

**2011 SERIES A NEW ISSUE – BOOK ENTRY ONLY
2009 SERIES C ESCROW RELEASE - CONVERSION**

RATING: SEE “RATINGS” HEREIN.

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 2009 Series C Bonds from their Release Date (as defined below) and on the 2011 Series A Bonds is excludable from gross income for federal income tax purposes. Bond Counsel is further of the opinion that interest on the 2009 Series C Bonds and on the 2011 Series A Bonds is not a specific preference item or included in adjusted current earnings for purposes of the federal alternative minimum tax. For information regarding certain requirements for and exceptions to such exclusion, see “TAX MATTERS” herein. The Vermont Housing Finance Agency Act provides that the 2009 Series C Bonds and the 2011 Series A Bonds and the interest thereon are exempt from all Vermont taxation, franchise fees or special assessments except for transfer, inheritance and estate taxes.

**Vermont Housing Finance Agency
HFA Initiative Multifamily Bonds
\$16,290,000 2009 Series C (Program Bonds)[†]
\$4,265,000 2011 Series A (Market Bonds)**

**2011 Series A - Date of Delivery
2009 Series C - December 21, 2009**

Due: As shown on inside front cover

(Interest accrual commencing December 15, 2011)

The 2011 Series A Bonds (the “**2011 Series A Bonds**”) of the Vermont Housing Finance Agency (the “**Agency**”) are issuable only as fully registered bonds and, when issued, are expected to be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (the “**Securities Depository**” or “**DTC**”). Purchases and sales by the beneficial owners of the 2011 Series A Bonds can be made in book entry form only. Beneficial owners will not receive certificates evidencing their ownership interests in the 2011 Series A Bonds. See “**Book Entry Only System**” herein.

Interest on the 2011 Series A Bonds will be payable on February 1, 2012, and semi-annually, on each August 1 and February 1 thereafter, and on the maturity thereof. Interest on the 2011 Series A Bonds is payable by The Bank of New York Mellon Trust Company, N.A., as trustee (the “**Trustee**”), to the Securities Depository. The Securities Depository is to credit such payment to its Direct Participants (as hereinafter described), who are to remit interest payments to the beneficial owners of the 2011 Series A Bonds. Principal and premium, if any, will be payable by the Trustee in the same manner.

The Agency previously issued \$23,000,000 aggregate principal amount of its HFA Initiative Multifamily Bonds, 2009 Series A (the “**2009 Series A Bonds**”) and, in connection with the issuance of the 2011 Series A Bonds, expects to release the remaining escrowed proceeds of the 2009 Series A Bonds in the aggregate principal amount of \$16,290,000* (the “**Released Amount**”) and to convert and redesignate a corresponding portion of the 2009 Series A Bonds as the Vermont Housing Finance Agency HFA Initiative Multifamily Bonds, 2009 Series C. See “**THE NEW ISSUE BOND PROGRAM**.” The 2009 Series C Bonds, together with the 2011 Series A Bonds are hereinafter referred to as the “**Series Bonds**.” *The current owner(s) of the 2009 Series A Bonds will retain ownership of the 2009 Series C Bonds upon the conversion and redesignation thereof.*

This Official Statement supplements and amends the Official Statement, dated December 9, 2009, relating to the 2009 Series A Bonds, as heretofor supplemented (the “**Original Official Statement**”) in connection with such conversion and redesignation. The Original Official Statement as supplemented and amended hereto is referred to as the “**Official Statement**.” To the extent not supplemented and amended by this Official Statement, the Original Official Statement, as heretofor supplemented, remains in full force and effect.

The 2009 Series C Bonds will bear interest from and including December 15, 2011 to but excluding February 15, 2012 at a rate per annum equal to 60 basis points plus the lesser of (a) the interest rate for four week Treasury bills as of the second Business Day (as defined in the Indenture) prior to December 15, 2011, or (b) 1.72%. Thereafter, the Series 2009 C Bonds will bear interest at the permanent rate of 2.32% per annum to maturity. Interest on the 2009 Series C Bonds will be payable on February 15, 2012 and thereafter on the 1st day of each month, and on each redemption date. See “**THE SERIES BONDS**.”

The Series Bonds are issued pursuant to and are outstanding under the Trust Indenture, dated as of December 1, 2009 (the “**Trust Indenture**”), between the Agency and the Trustee, the 2009 Series A Supplemental Indenture, dated as of December 1, 2009, as amended (the “**2009 Series A Supplemental Indenture**”), between the Agency and the Trustee, and the 2009 Series C/2011 Series A Supplemental Indenture, dated as of December 1, 2011 (the “**2009 Series C/2011 Series A Supplemental Indenture**”) and collectively with the Trust Indenture and the 2009 Series A Supplemental Indenture, the “**Indenture**”), between the Agency and the Trustee. Principal of and premium, if any, and interest on the Series Bonds will be paid by the Trustee pursuant to the Indenture.

The Series Bonds are subject to redemption prior to maturity, including optional and mandatory sinking fund, at the prices set forth herein under certain circumstances, as more fully described herein. See “**THE SERIES BONDS—Redemption Provisions**” herein.

The Series Bonds are issued to make funds available, together with certain other available moneys, to (a) fund Mortgage Loans in order to acquire, construct or rehabilitate multifamily residential housing located in the State of Vermont (the “**State**”), all as described herein and in Appendix B, including capitalized interest, if any, (b) make a deposit to the Reserve Fund equal to the amount of the Reserve Requirement, and (c) pay certain costs incurred in connection with the issuance of the 2011 Series A Bonds and the conversion and redesignation of the 2009 Series C Bonds. See “**SOURCES AND USES OF FUNDS**.”

The Series Bonds and any other Bonds subsequently issued under the Indenture are secured by a pledge of the Trust Estate established under the Indenture, including revenues, assets or moneys held under the Trust Indenture and the related Supplemental Indentures (other than the Rebate Fund, if any), in each case solely to the extent such items are subject to the pledge, assignment, lien and security interest as provided in the Trust Indenture. See “**SECURITY AND SOURCES OF PAYMENT FOR THE SERIES BONDS**” herein.

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

The Series Bonds are not general obligations of the Agency and are not a debt of or guaranteed by the State or any political subdivision thereof or the United States or any agency or instrumentality thereof. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES BONDS” herein.

The delivery of the Series Bonds is subject to the opinion of Kutak Rock LLP, Bond Counsel, as to the validity of, and commencing on the Release Date the excludability from gross income for federal income tax purposes of interest on, the Series Bonds. Certain legal matters will be passed upon for the Agency by its General Counsel, George N. Demas, Esq. Certain legal matters will be passed upon for the Underwriter by its counsel, Nixon Peabody LLP, Boston, Massachusetts. It is expected that the Series Bonds will be available for delivery on or about December 15, 2011.

Citigroup

December 8, 2011

[†] Not offered hereby.

MATURITY SCHEDULE

2011 Series A Bonds (Non-AMT)

\$4,265,000 Serial Bonds

Due Date	Principal Amount	Interest Rate	Due Date	Principal Amount	Interest Rate
August 1, 2012	\$160,000	0.45%	February 1, 2018	\$205,000	2.15%
February 1, 2013	175,000	0.60	August 1, 2018	210,000	2.15
August 1, 2013	190,000	0.70	February 1, 2019	210,000	2.50
February 1, 2014	195,000	0.95	August 1, 2019	215,000	2.50
August 1, 2014	195,000	1.05	February 1, 2020	215,000	2.80
February 1, 2015	195,000	1.35	August 1, 2020	220,000	2.80
August 1, 2015	195,000	1.45	February 1, 2021	220,000	3.00
February 1, 2016	200,000	1.70	August 1, 2021	225,000	3.00
August 1, 2016	200,000	1.75	February 1, 2022	230,000	3.20
February 1, 2017	200,000	1.85	August 1, 2022	205,000	3.20
August 1, 2017	205,000	1.90			

Price of all 2011 Series A Bonds: 100%

2009 Series C Bonds (Non-AMT)¹

\$16,290,000 2009 Series C Term Bond² due August 1, 2051

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

¹ The 2009 Series C Bonds are not offered hereby.

² The 2009 Series C Bonds will bear interest from and including December 15, 2011 to but excluding February 15, 2012 at a rate per annum equal to 60 basis points plus the lesser of (a) the interest rate for four week Treasury bills as of the second Business Day (as defined in the Indenture) prior to December 15, 2011, or (b) 1.72%. Thereafter, the Series 2009 C Bonds will bear interest at the permanent rate of 2.32% per annum to maturity.

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 2011 Series A Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the Agency. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy, nor shall there be any sale of the 2011 Series A Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by the Agency and obtained from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and, except for information provided by the Agency, is not to be construed as a representation of the Agency. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency since the date hereof. The 2011 Series A Bonds may be offered and sold by the Underwriters to certain dealers at prices lower than the initial public offering prices set forth on the cover page, and such public offering prices may be changed from time to time by the Underwriters. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

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

IN CONNECTION WITH THE OFFERING OF THE 2011 SERIES A BONDS, THE UNDERWRITERS MAY OVER-ALLOT AND EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2011 SERIES A 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

\$4,265,000
Vermont Housing Finance Agency
HFA Initiative Multifamily Bonds
2011 Series A

\$16,290,000
Vermont Housing Finance Agency
HFA Initiative Multifamily Bonds,
2009 Series C

INTRODUCTION

This Official Statement (including the cover page and appendices, the “**Official Statement**”) is being furnished by the Vermont Housing Finance Agency (the “**Agency**”) in order to provide information in connection with the Agency’s HFA Initiative Multifamily Bonds 2011 Series A to be issued in the principal amount of \$4,265,000 (the “**2011 Series A Bonds**”) and the conversion and redesignation of a portion of the Agency’s HFA Initiative Multifamily Bonds, 2009 Series A (the “**2009 Series A Bonds**”), as the HFA Initiative Multifamily Bonds, 2009 Series C (the “**2009 Series C Bonds** and together with the 2011 Series A Bonds, the “**Series Bonds**”). The 2009 Series A Bonds were issued by the Agency on December 21, 2009 pursuant to the Vermont Housing Finance Agency Act, being No. 260 of the Vermont Acts of 1973, Adjourned Session, as amended (the “**Act**”).

This Official Statement supplements and amends the Official Statement dated December 9, 2009, relating to the 2009 Series A Bonds, as supplemented on March 29, 2011 (the “**Original Official Statement**”) in connection with such conversion and redesignation.

This Official Statement describes the Series Bonds during the period in which the Mortgage Loans have credit enhancement under the FHA Risk-Sharing Program as described in Appendix D.

The 2009 Series A Bonds were issued, the 2009 Series C Bonds are being converted and redesignated and the 2011 Series A Bonds are being issued under the provisions of (i) the Trust Indenture, dated as of December 1, 2009 (the “**Trust Indenture**”), between the Agency and The Bank of New York Mellon Trust Company, N.A., Boston, Massachusetts, as trustee (the “**Trustee**”), (ii) the 2009 Series A Supplemental Indenture, dated as of December 1, 2009, as amended (the “**2009 Series A Supplemental Indenture**”), between the Agency and the Trustee, (iii) the 2009 Series C/2011 Series A Supplemental Indenture, dated as of December 1, 2011 (the “**2009 Series C/2011 Series A Supplemental Indenture**” and collectively with the Trust Indenture and the 2009 Series A Supplemental Indenture, the “**Indenture**”), between the Agency and the Trustee, and (iv) the Agency 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 June 25, 2010 (the “**Resolution**”).

The Trust Indenture contains terms and conditions relating to the Bonds, including terms and conditions relating to the issuance and sale of Bonds and various covenants and security provisions, certain of which are summarized herein. This summary does not purport to be comprehensive or definitive and is subject to all of the provisions of the Trust Indenture, to which reference is hereby made, copies of which are available from the Agency or the Trustee.

A portion of the proceeds of the 2009 Series A Bonds in the amount of \$16,290,000 (the “**Released Amount**”) is being released on December 15, 2011 (the “**Release Date**”) and a portion of the 2009 Series A Bonds allocable to the Released Amount is being redesignated as the 2009 Series C Bonds. The Agency is authorized by the Act, the Resolution and the Indenture to (i) release the remaining proceeds of the 2009 Series A Bonds currently held in escrow by the Trustee in a principal amount

corresponding to the principal amount of the 2009 Series C Bonds, (ii) redesignate a corresponding amount of the 2009 Series A Bonds as the 2009 Series C Bonds, and (iii) convert the interest rate on the 2009 Series C Bonds from the Short-Term Rate (as defined in the Original Official Statement) to the Permanent Rate (as defined in the Original Official Statement) on February 15, 2012 (the “**Conversion Date**”). See “**THE NEW ISSUE BOND PROGRAM.**”

Under the Act, the Agency is authorized to finance mortgage loans for multifamily housing for persons and families of low and moderate income in the State of Vermont (the “**State**”). Under the Indenture, the Agency is authorized to issue bonds to provide funds for the making of multifamily mortgage loans to housing sponsors (the “**Developers**”) eligible under the Act for the financing of housing developments (the “**Developments**”), including making deposits in funds and accounts under the Indenture. Multifamily mortgage loans financed under the Resolution and the Indenture, including, without limitation, the loans described in **Appendix B –“DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS,”** to the extent such loans constitute Permitted Mortgage Loans as defined in the 2009 Series A Supplemental Indenture, are referred to at various times as either the “**Mortgage Loans**” or the “**Mortgage Loan,**” as appropriate.

Following the Release Date, the proceeds of the 2009 Series A Bonds in an amount equal to the Released Amount will be transferred from the 2009 Series A Escrow Account in the Program Fund to the 2009C/2011A Funding Account in the Program Fund and used, along with proceeds of the 2011 Series A Bonds, together with certain other available moneys, to (a) fund Mortgage Loans to the Developers identified in **Appendix B –“DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS”** to finance the acquisition, construction and/or rehabilitation of the Developments described in Appendix B, including capitalized interest, if any, (b) make a deposit to the Reserve Fund equal to the amount of the Reserve Requirement, and (c) pay certain costs incurred in connection with the conversion, redesignation and issuance of the Series Bonds. See “**SOURCES AND USES OF FUNDS.**”

The 2009 Series A Bonds were the first obligations issued by the Agency under the Trust Indenture. The Agency converted and redesignated its \$6,710,000 HFA Initiative Multifamily Bonds 2009 Series B (the “**2009 Series B Bonds**”) pursuant to a 2009 Series B Supplemental Indenture dated as of March 1, 2011. Additional Series of bonds or notes may be issued by the Agency on parity with the Series 2009 B Bonds, the 2011 Series A Bonds, and other Series of bonds outstanding under the Trust Indenture, provided that each additional Series is authorized by a supplemental indenture adopted in accordance with and under the provisions of the Trust Indenture and the Act. The 2009 Series B Bonds, the 2009 Series C Bonds, the 2011 Series A Bonds and any additional Series of bonds issuable under the Trust Indenture are hereinafter sometimes collectively called the “**Bonds.**”

All of the Bonds issued and outstanding under the Indenture, including the 2009 Series A Bonds, the 2009 Series B Bonds, the 2009 Series C Bonds, the 2011 Series A Bonds and additional Bonds, are parity bonds and are equally and ratably secured by the “Trust Estate” under the Indenture. Under the Indenture, additional Bonds may be issued if (i) the principal amount of the Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed in the Indenture or by law, (ii) upon the issuance and delivery of such Bonds, the Reserve Requirement will be met, (iii) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, the Agency shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture, and (iv) certain other conditions are satisfied. Additional Series of Bonds may be secured by credit enhancement other than FHA insurance provided under the FHA Risk-Sharing Program.

The Series Bonds are limited obligations of the Agency and are payable solely from the Agency's revenues, assets or moneys pledged therefor under the Indenture. The Series Bonds will not constitute a debt or liability or obligation or a pledge of the faith and credit of the State or any political subdivision thereof, and neither the State nor any of its political subdivisions are liable thereon. The Series Bonds will not constitute a debt or liability or obligation or a pledge of the faith and credit of the State but will be payable solely from the revenues or assets of the Agency pledged therefor. The State is not liable on the Series Bonds, and the Series Bonds are not a debt of the State and neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal of or the interest on the Bonds. **The Bonds are not general obligations of the Agency and are not a debt of or guaranteed by the State or any political subdivision thereof or the United States or any agency or instrumentality thereof. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.**

THE NEW ISSUE BOND PROGRAM

The Agency issued the 2009 Series A Bonds as escrow bonds under the Multifamily New Issue Bond Program (the "**NIBP Program**") announced by the United States Department of the Treasury ("**Treasury**"), Fannie Mae and Freddie Mac. The 2009 Series A Bonds were purchased by Fannie Mae and Freddie Mac (the "**Purchasers**" or the "**GSEs**") pursuant to the NIBP Program, the Bond Resolution, the Trust Indenture and the 2009 Series A Supplemental Indenture. Proceeds derived from the sale of the 2009 Series A Bonds in an amount equal to \$23,000,000 were deposited in the 2009 Series A Escrow Account in the Program Fund established by the Trust Indenture and the 2009 Series A Supplemental Indenture. Under the NIBP Program, the Purchasers exchanged the 2009 Series A Bonds for securities issued by the Purchasers ("**GSE Securities**") backed by the 2009 Series A Bonds, which securities were then purchased by the Treasury. Such GSE Securities are not part of the security for the Bonds. The 2009 Series A Bonds bear interest at a short term variable rate and the interest rate calculation method may be converted in up to six tranches prior to December 31, 2011.

The release of amounts held in the 2009 Series A Escrow Account to become available to make Mortgage Loans depends upon compliance with various conditions set forth in agreements between the Agency and the Underwriter, the Trust Indenture and the 2009 Series A Supplemental Indenture. Upon the satisfaction of the conditions precedent to the release of funds from the 2009 Series A Escrow Account, the Agency expects to release the Released Amount from the 2009 Series A Escrow Account on the Release Date. The 2009 Series A Bonds corresponding to the Released Amount will be converted and redesignated as the 2009 Series C Bonds on the Release Date pursuant to the 2009 Series C/2011 Series A Supplemental Indenture.

The 2009 Series C Bonds and the 2011 Series A Bonds will be treated as a single "issue" of bonds under the Internal Revenue Code of 1986, as amended (the "**Code**"), and, therefore, the requirements of applicable federal tax law must be satisfied with respect to each of the 2011 Series A Bonds and 2009 Series C Bonds in order that interest on the 2011 Series A Bonds and 2009 Series C Bonds not be included in gross income for federal income tax purposes. See "**TAX MATTERS**" herein.

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds (net of accrued interest) in connection with the sale of the Series Bonds are as follows:

Sources

Principal Amount of 2011 Series A Bonds	\$4,265,000
Released Amount of 2009 Series C Bonds	16,290,000
Agency Contribution	78,368.80
Borrower Contribution	<u>132,410.26</u>
Total Sources	<u>\$20,765,779.06</u>

Uses

Deposit to 2009C/2011A Funding Account of the Program Fund	\$20,105,796.00
Deposit to the Reserve Fund	527,572.80
Costs of Issuance	76,500.00
Underwriter's Discount	<u>55,910.26</u>
Total Uses	<u>\$20,765,779.06</u>

THE AGENCY

Purpose and Powers

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

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

Management

The powers of the Agency are vested in nine commissioners, consisting of the Commissioner of Banking, Insurance, Securities and Health Care Administration, 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 respective 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; subject to Senate confirmation. Mr. Barnett is an owner of The Rock and Hammer, a retail jewelry store in downtown Bellows Falls. Mr. Barnett currently serves as President of the Bellows Falls Downtown Alliance. In addition he currently serves on the Board of the Bellows Falls Area Development Corporation and the Board of Civil Authority. He has been active leader in the re-development of the Bellows Falls community and was instrumental in securing over \$10 million in government grants.

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

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

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

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

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

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

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

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

The following are the principal staff members of the Agency:

Sarah E. Carpenter was appointed as Executive Director of the Agency in October, 1998. Before joining the Agency, Ms. Carpenter was the Executive Director of Cathedral Square Corporation in Burlington, Vermont for 15 years. Cathedral Square is a nationally recognized leader in combining affordable housing and community services. She currently serves on the Board of the National Council of

State Housing Agencies, the Boards of the Vermont Community Development Program and the Vermont Housing and Conservation Board, and on the Board of Fletcher Allen Healthcare, Vermont's academic healthcare system. Ms. Carpenter previously has served on a variety of boards, including the national Board of the American Association of Homes and Services for the Aging (now Leading Age), AAHSA Assurances Limited, a captive liability insurance company, Housing Vermont, a nonprofit statewide developer and tax credit syndicator, the Community Development Advisory Board of the Federal Reserve Bank of Boston, the Advisory Board of the Federal Home Loan Bank of Boston, and a number of local charities. Ms. Carpenter is a cum laude graduate of the University of Vermont and holds an M.P.A. degree from Harvard University.

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

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

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

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

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

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

As of September 30, 2011 the Agency had 34.66 full time equivalent employees who are responsible for the operation and management of the Agency. Of these employees, 8.16 are charged with

responsibility for the single family program and 9.5 are charged with responsibility for the multifamily program. Included on the staff of the Agency are professionals with experience in mortgage underwriting and portfolio and investment management.

Operations to Date

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

Outstanding Indebtedness

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

For additional information with respect to outstanding indebtedness of the Agency, see **Appendix F – "AUDITED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2011."**

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

All Bonds issued under the Indenture, including the Series Bonds, are secured, to the extent and as provided in such Indenture, by the Trust Estate, unless otherwise provided with respect to any particular Series or Subseries of Bonds. The Trust Estate includes all moneys and securities, including Bond proceeds (other than proceeds deposited in trust for the retirement of any outstanding Bonds or other indebtedness of the Agency), and other assets from time to time held by the Trustee under and subject to the terms of the Indenture or any Supplemental Indenture (other than amounts held in the Rebate Fund, if any, or moneys or securities or Loans pledged to secure only a specific Series or

Subseries of Bonds) and any and all other real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security hereunder by the Agency, or by anyone in its behalf or with its written consent, to the Trustee.

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

Upon Conversion of any Series Bonds to a Permanent Rate, the Principal payments or Sinking Fund Installments on the Converted Series Bonds will be established based on the scheduled amortization payments on the Mortgage Loans then expected to be made or purchased with the proceeds of such Series Bonds so that even if no Mortgage Loan Prepayments were received with respect to such Mortgage Loans, money or cash equivalents expected to be held in the funds and accounts under the Indenture would be sufficient to pay when due the Principal payments and Sinking Fund Installments of and interest on the 2009 Series C Bonds and all Program Expenses allocable thereto. Funds (including Loan Prepayments, if any) may be received from time to time in amounts in excess of the amounts necessary to pay the interest on and Principal payments of the Bonds then due. Payments of principal and interest on Mortgage Loans, including Mortgage Loan Prepayments, in excess of the amounts necessary to pay interest on and Principal payments of the Bonds may be applied to redeem Bonds, including the Series Bonds, prior to maturity. See **"THE SERIES BONDS—Redemption Provisions."**

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

Credit Enhancement of the Mortgage Loans

The Mortgage Loans are expected to have credit enhancement under the FHA Risk-Sharing Program. See **Appendix D –"MORTGAGE INSURANCE PROGRAMS—THE FHA RISK-SHARING PROGRAM."**

Neither FHA nor any other credit enhancer insures or guarantees the Series Bonds. The assets of FHA or of any other credit enhancers are not available to the Agency or the Trustee to satisfy obligations to the holders of the Series Bonds. The obligations of FHA and other credit enhancers, if any, are limited to the payment of mortgage insurance claims, credit enhancement or guaranties as described herein.

Mandatory Sinking Fund Redemption

The Mandatory Sinking Fund Redemption Schedule on the 2009 Series C Bonds described below under “**THE SERIES BONDS—Mandatory Sinking Fund Redemption**” has been established by the Agency in the 2009 Series C/2011 Series A Supplemental Indenture based on the scheduled amortization payments on the Mortgage Loans expected to be made or purchased with moneys on deposit in the 2009C/2011A Funding Account in the Program Fund. As described below under “**THE SERIES BONDS—Mandatory Sinking Fund Redemption**,” the Mandatory Sinking Fund Redemption Schedule may be revised by the Agency from time to time. Payments of principal and interest on Mortgage Loans, including Mortgage Loan Prepayments, in excess of the amounts necessary to pay the interest on Series Bonds and the redemption price of Series Bonds may be applied to redeem 2009 Series C Bonds prior to maturity.

Certain proceeds of the Series Bonds, including proceeds on deposit in the Program Fund and the Reserve Fund, will be invested in Permitted Investments.

Reserve Fund

The Trust Indenture requires that a Reserve Fund be established and provides for its funding and maintenance in an amount at least equal to the Reserve Requirement. The Trust Indenture establishes the Reserve Requirement as an amount at least equal to the aggregate amounts specified, if any, as the Reserve Requirement in the Supplemental Indentures authorizing all Series of Bonds currently outstanding. Pursuant to the 2009 Series C/2011 Series A Supplemental Indenture, the Reserve Requirement with respect to the Series Bonds is an amount at least equal to the maximum semiannual debt service on the Series Bonds, plus an amount equal to one month’s interest due on the Mortgage Loans being financed with the proceeds of the Series Bonds. In connection with the issuance of the 2011 Series A Bonds and the conversion and redesignation of the 2009 Series Bonds, a deposit in the amount of \$527,572.80 which is equal to the maximum semiannual debt service on the Series Bonds, plus an amount equal to one month’s interest due on the Mortgage Loans being financed with the proceeds of the Series Bonds, will be made into the Reserve Fund. See “**SOURCES AND USES OF FUNDS**” above.

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

Moneys in the Reserve Fund may not be withdrawn in any amount which would reduce the amount on deposit in the Reserve Fund to less than the Reserve Requirement except for the purpose of paying principal of and interest on Bonds maturing and becoming due for payment and any Sinking Fund Installments and any amounts required to be paid to the Provider of a Hedge Agreement (other than fees, expenses or termination payments payable to such Provider) unless otherwise provided in such Hedge Agreement or any related Supplemental Indenture, for which no other moneys pledged under the Indenture (other than amounts on deposit in the Program Accounts, if any) are available. In lieu of cash or securities, the Trust Indenture allows the Agency to satisfy the Reserve Requirement in part or in whole by maintaining letters of credit, insurance policies, sureties, guarantees or other security arrangements as defined and provided for in a Supplemental Indenture) (collectively, “Cash Equivalents”), which Cash Equivalents shall have the necessary terms to maintain the then current Rating of the Bonds.

Additional Security

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

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

Additional Bonds

The Trust Indenture permits the issuance of additional Bonds thereunder for the purpose of providing funds for effectuating the public purposes as set forth in the Act and, in addition, to refund outstanding Bonds issued under the Trust Indenture or other bonds or notes of the Agency, so long as the issuance of such additional Bonds would not adversely affect the unenhanced ratings then assigned to any Bond outstanding by any Rating Agency. Unless otherwise specified for a Series of Bonds in the supplemental indenture pursuant to which such Series of Bonds are issued, any additional Bonds issued under the Trust Indenture would be on a parity with the outstanding Series Bonds and other additional Bonds outstanding under the Trust Indenture, and would be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Trust Indenture. The Trust Indenture provides that upon the issuance of any such additional Bonds there is to be deposited in the Reserve Fund, if necessary, amounts sufficient to increase the amount therein to the Reserve Requirement calculated after such issuance.

All of the Bonds issued and outstanding under the Indenture, including the 2009 Series A Bonds, the 2009 Series B Bonds, the Series Bonds and other additional Bonds, are parity bonds and are equally and ratably secured by the “Trust Estate” under the Indenture unless otherwise specified for a Series of Bonds in the supplemental indenture pursuant to which such Series of Bonds are issued. Under the Indenture, additional Bonds may be issued if (i) the principal amount of the Bonds then to be issued, together with the principal amount of the Bonds, notes and other obligations theretofore issued pursuant to the Act, will not exceed in aggregate principal amount any limitation thereon imposed in the Indenture or by law, (ii) upon the issuance and delivery of such Bonds, the Reserve Requirement will be met, (iii) except in the case of Refunding Bonds, at the time of issuance of such additional Bonds, the Agency shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture, and (iv) certain other conditions are satisfied. Additional Series of Bonds may be secured by credit enhancement other than FHA insurance provided under the FHA Risk-Sharing Program. The Agency has covenanted in the 2009 Series C/2011 Series A Supplemental Indenture that all Mortgage Loans financed by and securing the Series Bonds or any Bonds which are parity obligations with the Series Bonds shall be insured under the FHA Risk-Share insurance program or

such other insurance or guaranty program as shall result in a “Aaa” rating of such Bonds by Moody’s Investors Service, Inc.

For further information concerning Additional Bonds, see “**SECURITY FOR THE BONDS**” herein.

THE SERIES BONDS

The 2009 Series C Bonds

The 2009 Series C Bonds are dated December 21, 2009, will mature on August 1, 2051 (the “**Stated Maturity**”), and will bear interest from the Release Date to but excluding the Conversion Date at a rate per annum equal to 60 basis points plus the lesser of (a) the interest rate for four week Treasury bills as of the second Business Day prior to the Release Date or (b) 1.72%, payable on the Conversion Date. On and after the Conversion Date, the 2009 Series C Bonds will bear interest at a rate per annum equal to 2.32% per annum, payable on February 15, 2012 and the first day of each month thereafter (each an “**Interest Payment Date**”) until payment of the principal thereof, from the Interest Payment Date next preceding the date of registration and authentication of each such 2009 Series C Bond, unless such 2009 Series C Bond is registered and authenticated as of an Interest Payment Date, in which case it shall bear interest from said Interest Payment Date, or unless such 2009 Series C Bond shall be in default, in which event such 2009 Series C Bond shall bear interest from the date on which interest was last paid on such 2009 Series C Bond or from the Conversion Date if no interest has been paid on such 2009 Series C Bond. The 2009 Series C Bonds initially will be registered in the name of Cede & Co., as registered owner and nominee for DTC, which will act as securities depository for the 2009 Series C Bonds. If any such dates are not business days, then payments will be made on the next business day. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Payment of the principal of and the interest on the 2009 Series C Bonds at the Stated Maturity will be made upon the presentation and surrender of the 2009 Series C Bonds. All payments of interest on and principal of the 2009 Series C Bonds will be paid through DTC in accordance with its normal procedures which, as of the date of this Official Statement, provide for payment by the Securities Depository to its Direct Participants (as defined under the caption “**BOOK-ENTRY ONLY SYSTEM**” herein).

The 2011 Series A Bonds

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

Redemption Provisions

Mandatory Sinking Fund Redemption. The 2009 Series C Bonds are subject to mandatory redemption (“**Mandatory Sinking Fund Redemption**”) in direct order of maturity (and by lot within a maturity) at a redemption price equal to 100% of their principal amount, plus accrued interest to the date of redemption, if any, on the first day of any month, in minimum denominations of \$10,000 and integral multiples of \$10,000 in excess of that amount. No notice of such redemption shall be given to the Trustee, and the Trustee shall base its redemption of 2009 Series C Bonds on the table attached hereto as

Appendix C, as revised from time to time by the Agency. Such table may be revised upon any purchase or redemption of the 2009 Series C Bonds in a certificate of the Agency provided to the Trustee. As shown on the sinking fund schedule found in Appendix C, all of the 2009 Series C Bonds are expected to be redeemed by August 1, 2051.

Mandatory Redemption from Mortgage Loan Prepayments and Casualty and Condemnation Proceeds. The Series Bonds are subject to mandatory redemption on any Interest Payment Date, in whole or in part, at a redemption price equal to 100% of the principal amount thereof, from the proceeds of a Mortgage Loan Prepayment (including those resulting from hazard insurance or condemnation awards, or undisbursed Mortgage Loan proceeds) or moneys received in the event of a default on a Mortgage Loan, including FHA Insurance proceeds.

Optional Redemption. The 2009 Series C Bonds are subject to optional redemption in minimum denominations of \$10,000 and integral multiples of \$10,000 in excess of that amount at the option of the Agency, in whole or in part, from any source of funds, on the first Business Day of any month, at a redemption price equal to 100% of the principal amount of the 2009 Series C Bonds to be redeemed, without premium, plus accrued interest, if any, to the redemption date.

The 2011 Series A Bonds are subject to redemption at the option of the Agency, either as a whole or in part at any time on and after August 1, 2021, from such maturities of 2011 Series A Bonds of similar tenor selected by the Agency and by lot if within a maturity of 2011 Series A Bonds of similar tenor, from money deposited in the 2009C/2011A Account in the Debt Service Fund at a redemption price of 100% of the principal amount thereof, plus accrued interest, if any, to the date of redemption.

Selection of Bonds To Be Redeemed. In the event of redemption of less than all of the outstanding Series Bonds, the Series Bonds to be redeemed shall be selected by the Agency in its sole discretion by written notice to the Trustee of the principal amount of the Series Bonds to be redeemed, or if not so provided, randomly in such manner as the Trustee in its discretion deems fair. Whenever the Trustee is required or authorized to redeem Series Bonds other than at the election or direction of the Agency, the Trustee shall select the Series Bonds to be redeemed, give the notice of redemption and pay out of moneys available therefor (or pay to any Paying Agent, if applicable) the redemption price to the appropriate Paying Agent or Paying Agents in accordance with the terms of the Indenture. The 2011 Series A Bonds may be redeemed only in minimum denominations of \$5,000 and integral multiples thereof. The 2009 Series C Bonds may be redeemed only in minimum denominations of \$10,000 and integral multiples of \$10,000 in excess of that amount. All Series Bonds called for redemption will cease to accrue interest on the specified redemption date and shall no longer be considered outstanding under the Indenture, if funds sufficient for the redemption of those Series Bonds are deposited with the Trustee. Upon presentation and surrender of Series Bonds called for redemption at the place or places of payment, together with a written instrument of transfer duly executed by the owner thereof or by the owner's attorney duly authorized in writing, such Series Bonds are to be paid and redeemed.

Redemption Restrictions and Recycling Prohibition. Except as limited by tax law requirements, the Agency shall apply the following exclusively to the redemption of the 2009 Series C Bonds and the 2009 Series A Bonds (collectively, the “**Program Bonds**”) (i) all proceeds of the Program Bonds, to the extent not used to fund Permitted Mortgage Loans, refund outstanding bond issues as provided in the Indenture, pay Program Bond issuance expenses or fund related reserve accounts and (ii) a pro rata portion (calculated based on the outstanding principal amount of the Program Bonds divided by the sum of the outstanding principal amount of the Program Bonds and the outstanding principal amount of any bonds issued in conjunction with and secured by the Trust Estate on a parity with the Program Bonds) and 100% (if no bonds issued in conjunction with and secured by the Trust Estate on a parity with the Program Bonds are then Outstanding) of all principal prepayments and recoveries of principal received

with respect to the Permitted Mortgage Loans, acquired or financed with the proceeds of the Program Bonds and any such parity bonds, to the extent not used to pay scheduled principal, interest or sinking fund redemptions on Program Bonds and any bonds issued in conjunction with and secured by the Trust Estate on a parity with the Program Bonds. Notwithstanding the foregoing, tax credit equity with respect to projects funded with Permitted Mortgage Loans may be used solely to redeem related bonds issued in conjunction with Program Bonds. Amounts set forth in clause (ii) are required to be applied to the redemption of Program Bonds promptly and as provided above shall not be recycled into new Permitted Mortgage Loans. Particular series of Program Bonds may be redeemed with payments of specified Permitted Mortgage Loans.

Notice of Redemption. When the Trustee is required or authorized to redeem Series Bonds, the Trustee will, in accordance with the terms and provisions of the Series Bonds and of the Indenture, give notice (which notice shall be dated the date given) of the redemption of Series Bonds, which notice will specify (a) the name of the Series Bonds, (b) the date of issue, (c) the redemption price, (d) the CUSIP number or numbers of the Series Bonds to be redeemed, (e) the redemption date and the place or places where amounts due upon such redemption will be payable (including name and address of the Trustee or redemption agent, with contact person and telephone number), (f) if less than all of the Series Bonds are to be redeemed, the letters and numbers or other distinguishing marks of such Series Bonds so to be redeemed (*i.e.*, certificate numbers), (g) in the case of a 2009 Series C Bond to be redeemed in part only, such notice shall also specify the portion of the principal amount thereof to be redeemed, and (h) such other information as may be specified in the 2009 Series C/2011 Series A Supplemental Indenture. Such notice will further state that, except as otherwise provided in the second succeeding paragraph, on the redemption date there will become due and payable upon each Series Bond to be redeemed the redemption price thereof, or the redemption price of the specified portion of the principal amount thereof in the case of a Series Bond to be redeemed in part only, and that from and after such date, interest on such Series Bond will cease to accrue and be payable. Such notice will be given by mailing a copy of such notice, first-class mail, postage prepaid, at least 30 days but no more than 60 days prior to such redemption date, to the registered owner of any Series Bond, all or a portion of which is to be redeemed, at his last address, if any, appearing upon the registry books, but failure so to mail any such notice or any defect in such notice will not be a condition precedent to or affect the validity of any proceedings for the redemption of other Series Bonds.

In addition, the Trustee will send (no more than 60 days after the date for redemption) a further notice of redemption to each registered owner who has not presented his or her Series Bond for redemption within 30 days subsequent to the redemption date. Each such notice will be sent by first-class mail, postage prepaid.

Any notice of redemption may, if directed by the Agency, be given specifying that the redemption of the Series Bonds so called for redemption is made conditional upon the deposit of sufficient amounts to pay the redemption price therefor on the redemption date and, if amounts are not so available, such notice of redemption shall be cancelled and be null and void and the Series Bonds so called for redemption and subject to such conditional redemption notice shall continue to remain outstanding.

Additionally, written notice of each redemption of 2009 Series C Bonds must be provided by the Trustee to the GSEs, the Administrator and the Treasury's Financial Agent, such notice to be provided by facsimile transmission to addresses provided by such parties. Redemption of 2009 Series C Bonds will not be conditioned or delayed for the giving of such notice, which must be provided at least ten (10) days in advance of the date of such redemption.

BOOK ENTRY SYSTEM

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

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

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“**Direct Participants**”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust and Clearing Corporation (“**DTCC**”). DTC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”). DTC has a Standard & Poor’s rating of “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES BONDS, AS NOMINEE FOR DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OR OWNERS OF THE SERIES BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES BONDS.

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

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

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

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

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

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

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

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

shall forward (or cause to be forwarded) the notice to the DTC Participants so that such DTC Participants may forward (or cause to be forwarded) the notices to the Beneficial Owners.

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

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

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

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

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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

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

Indenture as Contract with Bondowners

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

Pledge of the Indenture

The Indenture creates a continuing pledge and lien on the Trust Estate to secure the full and final payment of the principal and redemption price of and interest on all the Outstanding Bonds. The Trust Estate includes all moneys and securities, including Bond proceeds (other than proceeds deposited in trust for the retirement of any outstanding Bonds or other indebtedness of the Agency), and other assets from time to time held by the Trustee under and subject to the terms of the Indenture or any Supplemental Indenture (other than amounts held in the Rebate Fund, if any) and any and all other real or personal property of every name and nature from time to time by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the Indenture by the Agency, or by anyone in its behalf or with its written consent, to the Trustee.

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

Authorization and Issuance of Bonds

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

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

Cash Equivalents

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

Qualified Hedge Agreements

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

Establishment of Funds and Accounts

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

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

In addition, within the Program Fund, the 2009 Series A Supplemental Indenture establishes the 2009 Series A Escrow Account. See “**SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Additional Security.**”

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

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

Program Fund

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

Revenue Fund

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

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

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

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

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

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

Debt Service Fund

On each Interest Payment Date and any other date on which interest on the Bonds is payable, the Trustee shall withdraw from the Debt Service Fund an amount equal to the unpaid interest due on the Bonds on that date, and on any redemption date or purchase date pursuant to the Indenture, an amount equal to the unpaid interest due on the Bonds to be paid, redeemed or purchased, and any amounts required to be paid to the Provider of a Qualified Hedge Agreement (other than fees, expenses or termination payments payable to such Provider of the Qualified Hedge Agreement) equivalent to interest and shall cause it to be applied to the payment of said interest or amount when due, or shall transmit it to one or more Paying Agents, who shall apply it to such payment.

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

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

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

Reserve Fund

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

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

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

Rebate Fund

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

Special Program Fund

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

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

required to be paid to the Provider of a Hedge Agreement (other than fees, expenses or termination payments payable to such Provider) unless otherwise provided in such Hedge Agreement or any related Supplemental Indenture.

Depositories of Moneys and Investment of Funds

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

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

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

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

Issuance of Additional Obligations

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

Supplemental Indentures

Any of the provisions of the Indenture may be amended by the Agency by a Supplemental Indenture with the consent of (i) the holders of not less than a majority in aggregate Principal Amount of the Bonds then outstanding at the time such consent is given and (ii) in case less than all of the several

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

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

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

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

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

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

Events of Default

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

Remedies

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

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

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

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

Application Moneys After Default

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

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

(i) To the payment to the persons entitled thereto of all interest then due on the Bonds, in the order of the maturity of such interest and, if the amount available shall not be

sufficient to pay in full said amount, then to the payment ratably, according to the amounts due to the persons entitled thereto, without any discrimination or privilege;

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

(iii) To be held for the payment to the persons entitled thereto as the same shall become due of the principal amount of and interest on the Bonds which may thereafter become due either at maturity or upon call for redemption prior to maturity and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with interest then due and owing thereon, payment shall be made ratably according to the amount of principal due on such date to the persons entitled thereto without any discrimination or privilege;

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

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

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

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

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

Discharge of Lien

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

except cash held by the Trustee or any Paying Agent for the payment of the principal amount of, premium, if any, and interest on any Series of Bonds.

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

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

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

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

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

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

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

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

TRUSTEE

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

PLEDGE AND AGREEMENT OF THE STATE

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

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

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Bond Counsel, under existing laws, regulations, rulings and court decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants described herein, interest on the 2009 Series C Bonds from the Release Date and on the 2011 Series A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, except that no opinion is expressed as to such exclusion of interest on any Series Bond for any period during which the Series Bond is held by a person who is a “substantial user” of the facilities financed with the proceeds of the Series Bonds or a “related person” within the meaning of Section 147(a) of the Code. Bond Counsel is further of the opinion that interest on the 2009 Series C Bonds and on the 2011 Series A Bonds is not a specific preference item or included in adjusted current earnings for purposes of the federal alternative minimum tax.

In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Agency and the Developers in connection with the Series Bonds, and Bond Counsel has assumed compliance by the Agency and the Developers with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Assuming compliance by the Agency with certain covenants and certifications contained in the Indenture, under existing laws of the State, the Series Bonds and the interest payable thereon, including any profit realized from the sale or exchange thereof, will be exempt from all taxation by the State franchise fees or special assessments, except transfer, estate or inheritance taxation.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series Bonds, and renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series Bonds, or under state and local tax law.

Certain Parity Indenture Aspects

Each series of Bonds issued under the Indenture with the intention that the interest paid thereon will be excludable from gross income for Federal income tax purposes (“**Tax-Exempt Bonds**”), including the Series Bonds, must satisfy the applicable requirements of the Code. In general, Tax-Exempt Bonds originally issued for new money purposes after the general effective date of the Code (August 16, 1986), are fully subject to the applicable requirements of the Code, including the more restrictive low income set-aside requirements under the Code.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series Bonds in order that interest on the Series Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal Government. Noncompliance with such requirements may cause interest on the Series Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Agency has covenanted in the Indenture that it will do and perform all acts necessary or desirable to assure the exclusion of interest on the Series Bonds from gross income under Section 103 of the Code. The Agency will deliver its Tax Certificate concurrently with the issuance of the Series Bonds which will contain provisions relating to compliance with the requirements of the Code. The Agency also has required or will require Developers to make certain covenants in the Mortgage Loan program documents relating to compliance with the requirements of the Code. No assurance can be given, however, that in the event of a breach of any such covenant, the remedies available to the Agency or the owners of the Series Bonds can be enforced judicially in a manner to assure compliance with the Code and therefore to prevent the loss of the exclusion from gross income of the interest on the Series Bonds for Federal income tax purposes. Such Federal tax compliance covenants will be subordinate to the rights of FHA under the Series Loan documents and the enforcement of such covenants will be subject to FHA approval. Because of these FHA restrictions, enforcement remedies available to the Agency or any other mortgagee may be inadequate to prevent the loss of tax exemption of interest on such Series Bonds for Federal income tax purposes.

Low Income Set-Aside Requirements Under the Code

The Series Bonds are subject to the low income set-aside and other requirements for qualified residential rental projects under the Code which are described briefly in this subsection. The Code requires that at least 95 percent of the net proceeds of exempt facility bonds under Section 142(a)(7) (after reduction for amounts applied to fund a reasonably required reserve fund) be used to provide “qualified residential rental projects.” The Code defines a residential rental project as a project containing units with separate and complete facilities for living, sleeping, eating, cooking, and sanitation that are available to the general public and are to be used on other than a transient basis. Section 142(d) of the Code requires

that either (i) at least 20% of the completed units in a project to be financed with the proceeds of the Series Bonds be continuously occupied during the “qualified project period” by individuals and families whose annual adjusted income does not exceed 50% of the area median income (with adjustments for family size), or (ii) at least 40% of the completed units in a project to be financed with the proceeds of the Series Bonds be continuously occupied during the qualified project period by individuals and families whose annual adjusted income does not exceed 60% of the area median income (with adjustments for family size). The Agency will make elections on the applicable low income set-aside requirements with respect to the Developments expected to be financed with the proceeds of the Series Bonds prior to the issuance date of the Series Bonds. In addition, all of the units in any Development must be rented or available for rental on a continuous basis throughout the applicable qualified project period. The Code defines the “qualified project period” as the period beginning on the first day upon which 10% of the units in a project are occupied and ending on the latest of (i) the date that is 15 years after the date upon which 50% of the residential units in such project are occupied, (ii) the first day on which no tax-exempt private activity bond issued with respect to such project is outstanding, or (iii) the date upon which any assistance provided with respect to such project under Section 8 of the United States Housing Act of 1937, as amended, terminates. A Development generally will meet the continuing low income set aside requirement so long as a tenant’s income does not increase to more than 140% of the applicable income limitation. Generally, upon an increase of a tenant’s income over 140% of the applicable income limitation, the next available unit of comparable or smaller size in the applicable Development must be rented to a tenant whose income does not exceed the applicable income limitation. The Code requires annual certifications to be made to the Secretary of the Treasury regarding compliance with the applicable income limitations.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series Bonds.

Prospective owners of the Series Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S Corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security or railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. The extent of these collateral tax consequences will depend upon such owner’s particular tax status and other items of income or deduction, and Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series Bonds should consult their tax advisors as to the tax consequences of purchasing or owning the Series Bonds. Interest on the Series Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Series Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. The “issue price” for each maturity of Series Bonds is the principal amount thereof set forth on the cover page (or inside cover page) of this Official Statement with respect to such Series Bonds. In general, under Section 1288 of the Code,

OID on a Series Bond (a “**Discount Bond**”) accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Series Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Due to the fact that the interest rate on the 2009 Series C Bonds increases two months following the Release Date, the 2009 Series C Bonds may be considered issued with original issue discount for federal income tax purposes.

Generally, such original issue discount is amortized over the term of any such Discount Bonds, and such amortized amount is treated as tax-exempt interest. Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Series Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to Series Bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Series Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series Bonds or the market value thereof would be impacted thereby. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series Bonds and Bond Counsel has expressed no

opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Purchasers of the Series Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation.

LEGAL MATTERS

The authorization and delivery of the Series Bonds are subject to receipt of the opinion of Kutak Rock LLP, Bond Counsel, which will be in substantially the form set forth in Appendix A. Certain legal matters will be passed upon for the Agency by its General Counsel, George N. Demas, Esq. Certain legal matters will be passed upon for the Underwriter by its counsel, Nixon Peabody, LLP, Underwriter's Counsel.

NO LITIGATION

The Agency is not engaged in and has not been threatened with any litigation of any nature which seeks to restrain or enjoin the issuance, sale, execution or delivery of the Series Bonds or which in any way contests the validity of the 2009 Series A Bonds or the Series Bonds or any proceedings of the Agency taken with respect to their issuance or sale or the pledge or application of any moneys or the security provided for the payment of the 2009 Series A Bonds or the Series Bonds, or which contests the existence of the Agency.

INDEPENDENT AUDITORS

The financial statements of the Agency for the year ended June 30, 2011 have been audited by Reznick Group, P.C., independent certified public accountants. Reznick Group, P.C. 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. Reznick Group, P.C. also has not performed any procedures relating to this Official Statement.

RATINGS

The Series Bonds have received a rating of "Aaa" from Moody's Investors Service, Inc. ("**Moody's**"), with a negative outlook. Ratings assigned to the Series Bonds reflect only the views of the rating agency and an explanation of the significance of such ratings may be obtained only from the rating agency. There is no assurance that the ratings that have been assigned to the Series Bonds will continue for any given period of time or that they will not be revised or withdrawn entirely by such rating agency if, in the judgment of the rating agency, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Series Bonds.

UNDERWRITING

Citigroup Global Markets Inc. (the "Underwriter") has agreed, subject to certain conditions, to purchase all of the 2011 Series A Bonds from the Agency at the prices set forth on the inside cover page hereof, less an underwriter's discount of \$55,910.26. The Underwriter is not acting as placement agent with respect to the 2009 Series C Bonds, and the 2009 Series C Bonds are not being offered or remarketed hereby.

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

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

The Underwriter and its 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 Underwriter 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 Underwriter and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Agency.

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

Citi has also entered into a master distribution agreement (the “Master Distribution Agreement”) with TheMuniCenter L.L.C. (“TMC”), for the distribution to retail investors of certain municipal securities offerings at their original issue prices. TMC has established an electronic primary offering application platform through which certain TMC approved users that are also broker-dealers or municipal securities dealers can submit orders for and receive allocations of new issue municipal securities at the original issue price for their retail customers. Pursuant to the Master Distribution Agreement (if applicable for this transaction), Citi may share with TMC a portion of its underwriting compensation with respect to any 2011 Series A Bonds that are allocated to a TMC user. The TMC users permitted to participate in the offering of the 2011 Series A Bonds may also share a portion of the underwriting compensation received by Citi with respect to any 2011 Series A Bonds allocated to such TMC user pursuant to the terms of a Member Addendum to the TMC user’s Trading Authorization User Agreement with TMC. Citigroup Financial Products Inc., an affiliate of CGMI, owns a 31.35% equity interest in TheDebtCenter L.L.C., the parent company of TMC.

CONTINUING DISCLOSURE

In connection with the issuance of the 2011 Series A 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, 2012, 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 G – “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.

In addition, in the 2009 Series A Supplemental Indenture, the Agency has covenanted to provide certain information to the GSEs for each period after and including the calendar quarter ending September 30, 2010. Such information includes principally (i) audited financial statements of the Agency for each Fiscal Year, (ii) financial statements of the Agency for interim portions of a Fiscal Year if produced, (iii) financial statements specific to the Indenture for each of the first three calendar quarters of each Fiscal Year, (iv) a compliance certificate in a specified form, (v) specified quarterly reports, (vi) copies of cash flow certificates, (vii) certificates required under the 2009 Series A Supplemental Indenture for the withdrawal of cash from the Indenture, (viii) copies of rating agency presentations and ratings pertaining to the Indenture or to the Agency as a whole, (ix) copies of disclosure documents with respect to obligations outstanding under the Indenture, and (x) copies of publicly available information disclosures concerning the financial condition or performance of the Agency.

The Agency also agreed in the 2009 Series A Supplemental Indenture to provide the GSEs with notice of certain events, including (i) events which would require the filing of an “events notice” under Rule 15c2-12 as that Rule is amended, restated or replaced from time to time, (ii) any “event of default” or event which, with the passage of time or the giving of notice, or both, would become such an “event of default” under the Indenture or certain related documents, (iii) resignation or removal of the Trustee, or any failure by the Trustee to perform its duties under the Indenture or any related document, (iv) demands for payments or for the posting of collateral under a hedging arrangement, (v) any litigation, administrative or other proceeding or other development that would have a material and adverse effect on the ability of the Agency to perform its duties and obligations under the Indenture or any related document, (vi) a ratings downgrade, or notice of a negative outlook applicable to existing ratings, relating to the Agency as a whole or to the Bonds, (vii) certain adverse changes with respect to any provider of a guaranteed investment contract or hedge relating to the Indenture or to the Agency as a whole, (viii) supplements or amendments to the Indenture, (ix) unscheduled draws on a debt service reserve or credit enhancement reflecting financial difficulties, (x) defeasance of any Bonds, and (xi) release, sale or substitution of any property securing any of the Bonds.

MISCELLANEOUS

All quotations from, and summaries and explanations of the Act and the Indenture contained in this Official Statement do not purport to be complete and reference is made to the Act and the Indenture for full and complete statements of their provisions. Copies of the Act and the Indenture 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.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of facts. This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or owners of any of the Series Bonds. The execution and distribution of this Official Statement have been duly authorized by the Agency.

VERMONT HOUSING FINANCE AGENCY

/s/ Sarah E. Carpenter
Executive Director

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APPENDIX A

PROPOSED FORM OF OPINION OF BOND COUNSEL

Vermont Housing Finance Agency
164 St. Paul Street
Burlington, Vermont 05401-4634

\$20,555,000

Vermont Housing Finance Agency
HFA Initiative Multifamily Bonds,
2009 Series C and 2011 Series A

We have previously acted as Bond Counsel in connection with the issuance by the Vermont Housing Finance Agency (the "Agency") of \$23,000,000 aggregate principal amount of its HFA Initiative Multifamily Bonds, 2009 Series A (the "2009 Series A Bonds"). The 2009 Series A Bonds were authorized to be issued pursuant to the No. 260 of the Vermont Acts of 1973, Adjourned Session, as amended (the "Act"), and under and pursuant to the Trust Indenture, dated as of December 1, 2009 (the "Trust Indenture"), between the Agency and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), resolutions of the Agency authorizing the issuance and sale of bonds to finance multifamily mortgage loans, and the Supplemental Indenture dated as of December 1, 2009, as amended (the "2009 Series A Supplemental Indenture"), between the Agency and the Trustee.

The Agency has determined to supplement the Trust Indenture by the 2009 Series C/2011 Series A Supplemental Indenture, dated as of December 1, 2011 (the "2009 Series C/2011 Series A Supplemental Indenture"), by and between the Agency and the Trustee, to provide for and establish a Release Date (as defined below) with respect to the proceeds of the 2009 Series A Bonds currently held in escrow and to provide for the issuance of the Agency's HFA Initiative Multifamily Bonds, 2011 Series A (the "2011 Series A Bonds") and to provide for the application of such proceeds to the funding of mortgage loans, all as hereinafter provided. In accordance with and subject to the terms, conditions and limitations established in the Trust Indenture, the 2009 Series A Supplemental Indenture and the 2009 Series C/2011 Series A Supplemental Indenture (collectively, the "Indenture"), the proceeds of the 2009 Series A Bonds in the principal amount of \$16,290,000 shall be released from escrow on the date hereof (the "Release Date"), and the portion of the 2009 Series A Bonds relating thereto shall be redesignated as 2009 Series C Bonds (the "2009 Series C Bonds" and, together with the 2011 Series A Bonds, the "Bonds") and deemed reissued for federal income tax purposes as of the date hereof.

The Bonds are equally and ratably secured by the Indenture with all other bonds issued thereunder unless otherwise specified in a supplemental indenture or by the Agency pursuant to the provisions thereof.

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

The Internal Revenue Code of 1986, as amended (the "Code") establishes certain continuing requirements which must be met in order that interest on the Bonds not be included in gross income of the

owners thereof for federal income tax purposes. These include requirements as to the use and investment of proceeds of the Bonds, the payment of certain amounts to the United States and the use and occupancy of the projects financed by the Bonds. In the Indenture, various tax certificates and Tax Regulatory Agreements, (together, the “Tax Regulatory Agreements”) among the Agency, the Trustee and the various borrowers (together, the “Borrowers”), the Agency and each of the Borrowers have made various covenants with respect to these requirements. Failure to comply with certain of such covenants could cause interest on the Bonds to be included in gross income of the owners thereof for federal income tax purposes, retroactively to the date of issuance of the Bonds.

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

Based on the foregoing it is our opinion that:

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

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

(c) The release and redesignation of the 2009 Series C Bonds and the issuance of the 2011 Series A Bonds were duly authorized and the Bonds have been duly issued, executed, and delivered by the Agency in accordance with the Act and the Indenture and constitute valid and binding limited obligations of the Agency, which has no taxing power, enforceable in accordance with their terms and the terms of the Indenture and entitled to the benefits of the Act and the Indenture. The Bonds are limited obligations of the Agency, payable from the Agency’s revenues, assets or moneys pledged therefor under the Indenture. The Bonds do not constitute a debt or liability or obligation of the State or of any political subdivision thereof or a pledge of the faith and credit of the State or of any political subdivision.

(d) Under existing laws, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the 2009 Series C Bonds from the Release Date and the interest on the 2011 Series A Bonds is excluded from gross income for federal income tax purposes. We are further of the opinion that interest on the Bonds is not a specific preference item or included in adjusted current earnings for purposes of the federal alternative minimum tax. If there is continuing compliance by the Agency and the Borrowers with their respective covenants described above as contained in the Indenture and the Tax Regulatory Agreements, we are of the opinion that interest on the Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. No opinion is expressed, however, as to the exclusion of interest on any Bond for federal income tax purposes for any period during which such Bond is held by a person who is a “substantial user” of a project financed by the Bonds or by any person considered to be related to such person within the meaning of the Code. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

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

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

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

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

Very truly yours,

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APPENDIX B

**DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS
EXPECTED TO BE FINANCED BY THE SERIES BONDS**

<u>Name</u>	<u>Location</u>	<u>Owner</u>		<u>No. of Units</u>	<u>Mortgage Loan Amount</u>	<u>Credit Enhancement</u>	<u>Term of Mortgage Loan (Years)</u>	<u>Interest Rate(s)</u>
Randolph House	Randolph, Vermont	Randolph Holdings, Inc.	House	48	\$1,740,000	FHA Risk-Sharing Program	30	4.0%
Graystone Village	Hartford, Vermont	Dewitt Drive Housing Limited Partnership	Housing	34	1,800,000	FHA Risk-Sharing Program	31	4.0
Northgate Apartments	Burlington, Vermont	New Northgate LLC	Housing	336	13,265,000	FHA Risk-Sharing Program	40	4.5
Lake Street/Holy Angels	St. Albans, Vermont	Holy Angels Limited Partnership	Housing	31	1,856,000	FHA Risk-Sharing Program	31	4.5
Allen Canal	Winooski, Vermont	Allen Canal Apartments, Inc.	Apartments	17	514,796	FHA Risk-Sharing Program	30	4.25
Abenaki Acres	Swanton, Vermont	Swanton Associates I, L.P.	Housing	12	930,000	FHA Risk-Sharing Program	31	4.5

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APPENDIX C
2009 SERIES C BONDS
SINKING FUND SCHEDULE

Maturity Info

Maturity Date	Issue Amount
08/01/2022	\$30,000
09/01/2022	40,000
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APPENDIX D

MORTGAGE INSURANCE PROGRAMS— THE FHA RISK-SHARING PROGRAM

The following is a brief description of the multifamily mortgage insurance program administered by HUD, acting through FHA, pursuant to Section 542(c) of the Housing and Community Development Act of 1992, as amended (the “**Risk-Sharing Act**”), of Title II of the National Housing Act, as amended (the “**National Housing Act**”), and is qualified in its entirety by reference to the National Housing Act and the Risk-Sharing Act and the regulations thereunder.

The Risk-Sharing Act authorizes the Secretary of HUD to enter into risk-sharing agreements with qualified state or local housing finance agencies (“**HFA**s”) to enable those HFAs to underwrite and process loans for which HUD, acting through FHA, will provide full mortgage insurance for eligible projects. HUD has promulgated regulations at 24 C.F.R. Part 266 (the “**Regulations**”) pursuant to the National Housing Act. The FHA Risk-Sharing Program established by the Risk-Sharing Act allows HFAs to carry out certain HUD functions, including the assumption of underwriting, loan management and property disposition functions and responsibility for defaulted loans, including reimbursement of HUD for a portion of the loss from any defaults that occur while the HUD contract of mortgage insurance is in effect. The FHA Risk-Sharing Program is designed to increase the supply of affordable multifamily units by allowing HFAs to originate and service mortgage loans that are fully insured by FHA.

This mortgage insurance program requires that an interested HFA first be approved as a qualified HFA. Upon notification of approval as a qualified HFA, the HFA must execute a risk-sharing agreement with the Commissioner of FHA. The risk-sharing agreement must state the agreed upon risk apportionment between HUD and the HFA, the number of units allocated to the HFA, a description of the HFA’s standards and procedures for underwriting and servicing loans and a list of HFA certifications designed to assure its proper performance.

Projects eligible to be insured under the FHA Risk-Sharing Program include qualified new construction projects, substantial rehabilitation projects, existing projects, projects receiving Section 8 or other rental subsidies, single room occupancy projects, board and care/assisted living facilities and elderly projects. Transient housing or hotels, projects in military impact areas, retirement service centers, and nursing homes or intermediate care facilities are specifically excluded from eligibility for insurance under the program. Risk-sharing projects must be maintained as “affordable housing,” which means that either (1) 20% or more of the units are both rent-restricted (as defined below) and occupied by families whose income is 50% or less of the area median income as determined by HUD, with adjustments to income based on household size, or (2) 40% or more of the units are both rent-restricted and occupied by families whose income is 60 percent or less of the area median income as determined by HUD, with adjustments to income based on household size. A residential unit is rent-restricted if the gross rent with respect to such unit does not exceed 30% of the imputed income limitation applicable to the unit as published from time to time by HUD.

Pursuant to Section 542(c) of the Risk-Sharing Act, the Agency and HUD have entered into a risk-sharing agreement, dated as of September 18, 2009 (the “**Risk-Sharing Agreement**”) under which the Agency has been granted Level 1 status, HUD has agreed to provide federal insurance on certain mortgage loans made by the Agency, and the Agency has agreed to reimburse HUD for 50 percent to 90 percent (as negotiated for each specific mortgage loan) of the payments made by HUD on any of the mortgage loans insured under the federal insurance. However, any failure by the Agency to reimburse HUD pursuant to the Risk-Sharing Agreement will not affect HUD’s obligation to pay the insurance

claim as described below. Claims made by the Agency under the federal insurance program will be made at the times and in the manner described below.

The Agency will authorize the use of the FHA Risk-Sharing Program in connection with new Mortgage Loans financed by the Series Bonds on a case-by-case basis.

FHA Insurance under the FHA Risk-Sharing Program with respect to any Mortgage Loan may be terminated upon the occurrence of certain events, including the following: (1) the corresponding mortgage is paid in full; (2) the Agency acquires mortgaged property and notifies the Commissioner that it will not file an insurance claim; (3) a party other than the Agency acquires property at a foreclosure sale; (4) the Agency notifies the Commissioner of a voluntary termination of insurance; (5) the Agency or its successors commit fraud or make a material misrepresentation to the Commissioner with respect to certain information; (6) the receipt by the Commissioner of an application for final claims settlement by the Agency; or (7) the Agency acquires the mortgaged property and fails to make an initial claim.

During its participation in the program, the Agency must take responsibility for certain functions, including specified functions relating to the Affirmative Fair Housing Marketing Plan, labor standards, insurance of advances, cost certification, and lead-based paint requirements. A mortgagor must certify to the Agency that it is in compliance with certain enumerated discrimination and civil rights statutes and executive orders. HUD has specifically retained certain functions, including monitoring compliance with the Davis-Bacon Act, environmental laws, enforcement of certain fair housing and equal opportunity laws and other program criteria. Certain HUD requirements may only be applicable when construction advances are insured.

Upon completion of construction, presentation of a closing docket, including an executed regulatory agreement between the Agency and the mortgagor, and certifications required by the Regulations, FHA issues a final endorsement of the mortgage note for the costs related to the project which have been certified by an independent certified public accountant and have been approved by the Agency. Although the Agency has been given authority to approve cost certifications by a mortgagor, HUD has the Agency, in its sole discretion, at any time prior to and including final endorsement, to adjust the amount of mortgage insurance.

The Regulations indicate that a default under an FHA-insured mortgage has occurred (which default causes the Agency to become eligible for insurance benefits) when (1) the mortgagor fails to make any payment due under the mortgage, or (2) the mortgagor fails to perform any other mortgage covenant (which include covenants in the related regulatory agreement, which is incorporated by reference in the applicable mortgage), the Agency has accelerated the debt and the owner has failed to pay the full amount due. If the default continues to exist at the end of the 30-day grace period, the mortgagee is required to give HUD written notice of the default within 10 days after such grace period and monthly thereafter, unless waived by HUD, until such default has been cured or the Agency has filed an application for an initial claim payment. Unless a written extension is granted by HUD, the Agency must file an application for initial claim payment (or, if appropriate, for partial claim payment) within 75 days from the date of default. Such claim may be made as early as the first day of the month following the month for which a payment was missed. Upon request of the Agency, HUD may extend, up to 180 days from the date of default, the deadline for filing a claim. In those cases where the Agency certifies that the project owner is in the process of transacting a bond refunding, refinancing the mortgage, or changing the ownership for the purpose of curing the default and bringing the mortgage current, HUD may extend the deadline for filing a claim beyond 180 days but not exceed 360 days from the date of default.

The initial claim amount is based on the unpaid principal balance of the mortgage note as of the date of default, plus interest at the mortgage note rate from the date of default to the date of initial claim

payment. The mortgage note interest component of the initial claim amount is subject to curtailment as described below. HUD must make all claim payments in cash. The initial claim payment to the Agency is equal to the initial claim amount, less any delinquent mortgage insurance premiums, late charges and interest assessed under the Regulations. **The Agency must use the proceeds of the initial claim payment to retire any bonds or any other financing mechanisms securing the mortgage within 30 days of the initial claim payment.** Any excess funds resulting from such retirement or repayment must be returned to HUD within 30 days of the retirement.

In determining the mortgage note interest component of the initial claim amount, if the Agency fails to meet any of the requirements of the Regulations within the specified time (including any granted extension of time), HUD shall curtail the accrual of mortgage note interest by the number of days by which the required action was late. The Regulations also indicate that losses sustained as a consequence of the (sole) negligence of the Agency shall be the sole obligation of the Agency, notwithstanding the risk apportionment otherwise agreed to by HUD and the Agency.

Within 30 days of the initial claim payment, the Agency must also issue to HUD a debenture in a form approved by HUD (each, a “**Debenture**”), payable in five years unless extended, in an amount equal to the amount of the initial claim payment. Each Debenture must be supported by the full faith and credit of the Agency. Each Debenture will bear interest at HUD’s published debenture rate, and interest will be payable annually. The Risk-Sharing Act contemplates that during the five year term of each Debenture, the Agency would work toward curing the default, foreclosure or resale of the related development. On or before the due date of each Debenture, the total loss to be shared by the Agency and HUD shall be computed pursuant to the Risk-Sharing Agreement.

The Regulations provide that the Agency must file an application for final claim settlement not later than 30 days after either (1) foreclosure sale or sale after acceptance of a deed in lieu of foreclosure, or (2) expiration of the term of the Debenture. The total loss on the mortgaged property is determined and allocated between HUD and the Agency in accordance with their respective percentages of risk specified in the mortgage note and the risk-sharing agreement.

The Regulations indicate that if the initial claim amount is less than HUD's share of the loss, HUD shall make a final claim payment to the Agency that is equal to the difference between HUD's share of the loss and the initial claim amount and shall return the related Debenture to the Agency for cancellation. If the initial claim amount is more than HUD's share of the loss, the Agency shall, within 30 days of notification of the amount due, remit to HUD an amount equal to the difference between the initial claim amount and HUD's share of the loss. The related Debenture will be considered redeemed upon receipt of the cash payment.

Information on project management and servicing will be required after endorsement. Additionally, the Agency must submit semiannual reports, annual financial statements and must maintain its eligibility by continued compliance with the risk-sharing agreement, the regulatory agreement, and all the requirements for initial program eligibility.

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APPENDIX E

DEFINITIONS OF CERTAIN TERMS

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

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

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

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

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

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

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

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

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

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

“*Loan*” or “*Loans*”: any Multifamily Mortgage Loans or any Loan Securities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

APPENDIX F

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

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

Financial Statements and
Required Supplementary Information

June 30, 2011

(With Independent Auditors' Report Thereon)

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

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INDEPENDENT AUDITORS' REPORT

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

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Agency, as of June 30, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Reznick Group, P.C.

Baltimore, Maryland
September 30, 2011

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

Management's Discussion and Analysis

June 30, 2011

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

Overview of the Agency

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

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

Overview of the Financial Statements

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

Summary of Net Assets

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

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

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

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

Management's Discussion and Analysis

June 30, 2011

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

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

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

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

Management's Discussion and Analysis

June 30, 2011

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

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

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

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

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

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

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

Management's Discussion and Analysis

June 30, 2011

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

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

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

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

Management's Discussion and Analysis

June 30, 2011

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

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

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

Management's Discussion and Analysis

June 30, 2011

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

Income and expense highlights include:

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

Budgetary Information

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

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

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

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

Contacting the Agency's Financial Management

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

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

Statement of Net Assets

June 30, 2011

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

See accompanying notes to financial statements.

VERMONT HOUSING FINANCE AGENCY

(A Component Unit of the State of Vermont)

Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2011

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

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2011

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

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

Statement of Cash Flows

Year ended June 30, 2011

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

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2011

(1) Authorizing Legislation and Nature of Funds

(a) *Authorizing Legislation*

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

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

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

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

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

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

(i) Operating Fund

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

Federal grant revenues and expenses related to the Agency's participation in programs under the American Recovery and Reinvestment Act of 2009 (ARRA) and the Federal Housing and Economic Recovery Act of 2008 (HERA) are reported in the Operating Fund.

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

(ii) Single Family Mortgage Program Fund

This fund has been established under the Single Family Insured Mortgage Bond Resolution adopted in September 1976, the Single Family Mortgage Purchase Bond Resolution adopted in June 1978, the Home Mortgage Purchase Bond Resolution adopted in July 1983, the Single Family Housing Bond Resolution adopted in September 1990, and the Mortgage Revenue Bond (Mortgage Backed Securities Program) indenture adopted in December 2009 under the

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

Notes to Financial Statements

June 30, 2011

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

(iii) Multiple Purpose Program Fund

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

(iv) Multi-Family Mortgage Program Fund

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

(v) Reserve Requirements

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

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

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

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

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

Notes to Financial Statements

June 30, 2011

(b) Net Assets

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

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

(c) Cash Equivalents

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

(d) Mortgage Loans Receivable

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

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

(e) Mortgage Backed Securities

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

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(f) Investments

Investments are comprised of short-term investments other than cash equivalents that mature in one year or less, and long-term investments with maturities in excess of one year. Investments are reported at fair value in the statement of net assets. The net increase (decrease) in the fair value of investments, including both realized and unrealized gains and losses, is recognized in the statement of revenues, expenses, and changes in net assets. Fair values of guaranteed investment contracts (GICs) are recorded at contract value. Fair values of all other investments are based upon quoted market prices.

(g) Depreciation

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

(h) Derivative Instruments – Interest Rate Swaps

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

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

(i) Amortization

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

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

(j) Income Tax Status

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

(k) Deferred Loan Origination Fees and Costs

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

(l) Arbitrage to be Rebated

Bonds issued by the Agency are subject to a variety of Internal Revenue Service (IRS) regulations which limit the amount of income which may be earned with nonmortgage investments to an amount

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

(m) *Operating and Nonoperating Revenues and Expenses*

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

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

(n) *Use of Estimates*

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

(3) *Cash, Cash Equivalents and Investments*

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

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

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

(a) Custodial Credit Risk – Deposits

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

(b) Cash and Investments

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

Investments by Type

June 30, 2011

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

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

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

(c) Concentration of Credit Risk

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

(d) Interest Rate Risk – Investments

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

(4) Mortgage and Construction Loans Receivable

(a) Single Family Mortgage Loans Receivable

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

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

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

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

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

(5) Capital Assets

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

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

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

(6) Real Estate Owned

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

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(7) Escrowed Cash Deposits

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

(8) Bonds Payable

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

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

A. Single Family Mortgage Program Fund:

Housing Program:

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

Mortgage Revenue Bonds (Mortgage Backed Securities Program):

Series 2009A (NIBP Escrow Bonds), maturing 2041, interest at floating rate	<u>84,000,000</u>
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Series 2010A, Subseries A-1, maturing 2012 to 2041, interest at .075% to 4.5%	<u>30,000,000</u>
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Total Mortgage Revenue Bond Program	<u>114,000,000</u>
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Total Single Family Mortgage Program Fund	<u>\$ 435,620,000</u>
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B. Multiple Purpose Bond Program Fund:

Multiple Purpose Bonds:

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

C. Multi-Family Mortgage Program Fund:

Mortgage Program:

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

Direct Placement Program:

Northgate Housing Program:

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

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

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

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

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

Maturing 2012 to 2038, interest at 3.756% to 4.610%	653,294
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Total Direct Placement Programs	<u>16,141,303</u>
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HFA Initiative Multifamily Bonds:

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

D. Operating Fund:

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

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

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

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

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

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

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

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

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

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

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

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A summary of the swap agreement follows:

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

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

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June 30, 2011

(9) Notes Payable

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

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

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

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

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

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

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

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

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

VERMONT HOUSING FINANCE AGENCY
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June 30, 2011

(10) Asset Restrictions

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

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

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

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

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

(11) Retirement Plan

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

(12) Gain on Bond Redemptions

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

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June 30, 2011

The following is a summary of the redeemed bonds:

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

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Notes to Financial Statements

June 30, 2011

(13) Federal Programs

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

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

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

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

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

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

(14) Commitments and Contingencies

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

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

(15) Risk Management

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

(16) Subsequent Events

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

APPENDIX G

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of December 15, 2011 (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 \$4,265,000 aggregate principal amount of its HFA Initiative Multifamily Bonds, 2011 Series A (the “Bonds”). The Bonds are being issued pursuant to a Trust Indenture, dated as of December 1, 2009 (the “General Indenture”), a Supplemental Indenture, dated as of December 1, 2009, as amended and a Supplemental Indenture dated as of December 1, 2011 (the “Supplemental Indentures” and, together with the General Indenture, the “Indenture”), each between the Agency and the Trustee.

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

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

“*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 8, 2011, with respect to the Bonds (the “Official Statement”) under the following captions or in the following Appendices (or portions thereof):

(a) 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**” thereto.

(b) 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, 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*;

* 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.

- (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 Indenture.

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

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

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

(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 Indenture 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 Indenture, to protect and enforce the rights of the owners of the Bonds pursuant to this Disclosure Agreement. Any failure by the Agency to comply with the provisions of this Disclosure Agreement shall not be an Event of Default under the Indenture.

The rights of the holders of the Bonds and the Trustee to enforce the provisions of this Disclosure Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Agency's obligations under this Disclosure Agreement and the Agency, its members, officers and employees shall incur no liability under this Disclosure Agreement by reason of any act or failure to act hereunder. Without limiting the generality of the foregoing, 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 Indenture 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, 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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