

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

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

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

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

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

“*Revenues*” means (i) all amounts received as repayment of principal, interest and all other charges received for, and all other income and receipts derived by the Agency from deposited Federal Agency Certificates or any way in connection therewith, (ii) moneys deposited in a sinking, redemption or reserve fund or other Fund or Account to secure Bonds or to provide for the payment of the principal of, premium or interest on Bonds and (iii) to the extent hereinafter provided, interest earnings or income received on moneys so deposited in any Fund or Account pursuant to this Indenture (other than the Rebate Fund established for any Series of Bonds) and all other payments and receipts received with respect to Federal Agency Certificates, including the proceeds of insurance claims (but excluding Servicing Fees and Escrow Payments).

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

“*Series 2009A Supplemental Indenture*”: the Supplemental Indenture of the Agency relating to the Series 2009A Bonds, dated as of December 1, 2009, as amended on October 1, 2010.

“*Series 2011A PAC Bonds*” means the Series 2011A Bonds maturing February 1, 2026.

“*Series 2011A Supplemental Indenture*”: the Supplemental Indenture of the Agency relating to the Series 2011A Bonds, dated as of November 1, 2011.

“*Servicer*” means one or more servicers which have entered into Servicing Agreements with the Agency, or their successors and assigns or any substitute entity therefor, as identified in a Supplemental Indenture.

“*Servicing Agreement*” means an agreement between the Agency and a Servicer, as identified in a Supplemental Indenture.

“*Servicing Fees*” means (a) any fees paid to or retained by a Servicer servicing Mortgage Loans pursuant to a Servicing Agreement and (b) any fees retained by the Agency with respect to Mortgage Loans owned and serviced by the Agency. “*Sinking Fund Installment*”: any amount of money required by or pursuant to the Indenture or a Supplemental Indenture to be paid on a specified date toward the retirement of any particular Term Bonds of a Series before maturity.

“*Single Family 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.

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

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

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

“*Targeted Area*” means any of those census tracts and other areas in the State as identified by the Agency.

“*Targeted Area Mortgage Loan*” means a Mortgage Loan which was originated to finance the acquisition or construction of a Home located within a Targeted Area.

“*Tender Bonds*”: 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.

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

APPENDIX IV

BOOK ENTRY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series Bonds. The Series Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered security certificate will be issued for each series and maturity of the Series Bonds in the aggregate principal amount thereof, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

Redemption proceeds, distributions, and dividend payments on the Series Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Agency or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Agency or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series Bonds purchased or tendered, through its Participant, to the Remarketing Agent, and shall effect delivery of such Series Bonds by causing the Direct Participant to transfer the Participant's interest in the Series Bonds, on DTC's records, to the Remarketing Agent. The requirement for physical delivery of Series Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series Bonds to the Remarketing Agent's DTC account.

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

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

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

APPENDIX V

FORM OF CONTINUING DISCLOSURE AGREEMENT

**Vermont Housing Finance Agency
Mortgage Revenue Bonds
(Mortgage Backed Securities Program)
Series 2011A**

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by the Vermont Housing Finance Agency (the “Agency”) and Wells Fargo Bank, National Association (the “Trustee”) in connection with the offering and sale of \$10,000,000 aggregate principal amount of the Agency’s Mortgage Revenue Bonds (Mortgage Backed Securities Program), Series 2011A (the “2011A Bonds”) as more fully described in the official statement of the Agency dated November __, 2011 (the “Official Statement”). The 2011A Bonds are being issued pursuant to a Trust Indenture by and between the Agency and the Trustee, dated as of December 1, 2009 (the “Trust Indenture”), as supplemented by the 2011A Supplemental Indenture by and between the Agency and the Trustee, dated as of November 1, 2011 (the “2011A Supplemental Indenture”). The Trust Indenture and the 2011A Supplemental Indenture are sometimes collectively referred to herein as the “Indenture.” 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 2011A 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 Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“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 2011A Bonds (including persons holding 2011A Bonds through nominees, depositories or other intermediaries).

“Disclosure Representative” shall mean the Chief Financial Officer 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.

“MSRB” shall mean the Municipal Securities Rulemaking Board as established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Certificate. Filing information relating to the MSRB is set forth in Exhibit B attached hereto.

“Participating Underwriter” shall mean any of the original underwriters of the 2011A Bonds required to comply with the Rule in connection with offering of the 2011A Bonds.

“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.

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 2011 Fiscal Year, provide to the MSRB, through its Electronic Municipal Market Access system, 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(a).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, 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 the MSRB by the date required in subsection (a), the Trustee shall send a notice to the MSRB in substantially the form attached as Exhibit B.

(d) The Dissemination Agent shall 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 and stating the date it was provided to the MSRB.

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 “INTRODUCTORY STATEMENT,” “THE AGENCY - Operations to Date” and “- Outstanding Indebtedness,” “SECURITY FOR THE BONDS” and “SINGLE FAMILY PROGRAM.”

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 the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. 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 2011A Bonds:

1. principal and interest payment delinquencies;
2. non-payment related defaults, if material;
3. modifications to rights of Bondholders, if material;
4. bond calls, if material;
5. defeasances;
6. rating changes;
7. adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2011A Bonds , or other material events affecting the tax status of the Series 2011A 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 or;
11. release, substitution or sale of property securing repayment of the 2011A Bonds, if material;
12. tender offers;
13. bankruptcy, insolvency, receivership or similar event of the Agency;¹
14. the consummation of a merger, consolidation, or acquisition involving the Agency, the sale of all or substantially all of the assets of the Agency, other than in the ordinary course of business, the entry into a definitive agreement to

¹ For purposes of the event identified in Section 5(a)(13) above, the event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Agency.

- undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or
15. appointment of a successor or additional trustee, or the change of name of a trustee, if material.

(b) Upon the occurrence of a Listed Event described in subsections (a)(1), (3), (4), (5), (6), (9), (11), (12), or (13), and in the event that the Issuer determines that the occurrence of a Listed Event described in subsections (a)(2), (6), (7), (8), (10), (14) or (15) is material under applicable federal securities laws, the Issuer shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

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 2011A Bonds under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2011A Bonds. If such termination occurs prior to the final maturity of the 2011A Bonds, the Agency shall give notice of such termination in the same manner as for a Listed Event under Section 5(a).

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 2011A 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 2011A 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 2011A Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, 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 2011A 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(a), 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 2011A Bonds, shall), or any Holder or Beneficial Owner of the 2011A 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 2011A Bonds under this Disclosure Agreement.

(b) Notwithstanding the foregoing, no Holder or Beneficial Owner of the 2011A 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 2011A Bonds representing at least 66 2/3% in aggregate principal amount of the 2011A Bonds shall join in such proceedings.

(c) A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, 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 XI of the Trust Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture. 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 2011A Bonds of the Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2011A 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: Wells Fargo Bank, National Association
Corporate Trust Services
10 Orms Street, Suite 325
Providence, RI 02904
Telephone/Fax: (401) 277-3180/(401) 277-3165

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 2011A 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: _____, 2011

VERMONT HOUSING FINANCE AGENCY

By: _____
Title: Authorized Officer

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Trustee

By: _____
Title: Authorized Officer

EXHIBIT A

Filing information relating to the Municipal Securities Rulemaking Board is as follows:

Municipal Securities Rulemaking Board
<http://emma.msrb.org>

EXHIBIT B

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

Name of Issuer: Vermont Housing Finance Agency (the "Agency")
Name of Bond Issue: \$12,000,000 Mortgage Revenue Bonds (Mortgage Backed Securities Program),
Series 2011A

Date of Issuance: _____, 2011

NOTICE IS HEREBY GIVEN that the Agency has not provided an Annual Report with respect to the above-named Mortgage Revenue Bonds (Mortgage Backed Securities Program), Series 2011A as required by Section 3 of the Continuing Disclosure Agreement dated _____, 2011 between the Agency and Trustee. The Agency anticipates that the Annual Report will be filed by _____.

Dated: _____

WELLS FARGO BANK, NATIONAL ASSOCIATION
On behalf of the AGENCY

cc: Agency

APPENDIX VI

PROPOSED FORMS OF OPINIONS OF BOND COUNSEL

November 22, 2011

Vermont Housing Finance Agency
Burlington, Vermont

Vermont Housing Finance Agency
Mortgage Revenue Bonds
(Mortgage Backed Securities Program)
Series 2011A

We have acted as Bond Counsel in connection with the issuance by the Vermont Housing Finance Agency (the "Agency") of \$12,000,000 aggregate principal amount of its Mortgage Revenue Bonds (Mortgage Backed Securities Program), Series 2011A (the "Series 2011A Bonds"). The Series 2011A Bonds are authorized to be issued pursuant to No. 260 of the Vermont Acts of 1973, Adjourned Session, as amended (the "Act"), and under and pursuant to the Agency's Trust Indenture, adopted as of December 1, 2009 (the "Trust Indenture"), the Agency resolution of November 19, 2009 authorizing the issuance and sale of bonds and notes to finance single family housing, and the Series 2011A Supplemental Indenture dated November 1, 2011 (the "Series 2011A Supplemental Indenture"). The Trust Indenture and the Series 2011A Supplemental Indenture are sometimes collectively referred to herein as the "Indenture." Capitalized terms used herein and not defined shall have the meanings set forth in the Indenture.

The Series 2011A Bonds are being issued to make moneys available to purchase mortgage backed securities comprised of single family mortgage 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 Indenture. The Series 2011A Bonds, as well as any additional bonds issued under the Indenture (collectively, the "Bonds"), are equally and ratably secured by the Indenture.

The Series 2011A Bonds are dated, mature in the year, in the respective principal amounts and bear interest at the rates per annum set forth in the Series 2011A Supplemental Indenture. The Series 2011A Bonds are also subject to redemption prior to maturity upon the terms and conditions and at the redemption prices provided in the Series 2011A Supplemental Indenture and in the Indenture.

In rendering this opinion we have reviewed the Indenture and certain other documents, certificates and other materials delivered in connection with the issuance of the Series 2011A Bonds. The Agency has covenanted in the Indenture to do all things necessary to assure that interest on the Series 2011A 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 142, 143 and 148 of the Code, certain requirements must be met subsequent to the delivery of the Series Bonds in order that interest on the Series 2011A 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 2011A Bonds and the Agency's Federal Agency Certificate 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 Indenture and to authorize, issue and deliver the Series 2011A Bonds.

(b) The Indenture has been duly and lawfully authorized and executed by the Agency, is in full force and effect and is valid and binding upon the Agency and enforceable in accordance with its terms and no other authorization for the Indenture is required. The Indenture creates the valid pledge which it purports to create of the Trust Estate (except the Rebate Fund), subject only to the provisions of the Indenture permitting the application of amounts held thereunder for the purposes and on the terms and conditions set forth in the Indenture.

(c) The Series 2011A Bonds have been duly authorized, executed, issued and delivered by the Agency in accordance with the Act and the Indenture and constitute valid and binding special obligations of the Agency, which has no taxing power, enforceable in accordance with their terms and the terms of the Indenture and entitled to the benefits of the Act and the Indenture. The Series 2011A Bonds are limited obligations of the Agency, payable solely from the Agency's revenues, assets or moneys pledged therefore under the Indenture. The Series 2011A Bonds do not constitute a debt or liability or obligation of the State or of any political subdivision thereof or a pledge of the faith and credit of the State or of any political subdivision.

(d) Under existing laws, regulations, rulings and judicial decisions, assuming continuing compliance by the Agency with covenants contained in the Indenture concerning federal tax law described above, interest on the Series 2011A Bonds is not includable in the gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code. Interest on the Series 2011A Bonds is not a separate tax preference item for purposes of calculating the alternative minimum tax imposed by the Code on individuals and corporations and such interest on the Series Bonds will not be included in corporations' calculations of adjusted current earnings for purposes of the federal alternative minimum tax. No opinion as to the exclusion from gross income of interest on any of the Series 2011A Bonds is expressed subsequent to any date on which action is taken pursuant to the Indenture for which action the Indenture requires 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.

(e) The Series 2011A Bonds and the interest earned thereon are exempt from all Vermont taxation, franchise fees or special assessments except for transfer, inheritance and estate taxes.

The accrual or receipt of interest on the Series 2011A 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 to the extent that the enforceability of the Series Bonds and the Indenture may be limited by the exercise of judicial discretion in accordance with general equitable

principles and by bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally heretofore or hereafter enacted to the extent constitutionally enforceable.

The opinions we have expressed herein as to the treatment of the Series 2011A Bonds or the interest borne thereon for federal income tax purposes and for state tax purposes are based upon statutes, regulations, and court decisions in effect on the date hereof. We undertake no obligation to update the contents of this opinion on any future date. Each purchaser of the Series 2011A Bonds should consult his or her tax advisor regarding any changes in the status of any pending or proposed legislation.

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,

November 22, 2011

Vermont Housing Finance Agency
Burlington, Vermont

Vermont Housing Finance Agency
Mortgage Revenue Bonds
(Mortgage Backed Securities Program)
Series 2009A, Subseries A-2

We have acted as Bond Counsel in connection with the deemed reissuance of a portion of the \$102,000,000 in aggregate principal amount of Mortgage Revenue Bonds (Mortgage Backed Securities Program), Series 2009A (Escrow Bonds) (the "Series 2009A Bonds") of the Vermont Housing Finance Agency (the "Agency"). The Series 2009A Bonds were authorized to be issued pursuant to No. 260 of the Vermont Acts of 1973, Adjourned Session, as amended (the "Act"), and under and pursuant to the Agency's Trust Indenture, adopted as of December 1, 2009 (the "Trust Indenture"), the Agency resolutions of August 13, 2008 and November 19, 2009 authorizing the issuance and sale of bonds and notes to finance single family housing, and the Series 2009A Supplemental Indenture, dated December 1, 2009, as amended on October 1, 2010 (as so amended, the "Series 2009A Supplemental Indenture"). Capitalized terms used herein and not defined shall have the meanings set forth in the Indenture (as hereinafter defined).

Proceeds of the Series 2009A Bonds have been deposited in the Series 2009A Escrow Account and are subject to release therefrom upon satisfaction of the conditions for such release set forth in the Series 2009A Supplemental Indenture. Pursuant to the Trust Indenture, the Series 2009A Supplemental Indenture and the Supplemental Indenture of the Agency dated November 1, 2011 (the "Series 2011A Supplemental Indenture" and, together with the Trust Indenture and the Series 2009A Supplemental Indenture, the "Indenture"), the Agency has elected to release \$18,000,000 of proceeds of the Series 2009A Bonds from the Series 2009A Escrow Account. Upon such release and in accordance with the Indenture, a corresponding amount of the Series 2009A Bonds will be redesignated as the Mortgage Revenue Bonds (Mortgage Backed Securities Program), Series 2009A, Subseries A-2 (Non-AMT) (the "Subseries A-2 Bonds").

Proceeds of the Series 2009A Bonds are being released to make moneys available to purchase mortgage backed securities comprised of single family mortgage 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 Indenture. The Series 2009A Bonds, as well as any additional bonds issued under the Indenture (collectively, the "Bonds"), are equally and ratably secured by the Indenture.

The Subseries A-2 Bonds are dated, mature in the year, in the respective principal amounts and bear interest at the rates per annum set forth in the Series 2009A Supplemental Indenture and the Series 2011A Supplemental Indenture. The Subseries A-2 Bonds are also subject to redemption prior to maturity upon the terms and conditions and at the redemption prices provided in the Series 2009A Supplemental Indenture, the Series 2011A Supplemental Indenture and in the Indenture.

In rendering this opinion we have reviewed the Indenture and certain other documents, certificates and other materials delivered in connection with the issuance of the Series 2009A Bonds. The Agency has covenanted in the Indenture to do all things necessary to assure that interest on the Subseries

A-2 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 142, 143 and 148 of the Code, certain requirements must be met subsequent to the delivery of the Subseries A-2 Bonds in order that interest on the Subseries A-2 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 reissuance and redesignation of the Subseries A-2 Bonds and the Agency's Federal Agency Certificate 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 Indenture and to release and redesignate the Subseries A-2 Bonds.

(b) The Indenture has been duly and lawfully authorized and executed by the Agency, is in full force and effect and is valid and binding upon the Agency and enforceable in accordance with its terms and no other authorization for the Indenture is required. The Indenture creates the valid pledge which it purports to create of the Trust Estate (except the Rebate Fund), subject only to the provisions of the Indenture permitting the application of amounts held thereunder for the purposes and on the terms and conditions set forth in the Indenture.

(c) The release and redesignation of the Subseries A-2 Bonds were duly authorized and the Subseries A-2 Bonds have been duly reissued, executed and delivered by the Agency in accordance with the Act and the Indenture 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 Indenture and entitled to the benefits of the Act and the Indenture. The Subseries A-2 Bonds are limited obligations of the Agency, payable solely from the Agency's revenues, assets or moneys pledged therefore under the Indenture. The Subseries A-2 Bonds do not constitute a debt or liability or obligation of the State or of any political subdivision thereof or a pledge of the faith and credit of the State or of any political subdivision.

(d) Under existing laws, regulations, rulings and judicial decisions, assuming continuing compliance by the Agency with covenants contained in the Indenture concerning federal tax law described above, interest on the Subseries A-2 Bonds is not includable in the gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code. Interest on the Subseries A-2 Bonds (i) is not a separate tax preference item for purposes of calculating the alternative minimum tax imposed by the Code on individuals and corporations and (ii) such interest on the Series Bonds will not be included in corporations' calculations of adjusted current earnings for purposes of the federal alternative minimum tax. No opinion as to the exclusion from gross income of interest on any of the Subseries A-2 Bonds is expressed subsequent to any date on which action is taken pursuant to the Indenture for which action the Indenture requires 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.

(e) The Subseries A-2 Bonds and the interest earned thereon are exempt from all Vermont taxation, franchise fees or special assessments except for transfer, inheritance and estate taxes.

The accrual or receipt of interest on the Subseries A-2 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 to the extent that the enforceability of the Subseries A-2 Bonds and the Indenture may be limited by the exercise of judicial discretion in accordance with general equitable principles and by bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally heretofore or hereafter enacted to the extent constitutionally enforceable.

The opinions we have expressed herein as to the treatment of the Subseries A-2 Bonds or the interest borne thereon for federal income tax purposes and for state tax purposes are based upon statutes, regulations, and court decisions in effect on the date hereof. We undertake no obligation to update the contents of this opinion on any future date. Each purchaser of the Subseries A-2 Bonds should consult his or her tax advisor regarding any changes in the status of any pending or proposed legislation.

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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