

OFFICIAL STATEMENT

NEW ISSUE—Book-Entry Only

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 2012 Series A Bonds and the 2012 Series B Bonds is excludable from gross income for federal income tax purposes. Interest on the 2012 Series B Bonds is not, but interest on the 2012 Series A Bonds is, taken into account as a specific tax preference item included in minimum taxable income for purposes of calculating the alternative minimum tax imposed on individuals and corporations under the Code. Bond Counsel expresses no opinion concerning the exclusion of interest on the 2012 Series A Bonds and the 2012 Series B Bonds for any periods for which a 2012 Series A Bond or a 2012 Series B Bond is held by a “substantial user” of the facilities provided by the 2012 Series A Bonds or the Series 2012 B Bonds or held by a “related person” to a “substantial user.” In the opinion of Bond Counsel, interest on the 2012 Series C Bonds will not be excludable from the gross income of the recipient thereof for federal income tax purposes. For information regarding certain requirements for and exceptions to such exclusion, see “TAX MATTERS” herein. The Vermont Housing Finance Agency Act provides that the 2012 Series A Bonds, the 2012 Series B Bonds and the 2012 Series C Bonds and the interest thereon are exempt from all Vermont taxation, franchise fees or special assessments except for transfer, inheritance and estate taxes.

\$26,455,000

VERMONT HOUSING FINANCE AGENCY

Multi-Family Mortgage Bonds

\$11,165,000 2012 Series A (AMT)

\$10,080,000 2012 Series B (Non-AMT)

\$5,210,000 2012 Series C (Taxable)

Dated: Date of Delivery

Due: As shown on inside front cover

The 2012 Series A Bonds, the 2012 Series B Bonds and the 2012 Series C Bonds (collectively, the “2012 Series ABC Bonds”) are issuable only as fully registered bonds, without coupons. When issued, the 2012 Series ABC Bonds are expected to be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company (“DTC”), New York, New York. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the 2012 Series ABC Bonds purchased. Principal and interest on the 2012 Series ABC Bonds are payable by The Bank of New York Mellon Trust Company, N.A., as successor to Banknorth, National Association, as Trustee, to DTC, which will be responsible for remitting such principal and interest to its Participants, who will be responsible for remitting such principal and interest to the Beneficial Owners of the 2012 Series ABC Bonds, as described under the caption “DESCRIPTION OF THE 2012 SERIES ABC BONDS—Book-Entry System” herein.

The 2012 Series ABC Bonds will bear interest from their date of issuance, payable on February 15 and August 15 of each year, commencing February 15, 2013, until maturity or earlier redemption thereof. The 2012 Series ABC Bonds will bear interest at the respective rates and will mature on the dates and in the principal amounts shown on the inside front cover.

The 2012 Series ABC Bonds are subject to redemption prior to maturity under the circumstances set forth herein under “DESCRIPTION OF THE 2012 SERIES ABC BONDS—Sinking Fund Redemption Provisions,” “—Optional Redemption Provisions” and “—Special Redemption Provisions.”

The 2012 Series ABC Bonds are being issued by the Agency to provide money to refund outstanding prior issues of Multi-Family Mortgage Bonds and to fund (or reimburse the Agency for funding) additional Mortgage Loans (as herein defined), made to acquire, construct or rehabilitate multi-family residential housing located in the State of Vermont (the “State”), all as described herein.

For a description of certain risks with regard to the security for the 2012 Series ABC Bonds, see “SECURITY FOR THE 2012 SERIES ABC BONDS” herein and “SUMMARY OF SECTION 8 PROGRAM” in Appendix IV hereto.

THE 2012 SERIES ABC BONDS WILL BE GENERAL OBLIGATIONS OF THE AGENCY PAYABLE OUT OF ANY OF THE AGENCY’S REVENUES, MONEY OR ASSETS, SUBJECT TO AGREEMENTS HERETOFORE OR HEREAFTER MADE WITH HOLDERS OF OBLIGATIONS OF THE AGENCY OTHER THAN THE BONDS (AS HEREIN DEFINED) PLEDGING PARTICULAR REVENUES, MONEY OR ASSETS FOR THE PAYMENT THEREOF. THE AGENCY HAS NO TAXING POWER. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF VERMONT OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED FOR THE PAYMENT OF THE 2012 SERIES ABC BONDS.

The 2012 Series ABC Bonds are being offered for delivery when, as and if issued and received by the Underwriters and subject to the approval of legality by Kutak Rock LLP, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Agency by George N. Demas, Esq., counsel to the Agency, and for the Underwriters by their counsel, Nixon Peabody LLP. It is expected that the 2012 Series ABC Bonds will be available in book-entry form through the facilities of DTC in New York, New York on or about December 20, 2012.

Citigroup

Raymond James | Morgan Keegan

Morgan Stanley

December 13, 2012

MATURITY SCHEDULE

Multi-Family Mortgage Bonds, 2012 Series A (AMT)

\$3,650,000 Serial Bonds

Due Date	Amount	Interest Rate	Price	CUSIP
August 15, 2020	\$340,000	2.80%	100%	924194PA5
August 15, 2021	800,000	3.05	100	924194PB3
August 15, 2022	810,000	3.25	100	924194PC1
August 15, 2023	835,000	3.45	100	924194PD9
August 15, 2024	865,000	3.50	100	924194PE7

\$2,790,000 3.65% Term Bonds due August 15, 2027—Price: 100% CUSIP 924194PF4
\$4,725,000 3.95% Term Bonds due August 15, 2032—Price: 100% CUSIP 924194PG2

Multi-Family Mortgage Bonds, 2012 Series B (Non-AMT)

\$4,290,000 3.75% Term Bonds due August 15, 2037—Price: 100% CUSIP 924194PH0
\$3,830,000 3.80% Term Bonds due August 15, 2041—Price: 98.279% CUSIP 924194PJ6
\$1,960,000 4.00% Term Bonds due August 15, 2052—Price: 98.044% CUSIP 924194PK3

Multi-Family Mortgage Bonds, 2012 Series C (Taxable)

\$4,960,000 Serial Bonds

Due Date	Amount	Interest Rate	Price	CUSIP
August 15, 2013	\$260,000	0.500%	100%	924194NR0
August 15, 2014	670,000	0.700	100	924194NS8
August 15, 2015	690,000	1.268	100	924194NT6
August 15, 2016	705,000	1.587	100	924194NU3
August 15, 2017	715,000	1.787	100	924194NV1
August 15, 2018	730,000	2.067	100	924194NW9
August 15, 2019	750,000	2.367	100	924194NX7
August 15, 2020	440,000	2.680	100	924194NY5

\$250,000 4.629% Term Bonds due August 15, 2043—Price: 100% CUSIP 924194NZ2

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

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 2012 Series ABC Bonds described herein, and, if given or made, such information or representations must not be relied upon as having been authorized by the Agency or the Underwriters. This Official Statement does not constitute an offer to sell the 2012 Series ABC Bonds or a solicitation of an offer to buy nor shall there be any sale of the 2012 Series ABC Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been furnished by the Agency and from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Underwriters. The information and expressions of opinion herein are subject to change without notice, and under no circumstances shall the delivery of this Official Statement or any sale made hereunder create any implication that there has been no change in the affairs of the Agency since the date hereof. The 2012 Series ABC 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, its 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.

IN MAKING ANY 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 2012 SERIES ABC BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

\$26,455,000

**VERMONT HOUSING FINANCE AGENCY
MULTI-FAMILY MORTGAGE BONDS**

\$11,165,000 2012 Series A (AMT)

\$10,080,000 2012 Series B (Non-AMT)

\$5,210,000 2012 Series C (Taxable)

This Official Statement of the Vermont Housing Finance Agency (the “Agency”) is provided for the purpose of setting forth certain information concerning the Agency, its Multi-Family Mortgage Bonds issued under the Agency’s Multi-Family Mortgage Bond Resolution adopted on February 3, 1977, as amended (the “General Resolution”), and its Multi-Family Mortgage Bonds comprised of the following series: 2012 Series A to be issued in the principal amount of \$11,165,000 (the “2012 Series A Bonds”), 2012 Series B to be issued in the principal amount of \$10,080,000 (the “2012 Series B Bonds”) and 2012 Series C in the aggregate principal amount of \$5,210,000 (the “2012 Series C Bonds”) (collectively, the “2012 Series ABC Bonds”) under its Resolution Authorizing the Issuance and Sale of a Maximum of \$35,000,000 of Bonds in one or more Series to Finance Multi-Family Projects, adopted on August 10, 2011, and its Resolution Authorizing the Issuance and Sale of a Maximum of \$25,000,000 of Bonds in One or More Series to Finance Multi-Family Projects, adopted on February 13, 2012, and the Series Certificate executed and delivered pursuant thereto (collectively, the “Series Resolution”). The 2012 Series ABC Bonds and all other bonds issued under the General Resolution are herein collectively referred to as the “Bonds.” The General Resolution and the Series Resolution are sometimes herein collectively referred to as the “Resolutions.” Certain terms not defined elsewhere in this Official Statement are defined in “SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION.”

INTRODUCTORY STATEMENT

The 2012 Series ABC Bonds will be secured under the provisions of the Resolutions and will be issued in accordance with the Resolutions and the Vermont Housing Finance Agency Act, being No. 260 of the Vermont Acts of 1973, Adjourned Session, as amended (the “Act”). The Agency has previously issued \$162,420,000 principal amount of Multi-Family Mortgage Bonds, of which \$53,230,000 are still outstanding (collectively, the “Outstanding Bonds”) under the General Resolution (see Appendix I hereto), which bonds will be on a parity with the 2012 Series ABC Bonds. The Agency expects to apply the proceeds of the 2012 Series ABC Bonds, together with other available funds of the Agency, to refund \$16,085,000 of Outstanding Bonds (the “Refunded Bonds”) and to fund (or reimburse the Agency for funding) Mortgage Loans (as hereinafter defined) for eight projects (see Appendix III herein for further information on the projects and the related Mortgage Loans). Additional series of Bonds may be issued by the Agency on a parity with the Outstanding Bonds and the 2012 Series ABC Bonds, provided that each additional series will be authorized and secured by a series resolution adopted in accordance with and under the provisions of the General Resolution and the Act.

The Act provides that the Agency is constituted 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, 2012, the Agency had \$604,051,696 principal amount of bonds outstanding. For

information regarding the Agency's outstanding indebtedness, see "THE AGENCY—Outstanding Indebtedness" and Appendix I hereto.

The General Resolution authorizes Bonds to be issued to provide funds for the making of mortgage loans (the "Mortgage Loans") to housing sponsors (the "Developers") eligible under the Act for the financing of housing developments (the "Developments") containing five or more dwelling units intended for occupancy on a rental or cooperative basis by persons and families of low and moderate income (the "Program"). The Act requires that such housing sponsors be organized on a nonprofit or limited-profit basis. A substantial number of the rental units in the other Developments financed with proceeds of the Outstanding Bonds are receiving subsidy payments on behalf of eligible tenants pursuant to Section 8 ("Section 8") of the United States Housing Act of 1937, as amended (the "Housing Act"), as more fully described in Appendix IV hereto. Notwithstanding such subsidy payments, the Bonds do not constitute a debt or indebtedness of the United States and payment of the Bonds is not guaranteed by the United States. For certain information regarding the Developments, see Appendix II and Appendix III hereto. Substantially all of the Mortgage Loans for Developments financed with proceeds of the Outstanding Bonds are "non-recourse loans" which provide no recourse to the Developers.

All Bonds issued under the General Resolution, including the 2012 Series ABC Bonds, are secured, to the extent and as provided in such Resolution, by (a) all Revenues, (b) all Mortgage Loans made under the General Resolution, and (c) subject to the terms of the General Resolution, all moneys in the funds and accounts pledged under the General Resolution, including the Mortgage Reserve Fund and the Debt Service Reserve Fund. In addition, the Bonds will be general obligations of the Agency payable from any of the Agency's other revenues, moneys or assets, subject to agreements heretofore or hereafter made with holders of notes and bonds, other than the Bonds, pledging particular revenues, moneys or assets for the payment thereof. Pursuant to the Act, the Agency is obligated to pay the principal or redemption price, if any, of and interest on the Bonds from revenues or funds of the Agency, which has no taxing power; **the State is not obligated to pay the principal thereof or interest on the Bonds, and neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal or redemption price, if any, of or the interest on the Bonds.**

The Act provides that, in order to assure the maintenance of the amount in the Debt Service Reserve Fund at the Debt Service Reserve Requirement, there may be appropriated annually and paid to the Agency for deposit in the Debt Service Reserve Fund, such sum, if any, as is certified by the Chairman of the Agency to the Governor or to the Governor-elect, the President of the Senate and the Speaker of the House as necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement. Pursuant to the General Resolution and the Act, the Chairman is required annually, on or before each February 1, to make and deliver to the Governor or to the Governor-elect, the President of the Senate and the Speaker of the House his certificate stating the sum, if any, required to restore the Debt Service Reserve Fund to that amount. The sum so certified may be appropriated and, if appropriated, shall be paid to the Agency during the then current State fiscal year. Pursuant to the Act, the principal amount of outstanding bonds or notes of the Agency secured by a debt service reserve fund to which State funds may be appropriated cannot exceed \$155,000,000. To date, the Chairman has never been required to certify a sum to restore the Debt Service Reserve Fund amount to meet the Debt Service Reserve Fund Requirement. Upon the issuance of the 2012 Series ABC Bonds, and giving effect to the redemption of the Refunded Bonds and the redemption of certain Bonds from excess funds under the General Resolution, the principal amount of bonds or notes of the Agency so secured are expected to be equal to \$63,140,000.

While the Bonds and the provisions of the Act discussed above do not constitute a legally enforceable obligation of the State nor create a debt on behalf of the State, Bond Counsel is of the opinion that the State, by its General Assembly, is legally authorized, but not legally obligated, to appropriate

annually such sum as shall have been certified by the Chairman of the Agency to the Governor or the Governor-elect, the President of the Senate and the Speaker of the House as necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement.

THE AGENCY

Purpose and Powers

The Agency was created as a body politic and corporate of the State of Vermont (the “State”) pursuant to the Vermont Housing Finance Agency Act (the “Act”). 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 Commissioner of the Vermont Department of Financial Regulation, the State Treasurer, the Secretary of the Agency of Commerce and Community Development, the Executive Director of the Vermont Housing and Conservation Board, or their designees, and five members appointed by the Governor with the advice and consent of the State Senate. The appointed commissioners serve for terms of four years or until a successor is appointed and qualified. Members whose terms have expired continue to serve until reappointed or a successor has been appointed and qualified.

The present commissioners are:

Thomas N. Pelletier – Chair, term expires January 31, 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. 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 an active leader in the redevelopment 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, 2016. 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 Financial Regulation, 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 in 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, and oversees Economic Development, Tourism and Marketing, Historic Preservation and Housing and Community Affairs for the State, ex-officio member. 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 to 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, Vermont. 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 its Board President. 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, 2012, the Agency had 37.41 full-time equivalent ("FTE") employees who are responsible for the operation and management of the Agency. Of these employees, 8.2 FTE employees are charged with responsibility for the single-family program and 9.6 FTE employees 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 its agreements with bondholders, a substantial portion of the Agency's assets is pledged to secure specific obligations or are otherwise restricted. The Agency maintains separate restricted funds for each of its programs financed by the issuance of bonds under a particular general bond resolution. Such funds and programs have separate sets of accounts set up in accordance with the Act and the various general bond resolutions. Assets and revenues of such funds and programs are restricted by various resolutions and agreements and are not available in any manner other than as provided in the various general bond resolutions adopted by the Agency for its programs. Moneys in excess of restricted fund requirements are transferred periodically from these restricted funds to the General Fund. Substantially all of the Agency's outstanding bonds, other than the Single Family Housing Bonds, HFA Initiative Multifamily Bonds and conduit bond issues, are general obligations of the Agency secured by and payable from any of the Agency's revenues, moneys or assets, including the General Fund, subject to agreements heretofore or hereafter made with holders of notes and bonds that pledge particular revenues,

moneys or assets for the payment thereof. The Agency has not pledged any moneys in the General Fund to the payment of any particular bonds of the Agency.

Outstanding Indebtedness

Since September 1974, the Agency has issued over \$3 billion aggregate principal amount of bonds, of which approximately \$604 million was outstanding as of September 30, 2012, to finance its various programs. The proceeds of the bonds have been or will be used to make mortgage loans to sponsors of multi-family residential housing units for persons and families of low and moderate income in the State, to purchase mortgage loans on single-family residential housing units for the persons and families of low and moderate income in the State, to make loans to mortgage lenders to finance such single family housing and to make loans to finance certain other multi-family housing developments. The bonds are secured pursuant to the terms of the resolutions under which they were issued.

For additional information with respect to outstanding indebtedness of the Agency, see the Agency's audited financial statements for the year ending June 30, 2012 included as Appendix I.

MULTI-FAMILY MORTGAGE LOAN PROGRAM OF THE AGENCY

Multi-Family Mortgage Loan Portfolio of the Agency

Since 1975, the Agency has financed 192 multi-family residential rental developments. These developments comprise 6,626 units of rental housing, of which 3,141 are assisted under the Section 8 program.

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

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

Mortgage Loans Securing the Bonds

Under the Program, the Agency may make Mortgage Loans secured by a first lien on real property or a leasehold estate for the construction or rehabilitation and permanent financing of multi-family residential housing intended for occupancy primarily by persons and families of low and moderate income.

Fifteen of the 50 Developments financed with proceeds of the Outstanding Bonds (or prepayments from Mortgage Loans) are assisted by the federal government under the Section 8 rental subsidy program. The Section 8 subsidy payments are funded by the United States Department of Housing and Urban Development ("HUD") through its obligations under certain Annual Contributions Contracts ("ACCs") and certain Housing Assistance Payments Contracts ("HAPCs"). The full faith and

credit of the United States is pledged to the payment of annual contributions pursuant to the ACCs. HUD is responsible for the administration of the Section 8 program on a national basis and the Agency and the Vermont State Housing Authority are responsible for the administration of certain Section 8 subsidy contracts and moneys allocated to the State of Vermont. Such Mortgage Loans are not insured by either federal, state or private mortgage insurance. The Bonds do not constitute indebtedness of, nor are they guaranteed by, HUD or the United States.

Of the 15 Developments assisted under the Section 8 program, 10 presently have HAPCs that expire more than 18 months prior to the maturity date of the related Mortgage Loan, and an eleventh also will upon issuance of the 2012 Series ABC Bonds as a result of the extension of the maturity date of the related Mortgage Loan. For a discussion of certain additional information and risks with respect to HAPCs and Section 8 payments thereunder, see Appendix IV hereto.

The outstanding Mortgage Loans financed with the proceeds of the Outstanding Bonds (or prepayments from Mortgage Loans) were made in the aggregate original principal amount of \$61,785,462. Such Mortgage Loans financed 50 Developments, which range in size from five to 166 units and contain a total of 1,818 units. Of those units, 639 are occupied by elderly tenants and 1,179 are occupied by families. Construction of all of the Developments has been completed, and all of the Developments have been occupied for at least five years. As of November 1, 2012, the average vacancy rate for the Program over the past three years has been less than 1%. For additional information regarding the Developments and outstanding Mortgage Loans, see Appendix II hereto.

For the period commencing November 1, 2009 to date, no monthly mortgage payment on Mortgage Loans was delinquent by more than 30 days. As of the date hereof, all Mortgage Loans are current.

The Summary of Revenues, Expenses and Changes in Fund Balances (Unaudited) and the Balance Sheet (Unaudited) for the Program derived from the audited financial statements for the five years ended June 30, 2012 appear in the following tables:

Balance Sheet Summary at June 30 (Unaudited)

Assets	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 9,316,730	\$ 24,610,806	\$ 22,373,458	\$ 23,084,317	\$23,373,236
Investments	5,061,640	5,065,544	5,073,473	5,061,004	5,042,746
Mortgage and construction loans receivable	54,562,187	59,632,472	64,628,402	72,444,608	74,339,440
Accrued interest receivable-mortgage loans and notes receivable	216,107	246,128	261,454	292,577	302,425
Accrued interest receivable-investments	127,998	265,974	264,262	265,581	287,325
Other receivables	817	1,642	89,432	1,084	8,355
Deferred costs of bond issuance	1,025,696	1,313,678	1,409,113	1,604,177	1,749,874
Interfund receivables (payables)	353,817	172,556	137,387	(106,105)	104,966
Total Assets	70,664,992	91,308,800	94,236,981	102,647,243	105,208,366
Liabilities and Fund Balances					
Other payables	\$ 2,830			\$ 4,044	\$ 48,338
Rebate Arbitrage Payable	257,500				
Accrued interest payable	1,151,910	1,570,552	1,627,076	1,797,426	1,851,869
Escrowed cash deposits					
Bonds payable	55,435,000	75,565,000	78,450,000	86,695,000	89,610,000
Unamortized discount (premium)on bonds	-				
Total Liabilities	56,847,240	77,135,552	80,077,076	88,496,470	91,510,207
Fund Balance	13,817,752	14,173,248	14,159,905	14,150,773	13,698,159
Total Liabilities and Fund Balance	70,664,992	91,308,800	94,236,981	102,647,243	105,208,366

**Statement of Revenues, Expenses and Changes in Fund Balances
for Years Ending June 30 (Unaudited)**

Revenues	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Interest Income:					
Mortgage and construction loans receivable	\$ 3,878,822	\$ 4,246,540	\$ 4,619,468	\$ 5,004,703	\$ 5,260,533
Investments	339,166	733,793	725,717	666,240	1,203,281
Gain on sale of investments	-				
Gain on Property Disposition				336,748	
Fee Income	(11,047)	(18,396)			(55,776)
Net increase (decrease) in fair value of investments	(3,905)	(7,929)	12,469	18,258	19,148
Total Revenues	\$ 4,203,036	\$ 4,954,008	\$ 5,357,654	\$ 6,025,949	\$ 6,427,187
Expenses					
Financing costs, including interest and amortization of premium, discount and costs of issuance	\$ 3,917,051	\$ 4,335,665	\$ 4,554,121	\$ 4,942,559	\$ 5,090,768
Loss on bond redemption	\$ 199,381		\$ 96,054		
Mortgage service and contract administration fees	\$ 7,600	\$ 5,000	\$ 48,347	\$ 55,776	
Total Expenses	\$ 4,124,032	\$ 4,340,665	\$ 4,698,522	\$ 4,998,335	\$ 5,090,768
Excess of revenues over expenses	\$ 79,004	\$ 613,344	\$ 659,132	\$ 1,027,614	\$ 1,336,419
Fund balance at beginning of year	\$ 14,173,248	\$ 14,159,905	\$ 14,150,773	\$ 13,698,159	\$ 12,931,741
Transfers (to) from general fund	\$ (434,500)	\$ (600,000)	\$ (650,000)	\$ (575,000)	\$ (570,000)
Fund balance at end of year	\$ <u>13,817,752</u>	\$ <u>14,173,248</u>	\$ <u>14,159,905</u>	\$ <u>14,150,773</u>	\$ <u>13,698,159</u>

DESCRIPTION OF THE 2012 SERIES ABC BONDS

The 2012 Series ABC Bonds will be dated as of their date of delivery and will bear interest from such date, payable on each August 15 and February 15, commencing February 15, 2013. The 2012 Series ABC Bonds will bear interest at the rates shown on the inside front cover of this Official Statement and will mature on the dates and in the amounts set forth on the inside front cover of this Official Statement, subject to the redemption provisions described herein.

The 2012 Series ABC Bonds will be issued as fully registered bonds in the denomination of \$5,000 or integral multiples thereof.

Other than as provided below under “Book-Entry System,” principal and redemption price, if any, of the 2012 Series ABC Bonds will be payable at the principal office of The Bank of New York Mellon Trust Company, N.A., Trustee, Bond Registrar and Paying Agent. Other than as provided below under “Book-Entry System,” interest on the 2012 Series ABC Bonds will be payable by check mailed to the registered owner thereof at the address as shown on the registration books of the Trustee.

Book-Entry System

When the 2012 Series ABC Bonds are issued, ownership interests will be available to purchasers only through a book-entry system (the “Book-Entry System”) maintained by The Depository Trust Company (“DTC”), New York, New York, or such other depository institution designated by the Agency pursuant to the Resolution. Purchasers of beneficial interests in the 2012 Series ABC Bonds will not receive certificates reflecting their interests in the 2012 Series ABC Bonds.

The Depository Trust Company (“DTC”), New York, New York, will act with respect to the 2012 Series ABC Bonds as the initial Securities Depository for the 2012 Series ABC Bonds. The 2012 Series ABC 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 certificate will be issued for each maturity of the 2012 Series ABC Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & 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 currently 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 and www.dtc.org.

Purchases of 2012 Series ABC Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2012 Series ABC Bonds on DTC's records. The ownership interest of each actual purchaser of each 2012 Series ABC Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in 2012 Series ABC 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 2012 Series ABC Bonds, except in the event that use of the book-entry system for the 2012 Series ABC Bonds is discontinued.

To facilitate subsequent transfers, all 2012 Series ABC 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 2012 Series ABC 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 2012 Series ABC Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2012 Series ABC 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. *So long as Cede & Co., as nominee for DTC, is the owner of the 2012 Series ABC Bonds, the Agency shall treat Cede & Co. as the only owner of the 2012 Series ABC Bonds for all purposes under the Resolution, including receipt of all principal of, premium, if any, and interest on the 2012 Series ABC Bonds and receipt of notices.*

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 2012 Series ABC Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such 2012 Series ABC Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2012 Series ABC 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 2012 Series ABC Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2012 Series ABC 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 the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of

DTC, the Trustee or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest 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 shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2012 Series ABC Bonds at any time by giving reasonable notice to the Agency or the Trustee. The Agency may also determine that DTC is incapable of discharging its duties or that continuation of the book-entry system is not in the best interests of the Beneficial Owners. In either situation, if the Agency fails to identify a successor securities depository, 2012 Series ABC Bond certificates are required to be printed and delivered.

None of the Trustee, any paying agent or the Agency has any responsibility or obligations to the Direct or Indirect Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Direct or Indirect Participant; (b) the payment by DTC of any amount due to any Direct Participant or the payment by any Direct or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal of and premium, if any, and interest on the 2012 Series ABC Bonds; (c) the delivery or timeliness of delivery by DTC of any notice to any Direct Participant or the delivery or timeliness of delivery by any Direct or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Resolution to be given to owners of the 2012 Series ABC Bonds; (d) the selection of the Beneficial Owners to receive payments in the event of any partial redemption of the 2012 Series ABC Bonds; or (e) any consent given or other action taken by DTC, or its nominee, Cede & Co., as registered owner. The Beneficial Owners of the 2012 Series ABC Bonds will rely on Direct and Indirect Participants for timely payments and other notices and for otherwise making available to the Beneficial Owner the rights of a Bondholder. No assurances can be provided that, in the event of bankruptcy or insolvency of DTC or a Direct or Indirect Participant through which a Beneficial Owner holds beneficial interests in the 2012 Series ABC Bonds, payment will be made by DTC or the Direct or Indirect Participant on a timely basis.

Sinking Fund Redemption Provisions

The 2012 Series A Bonds maturing on August 15, 2027 are subject to mandatory redemption in part, commencing on August 15, 2025 and on each August 15 thereafter to and including August 15, 2027, at the principal amount thereof and accrued interest thereon, without premium, from funds in the Sinking Fund Account in the Debt Service Fund in the years and amounts as follows:

Date	Amount	Date	Amount
August 15, 2025	\$895,000	August 15, 2027 (maturity)	\$965,000
August 15, 2026	930,000		

The 2012 Series A Bonds maturing on August 15, 2032 are subject to mandatory redemption in part, commencing on August 15, 2028 and on each August 15 thereafter to and including August 15, 2032, at the principal amount thereof and accrued interest thereon, without premium, from funds in the Sinking Fund Account in the Debt Service Fund in the years and amounts as follows:

Date	Amount	Date	Amount
August 15, 2028	\$1,000,000	August 15, 2031	\$885,000
August 15, 2029	1,045,000	August 15, 2032 (maturity)	785,000
August 15, 2030	1,010,000		

The 2012 Series B Bonds maturing on August 15, 2037 are subject to mandatory redemption in part, commencing on August 15, 2032 and on each August 15 thereafter to and including August 15, 2037, at the principal amount thereof and accrued interest thereon, without premium, from funds in the Sinking Fund Account in the Debt Service Fund in the years and amounts as follows:

Date	Amount	Date	Amount
August 15, 2032	\$105,000	August 15, 2035	\$820,000
August 15, 2033	830,000	August 15, 2036	855,000
August 15, 2034	790,000	August 15, 2037 (maturity)	890,000

The 2012 Series B Bonds maturing on August 15, 2041 are subject to mandatory redemption in part, commencing on August 15, 2038 and on each August 15 thereafter to and including August 15, 2041, at the principal amount thereof and accrued interest thereon, without premium, from funds in the Sinking Fund Account in the Debt Service Fund in the years and amounts as follows:

Date	Amount	Date	Amount
August 15, 2038	\$915,000	August 15, 2040	\$ 970,000
August 15, 2039	935,000	August 15, 2041(maturity)	\$1,010,000

The 2012 Series B Bonds maturing on August 15, 2052 are subject to mandatory redemption in part, commencing on August 15, 2042 and on each August 15 thereafter to and including August 15, 2052, at the principal amount thereof and accrued interest thereon, without premium, from funds in the Sinking Fund Account in the Debt Service Fund in the years and amounts as follows:

Date	Amount	Date	Amount
August 15, 2042	\$1,050,000	August 15, 2048	\$35,000
August 15, 2043	440,000	August 15, 2049	35,000
August 15, 2044	125,000	August 15, 2050	35,000
August 15, 2045	90,000	August 15, 2051	40,000
August 15, 2046	40,000	August 15, 2052 (maturity)	40,000
August 15, 2047	30,000		

Amounts of annual sinking fund installments shown in the tables above are subject to reduction as a result of optional or special redemption of the 2012 Series ABC Bonds subject to mandatory sinking fund redemption as set forth above, as applicable. At the time of any special or optional redemption of any such 2012 Series ABC Bonds, the amount of each future sinking fund installment will be reduced as shall be determined in an Officer's Certificate 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 2012 Series ABC Bonds for which such sinking fund installment is established at any time prior to the thirtieth day preceding the redemption date from such sinking fund installment.

Optional Redemption Provisions

The 2012 Series ABC Bonds are subject to redemption, at the option of the Agency, either in whole or in part at any time on or after August 15, 2022, by lot within a maturity, from maturities selected by the Agency, from moneys deposited in the Optional Redemption Account in the Redemption Fund, at a price equal to 100% of the principal amount so redeemed plus accrued interest to the date of redemption.

Special Redemption Provisions

The 2012 Series ABC Bonds are subject to redemption, at the option of the Agency, by operation of the Redemption Fund, in whole or in part at any time at a price equal to 100% of the principal amount so redeemed plus accrued interest, by lot within a maturity, from maturities selected by the Agency, from (a) unexpended proceeds of the 2012 Series ABC Bonds in the Mortgage Loan Account; (b) excess moneys in the Mortgage Reserve Fund, (c) excess moneys in the Debt Service Reserve Fund, (d) Recovery Payments or (e) Prepayments.

All of the proceeds of the 2012 Series ABC Bonds in the Mortgage Loan Account have been fully expended. All of the Mortgage Loans financed or refinanced by the 2012 Series ABC Bonds provide that they may not be voluntarily prepaid prior to December, 2022, except the following Mortgage Loans: the Courtyard Apartments Mortgage Loan may be voluntarily prepaid on or after December, 2017 and the Briars Apartments, Mcauley Square Allocated and Hillside Manor MHP Mortgage Loans may be voluntarily prepaid at any time.

Notice of Redemption of Bonds

When the Trustee receives notice from the Agency, according to the provisions of the Resolutions, the Trustee will give notice of redemption of 2012 Series ABC Bonds by mailing a copy of such notice by first-class mail, postage prepaid, not less than 30 and not more than 60 days before the redemption date, to the registered owners of all 2012 Series ABC Bonds, or portions thereof to be redeemed at their addresses appearing on the registration books of the Agency maintained by the Trustee, provided that failure to mail such notice to any holder of a 2012 Series ABC Bond or any defect in such notice shall not affect the redemption of any other 2012 Series ABC Bonds for which the required notice has been given. The Series Resolution provides that while the 2012 Series ABC Bonds are in the Book-Entry System, the Trustee will mail copies of such notice not less than 30 days and not more than 60 days before the redemption date to DTC with a request of DTC to forward such notice to the Participants so that they may forward such notice to the Beneficial Owners. Neither the Agency, the Trustee nor Fannie Mae can make any assurance that DTC, the Direct Participants or the Indirect Participants will distribute such redemption notices to the Beneficial Owners of the 2012 Series ABC Bonds, or that they will do so on a timely basis.

The obligation of the Trustee to give the notice required by the General Resolution shall not be conditioned upon the prior payment to the Trustee or Paying Agent of moneys or Investment Obligations sufficient to pay the Redemption Price of the Bonds to which such notice relates or the interest thereon to the redemption date.

Additional Bonds

The General Resolution permits the issuance of additional Bonds thereunder for the purpose of providing funds for the purposes set forth in the General Resolution and, in addition, to refund outstanding Bonds issued under the General Resolution. Any additional Bonds issued under the General Resolution will be on a parity with the outstanding Bonds and the 2012 Series ABC Bonds and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution. The General Resolution provides that upon the issuance of any such additional Bonds there will be deposited in the Debt Service Reserve Fund so much of the proceeds thereof as is required to establish the amount therein at, or to increase the amount therein to, the Debt Service Reserve Requirement.

No additional Series of Bonds is permitted to be issued subsequent to the issuance of the initial Series of Bonds under the General Resolution unless (a) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds and other obligations of the Agency theretofore issued, will not, in the opinion of counsel to the Agency, exceed in aggregate principal amount any limitation thereon imposed by law; (b) as evidenced by an Officer’s Certificate, at the time of the issuance of such Bonds, other than refunding Bonds, there is no deficiency in any Funds or Accounts created by the General Resolution other than the Debt Service Reserve Fund and that upon the issuance and delivery of the additional Series of Bonds and the application of the proceeds thereof, the Debt Service Reserve Fund shall not be less than the Debt Service Reserve Requirement; and (c) as evidenced by an Officer’s Certificate, after such issuance, there shall be no material adverse effect on the ability of the Agency to pay the Principal Installments of and interest on the Bonds then outstanding. The Agency expressly reserves the right to adopt one of more other general bond resolutions and reserves the right to issue other obligations so long as such obligations do not constitute a charge or lien prohibited by the General Resolution.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the 2012 Series ABC Bonds, exclusive of accrued interest, are as follows:

Sources of Funds

Principal Amount of 2012 Series A Bonds.....	\$11,165,000
Principal Amount of 2012 Series B Bonds (less discount).....	9,975,748
Principal Amount of 2012 Series C Bonds	5,210,000
Agency Contribution.....	<u>4,947</u>
Total Sources	<u>\$26,355,695</u>

Uses of Funds

Refund the Refunded Bonds	\$16,085,000
Mortgage Loan Account deposit.....	9,922,721
Costs of Issuance	<u>347,974</u>
Total Uses	<u>\$26,355,695</u>

Of the amount deposited in the Mortgage Loan Account, approximately \$9,922,721 will be used to reimburse the Agency for Mortgage Loans it has already funded.

SECURITY FOR THE 2012 SERIES ABC BONDS

The 2012 Series ABC Bonds will be payable from and secured equally and ratably with all Bonds issued or to be issued pursuant to the General Resolution by, among other things, a pledge of the Revenues and all moneys, securities, Mortgage Loans and Funds or Accounts held or set aside or to be held or set aside pursuant to the General Resolution, except the 2012 Series ABC Rebate Account and any rebate account held pursuant to the General Resolution in respect of any other Series of Bonds. In addition, the 2012 Series ABC Bonds will be general obligations of the Agency payable out of any of the Agency's revenues, moneys or assets, subject to agreements heretofore or hereafter made with holders of notes and bonds other than the Bonds.

Revenues

Revenues are all payments, proceeds, charges, rents and all other income derived in cash by or for the account of the Agency from or relating to the Program, including, without limiting the generality of the foregoing, scheduled amortization payments of principal of and interest on Mortgage Loans but not including Escrow Payments, Prepayments, Recovery Payments, Acquired Development Operating Income or financing or commitment fees or any payments or charges constituting construction or operating contingency, performance or completion payments or replacement reserves required pursuant to the applicable Mortgage Loan.

All Revenues are deposited by the Trustee into the Revenue Fund. Moneys in the Revenue Fund are withdrawn monthly and deposited in the Funds and Accounts set forth below but only after maximum payment is made into each such Fund in accordance with the following order of priority:

- (a) Into the Debt Service Fund, to the extent, if any, needed to increase the amount in the Debt Service Fund so that it equals the Debt Service Requirement;
- (b) Into the Debt Service Reserve Fund, to the extent, if any, needed to increase the amount in the Debt Service Reserve Fund so that it equals the Debt Service Reserve Requirement;
- (c) Into the Acquired Development Expense Fund, to the extent, if any, needed to increase the amount in the Acquired Development Expense Fund so that it equals the Acquired Development Expense Requirement;
- (d) Into the Mortgage Reserve Fund, to the extent, if any, needed to increase the amount in the Mortgage Reserve Fund so that it equals the Mortgage Reserve Fund Requirement;
- (e) Into the 2012 Series ABC Rebate Account or any other rebate account established pursuant to a series resolution, to the extent, if any, required by the provisions of the applicable series resolution; and
- (f) Into the General Fund, to any extent.

For further discussion of the Funds and Accounts set forth above, see "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION."

Mortgage Loans

The Bonds will be secured by a pledge of and lien upon all Mortgage Loans made with the proceeds of all Bonds.

The Agency covenants in the General Resolution, among other things, that Mortgage Loans financed with the proceeds of Bonds shall have scheduled payments of principal and interest or other legally enforceable payments available for payment of Principal Installments of and interest on Bonds upon completion of construction of the related developments which, when added to amounts, if any, to be withdrawn from the Capitalized Interest Accounts shall be sufficient to pay the Principal Installments of and interest on the related Bonds.

Additionally, the Agency covenants that at annual intervals the Agency shall file with the Trustee an Officer's Certificate setting forth a schedule of anticipated Revenues to be derived from all Mortgage Loans outstanding or anticipated to be made after giving effect to any estimated Prepayments and stating that the Agency expects that such Prepayments will be made on or before the dates as of which they have been estimated to be made in such schedule, together with a schedule of Principal Installments of and interest on all Bonds outstanding after giving effect to any redemptions and purchases to be made with such Prepayments, and showing that such anticipated Revenues and Prepayments, together with any other amounts held in the Mortgage Loan Accounts, the Debt Service Fund, the Debt Service Reserve Fund, the Mortgage Reserve Fund and the Redemption Fund together with all Revenues estimated to be earned on such Funds and Accounts will at least be sufficient to pay as and when due all of such Principal Installments and interest.

The scheduled payments of the principal of and the interest on the 2012 Series ABC Bonds have been based on the assumed receipt of mortgage payments paid to the Agency on Mortgage Loans financed with proceeds of the 2012 Series ABC Bonds, together with certain investment income on certain Funds and Accounts established by the Resolutions, to the extent provided therein, and the use of moneys in the Debt Service Reserve Fund. To the extent that such investment income differs from the amounts estimated to be received, or any Mortgage Loans go into default, the moneys available for the payment of the principal of and interest on the 2012 Series ABC Bonds may be affected. As described elsewhere in this Private Placement Memorandum, moneys may be available from other sources including the Debt Service Reserve Fund and the Mortgage Reserve Fund.

For a description of certain matters that may adversely affect the security for the Bonds, including the 2012 Series ABC Bonds, see Appendix IV hereto.

Mortgage Reserve Fund

The General Resolution establishes a mortgage reserve fund (the "Mortgage Reserve Fund") and provides that the mortgage reserve fund requirement (the "Mortgage Reserve Fund Requirement") shall be the aggregate of the amounts, if any, which may be determined with respect to each series of Bonds pursuant to a series resolution. There presently is no amount in the Mortgage Reserve Fund. The Agency has determined that it will not make a deposit into the Mortgage Reserve Fund in connection with the issuance of the 2012 Series ABC Bonds.

Debt Service Reserve Fund

The General Resolution establishes a debt service reserve fund (the "Debt Service Reserve Fund") and specifies a debt service reserve fund requirement (the "Debt Service Reserve Requirement"). The Debt Service Reserve Requirement is an amount as of any particular date of computation equal to the

maximum amount required in any single current or future Fiscal Year for Principal Installments of and interest on the Bonds outstanding on said date of computation other than Bonds issued for the purpose of funding the Debt Service Reserve Fund. An amount at least sufficient to bring the Debt Service Reserve Fund up to the Debt Service Reserve Requirement will be deposited in the Debt Service Reserve Fund from the 2012 Series ABC Bond proceeds.

If after making transfers to the Debt Service Fund from a Capitalized Interest Account and transfers, if any, from the Mortgage Reserve Fund there shall not be a sufficient amount in the Debt Service Fund to make payment of Principal Installments of or interest on the Bonds, the General Resolution provides that the Trustee shall withdraw from the Debt Service Reserve Fund and pay into the Debt Service Fund the amount of such deficiency.

The General Resolution provides that in order to assure the maintenance of the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Requirement and in compliance with the requirements of the Act, the Chairman of the Agency must annually, on or before February 1, make and deliver to the Governor of the State his certificate stating the amount, if any, required to restore the Debt Service Reserve Fund to the amount of the Debt Service Reserve Requirement. The sum so certified may be appropriated by the State and, if appropriated, paid to the Agency. Any moneys received by the Agency from the State pursuant to any such certification, in accordance with the provisions of the Act and the Resolutions, shall be deposited in the Debt Service Reserve Fund. To date, the Chairman has never been required to certify a sum to restore the Debt Service Reserve Fund Amount to meet the Debt Service Reserve Fund Requirement.

As of the date hereof, the amount on deposit in the Debt Service Reserve Fund is at least equal to the Debt Service Reserve Requirement.

SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION

Certain Definitions

The following are definitions in summary form of certain terms contained in the General Resolution and used herein:

“Acquired Development” means a Development or a portion thereof possessed by the Agency as a result of the protection or enforcement of its rights conferred by law or the applicable Mortgage Loan.

“Acquired Development Expense Requirement” means the amount of money as may be fixed or determined from time to time by an Officer’s Certificate filed with the Trustee to be necessary for the payment of any costs and expenses incurred by the Agency in connection with the possession or ownership of an Acquired Development.

“Debt Service Requirement” means, as of any particular date of calculation and with respect to the Bonds outstanding on said date of calculation, an amount equal to any unpaid interest then due, plus any interest to become due at or before the Interest Payment Date next ensuing, plus any unpaid Principal Installment then due, plus any Principal Installment becoming due at or before the Principal Installment Date next ensuing.

“Debt Service Reserve Requirement” means, as of any particular date of calculation, an amount equal to the maximum amount required in any single current or future fiscal year for Principal Installments of and interest on the Bonds outstanding on said date of computation other than Bonds issued

for the purpose of funding the Debt Service Reserve Fund or such additional amount as may be determined by a series resolution or Supplemental Bond Resolution.

“Escrow Payment” means all payments with respect to any Mortgage Loan made to the Agency in order to obtain or maintain mortgage insurance and fire and other hazard insurance including payments for any federal, state, local or private program intended to assist in providing Mortgage Loans and any payments required to be made with respect to any Mortgage Loan for taxes or other governmental charges or other similar charges to a mortgagor customarily required to be escrowed.

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

assigned to the Bonds by each nationally recognized credit rating agency then maintaining a credit rating on the Bonds.

“*Mortgage Loan*” means an interest-bearing loan made by the Agency to a Mortgagor for the financing of a Development secured by a Mortgage on such Development.

“*Mortgage Reserve Fund Requirement*” means the aggregate of amounts, if any, which may be determined with respect to each Series of Bonds pursuant to a series resolution, to be maintained in the Mortgage Reserve Fund.

“*Prepayments*” means any moneys received or recovered from any payment of principal or interest on any Mortgage Loan prior to the scheduled payments of principal and interest called for by such Mortgage Loan, other than moneys constituting a Recovery Payment, including any prepayment penalty, fee, premium or other additional charge as may be provided by the terms of such Mortgage Loan and any moneys received or recovered from the sale, assignment or other disposition of a Mortgage Loan other than moneys constituting a Recovery Payment.

“*Principal Installment*” means, as of any particular date of calculation, an amount of money equal to the sum of (a) the principal amount of outstanding Bonds which mature on a single future date, reduced by the aggregate principal amount of such outstanding Bonds which would at or before said future date cease to be outstanding by reason, but only by reason, of the application in accordance with the General Resolution of sinking fund installments at or before said future date, and (b) the amount of any sinking fund installment required to be paid on said future date.

“*Program*” means the Agency’s program of making Mortgage Loans, including the payment when due of principal and redemption premium, if any, of and interest on Notes.

“*Rebate Provision*” means Section 148(f) of the Internal Revenue Code of 1986 (the “Code”).

“*Recovery Payment*” means any moneys received or recovered by the Agency, less the expenses necessarily incurred by the Agency in connection with the collection of such amount, from the (i) condemnation of mortgaged premises, (ii) proceedings taken in the event of default by the Mortgagor, (iii) any claim settlement for mortgage insurance, guarantee or hazard insurance, (iv) the sale or other disposition of an Acquired Development and (v) the sale or other disposition of a Mortgage Loan which is in default for the purpose of realizing on the Agency’s interest therein; but not including payments or charges constituting construction or operating contingency, performance or completion payments or replacement reserves required pursuant to the applicable Mortgage Loan.

“*Revenues*” means all payments, proceeds, charges, rents and all other income derived in cash by or for the account of the Agency from or related to the Program, including, without limiting the generality of the foregoing, scheduled amortization payments of principal of and interest on Mortgage Loans, but not including Prepayments, Recovery Payments, Acquired Development Operating Income, Escrow Payments or financing fees or commitment fees or any payments or charges constituting construction or operating contingency, performance or completion payments or replacement revenues required pursuant to the applicable Mortgage Loan.

Additional Bonds

Issuance of additional Bonds is conditioned upon, among other things: (i) that the principal amount of the additional Bonds to be issued, together with the principal amount of the Bonds and other obligations of the Agency theretofore issued, will not, in the opinion of counsel to the Agency, exceed in

aggregate principal amount any limitation thereon imposed by law; (ii) at the time of the issuance of such Bonds, other than refunding Bonds, there is no deficiency in any Fund or Account created by the General Resolution other than the Debt Service Reserve Fund and that upon the issuance and delivery of the additional Series of Bonds and the application of the proceeds thereof, the Debt Service Reserve Fund shall not be less than the Debt Service Reserve Requirement; and (iii) that, after such issuance, there shall be no adverse material effect on the ability of the Agency to pay the Principal Installments of and interest on the Bonds then outstanding.

The Agency may adopt one or more other general bond resolutions and reserves the right to issue other obligations thereunder, so long as such obligations are not secured by a charge and lien on the Revenues or any of the Funds or Accounts established and created by or pursuant to the General Resolution.

The Agency may issue refunding Bonds of one or more Series pursuant to a series resolution or resolutions to refund any outstanding Bonds whether by payment at maturity or by redemption.

Pledge of Revenues and Funds

A pledge of the Mortgage Loans and the documents evidencing and rights incident to such Mortgage Loans, Revenues, Prepayments, Recovery Payments, Acquired Development Operating Income and all moneys, securities and Funds or accounts held or set aside or to be held or set aside pursuant to the General Resolution by any Fiduciary (except Escrow Payments and the Multi-Family Escrow Payment Account) is made and the same are pledged to secure the payments of the principal or Redemption Price of and interest on the Bonds except that the Agency may use receipts derived from the operation of Acquired Developments for the payment of costs and expenses incurred in connection with the possession or ownership of Acquired Developments.

Application of Bond Proceeds

Of the proceeds of sale of Bonds of each Series, including accrued interest, the following amounts shall, on the date of the delivery of such Bonds by the Agency, be paid as follows:

- (a) To the Trustee, to be held in the Debt Service Reserve Fund, such amount, if any, necessary to increase the amount in the Debt Service Reserve Fund to the Debt Service Reserve Requirement;
- (b) To the Trustee, to be held in the Debt Service Fund, the amount, if any, of interest accrued from the date of such Bonds to the date of delivery of such Bonds;
- (c) To the Trustee, to be held in the Mortgage Reserve Fund, the amount, if any, as shall be specified in the applicable series resolution;
- (d) To the Trustee, to be held in the applicable Cost of Issuance Account, the amount, if any, as shall be specified in the applicable series resolution as necessary to pay or provide for the payment of Costs of Issuance;
- (e) To the Trustee, to be held in the applicable Capitalized Interest Account, the amount, if any, as shall be specified in the applicable series resolution to be deposited therein for payment of interest on Bonds;

(f) To the Trustee, to be held in the applicable Note Repayment Account established by the series resolution authorizing the issuance of such Bonds, the amount of proceeds derived from the sale of such series of bonds, if any, as shall be specified in said series resolution for the purpose of paying the principal of, redemption premiums, if any, and interest on the Notes; and

(g) To the Trustee, to be held in the applicable Mortgage Loan Account, or in the event of the issuance of refunding Bonds, to the Trustee to be held in the Redemption Fund, the balance of such proceeds remaining after the foregoing payments.

Establishment of Funds

The General Resolution establishes the following Funds, which shall be special Funds held by the Trustee:

- (a) Revenue Fund;
- (b) Debt Service Fund;
 - (i) Sinking Fund Accounts;
- (c) Debt Service Reserve Fund;
- (d) Acquired Development Expense Fund;
- (e) Redemption Fund:
 - (i) Optional Redemption Account; and
 - (ii) Special Redemption Account;
- (f) Mortgage Reserve Fund; and
- (g) Program Fund:
 - (i) Mortgage Loan Accounts;
 - (ii) Cost of Issuance Accounts;
 - (iii) Capitalized Interest Accounts; and
 - (iv) Note Repayment Accounts.

The General Resolution establishes the Multi-Family Escrow Payment Account within the General Fund which shall be a special account held by the Agency. In addition, the Series Resolution establishes the 2012 Series ABC Rebate Account.

Application of Revenues and Other Moneys

All Revenues, Prepayments, Recovery Payments and Acquired Development Operating Income shall be collected by or on behalf of the Agency and deposited on the date of receipt thereof, as far as practicable, in the name of the Trustee with a depository or depositories, each fully qualified under the General Resolution to receive the same as deposits of moneys held by the Trustee, designated by the

Agency, and statements giving the amount of each such deposit and the name of the depository shall be forwarded promptly to the Trustee by or on behalf of the Agency and by such depository. The Trustee shall be responsible to account only for moneys actually so deposited.

All Revenues shall be paid by the Trustee into and credited to the Revenue Fund.

All Prepayments shall be paid by the Trustee into and credited to the applicable Mortgage Loan Account in the Program Fund or the Optional Redemption Account in the Redemption Fund as directed by the Agency except that a portion of any Prepayment may, pursuant to the General Resolution, be paid into and credited to the Debt Service Fund.

All Recovery Payments shall be paid by the Trustee into and credited to the Special Redemption Account in the Redemption Fund.

Acquired Development Operating Income shall be paid by the Trustee into and credited to the Acquired Development Expense Fund to the extent, if any, required to restore such Fund to the Acquired Development Expense Requirement, and the remaining Acquired Development Operating Income shall be paid by the Trustee into and credited to the Revenue Fund.

All Escrow Payments shall be deposited in the Multi-Family Escrow Payment Account.

All payments or charges constituting construction or operating contingency, performance or completion payments, or replacement reserves required pursuant to the applicable Mortgage Loan shall be deposited in the Mortgage Loan Account relating to such Mortgage Loan.

In the event that the Agency receives a single payment constituting Revenues, Prepayments, Recovery Payments, Acquired Development Operating Income, Escrow Payments or any combination thereof, the Agency shall segregate such payment into Revenues, Prepayments, Recovery Payments or Escrow Payments, as the case may be, prior to making the deposit.

The Trustee, as of the first day of each month and within five business days thereafter, shall, out of any moneys in the Revenue Fund make payments into the following several Funds (or the General Fund), but as to each Fund (or the General Fund) only within the limitation herein below indicated with respect thereto and only after maximum payment within such limitation into every such Fund previously mentioned in the following tabulation:

FIRST, into the Debt Service Fund, to the extent, if any, needed to increase the amount in the Debt Service Fund so that it equals the Debt Service Requirement;

SECOND, into the Debt Service Reserve Fund, to the extent, if any, needed to increase the amount in the Debt Service Reserve Fund so that it equals the Debt Service Reserve Requirement;

THIRD, into the Acquired Development Expense Fund, to the extent, if any, needed to increase the amount in the Acquired Development Expense Fund so that it equals the Acquired Development Expense Requirement;

FOURTH, into the Mortgage Reserve Fund, to the extent, if any, needed to increase the amount in the Mortgage Reserve Fund so that it equals the Mortgage Reserve Fund Requirement;

FIFTH, into the 2012 Series ABC Rebate Account or any other rebate account established pursuant to a series resolution, to the extent, if any, required by the provisions of the applicable series resolution; and

SIXTH, into the General Fund, to any extent.

Application of Funds

Debt Service Fund. The Trustee shall pay out of the Debt Service Fund to the respective Paying Agents (i) on or before each interest payment date for any of the Bonds, the amount required for the interest payable on such date; and (ii) on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date.

The Trustee shall establish and maintain in the Debt Service Fund a separate Account for the particular outstanding Bonds of each Series which are designated as Term Bonds and for which Sinking Fund Installments are established in accordance with the series resolution. If all previously required or authorized withdrawals from the Debt Service Fund shall have been made, the Trustee shall, on any Principal Installment Date, withdraw from the Debt Service Fund the amount of any excess therein over the Debt Service Requirement and the Trustee shall deposit the amount so withdrawn in the Revenue Fund.

The interest earned or other income derived from the investment or deposit of moneys in the Debt Service Fund shall be transferred by the Trustee upon receipt thereof to the Revenue Fund.

Debt Service Reserve Fund. The Agency shall pay into the Debt Service Reserve Fund any moneys paid to the Agency pursuant to the Act for the purpose of restoring the Debt Service Reserve Fund to the amount of the Debt Service Reserve Requirement; such portion of the proceeds of sale of Bonds, if any, as shall be provided by the series resolution authorizing the issuance thereof; and the Trustee shall deposit in and credit to the Debt Service Reserve Fund all moneys transferred from the Revenue Fund.

If, after making certain transfers from Capitalized Interest Accounts within the Program Fund and from the Mortgage Reserve Fund, there are insufficient amounts in the Debt Service Fund to make payment of Principal Installments of or interest on the Bonds, the Trustee shall withdraw from the Debt Service Reserve Fund and pay into the Debt Service Fund the amount of the deficiency.

In the event there are sufficient moneys in the Funds and accounts created by the General Resolution and pledged to the payment of Bonds to pay the Redemption Price of and interest on all Bonds outstanding, the Agency may elect to redeem all bonds outstanding pursuant to the General Resolution. In the event the Agency elects to redeem the outstanding Bonds, upon compliance with the provisions of the General Resolution, the Trustee shall transfer to the Optional Redemption Account in the Redemption Fund the amount required for the redemption of such Bonds which shall be applied to such redemption.

On any Interest Payment Date, if all withdrawals or payments from the Debt Service Reserve Fund required by any other provision of the General Resolution with respect to the same and every prior date shall have sooner been made, the Trustee shall withdraw from the Debt Service Reserve Fund the amount of any excess therein over the Debt Service Reserve Requirement attributable to interest or other income derived from the investment or deposit of the Debt Service Reserve Fund and deposit the same in the Revenue Fund, and, upon receipt of an Officer's Certificate signed by an Authorized Officer, shall withdraw from the Debt Service Reserve Fund the amount of any excess therein over the Debt Service

Reserve Requirement attributable to a decrease in the Debt Service Reserve Requirement and deposit the same in the Debt Service Fund.

Mortgage Reserve Fund. Amounts held in the Mortgage Reserve Fund shall be transferred to the Debt Service Fund to restore a deficiency therein or to the Redemption Fund, if directed by the Agency, to make payments of Principal Installments on, redemption price of and interest on the Bonds.

Redemption Fund. The Redemption Fund includes a Special Redemption Account and an Optional Redemption Account. Amounts in the Special Redemption Account are to be applied by the Trustee for the purchase or redemption of Bonds at a price and premium as set forth in the applicable series resolution. Amounts in the Optional Redemption Account are to be applied by the Trustee for the purchase or redemption of Bonds at a price set forth in the applicable series resolution. The Agency shall direct the selection of the series of Bonds to be purchased, and the amount and maturities of the Bonds to be redeemed. Such purchases or redemptions shall be made by the Trustee in the manner provided in the Resolutions.

Prior to any purchase or redemption of Bonds the Agency shall have filed with the Trustee an Officer's Certificate setting forth a schedule of anticipated Revenues to be derived from all Mortgage Loans outstanding and anticipated to be made after giving effect to any estimated Prepayments and stating that the Agency expects that such Prepayments will be made on or before the dates as of which they have been estimated to be made in such schedule, together with a schedule of Principal Installments of and interest on all Bonds which will be outstanding after giving effect to such purchase or redemption as determined pursuant to the Resolutions, and other purchases and redemptions expected to be made with such Prepayments, and showing that such anticipated Revenues, together with any other amounts to be held in the Debt Service Fund, the Debt Service Reserve Fund, the Mortgage Reserve Fund and the Redemption Fund together with all Revenues estimated to be earned on the Funds and Accounts after such purchase or redemption, will at least be sufficient to pay as and when due all of such Principal Installments and interest.

Acquired Development Expense Fund. Moneys deposited in the Acquired Development Expense Fund pursuant to the General Resolution shall be applied to the payment of any of the costs and expenses incurred by the Agency in connection with Acquired Developments. In the event that the Agency is in possession of an Acquired Development, the Agency shall, on a monthly or other reasonable basis, file with the Trustee an Officer's Certificate stating the amounts required (less the unencumbered amount remaining from the previous filing period) by the Agency for operation and maintenance of such Acquired Developments, stating in general the purpose of such costs and expenses. Upon receipt of such Officer's Certificate, the Trustee shall transfer to the Agency the amount so required for payment by the Agency of such costs and expenses. The Agency shall keep proper books and records of its expenditures in connection with Acquired Developments which shall be available for inspection by the Trustee at reasonable times.

Multi-Family Escrow Payment Account. Escrow Payments received by the Agency, whether separately or as part of some other payment shall be deposited in the Multi-Family Escrow Payment Account and shall be promptly applied by the Agency to the purpose for which such payments were received, and any such payments received by the Trustee, whether separately or as part of some other payment, shall immediately be paid by the Trustee to the Agency and applied by the Agency in the manner set forth above.

General Fund. Except as provided in the General Resolution, all amounts paid to the Agency for deposit in the General Fund shall be free and clear of any lien or pledge created by the General Resolution and may be used for any lawful purpose, including without limiting the generality of the foregoing

payments to the Revenue Fund, the Debt Service Fund, the Debt Service Reserve Fund, the Redemption Fund, any Mortgage Loan Account, the Multi-Family Escrow Payment Fund or the Acquired Development Expense Fund.

Rebate Account. The Series Resolution establishes in the General Fund a separate trust account to be held by the Trustee and designated the “2012 Series ABC Rebate Account.” Amounts in such Rebate Account are not subject to the pledge or lien of the General Resolution. Amounts on deposit in such Rebate Account will be applied as provided in the Series Resolution. With respect to the 2012 Series A Bonds and 2012 Series B Bonds, the Agency will pay or cause to be paid from the Rebate Account to the United States on behalf of the Agency an amount equal to the amount determined in accordance with the Code of certain investment earnings to the extent such investment earnings exceed the amount that would have been earned on such investments if the investments had been invested at a rate of return equal to the yield on the 2012 Series A Bonds and 2012 Series B Bonds, plus any income attributable to the investment of such excess. If the amount on deposit in the Rebate Account is insufficient for such payment, the Agency has covenanted to make up the deficiency from its own funds.

Investment of Certain Funds and Accounts

Moneys in the Funds and Accounts held under the General Resolution shall be invested in Investment Obligations the maturity or redemption date of which shall coincide as nearly as practicable with the times at which moneys in said Fund or Account will be required for the purposes provided in the General Resolution. In lieu of the investment of moneys in Investment Obligations, the Trustee shall, upon written direction of an authorized officer of the Agency, deposit moneys held by it under the General Resolution in certificates of deposit or in interest-bearing time deposits, or shall make other similar banking arrangements with itself or a member bank or banks of the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation, and provided that, except for deposits of moneys held in the Revenue Fund and so deposited or deposits covered by insurance with the Federal Deposit Insurance Corporation, such deposits or other similar banking arrangement shall be continuously secured as to both principal and interest by (i) Investment Obligations, (ii) bonds, notes or other obligations of the Agency, (iii) direct and general obligations of any state of the United States or of any political subdivision of the State rated in either of the two highest rating categories by a nationally recognized bond rating agency, all of which shall have a market value equal at all times to the amount of such deposits.

The Agency has covenanted not to permit any of the proceeds of the Bonds or any other funds of the Agency to be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any Bonds to be an “arbitrage bond” as defined in Section 148(a) of the Code.

Events of Default

Events of Default specified in the General Resolution include failure to pay principal or redemption price of or interest on any Bond when due; failure to redeem Bonds subject to redemption by operation of Sinking Fund Installments in a principal amount equal to such Sinking Fund Installment when due; failure of the Chairman of the Agency to certify to the Governor or Governor-elect, or, upon such certification, failure of the State to appropriate and pay to the Agency deficiencies in the Debt Service Reserve Fund during the then current State fiscal year as provided for under the Act and in the General Resolution; failure for 90 days after written notice thereof in the performance or observance of any other covenant, contract or other provision in the Bonds or the Resolutions; and the filing by the Agency of a petition a composition of indebtedness under the federal bankruptcy laws, or a federal or Vermont statute.

Remedies

Upon the happening and continuance of an Event of Default, the Trustee in its own name on behalf and for the benefit and protection of the holders of all Bonds and coupons, if any, may proceed, and upon the written request of the holders of not less than 25% in principal amount of the Bonds then outstanding, shall proceed, to protect and enforce its rights and, to the full extent available to the holders of such Bonds themselves, the rights of the holders of such Bonds under the laws of the State or under the Resolutions by such suits, actions or proceedings in equity or at law, for the specific performance of any covenant or contract contained therein, or in aid or execution of any power therein granted, or for any proper legal or equitable remedy, as the Trustee shall deem most effectual to protect and enforce such rights.

Supplemental Resolutions

The Agency may adopt (without the consent of any holders of the Bonds but with the consent of the Trustee) Supplemental Resolutions for the following purposes: (i) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolutions; (ii) to provide for additional duties of the Trustee in connection with the Mortgage Loans or to expand the duties or responsibilities of the Trustee; (iii) to insert such provisions clarifying matters or questions arising under the Resolutions as are necessary or desirable and are not contrary to or inconsistent with the Resolutions as in effect at the time of such resolution; (iv) to make such modifications or changes that are not materially adverse to the interests of the Bondholders, in the judgment of the Trustee, which may rely on an opinion of counsel; (v) to grant to or confer upon the Trustee for the benefit of the Holders of the Bonds or any credit provider, including any bond insurer, any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Holders of the Bonds or any credit provider, including any bond insurer, or the Trustee or any of them; (vi) to make any modifications or changes that shall adversely affect the Trustee's rights, immunities and protections; and (vii) to make any and all changes necessary to implement credit enhancement, including bond insurance, which do not adversely affect the ratings of the Bonds.

Defeasance

If the Agency pays the Principal Amount, interest and Redemption Price, if any, to become due on all Outstanding Bonds, then the pledge of Revenues, Mortgage Loans or other money and securities and all the rights granted by the General Resolution will be discharged and satisfied. All Outstanding Bonds of any series will, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning of the foregoing sentence, if among other things, there has been deposited with the Trustee either money in an amount sufficient or Investment Obligations as defined in clauses (i) and (ii) of the definition of Investment Obligations the principal of and interest on which when due will provide money in an amount sufficient to pay when due the Principal Amount or Redemption Price, if applicable, of and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be.

TRUSTEE

The Trustee for the 2012 Series ABC Bonds is The Bank of New York Mellon Trust Company, N.A., as successor to Banknorth, National Association, located in Everett, Massachusetts. The Trustee also serves as bond trustee for other outstanding bonds of the Agency. Payments of principal, premiums, if any, and interest on the 2012 Series ABC Bonds are payable at the Paying Agent's corporate trust office in Everett, Massachusetts.

PLEDGE AND AGREEMENT OF THE STATE

Under the Act, the State pledges and agrees with the holders of bonds 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 holders of its bonds or in any way impair the rights and remedies of the holders 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 revenues or assets of the Agency.

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 2012 Series ABC Bonds or the making (or reimbursement of the Agency for making) of the Mortgage Loans with the proceeds of the 2012 Series ABC Bonds, or in any way contesting or affecting any authority for the issuance of or the validity of the 2012 Series ABC 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 2012 Series ABC Bonds, or the existence or powers of the Agency.

FINANCIAL STATEMENTS OF THE AGENCY

The financial statements of the Agency for the year ended June 30, 2012 included in Appendix I have been audited by CohnReznick, independent certified public accountants, whose report thereon is also included in Appendix I. CohnReznick has not been engaged to perform and has not performed, since the date of its report, any procedures on the financial statements addressed in that report. CohnReznick also has not performed any procedures relating to this Official Statement.

RATINGS

The 2012 Series ABC Bonds have been assigned the municipal bond ratings of “A+” by Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, and “Aa3” by Moody’s Investors Service, Inc., respectively.

Certain information was supplied by the Agency to the rating agencies to be considered in evaluating the 2012 Series ABC Bonds. The ratings issued reflect only the views of the rating agencies and any explanation of the significance of such ratings may be obtained only from the rating agencies. No assurance can be given that such ratings will be retained for any given period of time or that it will not be revised or withdrawn entirely if, in the judgment of the rating agencies, circumstances so warrant. The Agency or the Trustee undertake no responsibility to bring to the attention of the holders of the 2012 Series ABC Bonds any revision or withdrawal of such ratings. Any such revision or withdrawal of such ratings obtained may have an adverse effect on the market price of the 2012 Series ABC Bonds.

CONTINUING DISCLOSURE

In connection with the issuance of the 2012 Series ABC Bonds, the Agency has agreed to file annually, within 180 days after the close of each Fiscal Year, beginning with the fiscal year ending June 30, 2013, financial statements for such Fiscal Year and to provide notices of the occurrence of

certain enumerated events, if material. Such information will be provided to 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 VI – FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriters in complying with the 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 2012 Series ABC Bonds are subject to the approval of Kutak Rock LLP, Bond Counsel. The unqualified approving opinion of Bond Counsel, substantially in the form attached hereto as Appendix V, will be delivered with the 2012 Series ABC Bonds. Certain legal matters will be passed upon for the Agency by George N. Demas, Esq., counsel to the Agency, and for the Underwriters by their counsel, Nixon Peabody LLP.

UNDERWRITING

The 2012 Series ABC Bonds are being purchased by Citigroup Global Markets Inc., as representative of the Underwriters listed on the cover hereof, on a joint and several basis, at a price equal to \$26,350,748.10 (plus accrued interest, if any). The Underwriters will receive a fee in the amount of \$214,124.05 relating to the purchase of the 2012 Series ABC Bonds. The obligation of the Underwriters to accept delivery of the 2012 Series ABC Bonds is subject to certain conditions contained in the Bond Purchase Contract related to the 2012 Series ABC Bonds. The Underwriters may offer and sell the 2012 Series ABC Bonds to certain dealers and others at prices lower than the public offering price stated on the cover page hereof. The initial offering price may be changed from time to time by the Underwriters.

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., parent company of Citigroup Global Markets Inc., the representative of the Underwriters of the 2012 Series ABC Bonds, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. 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 this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2012 Series ABC Bonds.

On April 2, 2012, Raymond James Financial, Inc. (“RJF”), the parent company of Raymond James & Associates, Inc. (“Raymond James”), acquired all of the stock of Morgan Keegan & Company,

Inc. (“Morgan Keegan”) from Regions Financial Corporation. Morgan Keegan and Raymond James are each registered broker-dealers. Both Morgan Keegan and Raymond James are wholly owned subsidiaries of RJF and, as such, are affiliated broker-dealer companies under the common control of RJF, utilizing “Raymond James | Morgan Keegan” as their trade name. It is anticipated that the businesses of Raymond James and Morgan Keegan will be combined.

Morgan Keegan has entered into a distribution arrangement with Raymond James for the distribution of the 2012 Series ABC Bonds at the original issue prices. Such arrangement generally provides that Morgan Keegan will share a portion of its underwriting compensation or selling concession with Raymond James.

TAX MATTERS

2012 Series A Bonds and 2012 Series B Bonds

In the opinion of Kutak Rock LLP, Bond Counsel, to be delivered on the date of issuance of the 2012 Series ABC Bonds, and assuming compliance by the Agency with covenants in the Resolution described in the succeeding paragraphs, under existing laws, regulations, rulings and judicial decisions, interest on the 2012 Series A Bonds and the 2012 Series B Bonds is excluded from gross income for federal income tax purposes, except that no opinion is expressed with respect to interest on any 2012 Series A Bond or 2012 Series B Bond for any period during which such 2012 Series A Bond or 2012 Series B Bond is held by a “substantial user” of the facilities financed thereby or a “related person” as those terms are defined in Section 147 of the Code. The form of such Bond Counsel opinion is attached hereto as Appendix V.

Bond Counsel is further of the opinion that interest on the 2012 Series B Bonds is not, but interest on the 2012 Series A Bonds is, a specific preference item for purposes of the alternative minimum tax provisions imposed by the Code on individuals and corporations. However, interest on the 2012 Series B Bonds is included in a corporation’s “adjusted current earnings,” and the alternative minimum taxable income of certain corporations must be increased by 75% of the excess of such corporation’s “adjusted current earnings” over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements that must be met with respect to the 2012 Series A Bonds and 2012 Series B Bonds subsequent to issuance in order that interest thereon be excluded from gross income for federal income tax purposes. Failure to comply with such applicable requirements could cause the interest on the 2012 Series A Bonds and 2012 Series B Bonds to be includable in gross income retroactive to the date of original issuance of the 2012 Series A Bonds and 2012 Series B Bonds. Certain of these requirements must be met on a continuous basis throughout the term of the 2012 Series A Bonds and 2012 Series B Bonds. These requirements include (a) limitations as to the use of the proceeds of the 2012 Series A Bonds and 2012 Series B Bonds and the use of the facilities financed by the 2012 Series A Bonds and 2012 Series B Bonds; (b) limitations on the extent to which amounts treated as proceeds of the 2012 Series A Bonds and 2012 Series B Bonds may be invested in higher-yielding investments; and (c) a provision, subject to certain limited exceptions, that requires all investment earnings on amounts treated as proceeds of the 2012 Series A Bonds and 2012 Series B Bonds above the yield on the 2012 Series A Bonds and 2012 Series B Bonds to be paid to the United States Treasury. The Agency will covenant and represent in the Resolutions that it will take all steps to comply with the requirements of the Code to the extent necessary to maintain the exclusion of interest on the 2012 Series A Bonds and 2012 Series B Bonds from gross income for federal income tax purposes. The failure or inability of the Agency or the owner of the

facilities to comply with these requirements could cause the interest on the 2012 Series A Bonds and 2012 Series B Bonds to be included in gross income from the date of issuance.

Section 148 of the Code sets forth, as a condition to the exclusion of interest from gross income for federal income tax purposes on governmental obligations, such as the 2012 Series A Bonds and 2012 Series B Bonds, certain restrictions regarding the investment of the “gross proceeds” of such obligations. These “arbitrage” provisions set forth limitations on the yield of investments acquired with “gross proceeds” of the 2012 Series A Bonds and 2012 Series B Bonds and also provide for periodic rebate of specified portions of the arbitrage profit derived from such investments. Failure to comply with such requirements at any time could retroactively affect the exclusion from gross income for federal income tax purposes of interest on the 2012 Series A Bonds and 2012 Series B Bonds. The Agency has covenanted to comply with the ongoing requirements of Section 148 of the Code, including requirements regarding, among other things, limitations on investment of the 2012 Series A Bond and 2012 Series B Bond proceeds and rebate to the federal government, which covenants, if complied with, will satisfy Section 148 of the Code.

The 2012 Series A Bonds and the 2012 Series B Bonds are subject to requirements that the facilities financed with the proceeds of the 2012 Series A Bonds and the 2012 Series B Bonds must be used as “residential rental projects” for the “qualified project period.” In order to qualify as “residential rental projects,” at least 20% of the residential units in the development must be occupied by individuals whose income is 50% or less of median gross income or 40% of the residential units with incomes of 60% or less of median gross income. The Code requires that the income of individuals and area median gross income must be determined by the Secretary of the Treasury in a manner consistent with determinations of lower-income families and median gross income under Section 8 of the Housing Act. These income determinations are required to include adjustments for family size.

The “qualified project period” is defined as that period of time beginning on the first day on which at least 10% of the units in the project are occupied and ending on the latest of (a) the date which is 15 years after the date on which at least 50% of the units in the project that are provided with the proceeds of the issue are first occupied, (b) the first day on which no tax-exempt bond issue with respect to the project is outstanding, or (c) the date on which any assistance provided with respect to the project under Section 8 of the Housing Act terminates.

The 2012 Series B Bonds are issued partially as “qualified 501(c)(3) bonds” pursuant to Section 145 of the Code, partially as “exempt facility bonds” pursuant to Section 142(d) of the Code, and partially as governmental bonds. As such, as a condition to exclusion from gross income of interest on the 2012 Series B Bonds for federal income tax purposes, it is required that the facilities financed with the proceeds of the qualified 501(c)(3) bonds be owned by an organization that qualifies under Section 501(c)(3) of the Code, and that no portion of such facilities be used in the trade or business of a person or entity that is not a Section 501(c)(3) organization. The Agency and the owner of the facilities financed with proceeds of such 2012 Series B Bonds will covenant to comply with these requirements.

The documents pertaining to the 2012 Series B Bonds issued as “qualified 501(c)(3) bonds” provide that if the owner of the facilities financed with the qualified 501(c)(3) Bonds takes actions which convert the use of the facilities financed thereby to “private use,” the owner and the Agency may take remedial actions permitted by the Code to maintain the tax exemption of the interest on the 2012 Series B Bonds. Such remedial action could include (i) redemption of a portion of the 2012 Series B Bonds, (ii) use of monies derived from disposition of the non-qualifying project to finance another qualifying residential rental project or (iii) conversion of the non-qualifying project to a qualified exempt facility under Section 142(d) of the Code.

Although Bond Counsel will render an opinion that interest on the 2012 Series A Bonds and 2012 Series B Bonds will not be included in gross income for federal income tax purposes, the accrual or receipt of interest on the 2012 Series A Bonds and 2012 Series B 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 regarding any such consequences. Purchasers of the 2012 Series A Bonds and 2012 Series B Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise entitled to claim the earned income credit, or taxpayers who may be deemed to have incurred or continued indebtedness to carry tax-exempt obligations are advised to consult their tax advisors as to the tax consequences of purchasing, holding or selling the 2012 Series A Bonds and 2012 Series B Bonds.

THE EXTENT OF THE TAX CONSEQUENCES OF PURCHASING OR HOLDING THE 2012 SERIES A BONDS OR THE 2012 SERIES B BONDS WILL DEPEND UPON THE BONDHOLDER'S TAX STATUS OR OTHER ITEMS OF INCOME OR DEDUCTION. PURCHASERS OF THE 2012 SERIES A BONDS OR THE 2012 SERIES B BONDS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE CONSEQUENCES OF PURCHASING OR HOLDING THE 2012 SERIES A BONDS OR THE 2012 SERIES B BONDS.

Original Issue Premium and Discount. An amount equal to the excess of the issue price of any 2012 Series A Bond or 2012 Series B Bond over its stated price at maturity (a "Premium Bond") constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to the optional call date that would produce the lowest yield for such bond. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for Federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no Federal income tax deduction is allowed.

Any 2012 Series A Bond or 2012 Series B Bonds originally offered at a price below the amount payable on such Bonds at maturity are known as Discount Bonds, the difference being hereinafter referred to as "Original Issue Discount." An owner of a Discount Bond shall accrue Original Issue Discount by using the economic accrual method, and such accruals shall be treated as (i) tax-exempt interest received by the owners of such Discount Bonds, and (ii) added to the owner's tax basis for purposes of determining gain or loss upon a sale of a Discount Bond. The amount representing Original Issue Discount that is treated as being received by an owner of a Discount Bond will be added to the owner's tax basis for purposes of determining gain or loss upon a sale of a Discount Bond.

Purchasers of Premium Bonds and Discount Bonds should consult with their tax advisors with respect to the determination and treatment of amortizable premium and discount for Federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond or a Discount Bond.

2012 Series C Bonds (Federally Taxable)

In the opinion of Kutak Rock LLP, Bond Counsel, to be delivered on the date of issuance of the 2012 Series C Bonds, under existing laws, regulations, rulings and judicial decisions, interest on the 2012 Series C Bonds will not be excludable from the gross income of the recipients thereof for federal income tax purposes.

The following is a summary of certain anticipated federal income tax consequences of the purchase, ownership and disposition of the 2012 Series C Bonds. The summary is based upon the provisions of the Code, the regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change or possible differing interpretations. The summary does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances or certain types of investors subject to special treatment under the federal income tax laws. Potential purchasers of the 2012 Series C Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, holding and disposition of the 2012 Series C Bonds.

Although there are not any regulations, published rulings or judicial decisions involving the characterization for federal income tax purposes of securities with terms substantially the same as the 2012 Series C Bonds, Bond Counsel has advised the Agency that the 2012 Series C Bonds will be treated for federal income tax purposes as evidences of indebtedness of the Agency and not as an ownership interest in the trust estate securing the 2012 Series C Bonds or as an equity interest in the Agency or any other party, or in a separate association taxable as a corporation. **Interest on the 2012 Series C Bonds is includable in gross income for federal income tax purposes under Section 103 of the Code. Interest on the 2012 Series C Bonds will be fully subject to federal income taxation.** In general, interest paid on the 2012 Series C Bonds and recovery of accrued market discount, if any, will be treated as ordinary income to a bondholder, and principal payments will be treated as a return of capital. The Code contains special federal income tax rules for “real estate mortgage investment conduits.” The Agency does not intend to treat the arrangement by which the trust estate secures the 2012 Series C Bonds as “real estate mortgage investment conduits.”

The 2012 Series C Bonds will not (a) represent interest in “qualifying real property loans,” within the meaning of Section 593(d) of the Code, (b) constitute “loans . . . secured by an interest in real property,” within the meaning of Section 7701(a)(19)(C)(v) of the Code, (c) constitute “real estate assets” or “Government securities,” within the meaning of Section 856(c)(4)(A) of the Code, or (d) constitute “Government securities,” within the meaning of Section 851(b)(3)(A)(i) of the Code. Interest on the 2012 Series C Bonds will not be considered “interest on obligations secured by mortgages on real property or on interests in real property,” within the meaning of Section 856(c)(3)(B) of the Code.

Market Discount. Any owner who purchases a 2012 Series C Bond at a price which includes market discount in excess of a prescribed *de minimis* amount (i.e., at a purchase price that is less than its adjusted issue price in the hands of an original owner) will recognize gain upon receipt of each scheduled or unscheduled principal payment. In particular, such owner will generally be required (a) to allocate each such principal payment to accrued market discount not previously included in income and to recognize ordinary income to that extent and to treat any gain upon sale or other disposition of such a 2012 Series C Bond as ordinary income to the extent of any remaining accrued market discount (under this caption) or (b) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such an owner on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history of the Tax Reform Act of 1986 will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest. Pursuant to Revenue Procedure 92-67, an election to accrue market discount on a constant interest basis is irrevocable.

An owner of a 2012 Series C Bond who acquires such Bond at a market discount also may be required to defer, until the maturity date of such 2012 Series C Bond or its earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry a 2012 Series C Bond in excess of the aggregate amount of interest (including original issue discount) includable in such owner's gross income for the taxable year with respect to such 2012 Series C Bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the 2012 Series C Bond for the days during the taxable year on which the owner held the 2012 Series C Bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the 2012 Series C Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the bondowner elects to include such market discount in income currently as it accrues on all market discount obligations acquired by such bondowner in that taxable year or thereafter.

Market Premium. A subsequent purchaser of a 2012 Series C Bond who purchases such 2012 Series C Bond at a cost greater than its then principal amount will be considered to have purchased such 2012 Series C Bond at a market premium. Under Section 171 of the Code, such a purchaser must amortize the amount of such market premium using constant yield principles based on the purchaser's yield to maturity. Amortizable market premium is generally treated as an offset to interest income, and a reduction in basis under Code Section 1016(a) of the 2012 Series C Bond is required for amortizable bond premium that is applied to reduce interest payments. Purchasers of any 2012 Series C Bond who acquire such Bond at a premium should consult with their own tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to state and local tax consequences of owning such 2012 Series C Bond.

Sale or Redemption of 2012 Series C Bonds. A bondowner's tax basis for a 2012 Series C Bond is the price such owner pays for the 2012 Series C Bond plus amounts of any original issue discount included in income, reduced on account of any payments received (other than "qualified periodic interest" payments) and any amortized premium. Gain or loss recognized on a sale, exchange or redemption of a 2012 Series C Bond, measured by the difference between the amount realized and the 2012 Series C Bond's basis as so adjusted, will generally give rise to capital gain or loss if the 2012 Series C Bond is held as a capital asset or ordinary income to the extent of accrued market discount that has not already been included in income.

Backup Withholding. A 2012 Series C bondowner may, under certain circumstances, be subject to "backup withholding" at a rate equal to the rate of the fourth lowest of income tax rates applicable to unmarried taxpayers (other than a "surviving spouse" or "head of household") with respect to interest or original issue discount on the 2012 Series C Bonds. This withholding generally applies if the owner of a 2012 Series C Bond (a) fails to furnish the Trustee or other payor with its taxpayer identification number; (b) furnishes the Trustee or other payor an incorrect taxpayer identification number; (c) fails to report properly interest, dividends or other "reportable payments" as defined in the Code; or (d) under certain circumstances, fails to provide the Trustee or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the holder is not subject to backup withholding. Backup withholding will not apply, however, with respect to certain payments made to bondowners, including payments to certain exempt recipients (such as certain exempt organizations) and to certain Nonresidents (as defined below). Owners of the 2012 Series C Bonds should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining the exemption.

The amount of “reportable payments” for each calendar year and the amount of tax withheld, if any, with respect to payments on the 2012 Series C Bonds will be reported to the bondowners and to the Internal Revenue Service.

Foreign Bondowners. Under the Code, interest and original issue discount income with respect to 2012 Series C Bonds held by nonresident alien individuals, foreign corporations or other non-United States persons (“Nonresidents”) generally will not be subject to the 30% United States withholding tax if the Trustee (or other person who would otherwise be required to withhold tax from such payments) is provided with an appropriate statement that the beneficial owner of the 2012 Series C Bonds is a Nonresident. The withholding tax may be reduced or eliminated by an applicable tax treaty, if any. Notwithstanding the foregoing, if any such payments are effectively connected with a United States trade or business conducted by a Nonresident bondowner, they will be subject to regular United States income tax, but will ordinarily be exempt from United States withholding tax.

ERISA. The Employees Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the “Plans”) and persons who, with respect to a Plan, are fiduciaries or other “parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of the Code. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any 2012 Series C Bonds.

IN ALL EVENTS, ALL INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE 2012 SERIES C BONDS.

General

From time to time, there are legislative proposals in the Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the 2012 Series ABC 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. Purchasers of the 2012 Series ABC Bonds should consult their tax advisors regarding any pending or proposed tax legislation. The opinions expressed by Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the 2012 Series ABC Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation.

Vermont Taxes

The Act provides that bonds and notes of the Agency, including the 2012 Series ABC Bonds, and the interest thereon, are at all times free from all Vermont taxation, franchise fees or special assessments except for transfer, inheritance and estate taxes. The 2012 Series ABC Bonds and the income therefrom may be subject to taxation under the laws of the states other than the State of Vermont.

MISCELLANEOUS

The references herein to the Act, the Resolutions and the Section 8 program are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and reference is made to the Act, the Resolutions and the Section 8 program and all regulations and rulings thereunder for full and complete statements of such provisions. The agreements of the Agency with the holders of the 2012 Series ABC Bonds are fully set forth in the Resolutions and this Official Statement is not to be construed as a contract

with the purchasers of the 2012 Series ABC 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 and the Resolutions are on file at the office of the Agency. The address of the Agency is 164 Saint Paul Street, Burlington, Vermont 05401 and its telephone number is (802) 864-5743.

The execution and delivery of this Official Statement by its Chair have been duly authorized by the Agency.

VERMONT HOUSING FINANCE AGENCY

By /s/ Thomas N. Pelletier
Chair

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APPENDIX I

**AUDITED FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2012
(WITH INDEPENDENT AUDITOR'S 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, 2012

(With Independent Auditors' Report Thereon)

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Vermont Housing Finance Agency (the Agency), a component unit of the State of Vermont, as of and for the year ended June 30, 2012, 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 Agency, as of June 30, 2012, 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 28, 2012, 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 9 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 28, 2012

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

Management's Discussion and Analysis

June 30, 2012

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, 2012. 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 over \$3 billion aggregate principal amount of bonds, notes and line of credit borrowings, of which \$632.8 million was outstanding as of June 30, 2012, 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 (MBS), 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 capital assets, other receivables, and deferred costs.

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.

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(A Component Unit of the State of Vermont)

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June 30, 2012

The following table summarizes the net assets of the Agency as of June 30, 2012 with comparative data from the prior fiscal year (dollars in thousands):

	<u>2012</u>	<u>2011</u>	<u>Percentage change</u>
Assets			
Cash and investments	\$ 175,264	205,917	(14.9)%
Loans receivable, net	437,660	500,198	(12.5)
Mortgage backed securities	104,773	70,877	47.8
Other assets	<u>35,618</u>	<u>31,346</u>	<u>13.6</u>
Total assets	<u>753,315</u>	<u>808,338</u>	<u>(6.8)</u>
Liabilities:			
Bond and notes payable	632,843	700,535	(9.7)
Other liabilities	<u>33,803</u>	<u>22,530</u>	<u>50.0</u>
Total liabilities	<u>666,646</u>	<u>723,065</u>	<u>(7.8)</u>
Net assets:			
Invested in capital assets	810	1,565	(48.2)
Restricted for bond resolutions	81,300	81,137	0.2
Unrestricted	<u>4,559</u>	<u>2,571</u>	<u>77.3</u>
Total net assets	<u>\$ 86,669</u>	<u>85,273</u>	<u>1.6%</u>

Total assets decreased by \$55.0 million or 6.8% for fiscal year ended June 30, 2012 when compared to the year ended June 30, 2011. The change in assets is primarily the result of:

- Overall cash and investments decreased by \$30.7 million, or 14.9 %, from June 30, 2011 primarily due to the higher level of redemptions of Single Family and Multi-Family bonds.
- Mortgage loans receivable decreased a net of \$62.5 million or 12.5% 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 \$79.8 million including \$38.9 million of loans originated using MBS or the Fannie Mae cash window. Loans totaling \$1.4 million were originated under the IRS Section 1602 Tax Credit Exchange and the HUD Tax Credit Assistance programs (TCAP).
- 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 a portion of the net increase in the loan loss provision for the year.

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The following table summarizes the change in net mortgage loans receivable for the years ended June 30, 2012 and 2011 (dollars in thousands):

	<u>2012</u>	<u>2011</u>	<u>Percentage change</u>
Beginning balance	\$ 500,198	579,130	(13.6)%
Whole loan originations	39,498	33,017	19.6
Tax credit exchange originations	1,320	3,536	(62.7)
HUD TCAP program originations	80	4,490	(98.2)
Cash window loans	392	142	176.1
Principal collections	(94,265)	(107,452)	(12.3)
Loans transferred to REO status	(6,604)	(3,704)	78.3
Loan loss provision	(1,167)	(793)	47.2
Provision for 1602 and TCAP reserves	(1,400)	(8,026)	(82.6)
Sales of cash window loans	(392)	(142)	176.1
Ending balance	<u>\$ 437,660</u>	<u>500,198</u>	<u>(12.5)%</u>

The following table summarizes the change in mortgage backed securities for the year ended June 30, 2012 (in thousands):

	<u>2012</u>
Beginning balance	\$ 70,877
Purchases	38,528
Principal paydowns	(8,250)
Discount on purchases	(136)
Amortization of discount	11
Appreciation in fair value	3,743
Ending balance	<u>\$ 104,773</u>

Total liabilities of the Agency decreased by \$56.4 million, or 7.8% for the year ended June 30, 2012 when compared to June 30, 2011, primarily as a net result of:

- The issuance of \$30 million of Mortgage Revenue Bonds in November 2011 resulted in an increase in bonds payable of \$12 million; \$18 million of this issue was comprised of bonds converted from escrow bonds to Treasury owned bonds. The proceeds of the sale were used to purchase new mortgage backed securities.
- The issuance of \$20.5 million of HFA Initiative Multi-Family Bonds in December 2011 resulted in an increase in bonds payable of \$4.2 million; \$16.3 million of this issue was comprised of bonds converted from escrow bonds to Treasury owned bonds. The proceeds of the sale were used to pay off existing Multi-Family loans and to extend additional financing.

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June 30, 2012

- A pay down of \$31.8 million of Single Family and Multiple Purpose bonds in November 2011; of this amount, \$27 million reflected redemptions due to mortgage prepayments and \$4.8 million in scheduled bond maturities.
- A pay down of \$20.1 million of Multi-Family bonds in August 2011 and February 2012, which reflected \$3 million of scheduled bond maturities and \$17.1 million of special redemptions due to prepayments.
- The issuance of \$75.3 million of Multiple Purpose bonds in April 2012, which included the refunding of \$59.3 million of Single Family mortgage bonds and \$16 million of new Multiple Purpose bonds to be used to purchase new mortgage backed securities.
- A pay down of \$40.7 million of Single Family and Multiple Purpose bonds in May 2012, which reflected \$5 million of scheduled bond maturities and \$35.7 million of special redemptions due to prepayments.
- For fiscal year 2011, 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 \$16 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 2012.

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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.

The following summarizes the changes for the fiscal year ended June 30, 2012 with comparative data from the prior fiscal year (dollars in thousands):

	<u>2012</u>	<u>2011</u>	<u>Percentage change</u>
Operating revenues:			
Interest on investments	\$ 2,249	4,085	(44.9)%
Interest on mortgage loans	27,963	31,968	(12.5)
Interest on mortgage backed securities	3,604	2,915	23.6
Fee income	704	1,153	(38.9)
Gain (loss) on bond redemptions	(65)	136	(147.8)
Other revenue, net	81	119	(31.9)
Total operating revenues	<u>34,536</u>	<u>40,376</u>	<u>(14.5)</u>
Operating expenses:			
Financing costs	29,732	33,321	(10.8)
Mortgage servicing expenses	662	795	(16.7)
Operational expenses	3,969	4,238	(6.3)
Loan loss expenses, net	2,702	1,870	44.5
Total operating expenses	<u>37,065</u>	<u>40,224</u>	<u>(7.9)</u>
Operating income (loss)	(2,529)	152	(1,763.8)
Nonoperating revenues (expenses):			
Net appreciation in fair value of investments	3,925	182	2,056.6
Federal programs:			
Program revenue	7,763	14,627	(46.9)
Program expenses	(7,536)	(14,384)	(47.6)
Administration and period costs	(227)	(243)	(6.6)
Total nonoperating revenues	<u>3,925</u>	<u>182</u>	<u>2,056.6</u>
Increase in net assets	<u>\$ 1,396</u>	<u>334</u>	<u>318.0%</u>

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The Agency's net operating loss was \$2.529 million for the fiscal year ended June 30, 2012, compared to a net operating income of \$152 thousand for the fiscal year ended June 30, 2011. When net nonoperating revenues are included, the overall excess of revenues over expenses for the fiscal year ended June 30, 2012 was \$1.396 million compared with a net excess of revenues over expenses in the previous fiscal year of \$334 thousand (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 \$3.3 million (9.5%) reflecting the effect of net portfolio runoff and the reduced spread on the whole loans converted to MBS.
- Interest income on investments decreased by \$1.8 million (44.9%). Approximately \$1.2 million of the decrease is due to the reduction in the investment portfolio balance as well as lower reinvestment rates. Approximately \$600 thousand of the change is related to excess earnings on nonmortgage investments to be rebated to the Internal Revenue Service
- Financing costs decreased \$3.6 million (10.8%) relative to the same period prior year due to the net reduction in outstanding bonds and notes payable of \$67.7 million and the reduction of interest rates and remarketing fees paid on variable rate debt. The reduction in interest rates was mainly the result of replacing Depfa and Dexia with TD Bank and BNY Mellon as liquidity providers. Remarketing fees were reduced by replacing KeyBank as remarketing agent with Wells Fargo and BNY Mellon.
- Operational expenses dropped by 6.3% compared to the prior year. Salary and benefits expenses decreased \$290 thousand due mainly to unfilled staff openings and benefit program changes, such as the transition to a high-deductible health plan, that resulted in lower premiums. Mortgage servicing fees were lower in 2012 by \$133 thousand as the Single Family loan portfolio continues to pay down over time. Because of the migration to the mortgage backed securities strategy, loans are now being securitized into MBS's. Therefore, the Single Family portfolio is not being replenished as older loans are being paid off. Operational expenses continue to be down considerably from fiscal year 2009 because of a deliberate effort to reduce costs.
- The Agency saw an increase in Single Family and Multi-Family (East Branch) loan losses and loss provisions from \$1.9 million in FY 2011 to \$2.7 million in FY 2012. The Agency expected loan losses to be higher this year and has also taken a more conservative approach to reserving for future losses.

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.

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For fiscal year 2012, the Agency budgeted \$1.77 million in operating revenues and \$4.83 million in operating expenses. Actual operating revenues of \$1.55 million were under budget by \$220 thousand, but actual operating expenses of \$4.52 million were under budget by \$310 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, 2012

(dollars in thousands)

Assets	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Bond Fund	Multi-Family Mortgage Program Fund	Total
Cash and cash equivalents	\$ 3,890	—	—	—	3,890
Certificate of deposit	100	—	—	—	100
Accrued interest receivable:					
Investments	2	393	81	128	604
Mortgage loans	705	1,076	834	368	2,983
Mortgage backed securities	—	218	122	—	340
Current portion of mortgage loans receivable	303	4,279	4,129	5,406	14,117
Current portion of mortgage backed securities	—	1,323	670	—	1,993
Current portion of deferred costs of bond issuance, net	—	132	172	88	392
Current portion of deferred mortgage origination costs, net	—	111	38	—	149
Other receivables and prepaid expenses	107	747	422	46	1,322
Due from other funds	—	380	111	—	491
Total current assets	<u>5,107</u>	<u>8,659</u>	<u>6,579</u>	<u>6,036</u>	<u>26,381</u>
Noncurrent assets:					
Restricted cash and cash equivalents	3,290	98,717	27,989	16,673	146,669
Restricted investments	—	12,016	7,527	5,062	24,605
Mortgage loans receivable, net	10,447	172,526	138,629	101,941	423,543
Mortgage backed securities	—	70,385	32,395	—	102,780
Deferred costs of bond issuance, net	2	2,966	2,532	1,279	6,779
Deferred mortgage origination costs, net	—	62	72	—	134
Prepaid expenses	—	371	578	—	949
Capital assets	810	—	—	—	810
Deferred inflow of resources related to interest rate swaps	—	9,238	5,272	1,520	16,030
Real estate owned	66	2,567	2,002	—	4,635
Total noncurrent assets	<u>14,615</u>	<u>368,848</u>	<u>216,996</u>	<u>126,475</u>	<u>726,934</u>
Total assets	<u>\$ 19,722</u>	<u>377,507</u>	<u>223,575</u>	<u>132,511</u>	<u>753,315</u>
Liabilities and Net Assets					
Liabilities:					
Current liabilities:					
Notes payable	\$ 722	—	—	4,065	4,787
Current portion of bonds payable	—	71,410	3,860	5,884	81,154
Accrued interest payable	40	2,452	1,207	1,278	4,977
Current portion of unamortized bond premium (discount)	—	75	52	—	127
Current deferred income	65	—	—	—	65
Other payables	555	65	98	13	731
Funds held on behalf of mortgagors	1,663	—	—	4,210	5,873
Arbitrage rebate payable	—	775	—	474	1,249
Due to other funds	407	—	—	84	491
Total current liabilities	<u>3,452</u>	<u>74,777</u>	<u>5,217</u>	<u>16,008</u>	<u>99,454</u>
Noncurrent liabilities:					
Notes payable	9,184	—	—	11,134	20,318
Bonds payable	—	264,710	172,270	89,604	526,584
Fair value of derivative instrument – interest rate swaps	—	9,238	5,272	1,520	16,030
Unamortized bond premium (discount), net	—	1,336	1,207	—	2,543
Deferred income	1,717	—	—	—	1,717
Total noncurrent liabilities	<u>10,901</u>	<u>275,284</u>	<u>178,749</u>	<u>102,258</u>	<u>567,192</u>
Total liabilities	<u>14,353</u>	<u>350,061</u>	<u>183,966</u>	<u>118,266</u>	<u>666,646</u>
Net assets:					
Invested in capital assets	810	—	—	—	810
Restricted for bond resolutions	—	27,446	39,609	14,245	81,300
Unrestricted	4,559	—	—	—	4,559
Total net assets	<u>5,369</u>	<u>27,446</u>	<u>39,609</u>	<u>14,245</u>	<u>86,669</u>
Total liabilities and net assets	<u>\$ 19,722</u>	<u>377,507</u>	<u>223,575</u>	<u>132,511</u>	<u>753,315</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, 2012

(dollars in thousands)

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Bond Fund	Multi-Family Mortgage Program Fund	Total
Operating revenues:					
Interest income:					
Investments	\$ 4	1,907	132	206	2,249
Mortgage loans	791	14,601	6,388	6,183	27,963
Mortgage backed securities	17	2,682	905	—	3,604
Fee income	654	—	61	(11)	704
Gain (loss) on bond redemptions	—	51	91	(207)	(65)
Other revenue	81	—	—	—	81
Total operating revenues	<u>1,547</u>	<u>19,241</u>	<u>7,577</u>	<u>6,171</u>	<u>34,536</u>
Operating expenses:					
Financing costs, including interest and amortization of premium discount and costs of issuance, net					
Mortgage service and contract administration fees	677	17,006	6,587	5,462	29,732
Salaries and benefits	—	496	166	—	662
Operating expenses	2,863	—	—	—	2,863
Professional fees	702	20	5	6	733
Trustee and assignee fees	90	47	49	5	191
Provision for losses on loans and real estate owned	179	3	—	—	182
	7	1,484	736	475	2,702
Total operating expenses	<u>4,518</u>	<u>19,056</u>	<u>7,543</u>	<u>5,948</u>	<u>37,065</u>
Operating income (loss)	(2,971)	185	34	223	(2,529)
Nonoperating revenues (expenses):					
Net appreciation in fair value of investments	—	3,356	573	(4)	3,925
Federal programs:					
Program revenue	7,763	—	—	—	7,763
Program expenses	(7,536)	—	—	—	(7,536)
Administration and period costs	(227)	—	—	—	(227)
Total nonoperating revenues (expenses)	<u>—</u>	<u>3,356</u>	<u>573</u>	<u>(4)</u>	<u>3,925</u>
Income (loss) before transfers	(2,971)	3,541	607	219	1,396
Net transfers to (from) operating fund	1,736	(18,496)	17,199	(439)	—
Increase (decrease) in net assets	(1,235)	(14,955)	17,806	(220)	1,396
Net assets at beginning of year	6,604	42,401	21,803	14,465	85,273
Net assets at end of year	<u>\$ 5,369</u>	<u>27,446</u>	<u>39,609</u>	<u>14,245</u>	<u>86,669</u>

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY
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Statement of Cash Flows

Year ended June 30, 2012

(dollars in thousands)

	Operating Fund	Single Family Mortgage Program Fund	Multiple Purpose Program Fund	Multi-Family Mortgage Program Fund	Total
Cash flows from operating activities:					
Mortgage loans interest receipts	\$ 1,238	15,357	6,103	6,184	28,882
Mortgage backed securities interest receipts	17	2,669	848	—	3,534
Mortgage loans principal collections	5,015	43,172	17,032	29,437	94,656
Mortgage backed securities sales	—	6,819	1,444	—	8,263
Mortgage loan originations	(1,722)	—	—	(38,418)	(40,140)
Mortgage backed securities purchases	—	(21,606)	(16,810)	—	(38,416)
Fee income and other receipts	994	—	61	(11)	1,044
Salaries and benefits payments	(2,977)	—	—	—	(2,977)
Operating expense payments	(733)	(905)	(81)	(56)	(1,775)
Service fee and other payments	—	(490)	(174)	—	(664)
Federal program receipts	8,191	—	—	—	8,191
Federal program expenditures	(7,700)	—	—	—	(7,700)
Operating transfers from (to) other funds	—	49,734	(48,542)	(1,192)	—
Net cash provided by (used in) operating activities	2,323	94,750	(40,119)	(4,056)	52,898
Cash flows from investing activities:					
Investment sales	—	9,693	(7,589)	—	2,104
Investment interest receipts	2	2,659	56	786	3,503
Increase (decrease) in funds held on behalf of mortgagors	30	(17)	—	4,210	4,223
Sales of distressed properties	31	3,952	734	—	4,717
Distressed property expenditures	(2)	(396)	(604)	—	(1,002)
Net cash provided by (used in) investing activities	61	15,891	(7,403)	4,996	13,545
Cash flows from noncapital financing activities:					
Bond and note interest payments	(568)	(15,832)	(5,688)	(5,755)	(27,843)
Bond principal payments	(524)	(129,500)	(20,745)	(42,750)	(193,519)
Repayment of notes	(2,379)	—	—	(26,227)	(28,606)
Bond issue proceeds	—	29,871	75,843	23,638	129,352
Increase in notes payable	774	—	—	24,827	25,601
Bond insurance payments	—	(243)	(59)	(11)	(313)
Costs of bond issuance	9	1,289	(1,500)	(221)	(423)
Noncapital financing transfers from (to) other funds	2,600	(18,382)	17,108	(1,326)	—
Net cash provided by (used in) noncapital financing activities	(88)	(132,797)	64,959	(27,825)	(95,751)
Cash flows from capital related financing activities:					
Capital asset purchases	(82)	—	—	—	(82)
Capital asset sales	656	—	—	—	656
Net cash provided by capital related financing activities	574	—	—	—	574
Net increase (decrease) in cash and cash equivalents	2,870	(22,156)	17,437	(26,885)	(28,734)
Cash and cash equivalents at beginning of year	4,310	120,873	10,552	43,558	179,293
Cash and cash equivalents at end of year	\$ 7,180	98,717	27,989	16,673	150,559

VERMONT HOUSING FINANCE AGENCY
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Statement of Cash Flows

Year ended June 30, 2012

(dollars in thousands)

	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)	\$ (2,971)	185	34	223	(2,529)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	112	—	—	—	112
Amortization of costs of bond issuance	44	720	370	217	1,351
Investment interest income	(4)	(2,541)	(132)	(612)	(3,289)
Distressed property expenditures	(18)	1,303	—	—	1,285
Arbitrage rebate	—	634	—	406	1,040
Bond and note interest expense	564	15,380	5,900	5,234	27,078
Loss (gain) on bond redemptions	—	(51)	(91)	207	65
Bond insurance expense	—	243	59	11	313
Loss on sale of capital assets	69	—	—	—	69
Appreciation in fair value of investments	—	3,107	635	—	3,742
Changes in assets and liabilities:					
Decrease (increase) in accrued interest receivable	448	744	(341)	—	851
Decrease (increase) in mortgage loans receivable	3,318	93,087	(30,774)	(9,698)	55,933
Increase in mortgage backed securities	—	(17,894)	(16,002)	—	(33,896)
Decrease (increase) in other receivables and prepaid expenses	(394)	698	254	—	558
Increase in deferred income	1,095	—	—	—	1,095
Increase (decrease) in other payables	60	(865)	(31)	(44)	(880)
Net cash provided by (used in) operating activities	<u>\$ 2,323</u>	<u>94,750</u>	<u>(40,119)</u>	<u>(4,056)</u>	<u>52,898</u>

Supplemental noncash operating/investing activities:

Mortgage loans receivable converted to real estate owned amounted to \$6,604 in 2012

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY

(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2012

(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

VERMONT HOUSING FINANCE AGENCY

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June 30, 2012

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 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 trustee accounts. As of June 30, 2012, reserve requirements totaled \$7.933 million for the Single Family Mortgage Programs, \$5.611 million for the Multiple Purpose Programs and \$5.765 million for the Multi-Family Mortgage Programs. Amounts held in reserve accounts as of June 30, 2012 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.

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(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.
- *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, 2012, the allowance for loan losses for the Agency totaled \$28.4 million, broken out as follows: \$1.0 million related to Single Family mortgage loans, \$2.2 million for Multiple Purpose mortgage loans, \$1.7 million for Multi-Family mortgage loans and \$23.5 million in the General Fund. The allowance in the General Fund is comprised of \$3.9 million for operating fund mortgage loans and \$19.6 million for federally funded mortgage loans made under Section 1602 and the Tax Credit Assistance Program (TCAP).

Included in mortgage loans receivable is approximately \$9.7 million of multi-family 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

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assets, and the net increase (decrease) in the fair value is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets.

(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, five to ten years for building improvements, and three to five years for furniture and fixtures and computer equipment, using the straight-line method.

(h) Derivative Instruments – Interest Rate Swaps

The Agency has entered into interest rate swap agreements with counterparties with the intention 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 underwriting 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 in the same manner.

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.

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(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 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.

(m) *Operating and Nonoperating Revenues and Expenses*

The Agency records all revenues and expenses related to its 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 results, as 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.

(o) *Recent Accounting Pronouncements*

GASB has issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," which will be effective for the Agency beginning with its year ending June 30, 2013 and Statement No. 65, "Items Previously Reported as Assets and Liabilities," which will be effective for the Agency beginning with its year ending June 30, 2014. The Agency will implement these statements as necessary as of their effective date. While the Agency is still in process of determining the effect of implementing these GASB statements, they are not expected to have a material effect on the financial position of the Agency.

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(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; Guaranteed Investment Contracts (GIC's) 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, 2012. 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 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, 2012, were \$7.0 million. Of these, \$6.0 million were exposed to custodial credit risk as uninsured and uncollateralized.

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(b) Cash and Investments

The Agency's cash and investments at June 30, 2012 are presented below (dollars in thousands).

Investment type	Fair value	Investment maturities (in years)			
		Less than 1	1 – 5	6 – 10	More than 10
Cash	\$ 7,957	7,957	—	—	—
Money market accounts	40,584	40,584	—	—	—
Certificate of deposit	100	100	—	—	—
Guaranteed investment contracts (GICs)	51,993	36,018	—	—	15,975
US Bank Global (NIBP escrow bond)	66,000	66,000	—	—	—
U.S. Treasury securities	7,123	—	7,123	—	—
Government agency securities	1,507	—	603	—	904
Mortgage backed securities	104,773	1,993	—	378	102,402
Total cash and investments	\$ 280,037	152,652	7,726	378	119,281

The following table provides information on the credit ratings associated with the Agency's cash and investments at June 30, 2012 (in thousands):

Investment type	Fair value	AAA	AA	A	NR
Cash	\$ 7,957	—	—	—	7,957
Money market accounts	40,584	—	—	—	40,584
Certificate of deposit	100	—	—	—	100
Guaranteed investment contracts (GICs)	51,993	—	8,934	43,059	—
US Bank Global (NIBP escrow bond)	66,000	66,000	—	—	—
U.S. Treasury securities	7,123	7,123	—	—	—
Government agency securities	1,507	1,507	—	—	—
Mortgage backed securities	104,773	104,773	—	—	—
Total cash and investments	\$ 280,037	179,403	8,934	43,059	48,641

(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. Approximately 19% of the Agency's cash and investments are invested in GICs. AIG, Deutsche Bank, Transamerica, Bayerische LB, Natixis, PNC, Credit Agricole, and Assured Guaranty are 34%, 29%, 15%, 8%, 4%, 4%, 4% and 2% respectively, of the Agency's total 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.

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(4) Mortgage Loans Receivable

(a) *Single Family Mortgage Loans Receivable*

Single Family mortgage loans earn interest at annual rates ranging from 4.75% to 9.7%. 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, 2012, approximately 53% of the Single Family mortgage portfolios consist of primary insured mortgages.

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

(b) *Multi-Family Mortgage Loans Receivable*

Multi-Family mortgage loans receivable earn interest at annual rates ranging predominantly from 2.51% to 8.75%, and are collateralized by first mortgage liens on all real and personal property of the mortgaged premises.

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(5) Capital Assets

Capital asset activity for the year ended June 30, 2012 is as follows (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Capital assets not being depreciated:				
Land	\$ 775	—	(725)	50
Capital assets being depreciated:				
Building	1,001	—	—	1,001
Building improvements	688	58	—	746
Computer equipment	1,003	24	—	1,027
Furniture and fixtures	200	—	—	200
Total capital assets being depreciated	<u>2,892</u>	<u>82</u>	<u>—</u>	<u>2,974</u>
Less accumulated depreciation for:				
Building	(413)	(25)	—	(438)
Building improvements	(656)	(11)	—	(667)
Computer equipment	(838)	(73)	—	(911)
Furniture and fixtures	(195)	(3)	—	(198)
Total accumulated depreciation	<u>(2,102)</u>	<u>(112)</u>	<u>—</u>	<u>(2,214)</u>
Total capital assets being depreciated, net	<u>790</u>	<u>(30)</u>	<u>—</u>	<u>760</u>
Capital assets, net	<u>\$ 1,565</u>	<u>(30)</u>	<u>(725)</u>	<u>810</u>

Depreciation expense of \$112,000 was charged to the operating fund.

(6) Real Estate Owned

Real estate owned (REO) at June 30, 2012 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, 2012, the valuation allowance totaled \$901 thousand. At June 20, 2012 total REO Properties held by the Agency totaled \$5.5 million.

(7) Funds Held on Behalf of Mortgagors

Funds held on behalf of mortgagors are received primarily from Multi-Family housing developers at the time the Agency makes permanent mortgage loans. Funds held are governed by agreements, and released upon satisfactory compliance with their terms.

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(8) Bonds Payable

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

Outstanding bonds payable at June 30, 2012 are as follows (dollars in thousands):

A. Single Family Mortgage Program Fund:

Housing Program:

Series 17, maturing 2012 to 2033, interest at 3.182% to 5.100%	\$ 3,175
Series 19, maturing 2012 to 2035, interest at 3.492% to 5.000%	12,440
Series 20, maturing 2012 to 2035, interest at 4.166% to 5.500%	12,405
Series 21, maturing 2012 to 2035, interest at 3.300% to 5.000%	21,160
Series 22, maturing 2012 to 2035, interest at 3.731% to 4.700%	21,080
Series 23, maturing 2012 to 2035, interest at 3.569% to 5.000%	32,150
Series 24, maturing 2012 to 2036, interest at 3.973% to 5.000%	20,210
Series 25, maturing 2012 to 2037, interest at 4.251% to 6.000%	26,900
Series 26, maturing 2012 to 2038, interest at 3.875% to 5.750%	32,765
Series 27, maturing 2012 to 2038, interest at 4.150% to 5.500%	28,400
Total Housing Program	<u>210,685</u>

Mortgage Revenue Bonds (Mortgage Backed Securities Program):

Series 2009A Escrow (NIBP), coming due 2012, floating rate	66,000
Series 2009A Sub-1, maturing 2028 to 2041, interest at 3.100%	17,830
Series 2010A, maturing 2012 to 2028, interest 0.850% to 4.500%	11,605
Series 2009A Sub-2, maturing 2028 to 2041, interest at 2.320%	18,000
Series 2011A, maturing 2013 to 2028, interest at 0.650% to 4.500%	12,000
Total Mortgage Revenue Bond Program	<u>125,435</u>
Total Single Family Mortgage Program Fund	<u>336,120</u>

B. Multiple Purpose Bond Program Fund:

Multiple Purpose Bonds:

2007 Series A and B, maturing 2012 to 2038, interest at 4.100% to 5.750%	35,285
2007 Series C, maturing 2012 to 2038, interest at 3.990% to 5.750%	41,545
2008 Series C, maturing 2012 to 2040, interest at 3.000% to 5.350%	24,010
2012 Series A, B and C, maturing 2012 to 2042, interest at 0.650% to 4.125%	75,290
Total Multiple Purpose Bonds	<u>176,130</u>

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C. Multi-Family Mortgage Program Fund:

Mortgage Program:

1999 Series B, maturing 2013 to 2030, interest at 5.750% to 6.000%	2,975
1999 Series C and D, maturing 2013 to 2021, interest at 5.500% to 5.800%	1,805
2000 Series A, maturing 2013 to 2039, interest at 5.900%	4,710
2000 Series B, C, and D, maturing 2012 to 2031, interest at 5.650% to 6.700%	1,360
2001 Series A, B, C, and D, maturing 2012 to 2032, interest at 5.400% to 7.270%	4,130
2002 Series A and B, maturing 2012 to 2039, interest at 4.850% to 7.200%	10,250
2003 Series A, B maturing 2012 to 2043, interest at 5.050% to 5.250%	3,905
2003 Series C, maturing 2013 to 2034, interest at 4.250% to 5.100%	9,515
2004 Series A, B, and C, maturing 2012 to 2046, interest at 4.000% to 6.300%	12,825
2005 Series A, B, C, and D, maturing 2012 to 2035, interest at 4.400% to 5.750%	3,960
Total Mortgage Program	<u>55,435</u>

Direct Placement Program:

Kilbourn Mobile Home Park Bond:

Taxable bond, maturing 2013 to 2017, interest at 7.500%	162
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T.D. Banknorth Borrowing – Courtyard:

Maturing 2012, interest at 1.47%	3,512
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Multi-Family variable rate demand bonds, Series 1 maturing 2013 to 2038, interest at 4.108% to 5.490%	3,895
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Multi-Family variable rate demand bonds, Series 2 maturing 2013 to 2038, interest at 3.756% to 4.610%	2,430
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Total Direct Placement Programs	<u>9,999</u>
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HFA Initiative Multifamily Bonds:

2009 Series B, maturing 2012 to 2041, interest at 3.610%	6,590
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2009 Series C, maturing 2022 to 2051, interest at 2.320%	16,230
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2011 Series A, maturing 2012 to 2022, interest at 0.450% to 3.200%	4,250
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2012 Series A, maturing 2012 to 2043, interest at 5.250%	2,984
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Total HFA Initiative Bonds	<u>30,054</u>
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Total Multi-Family Mortgage Program Fund	<u>95,488</u>
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Total bonds payable	<u><u>\$ 607,738</u></u>
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All calendar year 2012 maturities on bonds payable occur after June 30, 2012.

NIBP Escrow Bonds are subject to mandatory redemption on December 31, 2012.

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Future maturities on bonds payable as of June 30, 2012 are as follows (in thousands):

Year ending June 30:	Single Family		Multiple Purpose		Multi-Family		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 71,410	11,024	3,860	7,199	5,884	4,166	81,154	22,389
2014	6,040	10,728	4,725	7,090	2,131	4,041	12,896	21,859
2015	6,740	10,492	4,610	6,974	2,154	3,946	13,504	21,412
2016	7,500	10,222	4,745	6,848	2,117	3,849	14,362	20,919
2017	8,100	9,918	5,115	6,704	2,383	3,745	15,598	20,367
2018-2022	46,205	44,153	29,625	30,444	13,215	16,885	89,045	91,482
2023-2027	51,235	33,694	35,310	23,796	15,651	13,428	102,196	70,918
2028-2032	59,695	22,149	38,730	15,542	18,990	9,235	117,415	46,926
2033-2037	62,190	8,704	33,280	7,284	17,945	4,667	113,415	20,655
2038-2042	17,005	807	15,730	1,002	9,723	1,501	42,458	3,310
2043-2047	—	—	400	6	3,317	445	3,717	451
2048-2052	—	—	—	—	1,978	97	1,978	97
Total	\$ 336,120	161,891	176,130	112,889	95,488	66,005	607,738	340,785

A summary of bonds payable, discount on bonds, and premium on bonds and arbitrage rebate payable activity for the year ended June 30, 2012 is as follows (in thousands):

	Beginning balance	Increases	Decreases	Ending balance	Due within one year	Due thereafter
Bonds payable	\$ 672,425	128,832	(193,519)	607,738	81,154	526,584
Discount on bonds	(18)	(190)	2	(206)	(6)	(200)
Premium on bonds	2,388	1,358	(870)	2,876	133	2,743
Arbitrage rebate payable	209	1,040	—	1,249	1,249	—

The Agency has entered into interest rate swap agreements with counterparties in connection with the Variable Rate Demand Bonds (VRDB). 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.

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Using rates as of June 30, 2012, debt service requirements of the variable rate bonds and net swap payments, assuming current interest rates remain constant, are as follows (in thousands):

Year ending June 30:	Variable rate		Interest rate swaps, net	Total
	Principal	Interest		
2013	975,000	458,565	4,594,427	6,027,992
2014	1,015,000	455,934	4,559,418	6,030,352
2015	1,915,000	452,649	4,518,658	6,886,308
2016	2,820,000	446,429	4,447,785	7,714,214
2017	3,710,000	437,626	4,343,674	8,491,299
2018-2022	23,355,000	1,956,066	19,386,489	44,697,554
2023-2027	26,675,000	1,440,368	14,175,533	42,290,901
2028-2032	30,095,000	951,674	9,397,560	40,444,234
2033-2037	30,085,000	367,368	3,804,813	34,257,181
2038-2041	7,400,000	20,407	358,047	7,778,454
Total	<u>128,045,000</u>	<u>6,987,085</u>	<u>69,586,405</u>	<u>204,618,490</u>

A summary of the swap agreement is as follows (dollars in thousands):

Issue	Counter-Party	Ratings (Moody's/S &P)	Effective date	Notional amount	Termination date	Termination option date	Fixed swap payment rate	Variable receivable rate	Fair value at 6/30/2012
Series 17	Bank of New York (BONY)	A2/A	4/23/2003	\$ 3,175	5/1/2019	—	3.182%	70% of LIBOR	\$ (240)
Series 19	BONY	A2/A	4/8/2004	5,350	11/1/2027	—	3.492%	70% of LIBOR	(804)
Series 20	BONY	A2/A	8/12/2004	5,600	5/1/2028	11/1/2014	4.166%	70% of LIBOR	(530)
Series 21	BONY	A2/A	11/30/2004	7,900	5/1/2029	—	3.682%	SIFMA + 0.10%	(1,136)
Series 22	BONY	A2/A	6/8/2005	13,800	11/1/2034	5/1/2015	3.731%	65% of LIBOR +28%	(933)
Series 23	BONY	A2/A	10/26/2005	14,500	11/1/2034	11/1/2014	3.569%	65% of LIBOR+ .28%	(1,166)
Series 24	BONY	A2/A	4/19/2006	10,440	11/1/2035	5/1/2015	3.973%	65% of LIBOR+ .28%	(988)
Series 25	BONY	A2/A	7/12/2006	12,945	11/1/2036	11/1/2015	4.251%	65% of LIBOR +28%	(1,690)
Series 26	BONY	A2/A	10/26/2006	13,450	5/1/2037	5/1/2016	3.897%	65% of LIBOR +28%	(1,751)
MP2007 A	BONY	A2/A	7/24/2007	12,800	5/1/2037	5/1/2017	4.197%	65% of LIBOR +28%	(2,013)
MP2007 C	BONY	A2/A	9/12/2007	16,500	11/1/2037	5/1/2017	3.990%	65% of LIBOR +28%	(2,424)
MP2008 C	Wells Fargo	Aa3/AA-	9/24/2008	9,335	5/1/2040	—	3.167%	SIFMA + 0.05%	(835)
MF Series 1-A	Key Bank	A3/A-	1/25/2007	610	1/1/2022	—	4.240%	SIFMA + 0.15%	(134)
MF Series 1-B	Key Bank	A3/A-	1/25/2007	1,670	1/1/2022	—	4.180%	SIFMA + 0.10%	(364)
MF Series 1-C	Key Bank	A3/A-	1/25/2007	1,615	1/1/2022	—	5.490%	LIBOR + 0.05%	(507)
MF Series 2-A	Key Bank	A3/A-	1/24/2008	1,220	1/5/2023	—	3.800%	SIFMA + 0.15%	(226)
MF Series 2-B	Key Bank	A3/A-	1/24/2008	255	1/5/2023	—	3.756%	SIFMA + 0.10%	(48)
MF Series 2-C	Key Bank	A3/A-	1/24/2008	955	1/5/2023	—	4.610%	LIBOR + 0.05%	(241)
Total				<u>\$ 132,120</u>					<u>\$ (16,030)</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

VERMONT HOUSING FINANCE AGENCY

(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 2012

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.

(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, 2012, the Agency had outstanding borrowings totaling \$5.1 million which are secured by mortgage loans with a carrying value of \$5.7 million. 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 \$59.4 million with lending institutions expiring in 2012 and 2013. At June 30, 2012, there was a \$17.5 million balance outstanding at interest rates of 1.0% 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 2012. The note is uncollateralized.

The Agency has a \$2.0 million note payable to the MacArthur Foundation at a rate of 2.0%, maturing through October 2019. The proceeds of this note are used to provide low cost pre-development, energy, and equity bridge loans to Multi-Family housing projects.

The Agency has a line of credit with a bank for \$20,000,000 for the purpose of acquiring mortgage backed securities prior to the issuance of single family bonds. The line of credit bears interest at a floating rate based on overnight LIBOR and is secured primarily by certain mortgage backed securities. There was no balance outstanding nor pledged securities at June 30, 2012.

Future notes payable maturities as of June 30, 2012 are as follows (in thousands):

	<u>Operating</u>		<u>Multi-Family</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Year ending June 30:						
2013	\$ 722	474	4,065	293	4,787	767
2014	2,565	432	11,134	112	13,699	544
2015	335	361	—	—	335	361
2016	690	340	—	—	690	340
2017	1,803	199	—	—	1,803	199
2018 – 2020	3,791	210	—	—	3,791	210
Total	<u>\$ 9,906</u>	<u>2,016</u>	<u>15,199</u>	<u>405</u>	<u>25,105</u>	<u>2,421</u>

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A summary notes payable activity for the year ended June 30, 2012 is as follows (in thousands):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>	<u>Current</u>	<u>Non-current</u>
Line of credit borrowings	\$ 20,290	25,601	(28,369)	17,522	4,065	13,457
Notes payable	7,820	—	(237)	7,583	722	6,861
Total	<u>\$ 28,110</u>	<u>25,601</u>	<u>(28,606)</u>	<u>25,105</u>	<u>4,787</u>	<u>20,318</u>

(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 defined contribution retirement plan. The Agency's contribution to the Plan is 10% of the covered payroll. Employees are 30% vested in benefits under the plan upon participation, and vest in the remaining 70% on a pro-rata basis over five years of service. Forfeitures on non-vested benefits by terminated employees reduce the Agency's contribution. The cost of the plan was \$224,000 for the year ended June 30, 2012, and is included in salaries and benefits expense.

(12) Gain on Bond Redemptions

During the year ended June 30, 2012, the Agency redeemed \$104.2 million of its Single-Family Housing Program Bonds, \$18 million of its Multiple Purpose Bonds, and \$17.2 million of its Multi-Family Mortgage Bonds. Loss on bond redemptions was \$64,000 and represents the unamortized balance of bond premium and discount and cost of issuance costs that were expensed when the bonds were retired.

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(13) Federal Programs

In fiscal year 2012, 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, 2012, the Agency had distributed the full \$5.4 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, 2012, VHFA had exchanged approximately \$1.7 million of credits for \$14.2 million in awarded funds the full amount of which has been disbursed.

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 prior to the end of the program. 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, 2012, VHFA had purchased 44 homes with a total acquisition price of \$4.8 million and sold 39 of those homes at aggregate sale prices of \$6.0 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 III). The NSP-HARP III 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 life of the program (3 years). The NSP program requires all States receiving these funds to fully

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obligate those funds by no later than March 3, 2014. As of June 30, 2012, 14 homes were acquired with total acquisition prices of \$1.3 million, two of which were completed and sold at prices totaling \$292,000.

During fiscal year 2012, 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 \$2.9 million in HAP payments under this program during the year ended June 30, 2012.

(14) Commitments and Contingencies

At June 30, 2012, the Agency had outstanding commitments in the amount of \$22,149,000 to purchase mortgage loans or mortgage backed securities pursuant to its normal funding from bond proceeds. In addition, there were commitments of \$6,947,000 for general loans or future program subsidy purposes.

Under the Single Family Mortgage Programs, the Agency has obtained surety bonds in the amount of \$13.8 million 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

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

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notes. Management evaluated the activity of VHFA through September 28, 2012 (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.

September 28, 2012

To the Commissioners
Vermont Housing Finance Agency

We have audited the financial statements 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, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 28, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Agency are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the Agency during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Agency's financial statements was:

Management's estimate of the loan loss reserve is based on the greater of current fiscal year loss, or the average three year loss, for the single family loans. For the multi-family and construction loans, the loan loss reserve estimate is based on the policy implemented in 2005 and the feasibility of the underlying projects. We evaluated the key factors and assumptions used to develop the loan loss reserves in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statement was:

The disclosure of Bonds Payable in Note 8 to the financial statements since it details the various series of bonds issued and the applicable terms and balances.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 28, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Agency's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

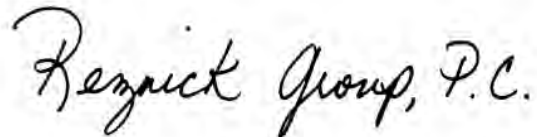
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Commissioners and management of the Agency and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Reznick Group, P.C.
Baltimore, Maryland

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Commissioners
Vermont Housing Finance Agency

We have audited the financial statements 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, 2012, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated September 28, 2012. 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.

Internal Control Over Financial Reporting

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the Agency in a separate letter dated September 28, 2012.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Reznick Group, P.C.

Baltimore, Maryland
September 28, 2012

September 28, 2012

To the Commissioners
Vermont Housing Finance Agency

In planning and performing our audit of the financial statements 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, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In the course of our audit, we also noted the following matters involving the Agency's internal control structure that we do not consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants.

Third Party Servicer - Internal Control Compliance Monitoring

The Agency uses third party Mortgage Loan Servicers to service single family loans. To help ensure that the Loan Servicers have adequate internal controls over the processing of the Agency's loans the Agency uses Mortgage Servicing agreements. Within these agreements the Agency requires the Loan Servicers to obtain an Independent Accountants' Report on compliance with the minimum servicing standards identified by the Mortgage Bankers Association. Six of the Mortgage Loan Servicers have not

provided proof of compliance requirements. We recommend that the Agency work with each Loan Servicer to ensure they are meeting the compliance reporting requirements.

Listed below is the status of prior year management letter comments:

<u>Prior Year Comment</u>	<u>Status</u>
Participation Loans	Resolved
Network and Application Access Controls	Resolved
IT Risk Assessment	Resolved
IT Policies and Procedures	Resolved

This communication is intended solely for the information and use of management, the Commissioners, and others within the Agency, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Reznick Group, P.C.
Baltimore, Maryland

APPENDIX II

**CERTAIN INFORMATION REGARDING THE DEVELOPMENTS AND OUTSTANDING MORTGAGE
LOANS PREVIOUSLY FINANCED***

Property Name¹	Units²	Total Income 2012³	HAP Payments 2012	HAP Expiration Date⁴	Total Annual Expenses 2012⁵	Original Mtg Loan⁶	Remaining Balance 10/31/2012⁷	Loan Interest Rate	Maturity Date⁸
1306/EAST SPRING ⁹	42 F	369,492			304,181	85,000	64,410	7.22	3/10/2018
700 RIVERSIDE	8 F	79,346			70,307	360,000	138,874	7.3	12/10/2017
BAILEY BALDWIN BARRE ⁹	15 F	119,877			110,982	85,000	38,195	7.22	8/10/2018
BARRE STREET	24 F	157,280			132,743	193,000	76,413	7.22	7/10/2016
BEN-SOUTH ^{9 10}	21 F	168,718			157,214	350,000	297,125	6.87	6/10/2032
BLACK RIVER OVERLOOK ⁹	25 F	202,180			194,624	311,000	296,559	7.25	10/10/2035
BRHIP ⁹	33 F	346,989			247,218	487,176	359,180	7.22	8/10/2013
BRIARS APTS ⁹	24 F	229,365			206,118	681,000	535,415	7	7/10/2029
BROOKSIDE MHP	48 F	166,522			164,985	817,000	678,259	7.3	2/10/2031
COLONIAL APTS ⁹	14 E	143,240	101,928	12/14/2015	131,027	165,000	66,151	6.2	5/10/2034
						210,000	185,566	6.7	5/10/2034
CONVERSE HOME	66 E	4,199,000			3,909,373	8,477,364	7,704,411	6.53	1/10/2036
DEPOT SQUARE APTS	47 F	326,847			326,847	1,400,000	911,383	7.3	3/10/2019
DEPOT STREET	7 F	62,435			56,118	162,000	34,150	7.22	2/10/2023
DUGGAN ROW HOUSE APTS	16 F	196,854	133,526	10/15/2012	177,159	970,000	909,391	6.5	12/10/2033
EAGLE CREST APTS ^{9 10}	60 E	685,329			563,383	3,200,000	2,593,971	7.1	5/10/2030
FALCON MANOR ^{9 10}	61 E	799,468			629,386	4,126,000	3,852,253	6.87	1/10/2033
FRENCH HILL MANOR	9 F	34,261			31,402	111,000	66,181	7.25	3/10/2021
GARDENS I & II ⁹	30 E	1,125,815			972,316	1,950,000	1,804,680	7.35	2/10/2039
						1,738,045	1,658,836	6.7	8/10/2045
HARRINGTON APTS	5 F	55,087	38,597	10/28/2012	39,851	270,000	240,135	6.31	2/10/2035

Property Name ¹	Units ²	Total Income 2012 ³	HAP Payments 2012	HAP Expiration Date ⁴	Total Annual Expenses 2012 ⁵	Original Mtg Loan ⁶	Remaining Balance 10/31/2012 ⁷	Loan Interest Rate	Maturity Date ⁸
HAWK'S NEST ⁹	66 E	723,714			580,822	3,275,000	3,125,209	6.5	11/10/2035
HEINEBERG SENIOR HSG	82 E	866,508			817,200	2,050,000	1,829,750	6.41	3/10/2035
HILLSIDE MANOR MHP	29 F	80,179			70,608	285,000	174,845	6.9	9/10/2021
JEFFERSONVILLE BOND ^{9 10}	22 E	161,561			148,715	127,000	106,917	6.95	1/10/2032
LAKE CHAMPLAIN APTS ¹⁰	27 F	297,637	208,682	10/28/2012	231,177	643,158	534,367	7.25	3/10/2031
LIME KILN ALLOCATED ^{9 10}	24 F	261,567			211,612	635,063	560,984	8.5	7/10/2032
LIME KILN BOND ^{9 10}	24 F	263,966			208,535	712,000	607,984	6.95	7/10/2032
LINDALE MHP	67 F	224,557			197,985	1,085,000	960,017	6.31	11/10/2034
MAD RIVER MEADOWS ⁹	12/12 E/F	274,924	186,000	2/10/2032	236,168	755,000	670,803	6.7	9/10/2034
MANCHESTER COMMONS ⁹	15 F	130,548			122,450	154,250	139,428	7.75	8/10/2034
MAPLE TREE PLACE ^{9 10}	50 F	560,931			458,267	1,431,000	1,224,009	6.95	9/10/2032
MAPLES PHASE II ⁹	32 E	363,168			314,991	1,775,000	1,656,646	6.64	4/10/2043
MCAULEY SQUARE ALLOC ^{9 10}	7 F	80,820			75,981	110,000	95,692	8.5	11/10/2031
MCAULEY SQUARE BOND ⁹	54/12 E/F	767,172			724,980	2,850,000	2,658,629	7.375	1/10/2032
MELLISHWOOD I & II	26 E	256,006	148,500	11/3/2017	238,136	245,861	88,081	7.9	2/1/2018
				6/2/2020		471,119	234,667	8.5	7/10/2020
MOUNTAIN VIEW/SPRING	72 F	545,199			492,241	848,643	122,622	7	1/1/2014
NORTHWOODS 1 (BOND) ⁹	18 F	205,901			197,096	550,000	515,579	6.64	3/10/2043
O'DELL ALLOCATED ^{9 10}	80 F	913,909			735,344	2,250,000	2,151,546	8.5	3/10/2043
						307,000	20,082	8.5	3/10/2013
ODELL BOND ^{9 10}	80 F	896,702			726,019	2,365,000	2,218,869	6.87	6/10/2043
						300,000	27,005	6.87	6/10/2013
PETERSON PLACE ⁹	13 F	153,744	102,606	12/25/2015	138,794	500,000	468,787	6.5	12/10/2033

Property Name ¹	Units ²	Total Income 2012 ³	HAP Payments 2012	HAP Expiration Date ⁴	Total Annual Expenses 2012 ⁵	Original Mtg Loan ⁶	Remaining Balance 10/31/2012 ⁷	Loan Interest Rate	Maturity Date ⁸
RICHMOND TERRACE	15 E	233,406	157,960	2/18/2026	221,850	675,000	556,126	6.53	5/10/2029
ROUND BARN ⁹	24 E	223,536	130,523	3/31/2023	201,621	498,000	445,972	6.41	5/10/2035
SMITH HOUSING ^{9 10}	17 F	147,593			134,217	259,380	222,752	6.87	12/10/2032
SO ST PAUL ST TOWNHOUSES	65 E	1,271,322	125,177	6/23/2015	573,509	438,500	388,600	7.8	6/10/2033
VICTORIA PLACE APTS ^{9 10}	34 F	432,050			375,695	1,300,000	1,245,260	8.5	7/10/2043
WALDEN MOUNTAIN	18 E	210,630	142,476	11/16/2030	168,476	612,948	216,892	7.3	10/10/2030
WESTGATE ALLOCATED ^{9 10}	74 F	643,638	229,740	5/31/2031	595,935	255,000	219,008	8.25	7/10/2031
WESTGATE BOND ^{9 10}	24 F	223,812			205,208	70,000	58,188	6.95	7/10/2031
WESTMINSTER FAMILY	9 F	137,132	115,464	1/1/2013	131,671	115,000	6,854	6.2	3/10/2013
						275,000	241,845	6.7	3/10/2034
WHITCOMB WOODS ⁹	64 E	706,723	425,952	9/26/2029	627,875	1,698,000	1,458,762	6.64	3/10/2033
WINCHESTER PLACE	166 F	1,807,079			1,636,145	485,000	419,732	6.125	1/10/2034
						5,973,000	5,139,310	6.125	10/10/2033

TOTALS

23,533,739 2,247,131

20,224,557 62,528,507 53,323,358

¹ All except 16 of the Developments indicated are owned by limited partnerships organized for limited profit.

² E = Elderly Units; F= Family Units

³ Includes Housing Assistance Payments Contract ("HAPC") Payments and is based on the 2012 budgeted income figures. As of the date of this Private Placement Memorandum, the occupancy rates on all Developments average 99%.

⁴ Assumes all permitted renewals. Renewals of the HAPCs are subject to certain conditions.

⁵ Includes 2012 budgeted Mortgage Loan debt service, administrative expenses, management fee, utilities, ordinary maintenance, real estate taxes, and reserve for replacements. All of the Mortgage Loans provide for principal and interest on a level debt service basis.

⁶ Some of the Developments are secured by additional financing that is subordinate to the related Mortgage Loan.

⁷ All of the Mortgage Loans related to the Developments are current in payment and there are no delinquencies or foreclosures.

⁸ The majority of the Mortgage Loans related to the Developments have original terms to maturity of 30 years.

⁹ Development involving low income housing tax credits

¹⁰ Projects refinanced with 10 year lockout

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APPENDIX III

PROJECTS FINANCED BY THE 2012 SERIES ABC BONDS

PINE MEADOW

General

Pine Meadow is a 30-unit residential housing project consisting of 11 buildings located in Middlebury, Vermont. Although some of the units in the project have Section 8 vouchers, there are no project-based vouchers.

Income and Expenses

Net annual income, after vacancies, is projected to be \$213,721. Annual expenses are projected to be \$180,205. Net income in the first year, before debt service, is projected to be \$33,516.

Mortgage Loan

The project will be financed with a taxable fixed rate Mortgage Loan provided by the 2012 Series C Bonds in the amount of \$377,405. The Mortgage Loan was originally made in 2008 when the project was acquired and has been in the Agency's General Fund since then. The project will have a 304-month remaining term at the time of the bond issue, maturing in April 2038, with a prepayment lockout until April 2023.

Owner and Manager

The project is owned by Otter Creek Housing Limited Partnership and managed by Maloney Properties.

LAMOILLE VIEW APARTMENTS

General

Lamoille View Apartments is a 25-unit senior housing project consisting of two buildings located in Morristown, Vermont. All units have Section 8 housing subsidies with a HAPC expiring February 12, 2015. The project was originally financed in 1979 under the Section 8 New Construction/Substantial Rehabilitation program and will be subject to a Preservation Agreement that requires continued renewal of all future HAPC extensions available.

Income and Expenses

Net annual income, after vacancies, is projected to be \$241,992. Annual expenses are projected to be \$175,774. Net income in the first year, before debt service, is projected to be \$66,218.

Mortgage Loan

The project will be financed with a tax-exempt 30-year Mortgage Loan provided by the 2012 Series B Bonds in the amount of \$750,000. The Agency will also be providing a construction loan of \$1,045,000.

Owner and Manager

The project will be acquired by Lamoille Housing Limited Partnership whose general partners are affiliates of Housing Vermont and Lamoille Housing Partnership and will be managed by Alliance Property Management.

MAPLE STREET SENIOR APARTMENTS

General

Maple Street Senior Apartments is a 16-unit senior housing project consisting of one building located in Hardwick, Vermont. All units have Section 8 housing subsidies. The project was originally financed in 1980 under the Section 8 New Construction/Substantial Rehabilitation program. The current HAPC expires on February 2015. The project is committed to renew all future HAPC renewals available under a perpetual Preservation Agreement with the Agency.

Income and Expenses

Net annual income, after vacancies, is projected to be \$159,748. Annual expenses are projected to be \$118,932. Net income in the first year, before debt service, is projected to be \$40,816.

Mortgage Loan

The project will be financed with a tax-exempt 30-year Mortgage Loan provided by the 2012 Series B Bonds in the amount of \$475,000.

Owner and Manager

The project will be acquired by Maple Street Housing, LP, whose general partners are affiliates of Housing Vermont and Lamoille Housing Partnership and will be managed by Alliance Property Management.

SOUTH SQUARE APARTMENTS

General

South Square Apartments is a 65-unit senior housing project consisting of two buildings located in Burlington, Vermont. Sixty-four (64) units have Section 8 housing subsidies. The project was originally financed in 1976 under the Section 8 New Construction/Substantial Rehabilitation program. The current HAPC expires on June 2015. The project is committed to obtain all available HAPC renewals at least through November 2027 pursuant to a Preservation Agreement with the Agency.

Income and Expenses

Net annual income, after vacancies, is projected to be \$635,985. Annual expenses are projected to be \$402,356. Net income in the first year, before debt service, is projected to be \$238,629.

Mortgage Loan

The project will be financed with a tax-exempt 20-year Mortgage Loan provided by the 2012 Series B Bonds in the amount of \$2,500,000.

Owner and Manager

The project will be acquired and managed by the Burlington Housing Authority.

PROCTOR PLACE APARTMENTS

General

Proctor Place Apartments is a 12-unit senior housing project consisting of one building located in Proctor, Vermont. All rental units have Section 8 housing subsidies. The current HAPC expires in October 2032. The project is committed to obtain all available HAPC renewals pursuant to a perpetual Preservation Agreement with the Agency. The project was originally financed in 1982 under the Section 8 New Construction/Substantial Rehabilitation program. The mixed-use building also has three ground-floor commercial spaces.

Income and Expenses

Net annual income, after vacancies, is projected to be \$132,862. Annual expenses are projected to be \$94,721. Net income in the first year, before debt service, is projected to be \$38,141.

Mortgage Loan

The project will be financed with a taxable 30-year Mortgage Loan provided by the 2012 Series C Bonds in the amount of \$400,000.

Owner and Manager

The project will be refinanced by SCI Group, Ltd., the current owner. Earle Simpson Jr. is the current partnership's general partner. Mr. Simpson's company, Simpson Property Management, will continue to manage the project.

BENSON HEIGHTS APARTMENTS

General

Benson Heights is a 15-unit senior housing project consisting of one building located in Benson, Vermont. All units have Section 8 housing subsidies. The current HAPC expires on July 2032. The project is committed to obtain all available HAPC renewals pursuant to a perpetual Preservation Agreement with the Agency.

Income and Expenses

Net annual income, after vacancies, is projected to be \$170,686. Annual expenses are projected to be \$119,036. Net income in the first year, before debt service, is projected to be \$51,650.

Mortgage Loan

The project will be financed with a tax-exempt 30-year Mortgage Loan provided by the 2012 Series B Bonds in the amount of \$650,000.

Owner and Manager

The project will be acquired by Benson Heights Limited Partnership, whose general partner is an affiliate of Housing Trust of Rutland County (“HTRC”). HTRC is management agent.

GOVERNOR’S MANSION APARTMENTS

General

Governor’s Mansion Apartments is a 15-unit senior housing project consisting of one building located in Newport, Vermont. This is an existing HUD Section 202 senior housing project with Section 8 assistance on all units. The current HAPC expires on September 2032. The project is committed to obtain all available HAPC renewals pursuant to a perpetual Preservation Agreement with the Agency.

Income and Expenses

Net annual income, after vacancies, is projected to be \$196,884. Annual expenses are projected to be \$140,334. Net income in the first year, before debt service, is projected to be \$56,550.

Mortgage Loan

The project will be financed with a tax-exempt 40-year Mortgage Loan provided by the 2012 Series B Bonds with an outstanding principal amount of \$789,887.

Owner and Manager

Memphremagog Senior Citizen Housing, Inc., a non-profit corporation, is the current owner of the project, and the project is managed by Gilman Housing Trust.

THE COURTYARD APARTMENTS

General

The Courtyard Apartments is a 101-unit senior housing project consisting of five connected buildings located in Winooski, Vermont. One hundred (100) units have Section 8 housing subsidies. The current HAPC expires on August 2016. The project is committed to obtain all available HAPC renewals pursuant to a perpetual Preservation Agreement with the Agency. The project was originally financed in 1980 under the Section 8 New Construction/Substantial Rehabilitation program.

Income and Expenses

Net annual income, after vacancies, is projected to be \$1,118,525. Annual expenses are projected to be \$713,164. Net income in the first year, before debt service, is projected to be \$405,061.

Mortgage Loan

The project will be financed with a tax-exempt 30-year Mortgage Loan provided by the 2012 Series B Bonds in the amount of \$3,980,000.

Owner and Manager

Chittenden Housing Corporation, a nonprofit corporation, is the owner, and Winooski Housing Authority is the management agent of the project.

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APPENDIX IV

SUMMARY OF SECTION 8 PROGRAM

Introduction

The United States Department of Housing and Urban Development (“HUD”), created by the Housing and Urban Development Act of 1965, is responsible for the administration of various federal programs authorized under the United States Housing Act of 1937, as amended (the “Housing Act”).

The following summary of the Section 8 Housing Assistance Payments Program (the “Section 8 program”) is not comprehensive or definitive and is qualified in its entirety by reference to the statutes, regulations and agreements referred to herein.

Section 8 Housing Assistance Payments Program

Section 8 of the Housing Act, as amended by the Housing and Community Development Act of 1974, established a federal housing assistance program of federal assistance for multifamily housing developments of the type that the Agency finances under its Program (each, a “Section 8 Development”). The Section 8 program involves the distribution of housing assistance payments to the owners of housing developments assisted under such program. The Section 8 program is administered on the federal level by HUD. The housing assistance payments program for each Section 8 Development is administered at the state level by the Vermont State Housing Authority, the Agency or both (collectively, the “Contract Administrator”).

Pursuant to regulations issued by HUD under the Section 8 program during the period 1975-1984, HUD granted “set-asides” for state housing agencies (i.e., reservations of annual housing assistance payments under the Section 8 program) which an agency, with HUD approval, can allocate to developments according to its own housing program. As provided in the regulations, HUD reserved a portion of such set-asides for the State of Vermont to be used in connection with the new construction or substantial rehabilitation of housing.

Eligible tenants for rental units assisted under the Section 8 program, as implemented by the Contract Administrator, are families with family income not in excess of 50% of the median income for the area in which the development is located, as determined by HUD and adjusted for family size. HUD regulations define the term “family” to include elderly, disabled, handicapped or displaced single persons and, under certain limited conditions, other single persons. In the State of Vermont, 50% of median income ranges from a low of \$26,150 per year for one person to a high of \$38,350 for a family of eight persons.

Section 8 housing assistance payments are provided, in the case of developments that are permanently financed by the Agency and that utilize a portion of the Contract Administrator’s annual set-asides of Section 8 contract authority, through an Annual Contributions Contract (“ACC”) between HUD and the Contract Administrator and a Housing Assistance Payment Contract (“HAPC”) between the Contract Administrator and the owner of the assisted development. Pursuant to the ACC, the Contract Administrator will receive an annual contribution from HUD, payable monthly in advance, with respect to each assisted dwelling unit and will, in turn, disburse monthly housing assistance payments to the owner of the development under the HAPC.

The amount of the subsidy payable to the Contract Administrator for the account of the owner under the HAPC is the applicable contract rent less the payment, if any, required to be made to the owner by the tenant as determined by HUD. The tenant payment is generally equal to 30% of family income. Present federal law directs HUD to mandate a minimum rent of between \$25 and \$50 for all tenants, and a minimum rent of up to \$50 for project-based Section 8 programs, such as the Section 8 Developments. HUD has implemented a \$25 minimum rent for most families (HUD Notice H 96-89). Thus, the total rental income from Section 8 housing units payable to or for the account of the owner is equal to the contract rent, part being paid by the tenants directly to the owner and the remainder being paid by HUD through the Contract Administrator to the owner in the form of HAPC Payments. The proportion of the contract rent actually paid by HUD and that actually paid by tenants will vary depending upon tenant income.

If a vacancy exists, other than as a result of action by the owner which is in violation of the lease, the owner will be entitled to housing assistance payments equal to 80% of the contract rent for a vacancy period not exceeding 60 days, so long as the owner diligently endeavors to fill the vacancy with an eligible tenant. Such payments for vacancies will be reduced to the extent the owner receives payment from the tenant for such vacancy period or the owner is otherwise entitled to payments from any other source, including a security deposit, for the vacant unit. In addition, if a unit continues to be vacant after this 60-day period, the owner may receive additional payments of up to one year for each vacancy equal to the principal and interest payments required to amortize the debt attributable to that unit, provided that (a) the unit is in decent, safe and sanitary condition during the vacancy period, (b) the owner has taken and continues to take all feasible actions to fill the vacancy, (c) the development is not providing the owner with revenues equal to costs incurred and the amount of the payments do not exceed the deficiency and (d) the owner submits a statement with supporting evidence satisfactory to HUD (or the Contract Administrator) that the development can achieve financial soundness within a reasonable time. HUD (or the Contract Administrator) may deny any claim for additional payments if it determines that, based on the owner's statement and other evidence, there is not a reasonable prospect that the development can achieve financial soundness within a reasonable time. Housing assistance payments are not payable with respect to units that are occupied by tenants who are not eligible for Section 8 assistance. However, if the dwelling unit is subsequently reoccupied by an eligible tenant, housing assistance payments will again become available to the owner unless the HAPC has been modified in the interim by deleting that dwelling unit from its coverage.

The Contract Administrator is permitted, but not required, to delete from the HAPC any units that the owner fails, for substantial periods of time, to lease or make available for lease by eligible tenants. The Agency's mortgage loan documents prohibit the owner from leasing more than 20% of the dwelling units to ineligible tenants without prior approval from the Agency.

HUD's Section 8 regulations and the ACCs provide that the initial contract rents for the assisted dwelling units in each development may be adjusted annually pursuant to a HUD-established automatic annual adjustment factor. Under the Housing Act, the annual adjustment factor is applied on the anniversary date of each HAPC, resulting in upward or downward adjustment, except that contract rents may not be reduced below the contract rents in effect on or after April 15, 1987, for newly constructed or substantially rehabilitated projects, unless the project has been refinanced in a manner that reduces the periodic payment of the owner. However, pursuant to several appropriations acts by Congress applicable to the 1995 and subsequent federal fiscal years and made permanent by legislation in 1997, contract rents may not be increased beyond HUD Fair Market Rents (as described below) plus the differential between the initial contract rent and comparable rents at the time of execution of the HAPC (the "Initial Difference"), unless the owner submits evidence of higher comparable market rents as determined by independent appraisals of at least three comparable local developments. Special additional adjustments may be approved by HUD to reflect actual and necessary expenses of owning and maintaining the

development that have resulted from substantial general increases in real property taxes, utility rates or similar costs (i.e., assessments and utilities not covered by regulated rates), but only to the extent that such general increases are not compensated for by the automatic annual adjustment. Adjustments, however, are limited to 120% of the HUD Fair Market Rents plus the Initial Difference. Present HUD policy also provides that the annual adjustment factors for Section 8 units which experienced no turnover in tenants since the preceding HAPC anniversary date will be one percentage point less than the annual adjustment factors that would otherwise apply. Consequently, there can be no assurance that increases in contract rents, if any, will result in revenues sufficient to compensate for increased operating expenses of the Section 8 Developments.

Each year, HUD publishes its determination of fair market rents (“HUD Fair Market Rents”). Such HUD Fair Market Rents constitute HUD’s determination of the rents, including utilities (except telephone), ranges and refrigerators, parking and all maintenance, management and other essential housing services, which would be required to obtain, in a particular market area, privately developed and owned rental housing of modest design with suitable amenities.

The following table sets forth the range of monthly rents for the Section 8 Developments effective on November 1, 2012 based on unit size and the current range of HUD Fair Market Rents in Vermont:

Range of Section 8 Development Monthly Rents and HUD Fair Market Rents

	One Bedroom	Two Bedrooms	Three Bedrooms
Section 8 Developments	\$667-921	\$791-1,135	\$959-1,293
HUD Fair Market Rents (effective January 1, 2013)	\$622-807	\$737-1,029	\$918-1,327

There have been several court decisions with respect to the Section 8 program and the limitations on contract rent adjustments. The United States Supreme Court, in its 1993 decision, *Cisneros v. Alpine Ridge Group, et al.*, held that housing assistance payment contracts between private landlords and HUD did not prohibit the use of comparability studies with private market rents to impose an independent cap on formula-based rent adjustments. In a January 1997 decision, *National Leased Housing Association, et al., v. United States*, the United States Court of Appeals for the Federal Circuit upheld a decision of the Court of Claims that the “overall limitation” provision contained in the rent adjustment section in HAPCs (which states, in effect, that notwithstanding any other provision of the HAPC, adjustments provided for in that section of the HAPC shall not result in material differences between the rents charged for assisted and comparable unassisted units except to the extent that differences existed with respect to the contract rents set at contract execution or cost certification, as applicable) permits HUD to use comparability studies to decrease contract rents to eliminate material differences between rents charged for assisted and comparable unassisted units which are greater than the Initial Difference. In addition, the Court of Appeals affirmed the decision of the Court of Claims that HAPCs permit HUD to reduce rents below a previous year’s rent levels through the use of comparability studies, and that the Initial Difference is determined by the initial dollar amount and not by a percentage of the initial rents.

At this time, the Agency is unable to predict what actions, if any, HUD or the Congress will take in the future with respect to such rent adjustments. Actions by HUD in the future could have the effect of limiting upward adjustments in contract rents or of decreasing contract rents currently in effect to eliminate any material difference between the contract rents and rents charged for comparable unassisted units, except to the extent of the Initial Differences. Such actions, if taken, could adversely affect the

ability of the owners of the Developments to pay principal and interest on the Mortgage Loans, which in turn could adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds with amounts pledged under the Resolutions. Congress has passed legislation and HUD has implemented procedures to restrict contract rent increases above fair market rents for each fiscal year since 1995. Any of the actions mentioned above could adversely affect the ratings on, and the market price of, the Bonds, including the 2012 Series ABC Bonds.

The maximum total annual contribution that may be contracted for in an ACC will equal the initial gross rents for all assisted units in the development. If the amount of housing assistance payments actually disbursed under an ACC in any given year is less than the total available amount, the excess (initially an amount equal to the portion of the gross rents payable by the tenants) is available to be set aside by HUD in an account (the "project account") for the particular development and will be available for future years to fund increases in contract rents for the development or decreases in family incomes. If and when a project account falls below 40% of the maximum annual commitment, HUD undertakes in the ACC to provide additional funding, to the extent permitted by law, in order to increase the maximum annual contribution payable under the ACC.

Subsection (c)(6) of Section 8 provides:

The Secretary [of HUD] shall take steps as may be necessary, including the making of contracts for assistance payments in amounts in excess of the amounts required at the time of the initial renting of dwelling units, the reservation of annual contributions authority for the purpose of amending housing assistance contracts, or the allocation of a portion of new authorizations for the purpose of amending housing assistance contracts, to assure that assistance payments are increased on a timely basis to cover increases in maximum monthly rents or decreases in family incomes.

In practice, HUD has not been replenishing the project accounts when the amounts in such project accounts have fallen below 40% of the maximum annual commitment, but has sought and received amendment authority from the Congress to enable it to discharge its obligations under the HAPCs and the ACCs.

Although the Section 8 housing assistance payments are made directly or indirectly to the owner and, in effect, represent rental income, the HAPC may, with HUD's approval, be pledged by the owner to the Agency as mortgage lender on the development. All of the HAPCs covering the Agency's Section 8 Developments have been so pledged. However, the owner will retain the right to collect such payments so long as the owner is in compliance with the provisions of the HAPC and the Agency's Mortgage Loan documents. The Agency's rights to receive Section 8 subsidy payments with respect to the developments have been pledged and assigned to the Trustee as part of the security for the Bonds. Under federal laws, the United States government may have the right to set off liabilities of the Agency to the United States against the payments under ACCs. Housing assistance payments by HUD do not terminate if the mortgage on the development goes into default, so long as the owner has not breached any of its obligations under the HAPC, including, among other responsibilities, its obligation to maintain and operate the development so as to provide decent, safe and sanitary housing. In the event of breach by the owner, HUD may abate or terminate housing assistance payments after giving the owner and the Contract Administrator an opportunity to take corrective action.

Developments Relating to HUD

In 1998 HUD was authorized to initiate a permanent program to restructure FHA-insured mortgage loans with expiring HAPCs; the most recent federal appropriations act applicable to HUD

permits such mortgages financed by state housing agencies (like the Agency) to be restructured but only if the same is not contrary to the terms of the mortgage agreements.

At this time, the Agency cannot predict the terms of further legislation, if any, which may be enacted which may restructure and change HUD, its administration and its programs (including the Section 8 program) and the funding of HUD and its programs. The Agency cannot predict whether any such legislation, if enacted, would adversely affect the ability of the Agency to make timely payments of principal and interest on the Bonds, including the 2012 Series ABC Bonds, with amounts pledged under the General Resolution.

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APPENDIX V

FORM OF BOND COUNSEL OPINION

Vermont Housing Finance Agency
Burlington, Vermont

\$26,455,000 Vermont Housing Finance Agency
Multi-Family Mortgage Bonds,
2012 Series A, 2012 Series B and 2012 Series C

We have acted as Bond Counsel in connection with the issuance by the Vermont Housing Finance Agency (the "Agency") of its Multi-Family Mortgage Bonds, 2012 Series A in the aggregate principal amount of \$11,165,000 (the "2012 Series A Bonds"), 2012 Series B in the aggregate principal amount of \$10,080,000 (the "2012 Series B Bonds") and 2012 Series C in the aggregate principal amount of \$5,210,000 (the "2012 Series C Bonds") (collectively, the "Bonds"). The 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 Multi-Family Mortgage Bond Resolution adopted on February 3, 1977, as amended (the "General Resolution"), and the Agency's Resolution Authorizing the Issuance and Sale of a Maximum of \$35,000,000 of Bonds in One or More Series to Finance Multi-Family Projects, adopted on August 10, 2011, its Resolution Authorizing the Issuance and Sale of a Maximum of \$25,000,000 of Bonds in One or More Series to Finance Multi-Family Projects, adopted on February 13, 2012, and a related Series Certificate (collectively, the "Series Resolution"). The General Resolution and the Series Resolution are referred to herein, collectively, as the "Resolutions."

The Bonds are being issued to provide moneys to refund prior issues of Multi-Family Mortgage Bonds and to fund (or reimburse the Agency for funding) additional Mortgage Loans to acquire, construct or rehabilitate multi-family residential housing located in the State of Vermont (the "State").

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

In rendering this opinion, we have reviewed the Resolutions, along with certain other documents, certificates and other materials delivered in connection with the issuance of the Bonds. The Agency has covenanted in the Resolutions to do all things necessary to assure that interest on the 2012 Series A Bonds and the 2012 Series B Bonds is excludable from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder. Certain requirements must be met subsequent to the delivery of the 2012 Series A Bonds and the 2012 Series B Bonds in order that interest on the 2012 Series A Bonds and the 2012 Series B Bonds be tax-exempt. 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 2012 Series A Bonds and the 2012 Series B Bonds and the Agency's multi-family 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:

1. The Agency is duly created and validly existing under the Act as a body politic and corporate of the State of Vermont and has the right and power under the Act to adopt the Resolutions and to authorize, issue and deliver the Bonds.

2. The Resolutions have been duly and lawfully adopted by the Agency, are in full force and effect and are valid and binding upon the Agency and enforceable in accordance with their terms, and no other authorization for the Resolutions is required. The Resolutions create the valid pledge which they purport to create of the Mortgage Loans, and the documents evidencing such Mortgage Loans, and the rights of the Agency incident thereto and all Revenues, Prepayments, Recovery Payments, Acquired Development Operating Income (as defined in the Resolutions) and all moneys and securities in all funds and accounts (except the Rebate Fund) created by or pursuant to the Resolutions (except Escrow Payments and the Multi-Family Escrow Payment Account), subject only to the provisions of the Resolutions permitting the application of amounts held thereunder for the purposes and on the terms and conditions set forth in the Resolutions.

3. The Bonds have been duly authorized, executed, issued and delivered by the Agency in accordance with the Act and the Resolutions and constitute valid and binding general obligations of the Agency, which has no taxing power, enforceable in accordance with their terms and the terms of the Resolutions and entitled to the benefits of the Act and the Resolutions. The Bonds are payable out of any of the Agency's revenues, moneys or assets, subject only to agreements theretofore or thereafter made with holders of notes and bonds other than the Bonds pledging particular revenues, moneys or assets for the payment thereof. **The Bonds do not constitute a debt, liability or obligation of the State or of any political subdivision thereof or a pledge of the faith and credit of the State or of any political subdivision**, but shall be payable solely from the revenues or assets of the Agency pledged to the payment thereof.

4. The Agency in the General Resolution has validly covenanted to do all acts and things necessary to receive and collect Revenues and to annually make and deliver to the Governor or the Governor-elect, the President of the Senate and the Speaker of the House of the State, in compliance with the provisions of the Act, the certificate stating the amount, if any, required to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement. The State, by its General Assembly, is legally authorized, but not legally obligated, to appropriate annually such sum as shall have been so certified by the Chairman of the Agency as necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement.

5. Assuming continuing compliance with covenants by the Agency set forth in the Resolutions and other documentation related to the 2012 Series A Bonds and the 2012 Series B Bonds, all as described above, under existing laws, regulations, rulings and judicial decisions, interest on the 2012 Series A Bonds and the 2012 Series B Bonds is excludable from gross income for federal income tax purposes, except for interest on any 2012 Series A Bond or 2012 Series B Bond for any period during which it is held by a "substantial user" of any facilities financed or refinanced by the 2012 Series A Bonds or 2012 Series B Bonds or a "related person," as such terms are used in Section 147(a) of the Code. Interest on the 2012 Series B Bonds is not, but interest on the 2012 Series A Bonds is, a specific tax preference item for purposes of calculating the alternative minimum tax imposed on individuals and corporations under the Code. However, interest on the 2012 Series B Bonds is included in a corporation's "adjusted current earnings," and the alternative minimum taxable income of certain corporations must be increased by 75% of the excess of such corporation's "adjusted current earnings" over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses). Except as expressed in the following two paragraphs, we express no opinion

regarding any other federal income tax consequences arising with respect to the 2012 Series A Bonds or 2012 Series B Bonds.

Under existing laws, regulations, rulings and judicial decisions, interest on the 2012 Series C Bonds will not be excludable from gross income for federal income tax purposes.

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

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

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

Very truly yours,

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APPENDIX VI

FORM OF CONTINUING DISCLOSURE STATEMENT

This Continuing Disclosure Agreement, dated as of December 20, 2012 (this “Disclosure Agreement”), is executed and delivered by the VERMONT HOUSING FINANCE AGENCY, (the “Agency”) and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A. (the “Trustee”) in connection with the issuance of \$26,455,000 aggregate principal amount of its Multifamily Mortgage Bonds, 2012 Series A, 2012 Series B and 2012 Series C (the “Bonds”). The Bonds are being issued pursuant to the Multifamily Mortgage Bond Resolution of the Agency adopted on February 3, 1977 (the “General Resolution”) and the Agency’s Series Resolutions adopted on August 10, 2011 and February 13, 2012 (the “Series Resolution”). The General Resolution and the Series Resolution are herein called the “Resolution.”

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

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

“*EMMA*” means the MSRB’s Electronic Municipal Market Access system (“EMMA”) for municipal securities disclosure available at www.emma.msrb.org.

“*MSRB*” means the Municipal Securities Rulemaking Board.

Section 3. Provision of Annual Financial Information and Operating Data. The Agency hereby agrees to provide or cause to be provided at least annually to the MSRB financial information and operating data regarding the Multifamily Mortgage Loan Program (the “Program”) of the type set forth in the Official Statement, dated December 13, 2012, with respect to the Bonds (the “Official Statement”) and under the following captions or in the following Appendices (or portions thereof):

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

(b) The financial information of the Agency for the prior fiscal year generally consistent with the financial information contained in the Official Statement under the heading “**THE AGENCY—Outstanding Indebtedness**”.

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

The information described above will be filed no later than 180 days after the end of the fiscal year of the Agency and may be provided in one document or in multiple documents, delivered in such manner (which shall be electronic and otherwise in accordance with EMMA from and after the Effective Date) and by such time so that it is received by the date herein required. Such information will include audited financial statements prepared in accordance with generally accepted accounting principles as in effect from time to time; provided, however, that the Agency reserves the right to report securitized mortgage loans at amortized cost, rather than fair value; and provided further, however, that if audited financial statements are not available within 180 days after the end of the preceding fiscal year, unaudited financial statements will be provided with audited financial statements to follow within ten business days after availability to the Agency when available.

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

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

Section 5. Material Events. The Agency agrees to provide or cause to be provided, in a timely manner, not in excess of ten business days after the occurrence of such event to the MSRB notice of the occurrence of any of the following events with respect to the Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service 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 Bonds, or other material events affecting the tax-exempt status of the Bonds;
- (vii) modifications to rights of the holders of the Bonds, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (xi) rating changes;

- (xii) Bankruptcy, insolvency, receivership or similar event of the Agency*;
- (xiii) The consummation of a merger, consolidation or acquisition involving the Agency or 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 undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

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

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

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

- (a) The amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Agency or type of business conducted;
- (b) This Disclosure Agreement, as amended or with the provision so waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

* This event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Agency 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 Agency, 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 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.

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

(d) The amendment or waiver is otherwise permitted by the Rule.

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

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

This Disclosure Agreement shall be enforceable by or on behalf of any such holder of the Bonds, provided that the right of any holder of the Bonds to challenge the adequacy of the information furnished pursuant to this Disclosure Agreement shall be limited to an action by or on behalf of the holders of Bonds representing at least 25% of the aggregate outstanding principal amount of the Bonds. This Disclosure Agreement is also enforceable on behalf of the holders of the Bonds by the Trustee, and the Trustee may, and upon the written direction of the owners of not less than 25% of the aggregate outstanding principal amount of the Bonds or any Underwriter shall, proceed, subject to the indemnification and other provisions of the Resolution, to protect and enforce the rights of the owners of the Bonds pursuant to this Disclosure Agreement. Any failure by the Agency to comply with the provisions of this Disclosure Agreement shall not be an Event of Default under the Resolution.

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

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

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

VERMONT HOUSING FINANCE AGENCY

By _____
Executive Director

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

By _____
Its _____

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