



**\$55,500,706**  
**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
**Commonwealth Mortgage Bonds**  
**Pass-Through Certificates**  
**2008 Series C**

**Consider carefully the risk factors starting on page 5 of this Offering Circular. Unless you understand and are able to tolerate these risks, you should not invest in the Offered Certificates.**

We have no taxing power. The Offered Certificates do not constitute a debt or grant or loan of credit of the Commonwealth of Virginia, and the Commonwealth shall not be liable thereon, nor shall the Offered Certificates be payable out of any funds other than ours.

The Offered Certificates are exempt from registration under the U.S. Securities Act of 1933 pursuant to Section 3(a)(2) thereof, are "exempted securities" under the U.S. Securities Exchange Act of 1934 and are exempt from registration under the securities laws of the Commonwealth of Virginia.

### The Offered Certificates

We, the Authority, will issue the Offered Certificates described herein. The Offered Certificates will be indebtedness of the Authority.

### Payments

You, the Investor, will receive monthly payments of principal and interest on the outstanding balance of your Offered Certificates, as described in this Offering Circular.

You will receive principal payments on your Offered Certificates based on principal payments and defaults on a pool of identified first lien, single-family Mortgage Loans having the characteristics described in this Offering Circular.

### Guaranty and Security

We will guarantee that the payments of monthly interest and principal described in this Offering Circular are paid to Investors on time and that the remaining principal balances, if any, of the Offered Certificates are paid on the Final Scheduled Payment Date shown below. Our general obligation/issuer credit ratings are Aa1 by Moody's and AA+ by Standard & Poor's. The Offered Certificates are Commonwealth Mortgage Bonds and will be equally and ratably secured with all such Bonds currently Outstanding and which may be issued in the future.

Original Principal Amount	Interest Rate	Purchase Price	CUSIP Number	Final Scheduled Payment Date
\$27,000,706	6.0%	\$26,448,504.16	92812UYL6	June 25, 2038
\$28,500,000	6.5%	\$27,854,296.88	92812UYM4	June 25, 2038

The Dealer may offer the Offered Certificates from time to time in negotiated transactions at varying prices. We expect the Closing Date to be November 18, 2008. See "Sale" herein.

The Offered Certificates are debt securities on which the interest is not exempt from federal income taxes. Under the Act, income on the Offered Certificates, including any profit made on the sale thereof, is not included in taxable income for purposes of income taxation by the Commonwealth of Virginia and by the municipalities and all other subdivisions of the Commonwealth.

**Morgan Keegan & Company, Inc.**

No dealer, broker, salesman or other person has been authorized by us or the Dealer to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized. There shall not be any offer to sell or the solicitation of an offer to buy, nor shall there be any offer, solicitation or sale of the Offered Certificates in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. Information set forth herein has been furnished by us and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by the Dealer.

The information and expressions of opinion herein speak as of their date unless otherwise noted, and are subject to change without notice, and neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the dates as of which information is given herein.

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## REFERENCE SHEET

This Reference Sheet is not a summary of the transaction and does not contain complete information about the Offered Certificates or the Authority. You should purchase the Offered Certificates only after reading the entire Offering Circular.

### **The Offered Certificates**

The Virginia Housing Development Authority Commonwealth Mortgage Bonds, Pass-Through Certificates, 2008 Series C.

### **Guarantor**

We, the Authority, are a political subdivision of the Commonwealth of Virginia, established in 1972.

### **Our Guaranty**

We guarantee the full and timely payment of principal and interest due on the Offered Certificates. Our guaranty includes an obligation to advance funds for any delinquency in payments of scheduled principal and interest on any Allocated Mortgage Loan. We have no taxing power. The Offered Certificates and our guaranty are not obligations of the Commonwealth of Virginia.

### **Parity Debt and Assets**

On the Closing Date, the Offered Certificates and the Currently Outstanding Bonds will be equally and ratably secured by Mortgage Loans and other assets pledged thereto (see Appendix C). We expect to hereafter issue additional Bonds that will be secured equally and ratably with the Offered Certificates and other Bonds then Outstanding and to use the proceeds thereof for the financing of Mortgage Loans or acquisition of other assets or for other purposes permitted by the Bond Resolution.

### **Information**

Additional information about the Offered Certificates and the Allocated Mortgage Loans may be obtained, upon request, by contacting our Finance Director or a Senior Finance Manager. Our telephone number is (804) 782-1986.

### **Cut-Off Date**

The Cut-Off Date is November 1, 2008.

### **Closing Date**

The Offered Certificates will be delivered on the Closing Date, which is expected to be on or about November 18, 2008.

### **Record Dates**

The Record Date for each Payment Date will be the last Business Day of the calendar month preceding such Payment Date.

### **Payment Dates**

Payments on the Offered Certificates will be made on the 25<sup>th</sup> day of each month or, if such day is not a Business Day, on the first Business Day after the 25<sup>th</sup> day, beginning in December 2008.

### **Book-Entry Certificates**

The Offered Certificates will be issued and maintained in book-entry form through the facilities of DTC. Your interest in your Offered Certificate will be evidenced by appropriate entries in the books and records of a DTC participant, either directly or through one or more financial intermediaries. The Offered Certificates will be issued in initial minimum denominations of \$1,000 and integral multiples of \$1 in excess of that amount. Our payments on the Offered Certificates will be made by wire transfer to DTC, and your payments will be effected by credits to accounts for your benefit on the books and records of your financial intermediaries.

### **The Allocated Mortgage Loans**

The Allocated Mortgage Loans were made to mortgagors with annual incomes below the amounts and in the jurisdictions shown on the chart herein under "Allocated Mortgage Loans."

Principal payments on the Offered Certificates will be based on (i) the principal payments made or scheduled to be made on the Allocated Mortgage Loans and (ii) the payments made to either repurchase or remove such Allocated Mortgage Loans. The Allocated Mortgage Loans are Mortgage Loans that (i) as of the Cut-Off Date are owned by us, (ii) are identified in the Bond Resolution creating the Offered Certificates and (iii) are described in this Offering Circular. The Allocated Mortgage Loans were originated pursuant to our single family mortgage loan program and were made to persons and households of low and moderate income for the financing or refinancing of the acquisition, rehabilitation or ownership of single family residential housing, including condominium units. The program includes mortgage loan underwriting criteria and processing procedures established by us. The Allocated Mortgage Loans constitute part of the Mortgage Loans securing on a parity basis all Outstanding Commonwealth Mortgage Bonds. Additional information concerning the Allocated Mortgage Loans is set forth under "Allocated Mortgage Loans".

### **Interest Payments**

On each Payment Date beginning in December 2008, you will be entitled to receive one month's interest on your Offered Certificate at the annual rate of 6.0%, if

your Offered Certificates accrues interest at a rate of 6.0%, or 6.5%, if your Offered Certificate accrues interest at a rate of 6.5%. Interest will be computed on the basis of a year consisting of 12 months containing 30 days each.

### **Principal Payments**

On each Payment Date, the total amount of principal to be paid on the Offered Certificates will equal the sum of the below amounts:

(a) scheduled principal payments due on the Allocated Mortgage Loans on the first day of the month of the Payment Date;

(b) non-scheduled principal prepayments, in whole or in part, on the Allocated Mortgage Loans received in the calendar month immediately preceding the month of the Payment Date; and

(c) the principal balance of each Allocated Mortgage Loan that was liquidated due to borrower default, casualties or condemnation, or was repurchased by a mortgage loan originator, or was removed by us in the calendar month immediately preceding the month of the Payment Date.

The sum of the amounts described in clauses (a), (b) and (c) above is referred to as the "Principal Payment Amount." The Principal Payment Amount will be paid pro rata on the Offered Certificates until the outstanding principal amount and interest on the Offered Certificates have been paid in full.

### **Final Scheduled Payment Date**

The Final Scheduled Payment Date for the Offered Certificates is June 25, 2038.

The actual final Payment Date in all likelihood will be earlier than the date indicated above as a result of the actual payment experience of the Allocated Mortgage Loans. According to the terms of our guaranty, we will guarantee that you receive the outstanding principal balance of your Offered Certificate no later than its Final Scheduled Payment Date.

### **Class Factors**

On or about the 10<sup>th</sup> day of each month, we will calculate and will make available the principal factor for the Offered Certificates. We expect that the principal factors will be available on Bloomberg. You can multiply the appropriate principal factor by the initial principal balance of your Offered Certificate to determine the principal balance of your Offered Certificate after giving effect to the current month's payments.

### **Yield, Maturity and Prepayment Considerations**

The anticipated maturity and yield to maturity of your Offered Certificates will be affected by (i) the rates of

principal payments on, and liquidations of, the Allocated Mortgage Loans and (ii) the cash payments made with regard to the repurchase of Allocated Mortgage Loans. A variety of factors influence the rate at which borrowers repay their mortgage loans.

### **Servicing Fees**

We expect to directly service substantially all of the Allocated Mortgage Loans and have the balance serviced by the Servicing Agent. Accordingly, we expect to pay servicing fees to a third party on some of the Allocated Mortgage Loans.

### **Repurchase and Removal of Allocated Mortgage Loans**

We will require any financial institution which breaches a material representation to us in its underwriting of an Allocated Mortgage Loan to repurchase the affected Allocated Mortgage Loan. In the event of such a repurchase, principal will be paid on the Offered Certificates as if the repurchased Allocated Mortgage Loan had been prepaid in full.

If an Allocated Mortgage Loan has been delinquent for at least four consecutive monthly payments, or is being restructured by having delinquent payments added to its outstanding principal balance, we will remove the Allocated Mortgage Loan from the Allocated Mortgage Loan pool by paying principal on the Offered Certificates as if the Allocated Mortgage Loan had been prepaid in full.

### **Tax Matters**

The Offered Certificates will be debt securities of the Authority for federal income tax purposes.

Interest received on the Offered Certificates will not be excludable from gross income for federal income tax purposes. The Act provides, however, that income on the Offered Certificates, including interest and any profit made on the sale thereof, is not included in taxable income for purposes of income taxation by the Commonwealth of Virginia and its municipalities and political subdivisions.

### **Legal Investment Matters and Investment by Regulated Institutions; ERISA**

The Offered Certificates are general obligations of us, a political subdivision of the Commonwealth of Virginia. In addition, the Offered Certificates will constitute "mortgage related securities" for purposes of the Secondary Mortgage Market Enhancement Act of 1984 ("SMMEA") so long as they are rated in one of the two highest rating categories by a nationally recognized statistical rating organization and, as such, will be legal investments for certain entities to the extent provided in SMMEA, subject to state laws overriding SMMEA.

We do not make any representations as to the proper characterization of the Offered Certificates for legal

investment or other purposes, or as to the legality of investment by particular investors under applicable legal investment restrictions. Accordingly, all institutions that must observe legal investment laws and regulatory capital requirements or review by regulatory authorities should consult with their own legal advisors to determine whether and to what extent the Offered Certificates constitute legal investments under SMMEA or must follow investment, capital or other restrictions.

### **Optional Redemption**

We may redeem the Offered Certificates on any Payment Date on which their aggregate principal balance is equal to or less than 5% of the original principal amount of the Offered Certificates.

In the event of an optional redemption of your Offered Certificates, you will be entitled to receive payment in full of the principal balance of your Offered Certificates plus accrued and unpaid interest allocable to your Offered Certificate through the calendar month preceding the month of the redemption date.

## THE OFFERED CERTIFICATES

<b><u>Term</u></b>	<b><u>Meaning</u></b>
“Allocated Mortgage Loans” .....	The Mortgage Loans which are allocated to the Offered Certificates
“Authority”, “us”, “we”, “our” or “ours” .....	The Virginia Housing Development Authority
“Bonds” .....	Currently Outstanding Bonds, the Offered Certificates, and any Commonwealth Mortgage Bonds hereafter issued
“Business Day” .....	A day that is not a Saturday or Sunday or a legal holiday on which banking institutions in the Commonwealth of Virginia or State of New York or in any state in which the principal corporate trust office of the Trustee is located is authorized to remain closed
“Closing Date” .....	The date of issuance of the Offered Certificates
“Code” .....	Internal Revenue Code of 1986, as amended, including temporary, proposed and permanent regulations, revenue rulings and revenue procedures
“Currently Outstanding Bonds” .....	Previously issued Commonwealth Mortgage Bonds outstanding as of the date of this Offering Circular
“Cut-Off Date” .....	November 1, 2008, the date after which Principal Payment Amounts and interest on the Offered Certificates will accrue and be payable to the Owners of the Offered Certificates
“Investor”, “you”, “your” or “yours” .....	The Beneficial Owner of an Offered Certificate
“Offered Certificates” .....	The Commonwealth Mortgage Bonds, Pass-Through Certificates, 2008 Series C
“Payment Date” .....	The 25 <sup>th</sup> day of each month or, if such day is not a Business Day, the first Business Day thereafter, beginning in December 2008 and ending no later than the Final Scheduled Payment Date
“Principal Payment Amount” .....	The monthly principal payment amount for the Offered Certificates
“Record Date” .....	The last Business Day of the calendar month immediately preceding any Payment Date
“Tax Exempt Bonds” .....	Bonds on which interest is not included in gross income for federal income tax purposes pursuant to Section 103 of the Code
“Taxable Bonds” .....	Bonds, including the Offered Certificates, on which interest is included in gross income for federal income tax purposes

We are distributing this Offering Circular to furnish certain limited pertinent information in connection with the initial offering of the Offered Certificates. The Offered Certificates are being offered hereby pursuant to the Virginia Housing Development Authority Act, being Chapter 1.2 of Title 36 of the Code of Virginia, 1950, as amended (the “Act”), the General Bond Resolution adopted by the Authority on July 15, 1986, as amended and supplemented and restated to the date hereof (the “General Bond Resolution”), the Bond Limitations Resolution adopted by the Authority on February 6, 2008 (the “Bond Limitations Resolution”), and the Written Determinations as to the terms of the Offered Certificates (the General Bond Resolution, the Bond Limitations Resolution and such Written Determinations are collectively referred to herein as the “Bond Resolution”).

We adopted the General Bond Resolution to issue Bonds, including the Offered Certificates, for the principal purpose of funding our single family housing program, including the Program described below. The General Bond Resolution permits the issuance of additional parity Bonds, and we anticipate that additional parity Bonds will be issued in the future. The General Bond Resolution also permits us to execute Exchange Agreements (such as swap agreements), Enhancement Agreements (such as bond insurance) and Other Financial Agreements under which our obligations are payable from Assets and are treated as Bond Obligations payable from the same sources and on a parity basis with the Bonds (see “Summary of Certain Provisions of the General Bond Resolution—Incurrence of

Additional Bond Obligations”). Currently, there are no outstanding Exchange Agreements or Other Financial Agreements under which our obligations are payable from Assets. Currently, \$376 million of Outstanding Bonds are insured by a third party. The annual premium on such insurance is payable from Assets.

U.S. Bank National Association, Minneapolis, Minnesota, is the Trustee under the General Bond Resolution. Except in the event of the occurrence and continuance of an Event of Default, we may remove and replace the Trustee and may serve in the capacity of Trustee.

The summaries of and references herein to the Act and the Bond Resolution and other documents and materials are only brief outlines of certain provisions thereof and do not purport to summarize or describe all the provisions thereof. For further information, reference is hereby made to the Act and the Bond Resolution and such other documents and materials for the complete provisions thereof.

## RISK FACTORS

We describe below some of the risks associated with an investment in the Offered Certificates. Because each potential Investor has different investment needs and a different risk tolerance, you should consult your financial and legal advisors to determine whether the Offered Certificates are a suitable investment for you.

### Suitability

The Offered Certificates are not a suitable investment for every potential Investor.

- Before investing, you should have sufficient knowledge and experience to evaluate the merits and risks of the Offered Certificates and the information contained in this Offering Circular.
- You should thoroughly understand the terms of the Offered Certificates.
- You should thoroughly understand the summary information provided in this Offering Circular relating to the Offered Certificates and the Allocated Mortgage Loans.
- You should be able to evaluate (either alone or with the help of a financial advisor) the economic and interest rate factors that may affect your investment.
- You should have sufficient financial resources and liquidity to absorb all risks associated with the Offered Certificates.

Investors whose investment activities are subject to legal investment laws and regulations, or to review by regulatory authorities, may be unable to buy certain securities. You should get legal advice in determining whether your purchase of an Offered Certificate is a legal investment for you or is subject to any investment restrictions.

### Yield Considerations

Your effective yield on your Offered Certificates will depend, in part, upon:

- the price you paid for your Offered Certificates;

- how quickly or slowly borrowers prepay the Allocated Mortgage Loans;
- if and when the Allocated Mortgage Loans are liquidated due to borrower defaults, casualties or condemnations;
- if and when we require any of the Allocated Mortgage Loans to be repurchased by financial institutions that underwrote the Allocated Mortgage Loans;
- if and when any of the Allocated Mortgage Loans which are delinquent are removed and replaced by cash;
- whether we exercise our option to redeem your Offered Certificates on any Payment Date when their aggregate principal balance is equal to or less than 5% of their original principal amount;
- the actual characteristics of the Allocated Mortgage Loans; and
- the price you receive upon any resale of your Offered Certificates.

The actual yield on your Offered Certificates probably will be lower than you expect:

- if you bought your Offered Certificates at a premium and principal payments on the Allocated Mortgage Loans occur at a rate which is faster than you expect; or
- if you bought your Offered Certificates at a discount and principal payments on the Allocated Mortgage Loans occur at a rate which is slower than you expect.

Because the Offered Certificates receive interest 25 days or more after each interest accrual period, they have a lower yield and lower market value than they would if there were no such delay.

Even if the Allocated Mortgage Loans are prepaid at a rate that on average is consistent with your expectations, variations over time in the prepayment rate of the related Allocated Mortgage Loans can affect your yield. Generally, the earlier the payment of principal, the greater the effect on the yield to maturity. As a result, if the rate of principal prepayments on the Allocated Mortgage Loans during any period is faster or lower than you expect, a corresponding reduction or increase in the prepayment rate during a later period may not fully offset the impact of the earlier prepayment rate on your yield.

You must make your own decision as to the assumptions, including the principal prepayment assumptions, you will use in deciding whether to purchase the Offered Certificates.

The actual final payment on your Offered Certificates may occur earlier than the applicable Final Scheduled Payment Date specified on the cover page of this Offering Circular. If you assumed the actual final payment would occur on the applicable Final Scheduled Payment Date, your yield could be lower than you expect.

### **Prepayment Considerations**

The rate of principal payments on the Offered Certificates generally will depend on the rate of principal payments on the Allocated Mortgage Loans. Principal payments will occur as a result of scheduled amortization or prepayments in whole or in part. It is highly unlikely that the Allocated Mortgage Loans will prepay at any specified or constant prepayment rate until maturity.

Although the Allocated Mortgage Loans generally may be assumed by creditworthy purchasers of mortgaged properties from the original borrowers, property sales by borrowers may increase the prepayment rate. For example, if the purchaser of a mortgaged property is not eligible to assume the Allocated Mortgage Loan or chooses not to do so, then we require repayment in full when the original borrower sells the property. In addition, if borrowers are able to refinance their Allocated Mortgage Loans by obtaining new loans secured by the same properties, refinancing will increase the rate of prepayment. We are permitted to participate in any such refinancings and may conduct marketing activities, including the solicitation of Mortgagors, that will offer and encourage such refinancing by us of Allocated Mortgage Loans.

In addition, we have the option to redeem on any Payment Date all of the Offered Certificates when their aggregate principal balance is equal to or less than 5% of their original principal amount. If we exercise this option, it will have the same effect as a prepayment in full of the then outstanding Allocated Mortgage Loans.

In general, the rates of prepayment on the Allocated Mortgage Loans may be influenced by:

- the interest rates on newly originated mortgage loans relative to the interest rates on the Allocated Mortgage Loans;
- homeowner mobility;
- the creditworthiness of the borrowers;
- borrower sophistication regarding the benefits of refinancing;
- solicitation for refinancing by mortgage loan originators;
- changes in federal or state law; and
- general economic conditions.

The rate of principal payments is likely to vary considerably over time. Because so many factors affect the rate of prepayment of a pool of mortgage loans, we cannot estimate the prepayment experience of the Allocated Mortgage Loans.

When interest rates are declining, the market value of the Offered Certificates may rise less rapidly than conventional fixed rate securities because declining interest rates may accelerate the rate of prepayment of the Allocated Mortgage Loans as borrowers refinance their Mortgage Loans.

### **Repurchase Due to Breach of Representations and Warranties**

The financial institutions that underwrote the Allocated Mortgage Loans made certain representations and warranties about such Allocated Mortgage Loans. If there is a material breach of these representations and warranties, we will require such financial institutions to purchase the affected Allocated Mortgage Loans. The repurchase of Allocated Mortgage Loans will have the same effect on the Offered Certificates as borrower prepayments.

### **Removals Due to Delinquency**

We will remove from the Allocated Mortgage Loan pool any Allocated Mortgage Loan which is delinquent by at least four consecutive monthly payments and will substitute cash in an amount equal to the outstanding principal balance of such Allocated Mortgage Loan. Our removal of any Allocated Mortgage Loan will have the same effect on the Offered Certificates as a borrower prepayment.

### **Reinvestment Risk**

Generally, a borrower may prepay an Allocated Mortgage Loan at any time without penalty. As a result, we cannot predict the rate of principal payments on the Offered Certificates. The Offered Certificates may not be an appropriate investment for



you if you require a specific amount of principal on a regular basis or on a specific date. Because interest rates fluctuate, you may not be able to reinvest the principal payments on the Offered Certificates at a rate of return that is as high as your rate of return on the Offered Certificates. You may have to reinvest those funds at a much lower rate of return. You should consider this risk in light of other investments that may be available to you.

### **Market and Liquidity Considerations**

We cannot be sure that a market for resale of the Offered Certificates will develop. Further, if a market develops, it may not continue or be sufficiently liquid to allow you to sell your Offered Certificates. Currently, there is little or no market for resale of mortgage backed securities similar to the Offered Certificates. Even if you are able to sell your Offered Certificates, the sale price may not be comparable to similar investments that have a developed market. Moreover, you may not be able to sell small or large amounts of Offered Certificates at prices comparable to those available to other potential Investors. You should purchase Offered Certificates only if you understand and can tolerate the risk that the value of your Offered Certificates will vary over time and that your Offered Certificates may not be easily sold.

A number of factors may affect the resale of Offered Certificates including:

- the characteristics of the Allocated Mortgage Loans;
- expected prepayment levels of the Allocated Mortgage Loans and comparable loans;
- the outstanding principal amount of the Offered Certificates;
- the amount of the Offered Certificates offered for resale from time to time;
- any legal restrictions, regulatory requirements or tax treatment limiting demand for the Offered Certificates;
- the availability of comparable securities;
- the level, direction and volatility of interest rates generally;
- changes in federal or state law; and
- general economic conditions.

On October 3, 2008, legislation was enacted that would authorize the U. S. Department of the Treasury to purchase up to \$700 billion of troubled and illiquid assets (including real estate related assets) from financial institutions with significant operations in the United States. We can give no assurance what impact such legislation will have on the market and sales price for the Offered Certificates.

### **Guaranty Considerations**

If we are unable to perform our guaranty obligations, Owners of the Offered Certificates would have a claim on the assets available under the General Bond Resolution and our other available assets (see "Security").

Legislation affecting the Offered Certificates and Mortgage Loans may be considered and enacted by the United States Congress or the Virginia General Assembly. No assurance can be given that the consideration or enactment of any such legislation will not have an adverse effect on the value of, the timing or amount of payments of, or the security for the Offered Certificates or other risks to the Investors.

In particular, over the past year a number of financial institutions and related entities have announced large losses as a result of their subprime mortgage activities and an increasing number of defaults and foreclosures on such mortgages. The United States Congress may pass consumer protection and bankruptcy legislation as a result of the adverse effects of the subprime mortgage situation on individuals and families in the United States. Such legislation, if enacted, could have an adverse effect on the Authority's single family mortgage program, including its ability to originate new Mortgage Loans, to collect payments under Mortgage Loans and to foreclose on property securing Mortgage Loans.

### **Recent Developments in the Residential Mortgage Market**

Recently, the residential mortgage loan market has experienced increasing levels of delinquencies, defaults and losses, and we cannot assure you that this will not continue. In addition, in recent months housing prices and appraisal values in many states (including Virginia) have declined or stopped appreciating, after extended periods of significant appreciation. A continued decline or an extended flattening of those values may result in additional increases in delinquencies, defaults and losses on residential mortgage loans generally, particularly with respect to second homes and investor properties and with respect to any residential mortgage loans whose aggregate loan amounts (including any subordinate liens) are close to or greater than the related property values. Although the decline or flattening in housing prices in Virginia has not to date materially affected losses on Mortgage Loans, we can give no assurance that housing prices in those areas or other areas will not continue or begin to decline or flatten or that such decline or flattening will not have a material adverse effect on delinquencies and losses on Mortgage Loans or on our financial condition (see our Financial Statements in Appendix C).

In recent months, in response to increased delinquencies and losses with respect to mortgage loans, Fannie Mae, Freddie Mac and many other mortgage loan originators have implemented more

conservative underwriting criteria for loans, particularly in the subprime, Alt-A and other nonprime sectors. This may result in reduced availability of financing alternatives for mortgagors seeking to refinance their mortgage loans. The reduced availability of refinancing options for a mortgagor may result in higher rates of delinquencies, defaults and losses on the mortgage loans, particularly mortgagors with adjustable rate mortgage loans or interest only mortgage loans that experience significant increases in their monthly payments following the adjustment date or the end of the interest only period, respectively.

The increased levels of delinquencies and defaults, as well as a deterioration in general real estate market conditions, have also resulted generally in loan originators being required to repurchase an increasingly greater number of mortgages loans pursuant to early payment default and representation and warranty provisions in their loan sale agreements. This has led to deterioration in the financial performance of many subprime, Alt-A and other nonprime loan originators. In some other cases, such deterioration has caused certain loan originators to cease operations. Any such deterioration could adversely affect the ability of a loan originator to repurchase or substitute for mortgage loans as to which a material breach of representation or warranty exists. The inability of a loan originator to repurchase or substitute for defective mortgage loans would likely cause the related mortgage loans to experience higher rates of delinquencies, defaults and losses. Even in cases where a loan originator has the economic ability to repurchase loans, the increasing volume of repurchase claims has resulted in longer periods between when a repurchase claim is presented and when it is resolved, and a greater proportion of claims being refused or contested by originators.

A number of state regulatory authorities have recently taken action against certain loan originators and servicers for alleged violations of state laws. Certain of those actions prohibit those servicers from pursuing foreclosure actions. In the future the Commonwealth of Virginia could seek similar limitations on the ability of mortgage loan servicers to take actions (such as pursuing foreclosures) that may be essential to service and preserve the value of the Allocated Mortgage Loans. Any such limitations that applied to a servicer of the Allocated Mortgage Loans could adversely affect our ability to collect payments on the Allocated Mortgage Loans.

You should consider the risk that the general market conditions discussed above may affect the performance of the Allocated Mortgage Loans and may adversely affect the yield on your certificates.

**Geographic Concentration of the Mortgage Loans in Particular Jurisdictions May Result in Greater Losses If Those Jurisdictions Experience Economic Downturns**

Different geographic regions of the United States from time to time will experience weaker regional economic conditions and housing markets, and, consequently, may experience higher rates of loss and delinquency on mortgage loans generally. Any concentration of the mortgage loans in a region may present risk considerations in addition to those generally present for similar securities without that concentration. If the mortgage loans are concentrated in one or more regions, a downturn in the economy in these regions of the country would more greatly affect the mortgage portfolio than if the mortgage portfolio were more diversified. In particular, all of the Allocated Mortgage Loans are secured by mortgaged properties in Virginia.

Because of the geographic concentration of the mortgaged properties within Virginia, losses on the Mortgage Loans (including Allocated Mortgage Loans) may be higher than would be the case if the mortgaged properties were more geographically diversified. For example, some of the mortgaged properties may be more susceptible to certain types of special hazards, such as hurricanes, floods, fires and other natural disasters and major civil disturbances, than residential properties located in other parts of the country.

In addition, the economy of Virginia may be adversely affected to a greater degree than the economies of other areas of the country by certain regional developments. If the residential real estate markets in an area of concentration experience an overall decline in property values after the dates of origination of the respective mortgage loans, then the rates of delinquencies, foreclosures and losses on the mortgage loans may increase and the increase may be substantial.

The concentration of Mortgage Loans with specific characteristics relating to the types of properties, property characteristics, and geographic location are likely to change over time. Principal payments may affect the concentration levels. Principal payments could include voluntary prepayments and prepayments resulting from casualty or condemnation, defaults and liquidations and from repurchases due to breaches of representations and warranties by the mortgage originators that serve as our originating agents.

**Parity Bonds**

Bonds, including the Offered Certificates, are equally secured, to the extent and as provided in the Bond Resolution, by a pledge of the Assets, which consist of Mortgage Loans, including Allocated Mortgage Loans, Authority Property, Revenues, Investment Obligations, and, to the extent made subject to the pledge or lien of the Bond Resolution, Enhancement Agreements, Exchange Agreements and Other Financial Agreements (see "General Matters - Pledge of Assets"). Upon the occurrence of any Event of Default under the Bond Resolution, the Revenues, money and assets in the Funds and Accounts may not be sufficient to pay principal and interest due and

payable on the Bonds. As a result, the principal repayments and interest on the Allocated Mortgage Loans may be applied, in whole or in part, to payment of principal and interest on other Bonds and, to the extent so applied, will not be available for the repayment of principal and interest of the Offered Certificates related to the Allocated Mortgage Loans. In the event any proceeds of the Allocated Mortgage

Loans are used to make payments on Bonds other than the Offered Certificates, we are obligated to make interest payments and Principal Payment Amounts on the Offered Certificates as if such other payments had not been made and as if such proceeds of the Allocated Mortgage Loans are still available in full for payment on the Offered Certificates.

## **DESCRIPTION OF THE OFFERED CERTIFICATES**

The material under this heading summarizes certain features of the Offered Certificates. You will find additional information about the Offered Certificates in the other sections of this Offering Circular as well as in the Bond Resolution.

The proceeds of the Offered Certificates will be deposited into one or more accounts under the Bond Resolution pending disbursement into Mortgage Loans or otherwise utilized in accordance with the terms of the Bond Resolution. Such permitted utilization includes the transfer to us, without regard to the satisfaction of the Revenue Test, of Assets (including the proceeds of the Offered Certificates) in an amount equal to the amount of our funds (including a reasonable charge for interest) that have been made subject to the lien and pledge of the Bond Resolution and that have provided or are expected to provide interim financing for Mortgage Loans. Such funds include amounts drawn by us on the revolving credit agreements described in the section herein entitled "The Authority." As of the date hereof, we have made \$140 million of our funds so subject to the lien and pledge of the Bond Resolution (see Sections 402(B) and (C) in Appendix A herein).

Certain existing Mortgage Loans will be designated as Allocated Mortgage Loans. Summary information concerning the Allocated Mortgage Loans is set forth below. The total of the outstanding principal balances of the Allocated Mortgage Loans (as reduced by scheduled monthly payments of principal due and payable on November 1, 2008) is equal to the original principal amount of the Offered Certificates.

The Offered Certificates will be issued in initial minimum denominations of \$1,000 and integral multiples of \$1 in excess of that amount. The Offered Certificates will be initially available and may be purchased only in book-entry form through the facilities of The Depository Trust Company, New York, New York or its agent ("DTC"). Accordingly, for the purposes of the Bond Resolution, the Owner of the Offered Certificates shall be DTC's partnership nominee, Cede & Co., and all references herein to the Owners of the Offered Certificates shall refer to Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Offered Certificates. See Appendix B for a description of DTC and its procedures.

For every exchange or transfer of the Offered Certificates, we or the Trustee may make a charge sufficient to reimburse us or the Trustee for any tax, fee, or other governmental charge required to be paid with respect to such exchange or transfer. We expect to deliver the Offered Certificates on or about the settlement date set forth on the front cover hereof.

### **Interest Payments**

Interest on the Offered Certificates will accrue at the applicable rate of interest set forth on the cover hereof from the Cut-Off Date and shall be payable on each Payment Date, commencing in December 2008, calculated on the basis of a 360-day year consisting of twelve 30-day months. The amount of the interest payment payable on each Payment Date will be the amount of interest accrued on the Offered Certificates for the calendar month immediately preceding the month of such Payment Date. Each interest payment shall be paid to the Owners of the Offered Certificates as of the applicable Record Date.

### **Principal Payments**

Principal on the Offered Certificates shall be payable on each Payment Date, commencing in December 2008, until the earlier of the applicable Final Scheduled Payment Date or payment in full of principal on the Offered Certificates. Each principal payment shall be paid to the Owners of the Offered Certificates as of the applicable Record Date. The principal amount to be repaid on the Offered Certificates shall be prorated among the Offered Certificates. Such principal payments (the "Principal Payment Amount") shall be composed of the sum of the following amounts as determined by us: (i) the principal portion of scheduled monthly payments due on the Allocated Mortgage Loans on the first day of the month of the Payment Date, (ii) full or partial principal prepayments (including proceeds of hazard insurance, title insurance, or condemnation) received on the Allocated Mortgage Loans in the calendar month immediately preceding the month of the Payment Date, (iii) principal due upon liquidations by foreclosures or deeds in lieu of foreclosure on the Allocated Mortgage Loans occurring or delivered in the calendar month immediately

preceding the month of the Payment Date, (iv) the principal balance of delinquent Allocated Mortgage Loans removed by us from the Allocated Mortgage Loan pool during the calendar month immediately preceding the month of the Payment Date, as described below, and (v) the principal balance of Allocated Mortgage Loans that are repurchased during the calendar month immediately preceding the month of the Payment Date by the financial institutions that underwrote such Allocated Mortgage Loans, as described below. For any Allocated Mortgage Loan which is liquidated by foreclosure or deed in lieu of foreclosure, the full outstanding principal amount due on the Allocated Mortgage Loan will be used in determining the principal amount of the Offered Certificates to be repaid. This principal amount to be repaid will be determined without regard to the amount or timing of the receipt of the amounts received by us from the sale of the single family residences acquired by us in such a foreclosure or deed in lieu of foreclosure. The Principal Payment Amounts of Offered Certificates to be repaid as described in (i) through (v) above are mandatory Sinking Fund Installments under the Bond Resolution. The Bond Resolution does not require us to give notice to the Owners of the Offered Certificates of sinking fund redemption.

Any Allocated Mortgage Loan which is delinquent by four consecutive monthly payments or is being restructured by having delinquent payments added to its outstanding principal balance will be removed by us from the Allocated Mortgage Loan pool, and we will substitute cash for such Allocated Mortgage Loan in an amount equal to its outstanding principal balance. Any such removal of an Allocated Mortgage Loan will have the same effect on the Offered Certificates as a full prepayment of such Allocated Mortgage Loan.

The financial institutions that underwrote the Allocated Mortgage Loans made certain representations and warranties with respect to the Allocated Mortgage Loans. If there is a material breach of these representations and warranties, we will require such financial institutions to purchase the related Allocated Mortgage Loan. Any such purchase of an Allocated Mortgage Loan will have the same effect on the Offered Certificates as a full prepayment of such Allocated Mortgage Loan.

### **Optional Redemption**

The Offered Certificates are subject to optional redemption at our election, in whole on any Payment Date, if the aggregate principal balance of the Offered Certificates on such Payment Date is equal to or less than 5% of the original principal amount of the Offered Certificates. The Redemption Price shall be the principal amount of the Offered Certificates to be redeemed. Accrued and unpaid interest through the calendar month immediately preceding the month of the redemption date will be paid on the Offered Certificates to be redeemed.

The Bond Resolution does not require us to give notice to the Owners of the Offered Certificates of optional redemption.

### **Class Factors**

Prior to a Payment Date, we will calculate for the Offered Certificates, a class factor ("Class Factor") expressed as a number carried to nine decimal places that may be multiplied by the original principal amount to determine the outstanding principal balance after giving effect to the distribution of principal to be made on the Offered Certificates on the following Payment Date. For example, the December 2008 Class Factor for the Offered Certificates will reflect their remaining principal amount, after giving effect to any Principal Payment Amount to be made on December 25, 2008. The November 2008 Class Factor is 1.000000000. Class Factors will be calculated and made available on or about the 10<sup>th</sup> day of each month (or the next succeeding Business Day).

For any Payment Date, Investors in Offered Certificates can calculate the amount of principal to be paid by multiplying the original class principal amount by the difference between the Class Factors for the preceding and current months. The amount of interest to be paid on the Offered Certificates on each Payment Date will equal 30 days' interest on its outstanding principal amount as determined by its Class Factor for the preceding month. For example, the amount of principal to be paid on the Offered Certificates in December 2008 will reflect the difference between their November 2008 and December 2008 Class Factors. The amount of interest to be paid on the Offered Certificates in December 2008 will equal 30 days' interest accrued during the month of November 2008 on the principal amount determined by reference to their November 2008 Class Factor.

### **Allocated Mortgage Loans**

All of the Allocated Mortgage Loans are fully amortizing with original terms of thirty years secured by first liens on single family real estate in the Commonwealth of Virginia. All of the Allocated Mortgage Loans are level payment, fixed rate Mortgage Loans, although some of such loans had payment and rate changes prior to becoming Allocated Mortgage Loans. Some of the Allocated Mortgage Loans are insured by governmental or private mortgage insurance. Substantially all of the Allocated Mortgage Loans will be serviced directly by us, and the balance will be serviced by our Servicing Agent.

For further information regarding the origination and servicing of the Allocated Mortgage Loans, see “Security” and “The Program” under “General Matters” below. The Allocated Mortgage Loans are assumable provided that the new mortgagor meets our underwriting standards and income limits. The Allocated Mortgage Loans do not provide for prepayment penalties. We are not precluded from participating in any refinancing of the Allocated Mortgage Loans and may conduct marketing activities, including the solicitation of Mortgagors, that will offer and encourage such refinancing by us of Allocated Mortgage Loans. No Mortgage Loans which are more than 30 days delinquent as of the Cut-Off Date will be allocated to the Offered Certificates. Loan to value ratios are based on current outstanding principal balances and property values at the time of Mortgage Loan closing. Only certain summary information is included herein concerning the Allocated Mortgage Loans. Available information on the individual Mortgage Loans allocated to the Offered Certificates will be provided upon request to William Corcoran at (804) 343-5843.

Original principal balance	\$59,548,998
Unpaid principal balance	\$55,500,706
Number of loans	424
Smallest principal balance	\$22,574
Median principal balance	\$108,760
Largest principal balance	\$410,148
Lowest coupon	6.375%
Weighted average coupon	6.443%
Highest coupon	6.875%
Shortest calculated maturity	61 months
Weighted average calculated maturity	310 months
Longest calculated maturity	355 months
Median loan to value ratio	95%
Maximum loan to value ratio	103%
Earliest initial scheduled payment date	November 1, 1993
Latest initial scheduled payment date	July 1, 2008

Reference is hereby made to the following pass-through certificates we have previously issued via public offering. Information about these certificates and the mortgage loans allocated to them is available at our website [www.vhda.com/mbs/](http://www.vhda.com/mbs/) and through Bloomberg Business News.

<u>Series</u>	<u>Dated</u>	<u>CUSIP</u>
2001 Series A, A-1	January 30, 2001	927823 AA2
2001 Series A, A-2	January 30, 2001	927823 AB0
2001 Series B	May 4, 2001	927823 AC8
2001 Series F	July 31, 2001	927823 AD6
2001 Series G	October 17, 2001	927823 AE4
2002 Series A	January 14, 2002	927823 AF1
2002 Series B	March 20, 2002	927823 AG9
2002 Series C	June 27, 2002	927823 AJ3
2002 Series E	December 17, 2002	92812T W31
2006 Series C	June 8, 2006	92812U LT3
2008 Series A	March 25, 2008	92812U XA1
2008 Series B	April 10, 2008	92812U XB9

### **Acceleration**

Pursuant to the Act, in the event that we default in the payment of principal of or interest on any Bond, including an Offered Certificate, and such default shall continue for 30 days or in the event that we shall otherwise fail to comply with the provisions of the Bond Resolution, the Owners of 25% in aggregate principal amount of such Bonds may appoint a trustee to represent the Owners of such Bonds, and such trustee may, and upon written request of the Owners of 25% in aggregate principal amount of such Bonds shall, in its name declare all such Bonds due and payable. Any payment of principal on the Offered Certificates following such acceleration will have the same effect on the Owners of the Offered Certificates as the prepayment of all or a portion of the Allocated Mortgage Loans.

### **RATINGS**

The Offered Certificates are expected to be rated “Aaa” by Moody’s Investors Service (Moody’s) and “AAA” by Standard & Poor’s Ratings Services (Standard & Poor’s or S&P). Our general obligation / issuer credit ratings are Aa1 by Moody’s and AA+ by Standard & Poor’s.

Moody's issues ratings from "Aaa" to "C" to designate the relative investment qualities of debt securities. The "Aaa" rating is the highest of the nine such ratings. Moody's describes its "Aaa" rating as follows: "Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk."

Standard & Poor's issues ratings from "AAA" to "D" to designate the relative investment qualities of debt securities. The "AAA" rating is the highest of the ten such ratings. Standard & Poor's describes its "AAA" rating as follows: "Debt rated "AAA" has the highest rating assigned by Standard and Poor's. Capacity to pay interest and repay principal is extremely strong."

Further explanation of the significance of these ratings may be obtained from the rating agencies. The ratings are not a recommendation to buy, sell or hold the Offered Certificates and should be evaluated independently. There is no assurance that the ratings will be maintained for any period of time or that the ratings may not be revised downward or withdrawn entirely by a rating agency if, in its judgement, circumstances so warrant. Any such downward revision or withdrawal of a rating could have an adverse effect on the market price of the Offered Certificates.

Ratings address the likelihood of receipt by Investors of all payments on the Offered Certificates. The ratings address the structural, legal and Authority-related aspects associated with the Offered Certificates, the nature of the underlying assets and the credit quality of the credit enhancer or guarantor, if any. Ratings on the Offered Certificates do not represent any assessment of the likelihood of principal repayments on the Allocated Mortgage Loans or of the degree by which such prepayments might differ from those originally anticipated. As a result, you might realize a yield lower than originally anticipated.

## **TAX MATTERS**

### **Federal Taxes**

The interest on the Offered Certificates is includable in gross income for federal income tax purposes under the Code in accordance with the Investor's regular method of accounting. The Offered Certificates will be debt securities of the Authority for federal income tax purposes. The Authority is not subject to federal income taxation.

The following discussion is a brief summary of certain United States federal income tax consequences of the acquisition, ownership and disposition of Offered Certificates by original purchasers of the Offered Certificates who are "U.S. Investors", as defined herein. This summary does not discuss all of the United States federal income tax consequences that may be relevant to an owner in light of its particular circumstances or to owners subject to special rules. Potential Investors of Offered Certificates should consult with their own tax advisors concerning the United States federal income tax and other consequences with respect to the acquisition, ownership and disposition of Offered Certificates as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

Disposition and Defeasance. Generally, upon the sale, exchange, redemption, or other disposition (which would include a defeasance) of Offered Certificates, an Investor generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such Investor's adjusted tax basis in the Offered Certificates. We may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Offered Certificates to be deemed to be no longer outstanding under the Bond Resolution (a "defeasance"). (See Appendix E herein). For federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such Investor of taxable income or loss, without any corresponding receipt of moneys. In addition, the character of payments on the Offered Certificates subsequent to any such defeasance could also be affected.

Backup Withholding and Information Reporting. In general, information reporting requirements will apply to non-corporate Investors with respect to payments of principal, payments of interest and the proceeds of the sale of Offered Certificates before maturity within the United States. Backup withholding may apply to Investors of Offered Certificates under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to an Investor would be allowed as a credit against such Investor's United States federal income tax provided the required information is furnished to the Internal Revenue Service ("IRS").

U.S. Investors. The term "U.S. Investor" means an Investor of Offered Certificates that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or any state or the District of Columbia, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

IRS Circular 230 Disclosure. The advice under the caption, “Tax Matters” concerning certain income tax consequences of the acquisition, ownership and disposition of the Offered Certificates, was written to support the marketing of the Offered Certificates. To ensure compliance with requirements imposed by the IRS, our counsel informs you that (i) any federal tax advice contained in this Offering Circular (including any attachments) or in writings furnished by our counsel is not intended to be used, and cannot be used by any Investor, for the purpose of avoiding penalties that may be imposed on the Investor under the Code, and (ii) the Investor should seek advice based on the Investor’s particular circumstances from an independent tax advisor.

## **State Taxes**

Under the Act, income on the Offered Certificates, including interest and any profit made on the sale thereof, is not included in taxable income for purposes of income taxation by the Commonwealth of Virginia and by the municipalities and all other political subdivisions of the Commonwealth.

All potential purchasers should consult their tax advisors regarding the tax treatment of the Offered Certificates.

## **LEGAL MATTERS AND CONTINUING DISCLOSURE**

Certain legal matters relating to the authorization and validity of the Offered Certificates will be subject to the receipt of the approving opinion of Hunton & Williams LLP, Richmond, Virginia, Bond Counsel. Such opinion (the “Approving Opinion”) will be limited to matters relating to the authorization and validity of the Offered Certificates. The proposed form of the Approving Opinion is attached hereto as Appendix F. Bond Counsel has not been engaged to investigate our financial resources or our ability to provide for payment of the Offered Certificates, and the Approving Opinion will not make any statement as to such matters, as to the accuracy or completeness of this Offering Circular generally, or to matters affecting the yield on the Offered Certificates. Certain legal matters will be passed on for us by our General Counsel, J. Judson McKellar, Jr., Esquire.

In an Amended and Restated Continuing Disclosure Agreement dated June 29, 1999 between the Trustee and us, we have covenanted to provide annual financial information and operating data and notices of certain enumerated events, if material. See Appendix D for a further description of the Continuing Disclosure Agreement.

## **SALE**

The Offered Certificates are being purchased by Morgan Keegan & Company, Inc. (the “Dealer”), which has agreed to purchase all of the Offered Certificates, subject to certain conditions, at the respective purchase prices set forth on the front cover of this Offering Circular. We have no obligation to deliver any portion of the Offered Certificates if all of the Offered Certificates are not purchased by the Dealer. The Dealer has no obligation to purchase the Offered Certificates unless all such Offered Certificates are delivered for purchase. It will be the responsibility of the Dealer to provide to you certain required information regarding your purchase of the Offered Certificates, but the Dealer will have no obligations with regard to reporting on an ongoing basis.

The Offered Certificates may be offered by the Dealer (only as and if issued and delivered to and accepted by the Dealer) from time to time in negotiated transactions or otherwise at varying prices to be determined at the time of sale. In connection with the offering of the Offered Certificates, the Dealer may engage in transactions that stabilize, maintain or otherwise affect the price of the Offered Certificates, including transactions to (i) overallocate in arranging the sales of the Offered Certificates and (ii) make purchases and sales of the Offered Certificates, for long or short account, on a when-issued or other basis at such prices, in such amounts and in such manner as such Dealer may determine. Such activities, if commenced, may be discounted at any time.

## **LITIGATION**

No litigation of any nature as of the date hereof is pending against us or, to our knowledge, threatened against us (i) to restrain or enjoin the issuance or delivery of any of the Offered Certificates, (ii) to in any material way restrain or enjoin the collection and application of Assets pledged pursuant to the Bond Resolution, (iii) in any way contesting or affecting any authority for the issuance or validity of the Offered Certificates or the validity of the Bond Resolution, or the Purchase Contract for the Offered Certificates, (iv) in any material way contesting our existence or powers or (v) in any material way contesting or affecting the Assets pledged for the payment of the Offered Certificates.

## **LEGAL INVESTMENT**

Under the Act the Bonds (including the Offered Certificates) are legal investments in which all public officers and public bodies of the Commonwealth and its political subdivisions, all municipalities and municipal subdivisions, all insurance companies and associations, banks, bankers, banking associations, trust companies, savings banks, savings associations, savings and loan associations, building and loan associations, investment companies,

administrators, guardians, executors, trustees and other fiduciaries may properly and legally invest funds, including capital, in their control or belonging to them. Furthermore, under the Act, the Bonds (including the Offered Certificates) are also securities which may properly and legally be deposited with and received by all public officers and bodies of the Commonwealth or any agencies or political subdivisions of the Commonwealth and all municipalities and public corporations for any purpose for which the deposit of bonds or other obligations of the Commonwealth is now or may hereafter be authorized by law.

The Offered Certificates are general obligations of a political subdivision of the Commonwealth of Virginia. In addition, the Offered Certificates will constitute “mortgage related securities” for purposes of the Secondary Mortgage Market Enhancement Act of 1984 (“SMMEA”) so long as they are rated in one of the two highest rating categories by a nationally recognized statistical rating organization and, as such, will be legal investments for certain entities to the extent provided in SMMEA, subject to state laws overriding SMMEA.

We do not make any representations as to the proper characterization of the Offered Certificates for legal investment or other purposes, or as to the legality of investment by particular investors under applicable legal investment restrictions. Accordingly, all institutions that must observe legal investment laws and regulatory capital requirements or review by regulatory authorities should consult with their own legal advisors to determine whether and to what extent the Offered Certificates constitute legal investments under SMMEA or must follow investment, capital or other restrictions.

## **GENERAL MATTERS**

### **SECURITY**

#### **Pledge of Assets**

The Bonds, including the Offered Certificates, are secured, to the extent and as provided in the Bond Resolution, by a pledge of the Assets, which consist of Mortgage Loans, Authority Property, Revenues and Investment Obligations, and, to the extent made subject to the pledge or lien of the Bond Resolution, Enhancement Agreements, Exchange Agreements and Other Financial Agreements (see “Summary of Certain Provisions of the General Bond Resolution–Assets and the Pledge Thereof”). The Bond Resolution imposes no requirements on us as to a minimum amount or type of Assets except for the Revenue Test, as more fully described in “Revenue Test; Limited Operating Covenants” herein.

The Bond Resolution permits us to (i) purchase, sell, exchange, transfer and modify Assets, (ii) apply Assets to the payment of Expenses, and (iii) release Assets from the lien or pledge created by the Bond Resolution, subject only to the satisfaction of the Revenue Test (see “Revenue Test; Limited Operating Covenants” and “Withdrawal, Transfer, Sale, Exchange and Modification of Assets” in “Summary of Certain Provisions of the General Bond Resolution”).

We are currently considering the withdrawal of Assets in the approximate amount of \$200 million. Of such amount, \$140 million is expected to reimburse us for funds contributed to the Bond Resolution in September 2008 to effect the redemption of a like amount of Bonds. The balance of such amount is expected to be applied to our multi-family program or otherwise used for any of our legally permissible purposes.

In order to provide additional funds for our programs and other permissible purposes, we are considering the sale of existing or newly originated single family mortgage loans allocated or to be allocated to our General Fund. In connection therewith, we may enter into one or more Other Financial Agreements with the purchaser of such mortgage loans that would secure our obligations to such purchaser to fund any payment deficiencies on the mortgage loans so sold. No assurances can be given whether we will effect such sale or enter into such Other Financial Agreements or the amounts or terms thereof.

The Bond Resolution does not require the establishment and funding of any debt service reserve fund or any other reserve fund, and we do not expect to establish or fund any such reserve fund.

The Act provides that any pledge made by us is valid and binding from the time such pledge is made and that our interest, then existing or thereafter obtained, in revenues, moneys, mortgage loans, receivables, contract rights or other property or proceeds so pledged shall immediately be subject to the lien of such pledge without any physical delivery or further act, and the lien of such pledge shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise against us, irrespective of whether such parties have notice thereof. The Act further provides that no instrument by which a pledge is created need be recorded nor shall any filing be required with respect thereto. We do not expect to record or file any instrument creating or evidencing the pledge or lien created by the Bond Resolution with respect to any asset pledged thereto. Except when specifically required by the Bond Resolution or when convenient in the normal course of business, we do not expect to physically deliver Mortgage Loans to the Trustee.



## Mortgage Loans

We currently finance Mortgage Loans financed by Tax Exempt Bonds and Taxable Bonds issued by us and net assets. Effective April 1, 2008 we suspended the portion of the Program previously funded solely by our Taxable Bonds and net assets, including (i) Self-Insured Mortgage Loans (as defined below), (ii) Mortgage Loans that refinance single-family homes, (iii) Mortgage Loans that include the financing of costs of rehabilitation and improvements to be completed subsequent to the closing of that Mortgage Loan, (iv) Mortgage Loans that include the financing of costs of retrofitting or adding accessibility features, and (v) Interest Only Mortgage Loans (as defined below). Effective April 1, 2008, we also suspended the financing of step rate Mortgage Loans as described below. No assurance can be given whether we will recommence the financing of any of the above described Mortgage Loans.

We currently finance Mortgage Loans in amounts not to exceed, in the case of Mortgage Loans to finance the acquisition of single family homes and related closing costs, 97% of the lesser of (a) the sales price or (b) the appraised value of the single family homes or, in the case of Mortgage Loans insured or guaranteed by the FHA, Veterans Administration or Department of Veterans' Affairs ("VA") or Rural Development ("RD"), the Mortgage Loan may be in such other amounts (which may exceed 100% of the sales price or appraised value) as is permitted by FHA, VA or RD. We have adopted changes to our regulations that permit us to establish a lower percentage for our Mortgage Loans if necessary to protect our financial interests or enable us to effectively and efficiently allocate our current and anticipated financial resources. We have previously financed Mortgage Loans in amounts not to exceed 104% of the lesser of (a) or (b) above. We also finance certain Second Mortgage Loans (as defined and described below).

Prior to April 1, 2008, we used proceeds of Taxable Bonds and net assets to finance Mortgage Loans that refinanced single family homes. In the case of such a Mortgage Loan, the loan amount (plus all subordinate debt to be secured by the property after closing of the Mortgage Loan) could not exceed the lesser of the current appraised value of the property or the sum of (i) the payoff (if any) of the applicant's existing first mortgage loan; (ii) the payoff (if any) of applicant's or applicants' subordinate mortgage loans (provided such loans did not permit periodic advancement of loan proceeds) closed for not less than 12 months preceding the date of the closing of the Mortgage Loan and the payoff (if any) of applicant's or applicants' home equity line of credit loan (i.e. loan which permits periodic advancement of proceeds) with no more than \$2,000 in advances within the 12 months preceding the date of the closing of the Mortgage Loan, excluding funds used for the purpose of documented improvements to the residence; (iii) the cost of improvements which were to be performed to the property after the closing of the Mortgage Loan and for which loan proceeds were escrowed at closing; (iv) closing costs, discount points, fees and escrows payable in connection with the origination and closing of the Mortgage Loan; and (v) up to \$500 to be payable to applicant or applicants at closing. In addition, if the applicant or applicants requested to receive loan proceeds at closing in excess of the limit set forth in (v) above, the loan amount (plus all subordinate debt to be secured by the property after closing of the Mortgage Loan) could be increased to finance such excess cash up to a loan amount not in excess of 95% of the current appraised value. If the applicant's or applicants' existing mortgage loan to be refinanced was a Mortgage Loan, the applicant or applicants could request a streamlined refinance of such existing Mortgage Loan in which we could require less underwriting documentation (e.g. verification of employment) and could charge reduced points and fees. For such streamlined refinances, the loan amount (plus all subordinate debt to be secured by the property after closing of the new Mortgage Loan) was limited to (i) the payoff of the existing Mortgage Loan and (ii) required closing costs, discount points, fees and escrows payable in connection with the origination and closing of the new Mortgage Loan; provided, however, that the loan amount (plus all subordinate debt to be secured by the property after closing of the new Mortgage Loan) could not exceed 100% of the greatest of original appraised value, current real estate tax assessment, current appraised value or other alternative valuation method approved by us. However, as stated above, effective April 1, 2008, we suspended the financing of Mortgage Loans that refinance single family homes. No assurance can be given whether we will recommence the financing of any of such loans.

Pursuant to the temporary authority contained in the Housing and Economic Recovery Act of 2008, the Code permits proceeds of Tax Exempt Bonds to be used to make loans to refinance "qualified subprime loans", defined as adjustable-rate single family residential mortgage loans made after December 31, 2001, and before January 1, 2008, that the issuer of the Tax Exempt Bonds determines would be reasonably likely to cause financial hardship to the borrower if not refinanced. As of the date hereof, we are considering using a portion of the proceeds of Tax Exempt Bonds to refinance such "qualified subprime loans". We expect that any such refinancing loans will be insured by FHA. However, no assurance can be given whether we will commence the financing of any such loans. None of the Allocated Mortgage Loans are such loans.

Prior to April 1, 2008, in the case of any Mortgage Loan that financed the acquisition of a single family home or that refinanced a single family home, we also would use proceeds of Taxable Bonds and net assets to finance (a) costs of rehabilitation and improvements to be completed subsequent to the closing of such Mortgage Loan, subject to a maximum loan-to-value ratio of 105% of the lesser of the sales price (in the case of a Mortgage Loan that financed the acquisition of a single family home) or appraised value and (b) costs of retrofitting or adding accessibility features to accommodate the needs of disabled occupants up to an additional 5% of the lesser of the sales price (in case of a Mortgage Loan that financed the acquisition of a single family home) or the appraised value. In case of any Mortgage

Loan that financed the acquisition of a single family home or that refinanced a single family home, the Authority would also finance with proceeds of Taxable Bonds and net assets the cost of rehabilitation not in excess of 50% of the as-completed appraised value, provided that the principal amount of the Mortgage Loan did not exceed 100% of (a) in the case of a Mortgage Loan that financed the acquisition of a single family home, the lesser of the sum of the sales price plus the rehabilitation costs or the as-completed appraised value or (b) in the case of a Mortgage Loan that refinanced a single family home, the lesser of the sum of the outstanding principal balance thereof plus the rehabilitation costs or the as-completed appraised value. However, as stated above, effective April 1, 2008, we suspended the financing of the Mortgage Loans that include the financing of costs described in this paragraph. No assurance can be given whether we will recommence the financing of any of such loans.

The Bond Resolution does not require that Mortgage Loans be insured or guaranteed. Our program guidelines currently require that first Mortgage Loans financed, in whole or in part, with the proceeds of Tax-Exempt Bonds and having a loan to value ratio in excess of 80% (i) be subject to private mortgage insurance, or (ii) be insured or guaranteed by the VA, FHA, RD or other entity of the federal government. However, our program guidelines do not require any mortgage insurance or guaranty for (i) Interest Only Mortgage Loans (as defined below), (ii) Mortgage Loans financed with the proceeds of Taxable Bonds as described below (except for loans with loan to value ratios in excess of 80% that finance manufactured housing), or (iii) Mortgage Loans financed with our funds other than bond proceeds. Such Mortgage Loans described in the preceding sentence that are not insured or guaranteed are referred to herein as "Self-Insured Mortgage Loans". As stated above, effective April 1, 2008, we suspended the financing of Self-Insured Mortgage Loans. In addition to Self-Insured Mortgage Loans, Second Mortgage Loans (as defined below) are not insured or guaranteed by the federal government or a private mortgage insurance company. Described below is the type of the Second Mortgage Loans that we currently finance under our program guidelines. We may modify our program guidelines at our discretion. See Appendix A for additional information concerning mortgage insurance and guaranty policies and coverage.

The Homeowners Protection Act of 1998 permits a borrower to cancel private mortgage insurance (for which the borrower pays the premium) on the date on which the principal balance of the mortgage loan is scheduled to reach 80% of the original value of the residence or on the date on which the principal balance actually reaches 80% of the original value of the residence. The original value is the lesser of the sales price or the appraised value at the time the mortgage loan transaction was consummated. In order to effect such cancellation, the borrower must request in writing that the cancellation be initiated, must have a good payment history with respect to the mortgage loan (i.e., no mortgage payment was, during the year beginning two years prior to cancellation, 60 or more days delinquent, and no mortgage payment was, during the year beginning one year prior to cancellation, 30 or more days delinquent), and must satisfy any requirements of the lender for evidence that the value of the residence has not declined below its original value and for certification that the borrower's equity in the residence is not encumbered by a subordinate loan. This Act further provides for automatic termination of mortgage insurance on the date on which the principal balance of the mortgage loan is scheduled to reach 78% of the original value of the residence, or if the borrower is not then current on his mortgage loan payments, on the date on which the borrower subsequently becomes current on such payments. These termination and cancellation provisions do not apply to mortgage loans characterized as high risk loans. Even if the private mortgage insurance is not cancelled or terminated as described above, private mortgage insurance must be terminated on the first day of the month immediately following the date that is the midpoint of the amortization period of the mortgage loan if the mortgagor is then current on his mortgage loan payments. This Act also requires that borrowers be provided with certain disclosures and notices regarding termination and cancellation of private mortgage insurance. This Act applies to mortgage loans which were or are closed on or after July 29, 1999. We provide the same right to borrowers whose Mortgage Loans closed prior to such effective date and have provided the same rights to borrowers of FHA-insured Mortgage Loans. We also permit the cancellation of mortgage insurance if the balance of the Mortgage Loan is equal to or less than 80%, or such lesser percentage determined by us, of the current property value, subject to the satisfaction of such criteria, requirements and conditions as we may impose for such cancellation. We cannot currently predict what will be the effect, if any, on future losses incurred on Mortgage Loans as a result of this Act or as a result of its application of such Act to Mortgage Loans closed prior to July 29, 1999 or to FHA-insured Mortgage Loans or of the cancellation of mortgage insurance described in the preceding sentence.

We have previously financed and currently finance Self-Insured Mortgage Loans having a loan-to-value ratio at or below 80%.

We currently use proceeds of Bonds and other funds available under the Bond Resolution to make certain Mortgage Loans which are secured by second liens ("Second Mortgage Loans"). One type of Second Mortgage Loan is financed in conjunction with the origination of a first lien Mortgage Loan financed by us and insured by FHA, to finance part of the Mortgagors' down payment and closing costs not financed by the related FHA insured Mortgage Loans. Such type of Second Mortgage Loan is referred to as a "FHA Plus Second Mortgage Loan." Each FHA Plus Second Mortgage Loan may, when combined with the related FHA insured Mortgage Loan, exceed the sales price and appraised value of the residence and is secured by the lien of a deed of trust subordinate to the lien of the deed of trust securing the FHA insured Mortgage Loan. Prior to July 1, 2008, we also financed another type of Second Mortgage Loan financed pursuant to our Home Stride Loan Program ("Home Stride Second Mortgage Loans") and made as a Subsidized Mortgage Loan, as defined below under "General Fund and Other Net Assets". Home Stride Second

Mortgage Loans were only made in conjunction with a first lien Mortgage Loan financed by us and had a maximum principal amount of \$25,000. Home Stride Second Mortgage Loans were available only in certain high costs areas identified by us. Home Stride Second Mortgage Loans have a 0% interest rate and \$0 payment for the initial three years of the loan term. Following the initial three years, the interest rate changes to 5% and monthly payments commence at a level that will fully amortize the loan over the remaining 27 years of the loan term. The combined amounts of the first lien Mortgage Loan and the Home Stride Second Mortgage Loan typically exceeded the sales price and appraised value of the residence. Second Mortgage Loans are not insured or guaranteed by the federal government or private mortgage companies. We expect that a portion of the proceeds of Bonds (excluding the Offered Certificates) will be used or continued to be used for the financing of FHA Plus Second Mortgage Loans. Effective July 1, 2008, we suspended the financing of Home Stride Second Mortgage Loans. No assurance can be given whether we will recommence the financing of Home Stride Second Mortgage Loans. None of the Allocated Mortgage Loans are Home Stride Second Mortgage Loans.

Prior to April 1, 2008, we used proceeds of Taxable Bonds and other funds available under the Bond Resolution for the financing of Self-Insured Mortgage Loans with loan to value ratios not in excess of 100%. Our regulations authorize the financing of an additional 5% for closing costs and fees (but we have not provided such financing for closing costs and fees) and for rehabilitation and improvements to be completed after the closing of the Self-Insured Mortgage Loan as described above and an additional 5% may be financed for costs of retrofitting or adding accessibility features to accommodate the needs of a disabled occupant as described above. However, as stated above, effective April 1, 2008, we suspended the financing of such Self-Insured Mortgage Loans. No assurance can be given whether we will recommence the financing of such Self-Insured Mortgage Loans.

The Mortgage Loans financed or to be financed, in whole or in part, by the Bonds have, or are expected to have, original terms of approximately 30 years and bear, or are expected to bear, interest at fixed rates. Some of the Mortgage Loans (other than the Allocated Mortgage Loans) financed were step rate loans which bore interest rates approximately one and one-half percentage points below the customary fixed rates and such initial interest rate increases by one percentage point at the end of the first year of the Mortgage Loan and by another percentage point at the end of the second year of the Mortgage Loan and remain at that rate for the remaining life of the Mortgage Loan. However, as stated above, effective April 1, 2008, we suspended the financing of such step rate Mortgage Loans. No assurance can be given whether we will recommence the financing of any of such step rate Mortgage Loans.

In September 2004, we implemented a program under which a portion of the proceeds of Tax Exempt Bonds will finance Mortgage Loans on which interest only will be payable for seven years and which will thereafter be fully amortized over the remainder of the 30-year term of the Mortgage Loan ("Interest Only Mortgage Loans"). The interest rate on each such Interest Only Mortgage Loan is fixed during its term. The maximum principal amount of each Interest Only Mortgage Loan is 100% of the lesser of sales price or appraised value. Such Interest Only Mortgage Loans are Self-Insured Mortgage Loans. We implemented a \$250 million pilot program to finance Interest Only Mortgage Loans with proceeds of Taxable Bonds and our net assets and discontinued the use of proceeds of Tax-Exempt Bonds to finance such Interest Only Mortgage Loans. Effective April 1, 2008, as stated above, we suspended such pilot program. No assurance can be given whether we will recommence the financing of Interest Only Mortgage Loans in the future or whether the source of any such financing will be Taxable Bonds or Tax-Exempt Bonds. No such Interest Only Mortgage Loans are Allocated Mortgage Loans.

Prior to September of 2004, we required the applicant to pay, at the time of closing, between 1 and 3.5 points, with each point being equal to 1% of the principal amount of the Mortgage Loan. The number of points depended on the Mortgage Loan program. Since September of 2004, we have offered applicants in certain Mortgage Loan programs the option of paying between 0 and 4.5 points in exchange for having a higher or lower interest rate on the Mortgage Loan. The yield that we realize on Mortgage Loans is affected by the amount of points paid and the rate of prepayments of such Mortgage Loans. If the Mortgage Loan is originated by an Originating Agent or Mortgage Broker and the applicant pays less than 1 point, we will pay the difference between 1 point and the amount paid by the applicant to the Originating Agent or Mortgage Broker so that such Originating Agent or Mortgage Broker receives the equivalent of 1 point.

The average interest rate on the Mortgage Loans financed or to be financed in whole by Taxable Bonds or Tax Exempt Bonds is or is expected to be equal to or in excess of the average interest cost of the Taxable Bonds or Tax Exempt Bonds, respectively. The average interest rate on the Mortgage Loans financed or to be financed by Tax Exempt Bonds in participation with Taxable Bonds is or is expected to be a blend of (1) an interest rate on the portion of the Mortgage Loans financed by Taxable Bonds equal to or in excess of the average interest cost of the corresponding Taxable Bonds and (2) an interest rate on the portion of the Mortgage Loans financed by the Tax-Exempt Bonds which would be expected to produce an aggregate Mortgage Loan yield equal to or in excess of the average interest cost of the corresponding Tax Exempt Bonds but not greater than the Mortgage Loan yield permitted under the Code (see "General Fund and Other Net Assets" for discussion of Subsidized Mortgage Loans financed or supported by our net assets).

In addition to the requirements with regard to the loan to value ratio and Mortgage Loan insurance or guarantees, we rely upon the following security elements in the making and purchasing of Mortgage Loans: (i) Mortgage Loan underwriting and servicing procedures (see “Mortgage Loan Underwriting Criteria and Processing Procedures” and “Servicing” under “The Program” herein), (ii) an equity buildup through Mortgage Loan principal repayments and appreciation, if any, in the value of the properties securing the Mortgage Loans and (iii) geographical diversification of the Mortgage Loan portfolio within the Commonwealth.

The Mortgages which are to secure the Mortgage Loans made or purchased by us are to be in the form of deeds of trust, in accordance with Virginia practice, and are to constitute and create first liens (except in the case of Second Mortgage Loans) on single family residential housing.

### **Investment Obligations**

We maintain a substantial portion of Assets as Investment Obligations. Eligible Investment Obligations are set forth in the definition thereof in Appendix E and include (i) any investment (debt or other contractual obligation or equity interest) which, in the determination of an Authorized Officer, is a suitable investment, in light of the amount and timing of Bond Obligation payments, the amount of Assets, and the availability of monies to pay Bond Obligations as they become due, at the time of acquisition thereof, and (ii) certain investments which bear, or the obligor(s) or guarantor(s) thereof bear, an investment grade rating assigned by a nationally recognized rating agency. Any Enhancement Agreements, any Exchange Agreements or any Other Financial Agreements, including those made subject to the pledge or lien of the Bond Resolution, are subject to the risk that the other parties to such Agreements may not satisfy their obligations set forth in such Agreements. The Bond Resolution does not establish minimum rating requirements for such other parties.

### **General Obligations**

The Offered Certificates are also our general obligations payable out of any of our revenues, moneys or assets, subject to agreements heretofore or hereafter made with owners of our obligations other than the Owners pledging particular revenues, moneys or assets for the payment thereof. The security provided the Offered Certificates by our general obligation should be evaluated in connection with the performance of our other loan programs and such pledging of particular revenues, moneys or assets. See “Other Programs”, “Summary of Revenues, Expenses, and Net Assets”, and “General Fund and Other Net Assets” in “The Authority”.

We have no taxing power. The Bonds do not constitute a debt or grant or loan of credit of the Commonwealth of Virginia, and the Commonwealth shall not be liable thereon, nor shall the Bonds be payable out of any funds other than ours. We have not created a capital reserve fund to secure the Bonds, and therefore, the Bonds are not subject to the provision in the Act that requires the Governor to include in the Governor’s budget funds to cover any deficiency in our capital reserve funds and that authorizes the General Assembly to appropriate funds therefor.

### **Sources of Payment**

The scheduled payments of Bond Amounts, including the principal of and the interest on the Offered Certificates and any Enhancement Agreements, any Exchange Agreements or any Other Financial Agreements that are payable from Assets, have been or are expected to be based upon the assumed receipt by us of principal and interest or other payments on or with respect to Mortgage Loans and Investment Obligations, any Revenue received with respect to Authority Property, and payments received with respect to any Enhancement Agreement, any Exchange Agreement or any Other Financial Agreements pledged as Assets.

Our ability to pay Bond Amounts, including principal and interest on the Offered Certificates, may be adversely affected by several factors including (i) failure to receive principal and interest or other payments or income when due or any time thereafter with respect to Mortgage Loans, Investment Obligations and any Enhancement Agreement, Exchange Agreement or Other Financial Agreement pledged as Assets, (ii) terminations and prepayments of Mortgage Loans at times and at rates not anticipated by us, (iii) Mortgage Loans, Investment Obligations and other assets not being made, financed or acquired at the times, interest rates or prices, as applicable, contemplated by us or not being made, financed or acquired at all, and (iv) receipt of net proceeds from the sale or other disposition of Mortgage Loans and other assets pledged thereto in amounts less than expected by us. A portion of such Mortgage Loan terminations included in (i) the SPA Rate (described below) assumed for certain series of the Currently Outstanding Bonds and (ii) the determination of the principal amounts of the Offered Certificates (and other Bonds denoted in the chart below as “pass-through”) to be repaid by principal repayments on Allocated Mortgage Loans are terminations due to foreclosure, deed in lieu of foreclosure, and assignment to mortgage loan companies. We do not necessarily receive cash upon the occurrence of such terminations. The receipt of cash for such terminations may occur at a later time and may be for an amount less than the amount which was due under the Mortgage Loan.

In establishing the principal amounts and dates of the maturities and sinking fund installments for the Currently Outstanding Bonds, we have assumed or will assume certain levels of prepayments of Mortgage Loans, a

substantial portion of which will be used to pay such principal amounts and sinking fund installments. Such assumed levels have been or will be a percentage (0% or higher) of the SPA Rate (also sometimes referred to as the PSA Rate). For this purpose, revenues received by us as a result of defaults on Mortgage Loans are treated as prepayments. The SPA Rate is a model that utilizes an assumed rate of prepayment each month relative to the then outstanding principal balance of a pool of mortgage loans. The SPA Rate assumes constant prepayment rates of 0.2% per annum of the then outstanding principal balance of such mortgage loans in the first month of the life of the mortgage loan and an additional 0.2% per annum in each month thereafter until the thirtieth month. Beginning in the thirtieth month and in each month thereafter during the life of the mortgage loans, the SPA Rate assumes a constant prepayment rate of 6% per annum. The SPA Rate does not purport to be a historical description of prepayment experience or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Mortgage Loans financed by the Bonds.

Set forth below are the percentages (if any) of the SPA rates used or expected to be used by us in assuming the above described levels of prepayments of Mortgage Loans. The Series of Bonds marked “pass-through” have principal retirements on such Series corresponding to the assumed receipt of scheduled principal payments on the allocated Mortgage Loans, prepayments received on such allocated Mortgage Loans and certain other payments relating to allocated Mortgage Loans.

<u>Bond Series</u>	<u>Pass-through or Percentage of SPA (PSA) Rate Assumed</u>
2001 Series A-Taxable	pass-through
2001 Series B-Taxable	pass-through
2001 Series C-AMT and D	50%
2001 Series F-Taxable	pass-through
2001 Series G-Taxable	pass-through
2001 Series H, I-AMT and J	100%
2002 Series A-Taxable	pass-through
2002 Series B-Taxable	pass-through
2002 Series C-Taxable	pass-through
2002 Series D-Taxable	pass-through
2002 Series E-Taxable	pass-through
2002 Series F-Taxable	pass-through
2002 Series G-Taxable	pass-through
2003 Series A-AMT and B	100%
2003 Series C	pass-through
2004 Series A-AMT	100%
2004 Series B	pass-through
2004 Series C-AMT	100%
2005 Series A-AMT and B	64%
2005 Series C-AMT, D-AMT and E	100%
2006 Series A	pass-through
2006 Series B	pass-through
2006 Series C	pass-through
2006 Series DEF	50%
2007 Series ABCD	47%
2008 Series A	pass-through
2008 Series B	pass-through
2008 Series C	pass-through

The past events represented by the SPA Rate are not necessarily indicative of future events. As a result, there can be no assurance that our prepayment experience will substantially parallel those of the SPA Rate. Our exercise of our rights to redeem some of the Bonds may change the percentage of the SPA Rate required to meet scheduled debt service on the Bonds on or after the redemption dates of such Bonds.

In the case of Bonds that have been or are hereafter issued subject to mandatory tender, we expect to assume that, if such Bonds are not (or may not be) remarketed, they will be redeemed and the Redemption Price will be payable from their proceeds and investment earnings thereon which are held by us prior to such mandatory tender.

In estimating investment income to be received on moneys held under the Bond Resolution, we assume the investment of such funds at such interest rates as are deemed reasonable based on market conditions at the time of issuance of the applicable series of Bonds.

On the basis of the foregoing facts and assumptions, the Revenues and other income to be received with respect to the Offered Certificates and the Currently Outstanding Bonds are expected by us to be in excess of the scheduled debt service thereon. Any excess Revenues may be used to purchase or redeem Bonds. In reaching such expectation in the second preceding sentence, we have not considered the issuance of additional Bonds or the

application or investment of the proceeds thereof. We believe our assumptions regarding the Offered Certificates and the Currently Outstanding Bonds to be reasonable, but we can give no assurance that the actual receipt of Revenues (including principal prepayments) will correspond with its estimates of available money to pay debt service on the Offered Certificates and the Currently Outstanding Bonds.

#### **Amendments to Bond Resolution; Bonds Acquired by Us**

The Bond Resolution provides authorization for us to amend to certain provisions therein by supplemental resolution without the consent of Owners (see “Amendments” in “Summary of Certain Provisions of the General Bond Resolution”). Pursuant to such authorization, we may, subject to the Revenue Test described below, amend the Bond Resolution in any respect, except as set forth in Section 701(7) of the General Bond Resolution. The Bond Resolution, including the Revenue Test, also may be amended with the consent of the Owners of more than sixty percent (60%) of the Bond Obligation as provided in Sections 702 and 802 of the General Bond Resolution. Any of the foregoing amendments may adversely affect the security for the Bonds. See Appendix E for Sections 701(7), 702 and 802.

Pursuant to the Act and the Bond Resolution, we may purchase or otherwise acquire the actual or constructive ownership of Bonds prior to the maturity or redemption thereof with the intent that such Bonds remain Outstanding and that any such Bonds so purchased or acquired shall remain Outstanding, subject to any terms and conditions determined by us. Any Bonds so owned by us shall be entitled to vote or give consents under the Bond Resolution, except with respect to amendments to the Bond Resolution, and remedies and appointment and removal of the Trustee upon an Event of Default. Any such vote or consent may adversely affect the security for the Bonds.

#### **REVENUE TEST; LIMITED OPERATING COVENANTS**

Except for the Revenue Test described below, the Bond Resolution imposes no restrictions on our ability to transfer Assets to our General Fund and release assets from the lien or pledge of the Bond Resolutions and no requirements on us as to the minimum amount or type of Assets, nor does it impose any requirements on us with respect to annual income or net worth.

The Bond Resolution does require that certain actions, including transfer of all or any portion of any Asset to our General Fund and release assets from the lien or pledge of the Bond Resolution, can be undertaken only pursuant to the Revenue Test set forth in the Bond Resolution. Such test requires an Authorized Officer of ours, based on such assumptions as such Authorized Officer shall deem reasonable and subject to certain other conditions, to determine that subsequent to taking such action, Revenues, as defined in the Resolution, “shall be at least sufficient to pay all Bond Amounts as such Amounts are or are anticipated to become due and payable (by purchase, redemption, or otherwise).” See the definition of Revenue Test in Section 101 of the General Bond Resolution attached as Appendix E to this Offering Circular.

Notwithstanding anything to the contrary herein, to the extent that pursuant to an Officer’s Certificate we pledge any funds which are not then subject to the pledge of the Bond Resolution and which are expected to be thereafter used to finance Mortgage Loans until the issuance of Bonds therefor, an amount of Assets equivalent to such funds, plus a reasonable charge for interest on such funds if and as determined by an Authorized Officer, may be subsequently withdrawn and transferred to us without regard to the satisfaction of the Revenue Test.

#### **THE PROGRAM**

The information that follows is provided to explain our current program of making or purchasing Mortgage Loans pursuant to the Bond Resolution (the “Program”). We have also made mortgage loans pursuant to other bond resolutions. This information does not purport to be comprehensive or definitive, and the limits, amounts of financial reserves, rules and criteria described are not required by the Bond Resolution and are subject to modification, change or waiver by us, in whole or in part at any time, and with respect to any particular Mortgage Loan. Our Program of making or purchasing Mortgage Loans financed with the proceeds of the Currently Outstanding Bonds has been substantially similar to that described with respect to the Program, subject to variations and modifications as described herein.

New mortgage loans to be originated under our single family program are expected to be financed primarily with the proceeds of Bonds and pursuant to the Program. We also expect to utilize our other moneys to finance other new mortgage loans under our other programs as set forth herein under “Miscellaneous Programs” and the “General Fund and Other Net Assets”.

#### **General**

Under the Program, we may make and purchase Mortgage Loans for financing and/or refinancing (including the refinancing of any existing mortgage loan and any equity in the single family residential housing in excess of any such existing mortgage loan) the rehabilitation or ownership or both of owner-occupied single family residential

housing consisting of not more than four dwelling units, including condominium units, intended for occupancy by persons and households of low and moderate income. However, as stated above, effective April 1, 2008, we suspended the financing of Mortgage Loans with Taxable Bonds and net assets to refinance single family homes. Also, as stated above, we are considering refinancing “qualified subprime loans” with proceeds of Tax Exempt Bonds as described under “General Matters - Security – Mortgage Loans. However, no assurance can be given whether we will commence the financing of any such loans. Mortgage Loans will be originated pursuant to our origination system as described below.

Mortgage Loans are, except as noted below, originated by commercial banks, savings and loan associations, private mortgage bankers and local redevelopment and housing authorities approved by us to act as our originating agents (“Originating Agents”) pursuant to originating agreements (“Originating Agreements”). In addition, we utilize mortgage brokers (“Mortgage Brokers”) to originate Mortgage Loans on our behalf, pursuant to originating broker agreements (“Originating Broker Agreements”), and we may utilize our own employees to receive applications for Mortgage Loans in certain areas of the Commonwealth in which we desire to increase lending activity under the Program. In the case of any applications received by our employees, we process and originate the Mortgage Loans and retain all fees which would have otherwise been available to Originating Agents with respect to such Mortgage Loans.

The Mortgage Loans are currently serviced by us and by SunTrust Mortgage, Inc. which is an Originating Agent and is approved by us to act as our servicing agent (“Servicing Agent”). The servicing of Mortgage Loans by the Servicing Agent is performed pursuant to a servicing agreement (“Servicing Agreement”) between us and the Servicing Agent. We currently service approximately 93% of our existing single family mortgage loan portfolio and are currently retaining the servicing on all newly originated single family mortgage loans. We currently service approximately 97% of the Allocated Mortgage Loans, and the Servicing Agent currently services the remainder of such Allocated Mortgage Loans.

### Prior Experience

The outstanding Mortgage Loan balance, delinquency and foreclosure statistics for mortgage loans financed under our single family mortgage loan program, including the Program, have been as set forth below. Effective December 31, 2007, such statistics include only Mortgage Loans financed under the Program. As of October 31, 2008, we held title to 62 single family properties which had been foreclosed upon, but not yet sold.

	<u>Outstanding Balance of Mortgage Loans</u>	<u>Outstanding Balance of Delinquent* Mortgage Loans</u>	<u>Percentage Delinquent*</u>	<u>Outstanding Balance of Mortgage Loans in Foreclosure</u>	<u>Percentage in Foreclosure</u>
June 1976	\$ 50,010,260	\$ 824,687	1.65%	\$ 471,578	.94%
June 1977	90,519,943	611,210	.68	580,874	.64
June 1978	171,554,983	1,581,906	.92	79,291	.05
June 1979	268,148,233	1,895,958	.71	269,776	.10
June 1980	357,933,006	2,547,500	.71	693,569	.19
June 1981	460,950,915	1,631,812	.35	1,247,993	.27
June 1982	526,154,831	1,934,509	.37	1,551,653	.29
June 1983	576,838,408	2,129,704	.37	1,033,567	.18
June 1984	815,042,910	1,736,677	.21	2,013,348	.25
June 1985	1,055,604,290	2,265,368	.21	2,422,175	.23
June 1986	1,195,864,387	4,158,521	.35	2,172,558	.18
June 1987	1,237,415,544	4,409,492	.36	2,524,506	.20
June 1988	1,537,364,756	5,412,004	.35	3,523,664	.23
June 1989	1,801,428,511	8,146,835	.45	3,628,834	.20
June 1990	1,905,581,579	10,316,930	.54	3,527,303	.19
June 1991	1,973,348,630	16,496,589	.84	7,103,284	.36
June 1992	2,029,417,516	22,755,830	1.12	7,026,107	.35
June 1993	2,015,567,145	23,796,850	1.18	7,600,183	.38
June 1994	1,877,929,438	20,662,329	1.10	6,385,775	.34
June 1995	2,590,062,023	26,301,889	1.02	5,252,832	.20
June 1996	2,926,020,625	45,838,102	1.57	10,863,571	.37
June 1997	3,212,259,451	71,277,888	2.22	12,156,328	.38
June 1998	3,306,246,756	72,577,895	2.20	14,094,196	.43
June 1999	3,343,463,438	69,343,954	2.07	12,247,829	.37
June 2000	3,467,701,927	77,752,107	2.24	11,905,551	.34
June 2001	3,691,477,394	67,359,881	1.82	9,987,932	.27
June 2002	3,688,135,950	67,275,150	1.82	10,311,402	.28
June 2003	2,895,005,283	63,273,245	2.19	8,853,846	.31
June 2004	2,443,450,255	52,166,695	2.13	6,244,039	.26

	<u>Outstanding Balance of Mortgage Loans</u>	<u>Outstanding Balance of Delinquent* Mortgage Loans</u>	<u>Percentage Delinquent*</u>	<u>Outstanding Balance of Mortgage Loans in Foreclosure</u>	<u>Percentage in Foreclosure</u>
June 2005	2,606,208,240	44,245,729	1.70	5,234,535	.20
June 2006	3,276,285,786	44,494,131	1.36	2,772,675	.08
June 2007	4,183,806,161	56,623,486	1.35	6,608,655	.16
June 2008	4,690,244,980	92,129,053	1.96	17,156,362	.37
October 2008	4,864,195,992	129,178,911	2.66	21,184,469	.44

\* Two or more monthly payments delinquent (excluding loans in foreclosure).

<u>Insurance or Guaranty Provider</u>	<u>Percentage of Outstanding Principal Balance of Mortgage Loans under the Bond Resolution as of October 31, 2008</u>
FHA	31%
VA	10
Rural Development	3
Private mortgage insurance companies	12
Self-Insured or 80% LTV or less	<u>44</u>
	100%

The private mortgage insurance companies providing substantially all of the mortgage insurance for Mortgage Loans under the Bond Resolution and their respective percentages of the outstanding principal balance of such Mortgage Loans as of October 31, 2008 are as follows:

Mortgage Guaranty Insurance Corp.	4.2%
Republic Mortgage Insurance Co.	2.4
Genworth Mortgage Insurance Corp.	2.0
PMI Mortgage Insurance Co.	1.5
United Guaranty Residential Insurance Co.	0.8
Triad Guaranty Insurance Corp.	0.4
Radian Guaranty, Inc.	<u>0.4</u>
	11.7%

We make no representations about the financial condition of any of the private mortgage insurance companies or their ability to make full and timely payment to us of claims on the Mortgage Loans on which we may experience losses.

### Origination System

Under the origination system, a prospective mortgagor submits his Mortgage Loan application to an Originating Agent, Mortgage Broker or our employee. In the case of a Mortgage Loan to finance the purchase of a residence, the application is submitted after the prospective mortgagor has contracted for the purchase of the residence. If a preliminary review by the Originating Agent, Mortgage Broker or our employee indicates that the prospective mortgagor and Mortgage Loan will qualify under our underwriting criteria and the Code, if applicable, we reserve proceeds of Bonds for a period of 60 days for the financing of the Mortgage Loan, although extensions may be granted by us. We expect to continue to accept such reservations on a first-come, first-served basis up to pre-authorized limits. We have allocated, and may in the future allocate, the proceeds of Bonds other than as described above.

### Mortgage Loan Underwriting Criteria and Processing Procedures

We make Mortgage Loans under the Program to persons and households of low and moderate income for financing or refinancing the rehabilitation or ownership, or both under certain circumstances, of single family residential housing, including condominium units. We establish maximum sales prices and maximum annual gross incomes which vary depending principally upon location within the Commonwealth. The maximum sales prices which we will approve for Mortgage Loans financed by Tax Exempt Bonds presently range from \$225,100 to \$408,100, and the maximum annual gross incomes for eligibility for Mortgage Loans to be financed by Tax-Exempt Bonds presently range from \$63,000 to \$100,000. In certain targeted areas designated pursuant to the Code, we have established maximum sales prices of \$498,800 and maximum annual gross incomes that range from \$76,300 to \$121,900. All of our current maximum sales prices and maximum annual gross incomes applicable to Mortgage Loans financed in whole or in part, by Tax Exempt Bonds comply with the limits currently established pursuant to the Code. We may waive or change such maximum sales prices and maximum annual gross incomes, subject to compliance with the applicable



limits established by the Code. We have adopted changes to our regulations that permit us to establish lower maximum sales prices and maximum annual gross incomes for such Mortgage Loans in order to enable us to effectively and efficiently allocate our current and anticipated financial resources. Pursuant to such regulatory changes, we may reduce our maximum sales prices and/or maximum annual gross incomes, although we can currently give no assurance as to whether we will approve any such reductions or as to the amount of any such reductions. For Mortgage Loans previously financed, in whole, by Taxable Bonds, we established maximum annual gross incomes equal to 150% of the applicable median family incomes, eliminated the maximum sales prices, and established a maximum principal amount equal to the maximum loan amount permitted by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. However, as stated above, effective April 1, 2008, we suspended the financing of Mortgage Loans financed, in whole, by Taxable Bonds.

Applications for Mortgage Loans are submitted to us for review and approval based on income eligibility, credit and other criteria relating to the proposed mortgagor's ability to meet payments and compliance with the Code, the Act and our regulations. In the case of Mortgage Loans to be insured or guaranteed by the FHA, VA or Rural Development, the application is reviewed for compliance with the Code, the Act and the credit and property standards of the FHA, VA or Rural Development only. We require the applicants to provide normal and customary documentation in support of their application. In the case of the above-described step rate Mortgage Loans bearing interest during the first and second years of the Mortgage Loans at interest rates two percentage points and one percentage point, respectively, lower than the final interest rate at the end of the second year of the Mortgage Loan (see "Mortgage Loans" under "Security" above), we used the interest rate to be charged during the second year (or the first year in the case of mortgage loans that have a loan to value ratio below 80% or mortgage loans subject to private mortgage insurance or FHA insured Mortgage Loans, if permitted by FHA) of the Mortgage Loan in underwriting the proposed Mortgagor's ability to meet payments on the Mortgage Loan. In the case of Interest Only Mortgage Loans on which interest only will be payable during the initial seven (7) years, we underwrote the proposed Mortgagor on the basis of his ability to make the interest only payment. However, as stated above, effective April 1, 2008, we will suspend the financing of step rate Mortgage Loans and Interest Only Mortgage Loans. FHA Plus Second Mortgage Loans (as described above) are processed and underwritten in conjunction with the related FHA insured Mortgage Loans and in accordance with applicable FHA credit and property standards. For Home Stride Second Mortgage Loans, we underwrote the Mortgagor on his ability to make payments on the Authority financed first lien Mortgage Loan without regard to the payments of principal and interest on the Home Stride Second Mortgage Loan that commence three years thereafter. As stated above, effective July 1, 2008, we suspended financing Home Stride Second Mortgage Loans. No assurance can be given whether we will recommence the financing of Home Stride Second Mortgage Loans.

Our staff reviews the loan application, credit report, verifications of employment and bank deposits, and the appraisal (if required). In addition, applications for Mortgage Loans are reviewed by us as to the value and other characteristics of the individual dwelling unit proposed to be financed as security for such loan. When such an application is approved by our single family underwriting staff, an Authority Mortgage Loan commitment is issued to the applicant. Upon compliance with all terms and conditions of our Mortgage Loan commitment, the proceeds of the Mortgage Loan are disbursed.

All Originating Agents and Mortgage Brokers are required to enter into Originating Agreements and Originating Broker Agreements, respectively, setting forth the conditions and requirements for origination and disbursement of Mortgage Loans. The Originating Agents and Mortgage Brokers must process, settle and disburse the Mortgage Loans in accordance with the underwriting standards and administrative procedures in such Agreements. For each such Mortgage Loan, the Originating Agent or Mortgage Broker receives an origination fee of 1% of the principal amount of the Mortgage Loan.

We have delegated to certain of its Originating Agents the loan underwriting, commitment and closing functions described above. We may also agree to purchase Mortgage Loans originated by such Originating Agents. In the case of such delegation or purchase, we will, subsequent to the closing of the Mortgage Loans, review the loan applications and documentation and determine compliance of the Mortgage Loans with our underwriting requirements and criteria and the Code. We may require the Originating Agent to purchase or retain any Mortgage Loans which are not subject to mortgage insurance or guaranty in accordance with our requirements, which fail to comply with the provisions of the Code, which do not conform with our sales price and income limits, which are not properly documented as required by us, or which were originated based upon any misrepresentation known to the Originating Agent.

## **Servicing**

We are the master servicer for all the Mortgage Loans and are responsible for oversight of the Servicing Agent.

The Servicing Agent or we, as applicable, are the primary servicer of each Mortgage Loan. The Servicing Agent or we, as applicable, collect monthly payments, retain and apply Escrow Payments when due, and remit loan principal and interest payments, net of servicing fees, to the Trustee. The annual servicing fee paid to the Servicing

Agent by us at present is generally three-eighths of one percent of the outstanding principal balance of the Mortgage Loan, which fee is retained from each such remittance to us. The Servicing Agent is entitled to retain any late charges on the Mortgage Loans that it is servicing.

All funds received on account of Mortgage Loans are deposited in segregated trust or custodial accounts or other accounts approved by us in state or national banks or savings and loan associations, the deposits in which are insured by the Federal Deposit Insurance Corporation. From the funds so deposited, the Servicing Agent or we, as applicable, pay to the proper parties, when and if due, mortgage insurance premiums, taxes, special assessments and hazard insurance premiums. The Servicing Agent or we, as applicable, remit the balance, less any servicing fee payable to the Servicing Agent and any late charges, to the Trustee.

The Servicing Agent keeps complete and accurate accounts of, and properly applies, all sums collected by it on account of each Mortgage Loan and furnishes us with evidence of all expenditures of taxes, assessments, and other public charges, hazard insurance premiums, and mortgage insurance premiums. The Servicing Agent furnishes us annual reports of its assets and liabilities with statements of income and expenses in form satisfactory to us.

The Servicing Agent or we, as applicable, maintain hazard and casualty insurance on the mortgaged premises, insuring us as mortgagee to the full extent of its interest in the mortgaged premises. The Servicing Agent is also required to effect a fidelity bond, errors and omissions insurance in amounts and with coverage acceptable to us.

In the case of default under any Mortgage Loan, the Servicing Agent or we, as applicable, take all actions necessary to obtain the full benefits of any mortgage insurance or guarantee. If foreclosure proceedings are instituted, the Servicing Agent or we, as applicable, manage and protect the mortgaged premises under foreclosure, including maintenance of insurance on the premises, management and supervision of repairs and maintenance of the premises. Currently, in the case of a Mortgage Loan serviced by the Servicing Agent that becomes 60 days delinquent, we take back the servicing and become the primary servicer of such Mortgage Loan.

Each month, the Servicing Agent must submit a Single Debit Report in form approved by the Mortgage Bankers Association of America, which provides a detailed and uniform accounting of the loan balance and payments of each Mortgage Loan serviced and a monthly delinquency status report. We reconcile these reports to ensure properly allocated and complete remittances; to confirm and update our books, records and financial statements; and to monitor delinquency rate trends. If delinquency rates on Mortgage Loans serviced by the Servicing Agent increase, it is our policy to promptly contact the Servicing Agent to determine the cause. Such monitoring is intended to effect (a) reinstatement of scheduled payments by mortgagors who have been temporarily unemployed, (b) adjusted collection procedures by the Servicing Agent, (c) change or increase in the Servicing Agent's servicing personnel, and (d) more aggressive or rapid foreclosure proceedings.

#### **THE AUTHORITY**

The Virginia Housing Development Authority is a political subdivision of the Commonwealth constituting a public instrumentality. It was established in 1972 to assist in meeting the needs and achieving the objectives of the Commonwealth with respect to housing for persons and households of low and moderate income. Our principal office is located at 601 South Belvidere Street, Richmond, Virginia 23220, telephone: (804) 782-1986. Our website address is [www.vhda.com](http://www.vhda.com).

#### **Other Programs**

The funds for our mortgage loan programs are derived from the sale of our notes and bonds and from funds derived from the prepayments and repayments on mortgage loans, excess revenues and net assets. Certain information on such notes and bonds is set forth in footnote 5 of our financial statements attached hereto as Appendix C. We pay our expenses from our income generated from our operations and have received no funds from the Commonwealth other than an initial advance, which we has repaid. The amount of notes and bonds which we may issue or have outstanding is limited only by the provisions in the Code which restrict the amount of tax-exempt bonds which may be issued and by the provision of the Code of Virginia which limits the outstanding principal amount of our obligations secured by a capital reserve fund to \$1.5 billion, excluding certain refunding transactions. We are currently in compliance with such limits in the Code and the Code of Virginia.

#### *Multi-Family Program*

Existing mortgage loans under our multi-family program are financed pursuant to bond resolutions for the Multi-Family Housing Bonds, VHDA General Purpose Bonds, and Rental Housing Bonds. New mortgage loans to be originated under our multi-family program are financed principally with the proceeds of our Rental Housing Bonds. We also have utilized and expect to utilize our other moneys to finance new mortgage loans under our multi-family program as set forth herein under "Miscellaneous Programs" and the "General Fund and Other Net Assets".

The bond resolution which authorizes the issuance of Multi-Family Housing Bonds requires that the mortgage loans financed thereby be secured by first liens on the multi-family developments. The mortgage loans financed by the VHDA General Purpose Bonds and Rental Housing Bonds are required by the bond resolution authorizing such bonds to be secured by liens on the multi-family developments. All of the mortgage loans currently financed by Rental Housing Bonds are secured by first liens. Most, but not all, of the liens securing mortgage loans financed by VHDA General Purpose Bonds are first liens, and we expect that the mortgage loans hereafter financed by Rental Housing Bonds and VHDA General Purpose Bonds will be secured by first liens; however, we may, in our discretion, finance Mortgage Loans secured by liens that are not first liens and cannot, therefore, provide any assurance that all such Mortgage Loans will be secured by first liens. It is our policy that the security for the mortgage loans be a full fee simple ownership interest; however, under the Act and the bond resolutions authorizing our multi-family bonds, we may finance a leasehold estate if the term of the lease is at least twice the term of the mortgage loan. We have financed, and may in the future finance, multi-family mortgage loans secured by leasehold estates of the land and/or the development if the landlord is unwilling or unable to convey its interest as security for the mortgage loan.

Generally, the multi-family mortgage loans bear interest at fixed interest rates subsequent to the construction period (if any) and are fully amortizing over the term of the mortgage loan, although we have occasionally structured the mortgage loan (and may do so in the future) to have a balloon principal payment due on the maturity date of the mortgage loan if the amount of such balloon principal payment is expected to be less than the projected value of the development on the maturity date of such mortgage loan.

The bond resolutions do not require that the mortgage loans be insured by the federal government or private mortgage insurance companies or that developments financed thereby be entitled to or eligible for federal assistance; however, substantially all of such developments are assisted under one or more of the federal housing programs. In addition, substantially all of the developments financed thereby were underwritten by us in accordance with our criteria and procedures, are required to be managed in accordance with our standards and requirements, and are subject to various use and occupancy restrictions imposed by us. Developments originally financed by tax exempt bonds issued after April 24, 1979 are subject to the applicable restrictions under the Code. Such bond resolutions pledge the mortgage loans and other assets attributable to such bonds as security for the payment of such bonds. The bond resolutions for the Multi-Family Housing Bonds and Rental Housing Bonds have requirements which must be satisfied prior to the withdrawal of such mortgage loans and other assets from the pledge and lien of such resolutions. All of such bonds are our general obligations.

The 2004 Session of the Virginia General Assembly enacted legislation that authorizes us to finance “economically mixed” developments in which a portion (not to exceed 80% of the units) will not be subject to our income limits. Such legislation also authorizes us to finance in such developments non-housing buildings or portions thereof for manufacturing, industrial, commercial, governmental, educational, entertainment, community development, healthcare or nonprofit enterprises or undertakings. Pursuant to such legislation, we have initiated a pilot program for such financings and, based on the results of such program, expect to develop regulations and guidelines that will govern the financing of such developments.

The scheduled payments of principal and interest on such multi-family bonds have been based upon the assumed receipt by us of principal and interest or other payments on or with respect to the assets pledged thereto. In so scheduling such payments of principal and interest on the bonds, we have assumed that no prepayments of principal would be received with respect to the mortgage loans. Based upon such assumptions, we believe that the principal and interest or other payments on or with respect to the assets pledged to such bonds will be in excess of the scheduled debt service on such bonds.

Our ability to pay such principal and interest on such multi-family bonds may be adversely affected by (i) failure to receive principal and interest or other payments or income when due or any time thereafter with respect to mortgage loans, investment obligations and any other asset pledged thereto, (ii) receipt of income with respect to developments owned by us and financed by the bonds in amounts less than expected by us, (iii) mortgage loans, investment obligations and other assets not being made, financed or acquired at the times, interest rates or prices, as applicable, contemplated by us or not being made, financed or acquired at all, and (iv) receipt of net proceeds from the sale or other disposition of assets pledged thereto in amounts less than expected by us. The ability of a mortgagor to make principal and interest payments on a mortgage loan may be adversely affected by reductions (or the failure to receive adequate increases) in federal subsidy payments with respect to any developments financed by the bonds and assisted by such subsidy payments, as well as by general economic conditions.

As of October 31, 2008, all mortgagors in our multi-family bond financed program were current in their payments, except six mortgagors owning developments financed by mortgage loans having an aggregate principal balance of approximately \$3.9 million. Since the inception of the programs utilizing the proceeds of such bonds, we have acquired by foreclosure or deed in lieu of foreclosure and currently own twelve developments (the “Owned Developments”), have foreclosed on one development that was purchased by a third party at the foreclosure sale, and have assigned four FHA-insured mortgage loans to the U.S. Department of Housing and Urban Development (“HUD”). The rental and other income of the Owned Developments is, in many instances, insufficient to provide a sufficient

return to the Authority on its capital investment in such Owned Developments. For developments experiencing financial difficulties, we may also restructure the timing of the receipt of the principal and interest payments on the mortgage loan or reduce the interest rate on a temporary or permanent basis.

*Single Family Program*

New mortgage loans to be originated under our single family program, including Mortgage Loans, are expected to be financed principally with the proceeds of Bonds as set forth herein. We have used and continue to use certain principal payments on multi-family mortgage loans financed by VHDA General Purpose Bonds to finance new single family mortgage loans. We also have utilized and expect to utilize our other moneys to finance new mortgage loans under our single family program as set forth herein under “Miscellaneous Programs” and the “General Fund and Other Net Assets”.

As of October 31, 2008, \$192.4 million aggregate principal balance of single family mortgage loans financed by VHDA General Purpose Bonds was outstanding, of which \$4.6 million aggregate principal balance was more than two months delinquent in monthly payments and \$0.5 million of such aggregate principal balance was in foreclosure, representing 2.38% and 0.25%, respectively, of such aggregate principal balance of mortgage loans. Substantially all of such mortgage loans are not insured by the federal government or private mortgage insurance companies.

*Miscellaneous Programs*

We make certain mortgage loans supported or financed by our net assets (see “General Fund and Other Net Assets” for a description of mortgage loan programs effected with our net assets). We also administer the federal low income housing tax credit program under Section 42 of the Code and federal grant or subsidy programs and assists the Commonwealth’s Department of Housing and Community Development in the administration of the federal HOME loan and grant program. Mortgage loans and other assets financed or acquired by money from federal grant or subsidy programs are not pledged or available for the payment of any of our bonds or other obligations.

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

The following is a summary of our revenues, expenses and net assets at year end for each of the fiscal years since 2004. The net assets of certain funds are restricted and are subject to varying valuation methodologies pursuant to contracts with bond owners. The totaling of the accounts does not indicate that the combined net assets are available for the payment of principal of or interest on the Bonds, for the payment of our operating expenses or for any other purpose. The summary should be read in conjunction with the financial statements and notes appearing in Appendix C. The amounts in the summary for each year ended June 30 are derived from the audited financial statements for each such year.

	Year Ended June 30				
	(in millions)				
	2004	2005	2006	2007	2008
	<i>(Not included in independent accountants' report)</i>				
Memorandum Only – Combined totals					
Revenues:					
Interest on mortgage loans.....	\$372	\$363	\$389	\$436	\$487
Investment income .....	9	27	45	52	(17)
Pass-through grants received.....	120	72	72	72	72
Housing Choice Voucher program.....	6	58	66	64	63
Other .....	<u>10</u>	<u>9</u>	<u>14</u>	<u>22</u>	<u>20</u>
Total revenues.....	<u>517</u>	<u>529</u>	<u>586</u>	<u>646</u>	<u>625</u>
Expenses:					
Interest .....	245	232	260	287	335
Pass-through grants disbursed .....	120	72	72	72	72
Housing Choice Voucher program.....	5	57	54	61	65
Total administrative expenses, etc .....	<u>47</u>	<u>42</u>	<u>54</u>	<u>71</u>	<u>81</u>
Total expenses .....	<u>417</u>	<u>403</u>	<u>440</u>	<u>491</u>	<u>553</u>
Excess of revenues over expenses .....	100	126	146	155	72
Net Assets at beginning of period .....	<u>1,443</u>	<u>1,543</u>	<u>1,669</u>	<u>1,815</u>	<u>1,970</u>
Net Assets at end of period .....	<u>\$1,543</u>	<u>\$1,669</u>	<u>\$1,815</u>	<u>\$1,970</u>	<u>\$2,042</u>
Net Assets of the General Fund at end of period.....	\$248	\$246	\$259	\$230	\$199

*Selected Figures Excluding Effects of GASB 31*

Statement No. 31 of The Governmental Accounting Standards Board (GASB 31), Accounting and Financial Reporting for Certain Investments and for External Investment Pools (“GASB 31”) requires investments, but not liabilities or mortgage loans, held by governmental entities to be reported at fair market value on the balance sheet with changes in fair market value to be included as adjustments to revenues in the statement of revenues, expenses, and changes in fund balances. The following summary excludes the effects of GASB 31 and is subject to the qualifications set forth in the previous paragraph.

	Year ended June 30				
	(in millions)				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
	<i>(Not included in independent accountants' report)</i>				
Memorandum Only – Combined totals					
Excess of revenues over expenses					
excluding GASB 31 adjustments .....	\$109	\$127	\$151	\$155	\$131
Net Assets at end of period					
excluding GASB 31 adjustments .....	\$1,536	\$1,662	\$1,813	\$1,968	\$2,099
Net Assets of the General Fund					
at end of period excluding					
GASB 31 adjustments.....	\$244	\$242	\$256	\$228	\$220

**Prior and Anticipated Financings**

As of June 30, 2008, we had approximately \$6.9 billion of notes and bonds outstanding (see Appendix C). Subsequent to such date, we issued or expect to issue the following notes and bonds:

<u>Issue</u>	<u>Par Amount</u>	<u>Issuance Date</u>
Bank of America Revolving Credit Facility	\$62,000,000	September 19, 2008
Bank of America Revolving Credit Facility	\$78,000,000	September 22, 2008
Note to Federal Home Loan Bank – Atlanta	\$19,700,000	September 25, 2008
Commonwealth Mortgage Bonds, 2008 Series D-AMT and E-Non-AMT†	\$250,000,000*	December 16, 2008*

\*Expected

**Prepayments**

A decline in mortgage interest rates will generally result in an increase in prepayments on single family mortgage loans, including the Mortgage Loans. Such prepayments on the Mortgage Loans may have the effect of reducing the outstanding principal balance of our single family portfolio and thereby adversely affecting our revenues. No assurances can be given as to future changes in mortgage interest rates or prepayments or the financial impact of such prepayments on our revenues.

**Investments**

Moneys in our General Fund may be invested by us in (i) obligations or securities which are lawful investments for fiduciaries as set forth in Section 26-40 of the Code of Virginia, 1950, as amended, (ii) any investments and deposits authorized by Sections 2.1-327 through 2.1-327.13 of the Code of Virginia 1950, as amended, permitting the investment of the funds of the Commonwealth and its political subdivisions, such as us, in certain other types of investments, and (iii) any other investments permitted under any bond resolution or trust indenture of our which, when acquired, have, or are general obligations of issuers who have, long-term ratings of at least AA or Aa or the highest short-term ratings, as applicable, by two rating agencies, one of which shall be Moody's Investors Service, Inc. or Standard & Poor's Ratings Services or any successor thereto. Moneys pledged pursuant to a bond resolution or trust indenture of ours may be invested in any manner permitted by such bond resolution or trust indenture. Investment decisions are made by our Treasury and Investment Manager. It is our current investment policy not to (i) invest long-term those moneys expected to be utilized in the short-term or (ii) effect leverage transactions (e.g. reverse repurchase agreements or other borrowings) for the principal purpose of profiting from changes in interest rates. We reserve the right to modify our investment policy from time to time.

Our current investment portfolio consists principally of direct or indirect obligations of the United States of America or of its agencies and instrumentalities, including but not limited to organizations such as the Federal National Mortgage Association (collectively, “Federal Obligations”), corporate notes, bonds and debentures, asset backed securities, certificates of deposit, commercial paper, bankers' acceptances, and repurchase agreements, all of

which satisfy the requirements in the above referenced Sections of the Code of Virginia (see Appendix C). The secondary market for investments which are not Federal Obligations is currently very illiquid. No assurances can be given that such investments can be sold prior to maturity or, if sold, can be sold at a price which is not materially less than our capital investment in such investment.

### **General Fund and Other Net Assets**

The General Fund is used to pay our operating expenses and is a source of payment for all our general obligations, including the Bonds, although it is not specifically pledged to secure the Bonds. Moneys comprising the General Fund's net assets may be used for any of our lawful purposes, including financing mortgage loans. No assurance can be given that moneys will be available in the General Fund for payment of debt service on Bonds, including the Offered Certificates, at any particular time.

As of October 31, 2008, all multi-family mortgage loans financed by General Fund net assets were current in their payments, except eight mortgage loans having an aggregate principal balance of approximately \$2.5 million that were delinquent. We have commenced foreclosure proceedings on one of such developments. We have acquired by foreclosure four multi-family developments that were financed by General Fund net assets and currently own two of such developments. We have also foreclosed on one development that was purchased by a third-party purchaser at foreclosure sale, which development was also financed by VHDA General Purpose Bonds (see "The Authority-Other Programs-Multi-Family Program" above). As of October 31, 2008, the percentage of single family mortgage loans that were financed by General Fund net assets and that were two or more months delinquent in monthly payments was 1.29%, and none of the single family mortgage loans that were so financed were in foreclosure.

We have conducted various subsidized mortgage loan programs financed or supported by our net assets, including the net assets of the General Fund. The mortgage loans so financed or supported are herein referred to as "Subsidized Mortgage Loans". A mortgage loan is a Subsidized Mortgage Loan if the effective interest rate thereon is at or below the effective cost of our capital (debt or net asset) so financing such mortgage loan. For a Subsidized Mortgage Loan financed with net assets, the effective cost of such net assets is assumed to be the effective cost that we would have paid (at the time of the issuance of our commitment to finance such Subsidized Mortgage Loan) to finance such Subsidized Mortgage Loan with debt capital on which interest is not excluded from gross income for federal income tax purposes.

Prior to July 1, 2005, we made available the amount of \$275.7 million for Subsidized Mortgage Loans, principally for the elderly, disabled, homeless and other low income persons. We implemented, beginning July 1, 2005, a new methodology for determining the amount of our net assets that will be used to provide reduced interest rates for Subsidized Mortgage Loans and otherwise subsidize our programs (the "Subsidized Programs"). Under this new methodology, the annual amount of our net assets to be dedicated, on a present value basis as determined by us, to provide reduced interest rates or other support for Subsidized Mortgage Loans or to otherwise provide housing subsidies under our programs, including bond financed programs, shall be equal to 15% of the average of our excess revenue (as unadjusted for the effect of GASB 31) for the preceding three fiscal years (the "Percentage"). For example, the present value of the interest rate reductions or other support or subsidies made available for fiscal year 2009 programs is \$21.6 million which is equal to 15% of the average unadjusted excess revenues for fiscal years 2005, 2006 and 2007. Such annual amounts will, in effect, represent the present values of the costs to us to finance (at interest rates below our capital costs as described above) or otherwise support the Subsidized Mortgage Loans or to provide other housing subsidies. This use of net assets is expected to reduce the amount available to us for payment of the Bonds or other purposes permitted by the Act. The principal amount of Subsidized Mortgage Loans that will be available at reduced interest rates under this new methodology will vary depending on such factors as the amount of the interest rate reductions and the expected lives of the Subsidized Mortgage Loans. Furthermore, we may decide to use such annual subsidy amount for purposes other than Subsidized Mortgage Loans, and such uses may affect such principal amount of the Subsidized Mortgage Loans. The amounts to be made available under this new methodology in the future will be subject to review by us of the impact thereof on our financial position. We have financed and expect to finance some, but not all, of such Subsidized Mortgage Loans, in whole or in part, with funds under our various bond resolutions. We may, in our discretion, apply net assets in excess of the Percentage for our Subsidized Programs and in 2007 increased the amount of net assets in excess of the Percentage for fiscal year 2007 Subsidized Programs by approximately \$3.1 million in order to provide additional funds for multi-family rental developments to be financed by us.

Pursuant to legislation enacted by the 2003 Session of the General Assembly, we purchased from the Commonwealth's Department of Housing and Community Development ("DHCD") on June 30, 2003, the portfolio of outstanding loans and other assets comprising the Commonwealth's Virginia Housing Partnership Revolving Fund (the "Partnership Fund") that was created by the Virginia General Assembly for the purpose of funding low and moderate income housing. Such outstanding loans, which had total outstanding principal balances of approximately \$71 million, bear below market interest rates, generally have loan to value ratios in excess of 95%, and serve lower income persons and families than our programs serve generally. We also purchased approximately \$16 million of investments which have been and will be used to fund an approximately equal amount of similar loans pursuant to outstanding

commitments and allocations. The purchase price for the loans and investments was approximately \$60 million. We issued the VHDA General Purpose Bonds, 2003 Series V-Taxable, on June 26, 2003, in the amount of \$52,440,000 to finance the purchase of the loans and assets in the Partnership Fund, with the balance of the purchase price paid from our other funds. Pursuant to such legislation \$40,822,000 of the approximately \$60 million in proceeds from the sale were transferred to the Commonwealth's General Fund, and the residual balances of approximately \$19 million were transferred to us to be used in conjunction with existing resources to provide financing for affordable housing not otherwise eligible through other programs. We executed a Memorandum of Understanding with DHCD that provides for administration of the residual balances as a revolving loan fund for single family and multi-family housing programs. In certain cases, DHCD may approve the use of such residual balances for grants to fund single family or multifamily housing. This Memorandum provides that, with respect to such revolving loan fund, DHCD will (i) make policy decisions regarding the loan programs, (ii) develop the loan programs, (iii) determine eligibility criteria, (iv) initiate agreements with local program administrators, (v) select the applicants for mortgage loans for multi-family developments, (vi) establish or approve loan terms, and (vii) decide on the exercise of rights and remedies under the loan documents. This Memorandum also provides that we will (i) provide advice to DHCD concerning development of the programs, (ii) be responsible for the financial management and investment of the funds, and (iii) provide advice, assistance and services in the following areas: program planning; legal and accounting matters; loan origination underwriting; loan closing and servicing; monitoring of multi-family developments; programmatic reporting; and public relations assistance in conformity with the policies established by DHCD. Pursuant to legislation enacted in the 2005 Session of the General Assembly, \$7,500,000 of such residual balances was transferred to a Community Development Bank formed by the Commonwealth.

We have a \$200 million revolving credit agreement (the "Bank of America Agreement") with Bank of America to provide a source of immediately available funds for our general corporate purposes, including, at our option, the payment of the purchase price of bonds which are tendered but are not remarketed. Upon submission of a completed and duly executed request for advance, we may draw funds under the Bank of America Agreement up to the maximum outstanding amount of \$200 million, provided that no default by us under the Bank of America Agreement shall have occurred and be continuing. Defaults include (1) failure by us to pay any amounts due under the Bank of America Agreement; (2) any representation or warranty made by us in or pursuant to the Bank of America Agreement being incorrect or untrue in any material respect as of the date of the Bank of America Agreement or as of the date of any extension thereof; (3) failure by us to comply with certain of its covenants in the Bank of America Agreement requiring us (a) to submit financial records and information, including our official statements, to the Bank of America, (b) to provide notice to the Bank of America of any default by us under the Bank of America Agreement or any default or other event under any instrument evidencing our debt that may result in the accreling of the maturity of such debt and could have a material adverse effect on us, (c) to provide notice to the Bank of America of any material litigation pending or threatened against us or of any initiative, referendum, or similar events reasonably expected to have any material adverse effect on us, (d) to maintain adequate and proper books and records, (e) to use best efforts to maintain our existence and our rights and privileges material to our ability to repay obligations under the Bank of America Agreement, and (f) to comply with laws and regulations of the Commonwealth of Virginia and the United States; and (4) merger, consolidation or disposition of all or a substantial part of our property reasonably expected to result in any material adverse effect on us. The initial term of the Bank of America Agreement was 364 days after its effective date of November 19, 2002. Each day the term of the Bank of America Agreement is automatically extended to the date 364 days thereafter, subject to the final expiration date of November 30, 2027 or notice of termination by the Bank of America or us. Any notice of termination by the Bank of America must be given 364 days prior to the termination date of the Bank of America Agreement. All amounts due by us are due and payable on the termination date. As of June 30, 2008, the principal amount outstanding under the Bank of America Agreement was \$25 million. We currently have \$165 million outstanding under the Bank of America Agreement. Of such amount, \$140 million is financing Mortgage Loans and, accordingly, such amount may be withdrawn from the Bond Resolution without application of the Revenue Test (see "Revenue Test; Limited Operating Covenants"). Pursuant to the terms of such bond resolutions, we may withdraw assets (including Assets under the Bond Resolution and proceeds of Bonds) from such bond resolutions in an amount equal to such mortgage loans (including a reasonable charge for interest). Any such withdrawal of assets could serve as a source of repayment of the amount drawn on the Bank of America Agreement.

We also have a \$150 million revolving credit agreement (the "Bank of Nova Scotia Agreement") with The Bank of Nova Scotia to provide a source of immediately available funds for our general corporate purposes of, including, at our option, the payment of the purchase price of bonds which are tendered but are not remarketed. Upon submission of a completed and duly executed request for advance, we may draw funds under the Bank of Nova Scotia Agreement up to the maximum outstanding amount of \$150 million, provided that no default by us under the Bank of Nova Scotia Agreement shall have occurred and be continuing. Defaults under the Bank of Nova Scotia Agreement are the same as under the Bank of America Agreement described in the preceding paragraph. The initial term of the Bank of Nova Scotia Agreement expires on November 28, 2013, subject to any notice of termination by the Bank of Nova Scotia due to a default or by us. All amounts due by us are due and payable on the termination date, provided that, if no default shall have occurred and be continuing, all such amounts shall, upon our written request, be converted into a five-year term loan. No amounts are currently outstanding under the Bank of Nova Scotia Agreement.

## SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL BOND RESOLUTION

The following statements are brief summaries of certain provisions of the General Bond Resolution. Such statements are qualified in each case by reference to the General Bond Resolution (the full text of the General Bond Resolution is set forth in Appendix E). Capitalized items not previously defined in this Offering Circular or not defined in this Summary shall have the meanings set forth in the General Bond Resolution. The General Bond Resolution was adopted on July 15, 1986. The General Bond Resolution as amended and supplemented through September 20, 2004 is sometimes referred to herein as the “1986 Amended Resolution.” The General Bond Resolution as restated on September 21, 2004 and as amended and supplemented since then is sometimes referred to herein as the “Restated Bond Resolution.”

### **Assets and the Pledge Thereof**

“Asset” means any Mortgage Loan, Authority Property, Investment Obligation, Revenue, and, to the extent subject to the pledge or lien of the General Bond Resolution or the 1986 Amended Resolution as of the effective date of the General Bond Resolution or thereafter, any cash, Exchange Agreement, Enhancement Agreement or Other Financial Agreement. Subject only to our right to withdraw, transfer, sell, exchange or otherwise apply Assets in accordance with the provisions of the General Bond Resolution, a pledge of Assets is made by the General Bond Resolution to secure the payment of our obligations with respect to the General Bond Resolution, including any and all Bond Amounts.

Funds and investments on deposit in any Payment Account and Defeasance Obligations in any Defeasance Account are not Assets; however, a pledge of funds and investments in any Payment Account and Defeasance Obligations in any Defeasance Account is made by the General Bond Resolution to secure the payment of our obligations (including any and all Bond Amounts as defined below) on the Bonds, any Enhancement Agreement, any Exchange Agreement and any Other Financial Agreement with respect to which such funds and investments and Defeasance Obligations are so deposited.

Subject only to our right to withdraw, transfer, sell, exchange or otherwise apply Assets in accordance with the provisions of the General Bond Resolution, the Assets, regardless of their location or method of identification, are and shall be held in trust for the purposes and under the terms and conditions of the General Bond Resolution.

### **Application of Assets for Payment of Bond Amounts**

“Bond Amount” means the one or more payments of principal and interest, including any Compounded Amount, Purchase Price, Redemption Price or Sinking Fund Installment, if applicable, due and payable from time to time with respect to a Bond from its date of issuance to its maturity, tender or redemption date, or any payment required to be made by us pursuant to an Exchange Agreement, Enhancement Agreement or Other Financial Agreement to the extent such payment thereunder is payable from Assets.

On any day on which a Bond Amount is due and payable (or, if such day is not a Business Day, the next Business Day thereafter), we shall pay such Bond Amount from Assets or other funds of ours to either, at our option, the Trustee or to the Owner of such Bond Amount. No such payment shall be made unless we shall pay, in full, all Bond Amounts due and payable on such date. Any such payment to the Trustee shall be in the form of cash or Investment Obligation which is a cash equivalent and the Trustee shall make payment of such Bond Amount to the Owner thereof in accordance with the immediately succeeding paragraph. Any such payment to the Trustee shall, pending disbursement thereof to the Owner thereof, be deposited into a Payment Account.

Funds and investments on deposit in any Payment Account shall not be Assets and shall be unavailable for payment to Owners other than the Owners of the Bond Amounts with respect to which such funds and investments were deposited by us or the Trustee in such Payment Account, and the Owners of any such Bond Amounts shall no longer have a lien on or the benefit of a pledge of the Assets with respect to such Bond Amounts but shall have a lien on, and the benefit of the pledge of, the funds and investments in such Payment Account and shall look only to such funds and investments for payment. No funds and investments shall be withdrawn from any Payment Account other than to pay the applicable Bond Amounts.

### **Withdrawal, Transfer, Sale, Exchange and Modification of Assets**

On any date, we may either directly or by direction to the Trustee (i) apply Assets to make, purchase, finance or refinance Mortgage Loans, to acquire, rehabilitate, construct, finance or refinance Authority Property, to purchase Investment Obligations and make any required payments associated therewith, to make payments pursuant to any agreement associated, related or entered into with respect to the Bonds, to make payments to any party to comply with the Tax Covenant, to purchase any Bond, to pay any Expense, or to make any other withdrawal, transfer, sale, exchange or other application of Assets required, permitted or contemplated by the General Bond Resolution, or (ii)



subject to satisfaction of the Revenue Test described below, transfer all or any portion of any Asset to us. Assets so transferred to us shall not thereafter be subject to the lien or pledge created by the General Bond Resolution.

We shall be authorized to sell or exchange any Asset to or with any party (including us) at a price and/or for other assets equal to such Asset's fair market value, or subject to satisfaction of the Revenue Test described below, at any price and/or for any assets.

We may modify or amend, in any manner we deem appropriate in our sole judgment, the terms and conditions of any Asset, subject to satisfaction of the Revenue Test described below or subject to the determination of an Authorized Officer that such modification or amendment is either (i) not materially adverse to the payment of any Bond Amount, or (ii) in the best interests of the Owners.

To the extent that pursuant to an Officer's Certificate we pledge any funds which are not then subject to the pledge of the General Bond Resolution and which are expected to be thereafter used to finance Mortgage Loans until the issuance of Bonds therefor, an amount of Assets equivalent to such funds, plus a reasonable charge for interest on such funds if and as determined by an Authorized Officer, may be subsequently withdrawn and transferred to us without regard to the satisfaction of the Revenue Test.

### **Revenue Test**

The Revenue Test requires that, prior to effecting any proposed action which is subject thereto, an Authorized Officer shall, based on such assumptions as such Officer shall deem reasonable (but without taking into account any future issuances of Bonds and any Assets derived therefrom, or any future execution of Exchange Agreements, Enhancement Agreements or Other Financial Agreements payable from Assets), determine that, subsequent to the effecting of such action, the anticipated Revenues (including Revenues anticipated to be derived from any acquisition, sale, transfer, exchange, withdrawal or other application or prepayment of any Asset and taking into account any default in the payment of Revenues which such Authorized Officer reasonably expects) to be derived from all Assets which are to remain or anticipated to become subject to the lien or pledge of the General Bond Resolution shall be at least sufficient to pay all Bond Amounts as such Amounts are or are anticipated to become due and payable (by purchase, redemption, or otherwise).

### **Investment of Funds**

Funds pledged pursuant to the General Bond Resolution may be invested in Investment Obligations.

### **Covenants**

Except funds and investments in any Payment Account and Defeasance Obligations in any Defeasance Account, an asset or property may be acquired (by purchase or exchange) or financed pursuant to the General Bond Resolution only if such asset or property constitutes an Asset.

Subject to the Tax Covenant set forth in the following paragraph, we shall do all such acts as may be reasonably necessary in our sole judgment to receive and collect Revenues and to enforce the terms and conditions relating to the Assets.

We shall at all times do and perform all acts required by the Code in order to assure that interest paid by us on a Tax Exempt Bond shall not be included in gross income of the Owner thereof pursuant to the Code.

### **Incurrence of Additional Bond Obligations**

The General Bond Resolution permits the incurrence of additional Bond Obligations, including the issuance of additional Bonds and the execution of any Exchange Agreement, Enhancement Agreement or Other Financial Agreements payable from Assets. The Bonds and such additional Bond Obligations so incurred, regardless of the time or times of their issuance, execution or maturity, shall be of equal rank without preference, priority or distinction, except as otherwise expressly provided in or determined pursuant to a supplemental resolution to the General Bond Resolution in accordance with subparagraph (8) in "Amendments" below.

### **Amendments**

Amendments to the General Bond Resolution may be made by a supplemental resolution. Supplemental resolutions which become effective upon filing with the Trustee may be adopted for any one or more of the following purposes:

- (1) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the General Bond Resolution;

- (2) To include such provisions as are deemed by an Authorized Officer to be necessary or desirable and are not contrary to or inconsistent with the General Bond Resolution as theretofore in effect;
- (3) To add other covenants, agreements, limitations, or restrictions to be observed by us which are not contrary to or inconsistent with the General Bond Resolution as theretofore in effect;
- (4) To add to the rights or privileges of the Owners;
- (5) To surrender any right, power or privilege reserved to or conferred upon us by the General Bond Resolution;
- (6) To comply with any provision of the Code or federal or state law or regulation;
- (7) To modify or amend the General Bond Resolution in any respect, subject to satisfaction of the Revenue Test; provided, however, that no such modification or amendment pursuant to this Subsection (7) shall modify or delete, or shall authorize or permit any deletion or modification of, any of the following: (i) any of the covenants, rights or remedies pursuant to the Tax Covenant or Article IX of the General Bond Resolution relating to remedies on default, (ii) the definition of Revenue Test, (iii) any requirement for satisfaction of the Revenue Test, (iv) the definition of Defeasance Obligation, (v) the provisions of Sections 103 through 106 of the General Bond Resolution relating to the constitution of the General Bond Resolution as a contract, our general obligation and the pledge of Assets, (vi) the provisions of Section 701 of the General Bond Resolution which set forth those provisions permitting amendments to the General Bond Resolution, (vii) the provisions of Section 1007 of the General Bond Resolution relating to the removal of the Trustee, (viii) the provisions of Section 1101 of the General Bond Resolution relating to defeasance, (ix) any requirement for notice to or consent, approval or direction of Owners, or (x) the terms of redemption or the due date or amount of payment of any Bond Amount without the consent of the Owner of such Bond Amount; or
- (8) To set forth the amendments to the General Bond Resolution necessary or desirable to provide for the issuance of Bonds or the execution of Exchange Agreements, Enhancement Agreements or Other Financial Agreements payable from Assets, (i) on which the payment of the Bond Amounts may be subordinate to the payment of the Bond Amounts with respect to other Bonds or Exchange Agreements, Enhancement Agreements or Other Financial Agreements payable from Assets, (ii) which may have the payment of their Bond Amounts conditional upon the happening of certain events, (iii) which may not be our general obligations, (iv) which may not be secured by all or any of the Assets, or (v) whose Owners do not have all of the rights or benefits of the other Owners.

Other supplemental resolutions may become effective only if (1) on the date such resolution becomes effective, no Bond issued prior to the adoption of such resolution remains Outstanding and no Exchange Agreement, Enhancement Agreement or Other Financial Agreement in existence prior to the adoption of such resolution remains payable from Assets, or (2) with consent of the Owners of at least sixty percent (60%) of the Bond Obligation responding to the request for consent within the time period as shall be established (and as may be extended) by the Trustee. No such resolution shall permit a change in the terms of redemption or in the due date or amount of payment of any Bond Amount without the consent of the Owner of such Bond Amount or lower the percentage of the Owners required to effect any such amendment.

### **Defeasance**

If (i) Defeasance Obligations shall have been deposited in a Defeasance Account, (ii) the principal of and interest on such Defeasance Obligations at maturity, without reinvestment, shall be sufficient, in the determination of an Authorized Officer, to pay all Bond Amounts when due at maturity or upon earlier redemption with respect to a Bond and all fees and expenses of the Trustee with respect to such Defeasance Account, and (iii) any notice of redemption, if applicable, shall have been given to the Owner thereof or provisions satisfactory to the Trustee shall have been made for the giving of such notice, then notwithstanding any other provision of the General Bond Resolution to the contrary, the Owner of such Bond shall no longer have a lien on, or the benefit of a pledge of, the Assets. If the foregoing requirements shall have been satisfied with respect to all Outstanding Bonds and no Enhancement Agreement, Exchange Agreement or Other Financial Agreement remains payable from Assets, then the lien, pledge, covenants, agreements and other obligations under the General Bond Resolution shall, at our election, be discharged and satisfied, and the Trustee shall thereupon deliver to us all Assets held by it.

Defeasance Obligations shall not be Assets and shall be unavailable for payment to Owners other than the Owners of the Bond Amounts with respect to which such Defeasance Obligations shall have been deposited by us in the applicable Defeasance Account. The Owners of such Bond Amounts so deposited shall have a lien on, and the

benefit of the pledge of, the Defeasance Obligations in such Defeasance Account and shall look only to such Defeasance Obligations for payment.

No Defeasance Obligation shall be withdrawn from any Defeasance Account other than to pay, when due, the applicable Bond Amounts or the fees and expenses of the Trustee with respect to such Defeasance Account. If any Defeasance Obligation remains in a Defeasance Account subsequent to the payment of all the applicable Bond Amounts and all fees and expenses of the Trustee with respect to such Defeasance Account have been paid, such Defeasance Obligations shall be transferred to us free of any lien or pledge of the General Bond Resolution.

For the purpose of defeasance, interest on any Bond on which the interest is or may be payable at a variable rate shall be calculated at the maximum interest rate (or, if none, the estimated maximum interest rate as determined by an Authorized Officer in an Officer's Certificate) payable on such Bond.

Cash on deposit in a Defeasance Account shall, upon the direction of an Authorized Officer, be invested by the Trustee in Defeasance Obligations or any repurchase agreement fully collateralized, as determined by an Authorized Officer, by any Defeasance Obligations.

### **Events of Default**

Pursuant to the General Bond Resolution, each of the following is an Event of Default: (i) a Bond Amount shall become due on any date and shall not be paid by us to either the Trustee or party due such Bond Amount on said date; or (ii) a default shall be made in the observance or performance of any covenant, contract or other provision of the Bonds or General Bond Resolution, and such default shall continue for a period of ninety (90) days after written notice to us from Owners of twenty-five percent (25%) of the Bond Obligation or from the Trustee specifying such default and requiring the same to be remedied; or (iii) there shall be filed by or against us as debtor a petition in bankruptcy (or other commencement of a bankruptcy or similar proceeding) under any applicable law or statute now or hereafter in effect.

### **Remedies**

Upon the occurrence and continuance of an Event of Default described in clause (i) in the prior paragraph entitled "Events of Default", the Trustee may, and upon the written request of the Owners of not less than 25% of the Bond Obligation with respect to which such Event of Default has happened, shall, proceed to protect the rights of the Owners under applicable law or the General Bond Resolution. Pursuant to the Act, in the event that we shall default in the payment of principal of or interest on any issue of the Bonds and such default shall otherwise continue for 30 days or in the event that we shall fail to comply with the provisions of the General Bond Resolution, the Owners of 25% in aggregate principal amount of such issue of Bonds may appoint a trustee to represent the Owners of such issue of Bonds, and such trustee may, and upon written request of the Owners of 25% in aggregate principal amount of such issue of Bonds shall, in its name declare all such issue of Bonds due and payable.

Upon the occurrence and continuance of any Event of Default, the Trustee may, and upon the written request of the Owners of not less than 25% of the Bond Obligation, shall, proceed to protect the rights of the Owners under applicable law or the General Bond Resolution.

No Owner shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any provision of the General Bond Resolution or for the execution of any trust hereunder or for any other remedy hereunder, unless (i) (a) such Owner previously shall have given to the Trustee and us written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, (b) after the occurrence of such Event of Default, written request shall have been made of the Trustee to institute such suit, action or proceeding by the Owners of not less than twenty-five percent (25%) of the Bond Obligation or, if such Event of Default is an Event of Default described in clause (i) in the prior section entitled "Events of Default", by the Owners of not less than twenty-five percent (25%) of the Bond Obligation with respect to which such Event of Default has happened, and there shall have been offered to the Trustee security and indemnity satisfactory to it against the costs and liabilities to be incurred therein or thereby, and (c) the Trustee shall have refused or neglected to comply with such request within a reasonable time, or (ii) (a) such Owner previously shall have obtained the written consent of the Trustee to the institution of such suit, action or proceeding, and (b) such suit, action or proceeding is brought for the ratable benefit of all Owners subject to the provisions of the General Bond Resolution.

However, nothing in the General Bond Resolution shall affect or impair the right of any Owner to enforce the payment of any Bond Amount due such Owner.

### **Registration**

The Trustee and we may deem and treat the party in whose name any Bond shall be registered upon the Registration Books on an applicable Record Date as the absolute Owner of such Bond, whether such Bond shall be

overdue or not, for the purpose of receiving payment of any Bond Amount due and payable during the time period such person is the Owner of said Bond, and for all other purposes, and all such payments so made to any such Owner or upon his order shall be valid and effectual to satisfy and discharge the liability with respect to such Bond to the extent of the Bond Amount(s) so paid, and neither the Trustee nor we shall be affected by any notice to the contrary.

#### **Affect of General Bond Resolution on Bonds Outstanding on Effective Date**

Except as specifically set forth in the General Bond Resolution, nothing contained therein shall modify, supersede or otherwise affect the terms of the Series Resolutions or the terms of the Prior Written Determinations. Further, notwithstanding anything in the General Bond Resolution to the contrary, Bonds issued under the 1986 Amended Resolution shall be subject to redemption as provided in the 1986 Amended Resolution, the Series Resolutions and the Prior Written Determinations originally applicable to such Bonds.

However, the General Bond Resolution provides that:

1. All funds and accounts established under or pursuant to the Series Resolutions or the Prior Written Determinations shall be governed by the terms of the General Bond Resolution and shall not be subject to the terms of the Series Resolutions and the Prior Written Determinations;
2. All references in the Series Resolutions and the Prior Written Determinations to the tax covenant in the 1986 Amended Resolution or to the "Tax Covenant" as defined in the Series Resolutions shall be deemed to refer to the Tax Covenant as set forth in Section 504 of the General Bond Resolution;
3. The Debt Service Reserve Fund Requirement specified in each Series Resolution or each Prior Written Determinations shall be \$0; and
4. The Mortgage Loans which are Assets under the General Bond Resolution shall be governed by the provisions of the General Bond Resolution and shall not be subject to the covenants, requirements, restrictions, limits and other provisions relating thereto in the Series Resolutions and the Prior Written Determinations, except as required to comply with the Tax Covenant in Section 504 of the General Bond Resolution.

Notwithstanding the foregoing exceptions, our covenants in such Prior Written Determinations to deposit into Taxable Revenue Accounts (as established pursuant to the Series Resolutions) (i) funds in amounts equal to the outstanding principal balances of any Mortgage Loans that are delinquent by four consecutive monthly payments or are restructured by having delinquent payments added to their outstanding principal balances and (ii) proceeds from the purchase by financial institutions of Mortgage Loans in the event of any material breach of any of their representations or warranties to us with respect to such Mortgage Loans shall remain in full force and effect, provided that we may deposit such funds and proceeds in any other fund and account that is to be used for the payment of principal and interest on the Bonds that financed such Mortgage Loans.

Furthermore, notwithstanding the foregoing exceptions, we may, in order to comply with the terms of the Series Resolutions or any of the Prior Written Determinations permitting the special redemption of Bonds issued pursuant thereto from excess Revenues and other moneys in the Revenue Fund, maintain the Revenue Fund established by the 1986 Amended Resolution until such Bonds shall not be Outstanding or until we shall determine that such Bonds shall not thereafter be redeemed by special redemption, whichever is earlier, and during the time that the Revenue Fund is so maintained, we shall comply with the requirements set forth in Section 504(A) of the 1986 Amended Resolution with respect to withdrawals from the Revenue Fund (see "Revenue Fund" under "Summary of Certain Provisions of the Resolutions"). Except for such requirements of Section 504(A) of the 1986 Amended Resolution, the Revenue Fund shall be governed by the terms of the General Bond Resolution. Furthermore, during the time that the Revenue Fund is so maintained, we shall maintain the Bond Payment Fund established pursuant to the 1986 Amended Resolution as shall be necessary to comply with such requirements of Section 504(A) of the 1986 Amended Resolution. The Bond Payment Fund shall be governed by the terms of the General Bond Resolution. We may maintain each Mortgage Loan Account and Mortgage Loan Purchase Account established pursuant to the Series Resolution or the Prior Written Determinations. Each such Mortgage Loan Account and Mortgage Loan Purchase Account so maintained shall be governed by the terms of the General Bond Resolution. We may transfer Assets in the Revenue Fund and in each such Mortgage Loan Account and Mortgage Loan Purchase Account as may be necessary or appropriate to effect any special redemptions in accordance with the terms of the Series Resolutions and the Prior Written Determinations. In lieu of maintaining the foregoing Funds and Accounts, we may establish and comply with such accounting practices and procedures that will ensure that any such special redemptions of Bonds shall be effected in the same or lesser amount and on the same or later date as could have been effected if such Funds and Accounts had been maintained.

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## MISCELLANEOUS

We have furnished all information in this Offering Circular relating to us. Our financial statements in Appendix C as of June 30, 2008 and for the year then ended have been examined by KPMG LLP, independent certified public accountants, to the extent set forth in their report, without further review to the date hereof.

Any statements in the Offering Circular involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. The Offering Circular is not to be construed as a contract or agreement between us and the Owners of the Offered Certificates being offered hereby.

The distribution of this Offering Circular has been duly authorized by us.

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**MORTGAGE INSURANCE POLICIES****Federal Housing Administration Mortgage Insurance**

The United States Department of Housing and Urban Development administers the FHA mortgage insurance programs. In order to receive payment of insurance benefits a mortgagee must normally acquire title to the property, either through foreclosure or conveyance, and convey such title to FHA. Generally, the mortgagee must obtain a deed in lieu of foreclosure or commence foreclosure proceedings within one year after a mortgagor's default. Upon recordation of the deed conveying the property to FHA, the mortgagee notifies FHA of the filing and assigns, without recourse or warranty, all claims which it has acquired in connection with the mortgage. Alternatively, if FHA determines that the default was caused by circumstances beyond the control of the mortgagor, a mortgagee may assign the mortgage to FHA and receive insurance payments.

Under some FHA programs, FHA has the option at its discretion to pay insurance claims in cash or in debentures, while under others FHA will pay insurance claims in cash unless the mortgagee requests payment in debentures. The current FHA policy, subject to change at any time, is to make insurance payments on mortgages covering less than five dwelling units in cash with respect to all programs covering such units as to which it has discretion to determine the form of insurance payment. FHA debentures issued in satisfaction of FHA insurance claims bear interest at the debenture interest rate in effect under FHA regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher.

When entitlement to insurance benefits results from foreclosure (or other acquisition of possession) and conveyance, the insurance payment is computed as of the institution of the foreclosure proceeding, which will occur no earlier than 60 days after the due date of a mortgage payment, and the mortgagee generally is not compensated for mortgage interest accrued and unpaid prior to that date. Under such circumstances, the amount of insurance benefits generally paid by FHA is equal to the unpaid principal amount of the mortgage loan, adjusted to reimburse the mortgagee for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgagee after default, plus reimbursement not to exceed two-thirds of the mortgagee's foreclosure costs, or \$75, whichever is greater. When entitlement to insurance benefits results from assignment of the mortgage loan to FHA, the insurance payment is computed as of the date of the assignment and includes full compensation for mortgage interest accrued and unpaid to the assignment date. Unless the mortgagee has not observed certain FHA regulations, the insurance payment itself bears interest from the date of default, or, where applicable, the date of assignment, to the date of payment of the claim at the same interest rate as the applicable FHA debenture interest rate.

When any property to be conveyed to FHA, or subject to a mortgage to be assigned to FHA has been damaged by fire, earthquake, flood or tornado, it is required that such property be repaired prior to such conveyance or assignment.

FHA requires that, absent the consent of the mortgagor, at least three full monthly installments be due and unpaid before the mortgagee may initiate any action leading to foreclosure of the mortgage. FHA also requires a face-to-face conference between the mortgagee and the mortgagor in an effort to cure the delinquency without foreclosure.

**Veterans Administration Mortgage Guaranty**

The Veterans Administration permits a veteran (or in certain instances the spouse of a veteran) to obtain a mortgage loan guaranty by the VA covering mortgage financing of the purchase of a one-to-four family dwelling unit. The program has no mortgage loan limits and requires no down payment from the purchaser.

The maximum VA guaranty on a loan is the lesser of (i) the veteran's available entitlement (a maximum of \$36,000, or if the original loan amount exceeds \$144,000, a maximum of \$50,750) or (ii) (1) 50% of the original loan amount if such amount does not exceed \$45,000, (2) \$22,500 if the original loan amount is between \$45,000 and \$56,250, (3) the lesser of \$36,000 or 40% of the original loan amount if such amount is between \$56,250 and \$144,000 or (4) the lesser of \$50,750 or 25% of the original loan amount if such amount is in excess of \$144,000. The liability on the guaranty is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness, but in no event will the amount payable on the guaranty exceed the amount of the original guaranty. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage holder will ordinarily suffer a monetary loss only where the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a mortgaged premises is greater than the original guaranty, as adjusted. The VA may, at its option and without regard to the guaranty, make full payment to a mortgagee of unsatisfied indebtedness on a mortgage upon its assignment to the VA. Under certain circumstances, a mortgagee is required to accept partial payments on a loan that is more than 30 days overdue.

Under the Program, a VA Mortgage Loan would be guaranteed in any amount which, together with the down payment by the Mortgagor, will at least equal 25% of the lesser of the sales price or the appraised value of the single-family dwelling.

### **Rural Development Mortgage Guarantee**

Rural Development (formerly known as the Farmers Home Administration and later as the Rural Economic and Community Development Service) permits a low or moderate income purchaser of a home in designated rural areas to obtain a mortgage loan guarantee from Rural Development. To qualify as a low or moderate income purchaser, a purchaser's income must not exceed the median income for the area in which the home is located. Rural Development uses FHA underwriting standards, and loans may not exceed FHA 203(b)(2) loan limits. No down payment is required from the purchaser.

Under the Rural Development Guarantee Program, the mortgagee is entitled to payment of the guarantee only after the secured property has been sold at foreclosure or otherwise liquidated in conformity with Rural Development requirements. Rural Development guarantees the first 35% of loss and 85% of any additional loss, not to exceed 90% of the loan amount. Loss is defined as (i) the outstanding principal balance and accrued interest of the mortgage loan as of the date of the liquidation sale or transfer of the secured property, plus reasonable liquidation costs, minus (ii) the greater of the fair market value of such property or the amount obtained at any foreclosure sale. Rural Development requires that, in the absence of the consent of the mortgagor, payment of the mortgage loan must be at least 90 days delinquent before the mortgagee may initiate foreclosure proceedings and the mortgagee must send the mortgagor a notice of the foreclosure at least 30 days in advance thereof. The mortgagee must obtain prior Rural Development approval for any liquidation of the property other than by foreclosure. Rural Development also requires that the mortgagee arrange a meeting with the mortgagor before payment on the mortgage loan becomes 60 days delinquent. Rural Development does not accept assignment of property subject to its guarantee.

### **Private Mortgage Insurance**

Each private mortgage insurance policy with respect to a Mortgage Loan must contain provisions substantially as follows: (a) the mortgage insurer must pay a claim, including unpaid principal, accrued interest, the amounts equal to deferred interest in connection with Mortgage Loans with graduated payments schedules, if any, and expenses, within sixty days of presentation of the claim by the Authority; (b) when a claim for the outstanding principal amount, accrued interest and expenses is presented, the mortgage insurer must either (i) pay such claim in full and take title to the mortgaged property and arrange for its sale or (ii) pay the insured percentage of such claim and allow us to retain title to the mortgaged property or (iii) settle a claim for actual losses where such losses are less than the insured percentage of the claim. (See Security/Mortgage Loans for a discussion of recent federal legislation affecting private mortgage insurance).



## DTC

The information in this Appendix concerning The Depository Trust Company (“DTC”) and DTC’s book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof. Neither we nor the Dealers will have any responsibility or obligation to the Direct Participants, Indirect Participants (as defined below) or Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC or any Direct or Indirect Participant; (ii) the payment by DTC or any Direct or Indirect Participant of any amount due to any Beneficial Owner of payments on the Offered Certificates; (iii) the delivery by DTC or any Direct or Indirect Participant of any notice to any Beneficial Owner; (iv) the selection of the Beneficial Owners to receive payment of any partial redemption of the Offered Certificates; or (v) any consent given or other action taken by DTC as a holder.

DTC is the securities depository for the Offered Certificates. One fully-registered certificate will be delivered for the Offered Certificates and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

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

Conveyance of notices and other 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.

If less than all of the Offered Certificates is being redeemed, DTC will prorate the amount of the interest of each Direct Participant.

Neither DTC nor Cede & Co. will consent or vote with respect to Offered Certificates. Under its usual procedures, DTC mails an omnibus proxy (“Omnibus Proxy”) to us as soon as possible after the record date. The Omnibus Proxy assigns the consenting or voting rights to those Direct Participants to whose accounts the Offered Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Offered Certificates will be made to DTC. DTC’s practice is to credit Direct Participants’ accounts on payable date in accordance with their respective holdings shown on DTC’s records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such

Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of ours or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository at any time by giving reasonable notice to us or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, printed certificates for the Offered Certificates will be delivered if necessary.

We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, printed certificates for the Offered Certificates will be delivered if necessary.



**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis,  
Basic Financial Statements, and  
Supplementary Information

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

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**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis

June 30, 2008 and 2007

Management of the Virginia Housing Development Authority (the Authority) offers readers of its financial report this overview and analysis of the Authority's financial performance for the years ended June 30, 2008 and 2007. Readers are encouraged to consider this information in conjunction with the Authority's financial statements, accompanying footnotes, and supplemental information, which follow this section.

**Organization Overview**

The Authority is a political subdivision of the Commonwealth of Virginia, created under the Virginia Housing Development Authority Act (the Act) enacted by the General Assembly in 1972, as amended. The Act empowers the Authority to finance the acquisition, construction, rehabilitation, and ownership of affordable housing for home ownership or occupancy by low- or moderate-income Virginians. To raise funds for its mortgage loan operations, the Authority sells tax-exempt and taxable notes and bonds to investors. Such notes, bonds, and other indebtedness are not obligations of the Commonwealth of Virginia (the Commonwealth) and the Commonwealth is not liable for repayments of such obligations. Furthermore, as a self-sustaining organization, the Authority does not draw upon the general taxing authority of the Commonwealth. Operating revenues are generated primarily from interest on mortgage loans, program administration fees, and investment income from bond proceeds and earnings accumulated since inception.

In addition to its major mortgage loan programs, the Authority also administers, on a fee basis, various other programs related to its lending activities. Such programs include the Housing Choice Voucher program, which provides rental subsidies from federal funds, and the federal Low Income Housing Tax Credit program, which awards income tax credits for the purpose of developing low-income multifamily housing projects. The Authority also underwrites Resources Enabling Affordable Community Housing (REACH Virginia) initiatives, in which the interest rates on loans are subsidized by the Authority, principally for the elderly, disabled, homeless, and other low-income persons. The amount of net assets used to provide reduced interest rates on mortgage loans or otherwise subsidize its programs is equal to 15% of the average of the Authority's change in net assets, as unadjusted for the effect of Governmental Accounting Standards Board (GASB) No. 31 *Certain Investments and External Investment Pools*, for the preceding three fiscal years. The amounts made available to provide reduced interest rates on mortgage loans or otherwise provide housing subsidies under its programs are subject to review by the Authority of the impact on its financial position. The Authority finances some, but not all, of such subsidized mortgage loans, in whole or in part, with funds under its various bond resolutions.

**Financial Statements**

The basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, a Statement of Cash Flows and the accompanying notes.

The *Statement of Net Assets* reports all of the Authority's assets and liabilities, both financial and capital, presented in order of liquidity and using the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. The difference between assets and liabilities is presented as net assets, and is displayed in three components: capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets are restricted when external constraints are placed upon their use, such as bond indentures, legal agreements or statutes. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

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**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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The *Statement of Revenues, Expenses, and Changes in Net Assets* identify all the Authority's revenues and expenses for the reporting period, distinguishing between operating and nonoperating activities. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through mortgage loans, externally funded programs and other revenue sources.

The *Statement of Cash Flows* provides information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash transactions, including receipts, payments, and net changes resulting from operations, noncapital financing, capital financing, and investing activities. These statements provide information regarding the sources and uses of cash and the change in cash during the reporting period.

The *Notes to Financial Statements* provide additional information that are essential for understanding financial data that may not be displayed on the face of the financial statements and as such, are an integral part of the Authority's basic financial statements.

### **Financial Highlights**

#### ***Overview***

The Authority has maintained a strong financial position, while facing the current economic challenges in the housing and financial markets.

The Authority's homeownership loans are largely fixed rate mortgages targeted to first-time homebuyers within a low-to moderate-income bracket and who have completed the Authority's required homeownership education course. These requirements in conjunction with other minimum underwriting standards have contributed to the Authority's low rate of foreclosures of less than one-half of one percent.

The Authority issued \$1.3 billion in bonds in fiscal year 2008, including \$269 million of taxable bonds, despite the "credit crunch" that severely limited access to capital for mortgage lending. The Authority responded to the limited availability of taxable capital by suspending its taxable loan product offerings beginning in April 2008 and shifting its efforts toward maintaining tax-exempt loan production.

Turmoil in the credit markets adversely affected investment earnings for fiscal year 2008, creating unrealized losses on certain hard-to-value mortgage-backed securities held by the Authority. These securities made up 11% of the Authority's investment portfolio, 7% of net assets and 1.5% of total assets.

As a result of this year's operations, operating income totaled \$88.8 million, a decrease of \$13.8 million from the prior year. Net assets increased by \$71.6 million, generating a 3.6% return for fiscal year 2008.

The Authority also played a key role in the Commonwealth of Virginia's statewide foreclosure prevention initiative.

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**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Management's Discussion and Analysis

June 30, 2008 and 2007

***Fiscal Year 2008***

Homeownership loan originations totaled 6,503 in fiscal year (FY) 2008 as compared to 7,552 in FY 2007. Mortgage loan production decreased year over year by 1,049 or 14% as a consequence of market aversion to taxable bond resources and managing available tax-exempt bond resources. Such market conditions prompted the Authority to suspend availability of taxable products, effective April 2008. Consistent with the prior year, two-thirds of all single-family loans closed in FY 2008 targeted homeowners with household incomes of less than 80% of area median income.

As of June 30, 2008, the Authority serviced 46,649 first and second homeownership mortgage loans with outstanding balances totaling \$4.9 billion. The number of loans serviced, net of prepayments, increased 4,890 or 12% since June 30, 2007 while outstanding loan balances increased \$764 million or 18% over the same period. A total of 4,120 homeownership loans were paid off in FY 2008 as compared to 5,090 in FY 2007, representing a 19% decline in mortgage pay-offs over the prior year. While foreclosures rose by 45 over the prior year, totaling 143 for FY 2008, they accounted for less than 0.4% of the homeownership loan portfolio. Delinquency rates on the portfolio loan count of first mortgage loans averaged 4.98% for FY 2007, up slightly by 0.63% from a year ago. Delinquency rates based on outstanding loan balances were 2.29% as of June 30, 2008, up from 1.53% a year ago.

Financing commitments were made to 83 rental housing projects, representing 3,549 units and worth \$181 million, compared to 81 projects and 4,697 units worth \$303 million of commitments made in FY 2007. Decreased investor interest in tax credits coupled with diminishing property available for developing affordable rental housing stock has resulted in funding of smaller projects with fewer rental units.

As of June 30, 2008, the Authority serviced 1,378 rental mortgage loans with outstanding balances totaling \$3.1 billion. The number of loans in the portfolio increased 64 or 4.9% since June 2007 and the balances increased about \$187 million or 6.4% over the same period. Delinquency rates based on portfolio loan count were 1.23% as of June 30, 2008, up slightly by 0.59% from a year ago. Delinquency rates based on outstanding loan balances were 0.40%, up slightly from 0.17% as of June 30, 2007.

***Fiscal Year 2007***

Homeownership loan originations totaled 7,552 in FY 2007 compared to 7,693 homeownership loan originations in FY 2006. The number of mortgage loans produced can be attributed to a wide array of products and programs made available to meet customers' individual needs and market demands for low interest rate mortgage loans. Consistent with the prior year, two-thirds of all homeownership loans closed in FY 2007 targeted household incomes of less than 80% of area median income.

As of June 30, 2007, the Authority serviced 41,759 first and second homeownership mortgage loans with outstanding balances totaling \$4.1 billion. The number of loans serviced, net of prepayments, increased by 3,703 or 10% since June 2006 and net mortgage loans outstanding increased \$840 million or 25% over the same period. A total of 5,090 homeownership loans were paid off in FY 2007 as compared to 6,776 in FY 2006, representing a decrease of 25% over last year. Overall delinquency rates on the portfolio of first mortgage loans averaged 4.35% for FY 2007 as compared to 4.45% for FY 2006, a decrease of 0.10% from the prior year. Foreclosures totaled 98 for FY 2007, less than 0.3% of the homeownership loan portfolio.

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Financing commitments for 81 rental housing projects, representing 4,697 units were made in FY 2007, up slightly from 77 projects consisting of 4,415 units in FY 2006, or an increase of 6.4% units. Households with less than 60% area median incomes accounted for 75% of these units. Slow growth in rental housing commitments reflects the diminishing number of properly zoned properties and existing developments available for new construction or preservation of affordable rental housing project developments.

As of June 30, 2007, the Authority serviced 1,314 rental housing mortgage loans with outstanding balances exceeding \$2.9 billion. The number of loans serviced, net of loan repayments increased by a net of 31 or 2.47% since June 2006 and net loan balances outstanding increased \$68.7 million or 2.4% over the same period. Overall delinquency rates on the number of rental housing project loans averaged 0.63% for FY 2007, a decrease of 0.30% from FY 2006. Delinquency rates based on loan values averaged 0.20% for the year and are the lowest levels experienced since 2003.

**Financial Analysis of the Authority**

Cash is held by the trustees and banks in depository accounts and investments for a variety of purposes, including: debt service reserve funds required by bond indenture, escrow and reserve funds held for the benefit of single-family mortgagors and multi-family projects, funding for new mortgage loan originations, working capital for operating costs of the Authority, governmental funds held for disbursement toward Section 8 projects, and other funds held in a fiduciary capacity to support other housing initiatives. Monies on deposit in Virginia banks are secured under the Virginia Security for Public Deposits Act of the Code of Virginia.

Investment objectives are to invest all monies at favorable rates to maximize returns while maintaining short-term liquidity and to manage investments in a prudent manner to enable the Authority to fulfill its financial commitments. Precautions are taken to minimize the risk associated with investments, including monitoring creditworthiness of the investment, as determined by ratings provided by Standard and Poor's and Moody's, concentration risk, and maturity risk. The Authority does not enter into short sales or futures transactions for which a bona fide hedging purpose has not been established.

Mortgage and other loan receivables represent the Authority's principal asset. Mortgage loans are financed through a combination of proceeds of notes and bonds and net assets accumulated since inception. Mortgage loan payments received from mortgagors are used to pay debt service due on outstanding bonds.

The largest component of the Authority's liabilities is outstanding bonds payable, the majority of which is fixed rate to maturity dates that may extend into the future as much as forty years. The Authority continues to maintain strong long-term ratings of Aa1 from Moody's Investors Services and AA+ from Standard & Poor's Rating Services for its general credit rating as well as all bond indentures other than the Commonwealth Mortgage Bonds indenture, which is rated Aaa and AAA, from Moody's and Standard & Poor's, respectively.

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**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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June 30, 2008 and 2007

Net assets comprise capital assets, net of related debt, and restricted and unrestricted net assets. *Capital assets, net of related debt* represents office buildings, land, furniture and equipment, vehicles and an investment in rental property, less the current outstanding applicable debt. *Restricted net assets* represent the portion of net assets held in trust accounts for the benefit of the respective bond owners, subject to the requirements of the various bond indentures. *Unrestricted net assets* represent a portion of net assets that have been designated for a broad range of initiatives, such as administration of the Housing Choice Voucher program, support for REACH Virginia initiatives, contributions to bond issues and bond reserve funds, working capital, future operating and capital expenditures, and general financial support to the Authority's loan programs.

**Condensed Statement of Net Assets**

(In millions)

	<b>June 30</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Cash and cash equivalents	\$ 1,111.7	705.8	707.5
Investments	236.7	498.6	429.0
Mortgage and other loans receivable, net	7,854.9	6,991.1	6,066.2
Other assets	141.0	128.9	100.9
Total assets	<u>9,344.3</u>	<u>8,324.4</u>	<u>7,303.6</u>
Notes and bonds payable, net	6,940.3	5,998.2	5,162.2
Other liabilities	362.2	356.0	326.2
Total liabilities	<u>7,302.5</u>	<u>6,354.2</u>	<u>5,488.4</u>
Invested in capital assets, net of related debt	(3.7)	(8.0)	(3.5)
Restricted by bond indentures	1,854.6	1,754.7	1,567.2
Unrestricted	190.9	223.5	251.5
Net assets	<u>\$ 2,041.8</u>	<u>1,970.2</u>	<u>1,815.2</u>

**June 30, 2008 Compared to June 30, 2007**

Total assets increased \$1,019.9 million, or 12.3% from the prior year. Cash and cash equivalents, and investments, combined, increased \$144.0 million, or 12.0% from the prior year. Mortgage and other loans receivables increased by \$863.8 million, or 12.4%, as a result of new homeownership loan originations and a decreased level of mortgage loan prepayments.

Total liabilities increased \$948.3 million, or 14.9% from the prior year due to net additional draws on lines of credit and issuances of bonds. The Authority issued \$939.0 million in single-family homeownership bonds (including \$269.0 million of taxable bonds) and \$223.7 million in rental housing bonds, and drew a net additional \$61.3 million on lines of credit. Proceeds from bond issues and lines of credit were the principal source of funding for mortgage loan originations.

(Continued)

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Management's Discussion and Analysis

June 30, 2008 and 2007

Total assets exceeded total liabilities by \$2,041.8 million, representing an increase in net assets of \$71.6 million, or 3.6% from the prior year. As of June 30, 2008, net assets invested in capital assets, net of related debt, consisted of \$38 million in investments in rental property, net of depreciation and amortization and \$21.5 million in property, furniture, and equipment, net of depreciation and amortization, less related bonds payable of \$63.2 million. Net assets restricted by bondholders totaled \$1,854.5 million, an increase of \$99.8 million, or 5.7% from the prior year. Unrestricted net assets totaled \$190.9 million, a decrease of \$32.6 million, or 14.6% from the prior year.

*June 30, 2007 Compared to June 30, 2006*

Total assets increased \$1,020.8 million, or 14.0% from the prior year. Cash and cash equivalents, and investments, combined, increased \$67.9 million, or 6.0% from the prior year. Mortgage and other loans receivables increased by \$924.9 million as a result of a high number of homeownership loan originations and a decreased level of mortgage loan prepayments.

Total liabilities increased \$865.8 million, or 15.8% from the prior year due to additional issuances of bonds, offset by payments on notes and bonds. The Authority issued \$1.1 billion in tax-exempt homeownership bonds, and \$106.5 million and \$164.6 million in tax-exempt and taxable rental housing bonds, respectively, during FY 2007. Bond proceeds were the principal source of funding for the high volume of mortgage loan originations.

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**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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June 30, 2008 and 2007

Total assets exceeded total liabilities by \$1,970.2 million, representing an increase in net assets of \$155.0 million, or 8.5% from the prior year. As of June 30, 2007, net assets invested in capital assets, net of related debt consisted of \$43.0 million in investments in rental property, net of depreciation and amortization and \$17.3 million in property, furniture, and equipment, net of depreciation and amortization less related bonds payable of \$68.3 million. Net assets restricted by bondholders totaled \$1,754.7 million, an increase of \$187.5 million, or 12.0% from the prior year. Unrestricted net assets total \$223.5 million, a decrease of \$28.0 million, or 11.1% from the prior year.

**Condensed Statement of Revenues, Expenses and Changes in Net Assets**

(In millions)

	Year ended June 30		
	2008	2007	2006
<b>Operating revenues:</b>			
Interest on mortgage and other loans receivable	\$ 487.6	436.4	389.4
Pass-through grants received	72.1	71.6	71.6
Housing Choice Voucher program income	62.9	63.9	66.2
Other operating revenues	19.6	22.1	13.6
Total operating revenues	<u>642.2</u>	<u>594.0</u>	<u>540.8</u>
<b>Operating expenses:</b>			
Interest on notes and bonds payable	335.0	287.0	260.1
Pass-through grants disbursed	72.1	71.6	71.6
Housing Choice Voucher program expense	65.1	61.3	54.4
Other operating expenses	81.2	71.5	53.6
Total operating expenses	<u>553.4</u>	<u>491.4</u>	<u>439.7</u>
Net operating income	<u>88.8</u>	<u>102.6</u>	<u>101.1</u>
<b>Nonoperating revenues:</b>			
Investment income (loss)	(17.3)	52.4	44.9
Other nonoperating revenues	0.1	—	0.1
Total nonoperating revenues (losses)	<u>(17.2)</u>	<u>52.4</u>	<u>45.0</u>
Change in net assets	<u>\$ 71.6</u>	<u>155.0</u>	<u>146.1</u>

The principal determinants of the Authority's change in net assets (more commonly referred to as net revenues) are operating revenues less operating expenses plus nonoperating revenues.

Operating revenues consist primarily of interest earnings on mortgage loans and operating expenses consist predominantly of interest expense on notes and bonds payable and operating expenses of the Authority. Nonoperating revenues consist of investment earnings as well as realized and nonrealized gains or losses on the sale of investments.

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Included in investment income is a downward fair market value adjustment totaling \$59.8 million for the year ended June 30, 2008 and an upward fair market value adjustment totaling \$0.26 million for the year ended June 30, 2007. The Authority intends to hold these investments to maturity; however, due to the nature of securities, some portion of these market rate adjustments may be expected to be realized.

***Fiscal Year 2008***

Operating revenues increased \$48.2 million or 8.1% from the prior year. The increase was primarily attributable to interest earnings on mortgage and other loan receivables, which increased \$51.2 million, or 11.7%, due to growth in the volume of mortgage loans serviced during the year, a reduction in mortgage loan prepayments as compared to previous years and a slight increase in mortgage rates.

Operating expenses increased \$62.0 million or 12.6% from the prior year. Interest expense on notes and bonds payable increased \$48.0 million or 16.7% from the prior year, due to net increases in the amount of notes and bonds outstanding. Other operating expenses, consisting primarily of administrative costs, increased \$9.7 million or 13.6% over last year. Expenses for the Housing Choice Voucher program increased by \$3.8 million, or 6.2%, over last year.

Nonoperating revenues decreased by \$69.7 million or 133.0% from the prior year, due primarily to mark-to-market adjustments resulting from interest rate risk and credit risk of investments held. Unrealized losses were recorded on certain mortgage-backed securities that declined in value primarily as a result of a high rate of mortgage defaults, increased credit risk, and in some cases downgraded ratings. Realized gains or losses will be recognized upon final disposition of the securities.

***Fiscal Year 2007***

Operating revenues increased \$53.2 million or 9.8% from the prior year, the majority of which is attributable to interest earnings. Interest earnings on mortgage and other loan receivables increased \$47.0 million due to growth in the volume of mortgage loans serviced during the year, a reduction in mortgage loan prepayments as compared to previous years and a slight increase in mortgage rates.

Operating expenses increased \$51.7 million or 11.8% from the prior year. Interest expense on notes and bonds payable increased \$26.9 million or 10.3% from the prior year, due to an increase in the amount of notes and bonds outstanding. Other operating expenses, consisting largely of administrative costs, increased \$17.9 million or 33.4% from the prior year. Of this increase, \$11.7 million related to additional administrative costs and \$7.5 million consisted of an increase in the provision for loan losses. Program expenses for the Housing Choice Voucher program increased by \$6.9 million over the prior year.

Nonoperating revenues increased \$7.4 million or 16.4% from the prior year, due to increased earnings from investments during the year attributable to growth in the investment portfolio and a generally higher interest rate environment compared to previous years.

(Continued)

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis

June 30, 2008 and 2007

**Other Economic Factors**

The Authority's mortgage loan financing activities are sensitive to the general level of interest rates, the interest rates and other characteristics of the Authority's loans compared to loan products available in the conventional mortgage markets, and the availability of affordable housing in the Commonwealth. The availability of long-term tax-exempt and taxable financing on favorable terms is a key element in providing the funding necessary for the Authority to continue its mortgage financing activities.

The Authority's main sources of revenues include mortgage loan activity and investment interest income. Short-term investment rates in the United States have dropped by approximately 3% in the last twelve months to levels comparable with fiscal years 2003 and 2004.

**Additional Information**

If you have questions about this report or need additional information, please visit the Authority's Web site, [www.vhda.com](http://www.vhda.com), or contact the Finance Division of the Virginia Housing Development Authority.



KPMG LLP  
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Richmond, VA 23219-4023

## Independent Auditors' Report

The Board of Commissioners  
Virginia Housing Development Authority:

We have audited the accompanying statements of net assets of the Virginia Housing Development Authority (the Authority), a component unit of the Commonwealth of Virginia, as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Housing Development Authority as of June 30, 2008 and 2007, and the respective changes in its financial position and its cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the basic financial statements, the Authority adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB), effective July 1, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2008 on our consideration of the Authority'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 the 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.

The Management's Discussion and Analysis and Schedule of Funding Progress by Plan Valuation Date on pages 1 through 9 and page 42, respectively, are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods



of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedules 2 through 5 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

September 22, 2008

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Statements of Net Assets

June 30, 2008 and 2007

Assets	<u>2008</u>	<u>2007</u>
<b>Current assets:</b>		
Cash and cash equivalents (note 4)	\$ 1,111,669,774	705,768,664
Investments (note 4)	9,244,905	46,499,577
Interest receivable – investments	1,750,451	1,771,905
Mortgage and other loans receivable (note 3)	142,178,890	124,063,356
Interest receivable – mortgage and other loans	37,707,848	35,149,144
Other real estate owned	16,969,446	1,645,095
Housing Choice Voucher contributions receivable (note 1)	3,256,935	4,695,914
Other assets	<u>8,727,745</u>	<u>12,406,629</u>
Total current assets	<u>1,331,505,994</u>	<u>932,000,284</u>
<b>Noncurrent assets:</b>		
Investments (note 4)	227,546,137	452,076,250
Mortgage and other loans receivable (note 3)	7,803,035,684	6,944,446,886
Less allowance for loan loss	64,872,582	49,322,911
Less net deferred loan fees	<u>25,473,878</u>	<u>28,136,124</u>
Mortgage and other loans receivable, net	<u>7,712,689,224</u>	<u>6,866,987,851</u>
Investment in rental property, net	38,057,617	42,951,483
Property, furniture, and equipment, less accumulated depreciation and amortization of \$23,289,674 and \$23,259,058, respectively (note 5)	21,523,129	17,311,222
Unamortized bond issuance expenses	6,386,921	6,193,651
Other assets	<u>6,614,793</u>	<u>6,946,257</u>
Total noncurrent assets	<u>8,012,817,821</u>	<u>7,392,466,714</u>
Total assets	<u>\$ 9,344,323,815</u>	<u>8,324,466,998</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities:</b>		
Notes and bonds payable (note 6)	\$ 332,143,055	213,754,383
Accrued interest payable on notes and bonds	107,508,061	89,144,062
Escrows (note 7)	34,166,579	31,735,909
Accounts payable and other liabilities (notes 4 and 8)	<u>21,181,323</u>	<u>44,345,124</u>
Total current liabilities	<u>494,999,018</u>	<u>378,979,478</u>
<b>Noncurrent liabilities:</b>		
Bonds payable, net (note 6)	6,608,173,733	5,784,429,163
Project reserves (notes 7 and 12)	171,525,076	165,136,963
Other liabilities (notes 4, 8, 10, and 12)	<u>27,854,631</u>	<u>25,688,081</u>
Total noncurrent liabilities	<u>6,807,553,440</u>	<u>5,975,254,207</u>
Total liabilities	<u>7,302,552,458</u>	<u>6,354,233,685</u>
<b>Net assets (note 9):</b>		
Invested in capital assets, net of related debt	(3,700,723)	(7,995,959)
Restricted by bond indentures	1,854,543,001	1,754,650,328
Unrestricted	<u>190,929,079</u>	<u>223,578,944</u>
Total net assets	<u>2,041,771,357</u>	<u>1,970,233,313</u>
Total liabilities and net assets	<u>\$ 9,344,323,815</u>	<u>8,324,466,998</u>

See accompanying notes to basic financial statements.



**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2008 and 2007

	2008	2007
Operating revenues:		
Interest on mortgage and other loans	\$ 487,623,035	436,353,260
Pass-through grants income	72,123,335	71,566,155
Housing Choice Voucher program income (note 1)	62,895,029	63,962,419
Investment in rental property income	12,132,010	12,337,986
Gains and recoveries on sale of other real estate owned	84,079	108,054
Other	7,431,407	9,715,305
Total operating revenues	642,288,895	594,043,179
Operating expenses:		
Interest on notes and bonds	335,047,495	287,039,502
Salaries and related employee benefits (note 10)	29,775,579	28,105,305
General operating expenses	16,459,073	12,990,443
Note and bond expenses	233,730	345,735
Amortization of bond issuance expenses	349,236	472,298
Pass-through grants expenses	72,123,335	71,566,155
Housing Choice Voucher program expenses (note 1)	65,072,785	61,332,866
External mortgage servicing expenses	1,371,907	1,194,995
Investment in rental property expenses	11,807,323	12,734,642
Losses and expenses on other real estate owned	2,427,429	422,428
Provision for loan losses (note 1)	18,815,406	15,221,228
Total operating expenses	553,483,298	491,425,597
Operating income	88,805,597	102,617,582
Nonoperating revenues:		
Investment income (loss) (note 8)	(17,328,551)	52,328,713
Other, net	60,998	32,756
Total nonoperating revenues (losses)	(17,267,553)	52,361,469
Change in net assets	71,538,044	154,979,051
Total net assets, beginning of year	1,970,233,313	1,815,254,262
Total net assets, end of year	\$ 2,041,771,357	1,970,233,313

See accompanying notes to basic financial statements.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash payments for mortgage and other loans	\$ (1,377,749,840)	(1,421,928,671)
Principal repayments on mortgage and other loans	473,589,841	507,358,105
Interest received on mortgage and other loans	483,527,641	418,111,420
Pass-through grants received	72,123,335	71,566,155
Pass-through grants disbursed	(72,123,335)	(71,566,155)
Housing Choice Voucher payments received	64,334,008	59,371,864
Housing Choice Voucher payments disbursed	(64,822,825)	(61,172,239)
Escrow and project reserve payments received	220,106,194	199,905,505
Escrow and project reserve payments disbursed	(211,639,412)	(195,350,657)
Other operating revenues	9,063,584	5,320,798
Cash received for loan origination fees	9,602,619	11,304,921
Cash paid for loan origination fees	(13,563,029)	(15,596,448)
Cash payments for salaries and related benefits	(29,579,467)	(34,745,213)
Cash payments for general operating expenses	(12,419,591)	(21,954,815)
Cash payments for mortgage servicing expenses	(1,294,754)	(1,771,295)
Proceeds from sale of other real estate owned	2,443,869	1,581,163
Investment in rental property	(8,414,836)	(285,685)
Net cash used in operating activities	(456,815,998)	(549,851,247)
Cash flows from noncapital financing activities:		
Proceeds from sale of notes and bonds	1,298,991,539	1,362,050,000
Principal payments on notes and bonds	(368,059,812)	(530,135,073)
Interest payments on notes and bonds	(298,116,131)	(261,015,281)
Cash payments for bond issuance expenses	(7,908,353)	(6,809,974)
Net cash provided by noncapital financing activities	624,907,243	564,089,672
Cash flows from capital and related financing activities:		
Purchases of property, furniture, and equipment	(4,212,392)	(5,897,907)
Proceeds from disposal of furniture and equipment	—	2,000
Net cash used in capital and related financing activities	(4,212,392)	(5,895,907)
Cash flows from investing activities:		
Purchases of investments	(186,445,910)	(907,494,457)
Proceeds from sales or maturities of investments	388,813,045	838,507,330
Interest received on investments	39,655,122	58,923,435
Net cash provided by (used in) investing activities	242,022,257	(10,063,692)
Net increase (decrease) in cash and cash equivalents	405,901,110	(1,721,174)
Cash and cash equivalents, at beginning of year	705,768,664	707,489,838
Cash and cash equivalents, at end of year	\$ 1,111,669,774	705,768,664

(Continued)

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	<b>2008</b>	<b>2007</b>
Reconciliation of operating income to net cash used in operating activities:		
Operating income	\$ 88,805,597	102,617,582
Adjustments to reconcile operating income to net cash used in operating activities:		
Depreciation of property, furniture, and equipment	2,725,308	1,647,577
Other depreciation and amortization	1,701,147	2,345,179
Interest on notes and bonds	335,047,495	287,039,502
Decrease (increase) in investment in rental property, net	3,541,953	(14,634,152)
Increase in mortgage and other loans receivable	(876,704,332)	(926,601,100)
Increase in allowance for loan loss	15,549,671	9,069,331
Decrease in net deferred loan fees	(2,662,246)	(7,323,328)
Increase in interest receivable – mortgage and other loans	(2,558,704)	(10,096,707)
(Increase) decrease in other real estate owned	(15,324,351)	5,049,147
Decrease (increase) in Housing Choice Voucher contributions receivable	1,438,979	(4,590,555)
(Decrease) increase in other assets	1,346,524	(3,552,329)
(Decrease) increase in accounts payable and other liabilities	(18,189,821)	4,623,760
Increase in escrows and project reserves	8,466,782	4,554,846
Net cash used in operating activities	\$ (456,815,998)	(549,851,247)
Supplemental disclosure of noncash investing activity:		
Increase in other real estate owned as a result of loan foreclosures	\$ 8,923,977	10,988,012

See accompanying notes to basic financial statements.

VIRGINIA HOUSING DEVELOPMENT AUTHORITY  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements  
June 30, 2008 and 2007

(1) **Organization and Summary of Significant Accounting Policies**

(a) **Organization**

The Virginia Housing Development Authority (the Authority) was created under the Virginia Housing Development Authority Act, as amended (the Act) enacted by the 1972 Session of the Virginia General Assembly. The Act empowers the Authority, among other authorized activities, to finance the acquisition, construction, rehabilitation and ownership of housing intended for occupancy or ownership, or both, by families of low or moderate income. Mortgage loans are generally made with the proceeds of notes, bonds, or other debt obligations issued by the Authority. The notes, bonds and other debt obligations do not constitute a debt or grant or loan of credit of the Commonwealth of Virginia (the Commonwealth), and the Commonwealth is not liable for the repayment of such obligations.

For financial reporting purposes, the Authority is a component unit of the Commonwealth. The accounts of the Authority, along with other similar types of funds, are combined to form the Enterprise Funds of the Commonwealth. The Authority reports all of its activities as one enterprise fund, in accordance with U.S. generally accepted accounting principles. See note 2 for further discussion.

(b) **Measurement Focus and Basis of Accounting**

The Authority utilizes the economic resources measurement focus and accrual basis of accounting in preparing its basic financial statements where revenues are recognized when earned and expenses when incurred. The accounts are organized on the basis of funds and groups of funds, which are set up in accordance with the authorizing act and the various note and bond resolutions. As provided for in 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 Authority has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

(c) **Use of Estimates**

The preparation of basic financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and judgments that affect reported amounts of assets and liabilities and the disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

(d) **Investments**

Investments are reported at fair market value on the statement of net assets, with changes in fair market value recognized in investment income in the statements of revenues, expenses, and changes in net assets. Fair market value is determined by reference to published market prices and quotations from national security exchanges and securities pricing services.

(Continued)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements  
June 30, 2008 and 2007

(e) **Investment in Rental Property**

Investment in rental property represents several multi-family apartment complexes, including the related property, furniture, and equipment. These assets are recorded at cost and are depreciated using the straight-line method over the estimated useful lives, which are 30 years for the building, 15 years for building improvements and from 5 to 10 years for furniture and equipment. The investment is carried net of accumulated depreciation of \$8,025,388 as of June 30, 2008 and \$7,895,910 as of June 30, 2007. These investments are also tested for impairment when triggers are identified.

(f) **Mortgage and Other Loans Receivable**

Mortgage and other loans receivable are stated at their unpaid principal balance, net of deferred loan fees and costs and an allowance for loan losses. The Authority charges loan fees to mortgagors. These fees, net of direct costs, are deferred and amortized, using the interest method, over the contractual life of the loans as an adjustment to yield. The interest method is computed on a loan-by-loan basis and any unamortized net fees on loans fully repaid or restructured are recognized as income in the year in which such loans are repaid or restructured.

(g) **Allowance for Loan Losses**

The Authority provides for losses when a specific need for an allowance is identified. The provision for loan losses charged or credited to operating expense is the amount necessary, in management's judgment, to maintain the allowance at a level it believes sufficient to cover losses in collection of loans. Estimates of future losses involve the exercise of management's judgment and assumptions with respect to future conditions. The principal factors considered by management in determining the adequacy of the allowance are the composition of the loan portfolio, historical loss experience and delinquency statistics, economic conditions, the value and adequacy of collateral, and the current level of the allowance. The provision for loan losses was \$18,815,406 and \$15,221,228 for the years ended June 30, 2008 and 2007, respectively.

(h) **Property, Furniture, and Equipment**

Capital assets are capitalized at cost and depreciation is provided on the straight-line basis over the estimated useful lives, which are 30 years for the building and from 3 to 10 years for furniture and equipment. The capitalization threshold for property, furniture, and equipment was increased in fiscal year 2008 from \$500 to \$1,000.

(i) **Bond Issuance Expense**

Costs related to issuing bonds are capitalized in the related bond group and are amortized on the straight-line basis over the lives of the bonds.

(j) **Other Real Estate Owned**

Other real estate owned represents current investments in rental property acquired primarily through foreclosure and is stated at the lower of cost or fair value less estimated disposal costs. Gains and

(Continued)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements  
June 30, 2008 and 2007

losses from the disposition of other real estate owned are reported separately in the statements of revenues, expenses, and changes in net assets.

(k) **Notes and Bonds Payable**

Notes and bonds payable are stated at their unpaid balance less any unamortized premiums or discounts. Bond premiums and discounts are amortized over the lives of the issues using the interest method. The Authority generally has the right to specifically redeem bonds, without premium, upon the occurrence of certain specified events, such as the prepayment of a mortgage loan. The Authority also has the right to optionally redeem the various bonds at premiums ranging from 0% to 2%. The optional redemptions generally cannot be exercised until the bonds have been outstanding for approximately ten years. All issues generally have term bonds, which will be subject to partial redemption, without premium, from mandatory sinking fund installments.

(l) **Retirement Plans**

The Authority has three defined contribution employees' retirement savings plans covering substantially all employees. Retirement expense is fully funded as incurred. To the extent that terminating employees are less than 100% vested in the Authority's contributions, the unvested portion is forfeited and redistributed to the remaining participating employees.

The Authority also provides postretirement healthcare benefits under a defined benefit plan to all employees who have met the years of service requirement and who retire from the Authority on or after attaining age 55 or become permanently disabled.

The Authority adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*, at July 1, 2007. GASB Statement No. 45 provisions consist of standards for the measurement, recognition, and disclosure of OPEB expenses and actuarially accrued liabilities associated with OPEB as well as the extent to which progress has been made in funding the plan. Additional details on the implementation of GASB Statement No. 45 are disclosed in note 11.

(m) **Compensated Absences**

Authority employees are granted vacation and sick pay in varying amounts as services are provided. Employees may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination or death, may be compensated for certain amounts at their then current rates of pay. The amount of vacation and sick pay recognized as expense is the amount earned each year.

(n) **Section 8 Programs**

**Project Based**

As the Commonwealth administrator for the Department of Housing and Urban Development's (HUD) Section 8 New Construction and Substantive Rehabilitation program, the Authority requisitions Section 8 funds, makes disbursements of Housing Assistance Payments (HAP) funds to

(Continued)

VIRGINIA HOUSING DEVELOPMENT AUTHORITY  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements  
June 30, 2008 and 2007

landlords of eligible multi-family developments, and recognizes administrative fee income. The Authority received and disbursed pass-through grants totaling \$72,123,335 and \$71,566,155 during the years ended June 30, 2008 and 2007, respectively.

**Tenant Based**

As the Commonwealth administrator for HUD's Section 8 Housing Choice Voucher program, the Authority requisitions Section 8 funds, makes disbursements of HAP funds to eligible tenants, and recognizes administrative fee income.

Upon receipt or disbursement of HAP and administrative funds related to Section 8, corresponding revenues or expenses are recorded in Housing Choice Voucher program income or Housing Choice Voucher program expense in the statements of revenues, expenses and changes in net assets. Housing Choice Voucher contributions receivable are stated at the balance of funds obligated and available from HUD but not yet disbursed to the Authority. Excess HAP or administrative funds disbursed to the Authority are recorded in unrestricted net assets in the statements of net assets. Cumulative excess HAP and administrative funds totaled \$12,033,296 and \$2,249,821, respectively, as of June 30, 2008 and \$13,299,948 and \$3,184,258, respectively, as of June 30, 2007. HUD will monitor the utilization of these excess funds and take the appropriate action to assure the funds are being used to serve as many families up to the number of vouchers authorized by the program.

(o) **Commonwealth Priority Housing Fund**

The Commonwealth Priority Housing Fund, established by the 1988 Session of the Virginia General Assembly, uses funds provided by the state to provide loans and grants for a wide variety of housing initiatives. The Department of Housing and Community Development develops the program guidelines and the Authority acts as administrator for the Funds. The balances associated with the Commonwealth Priority Housing Fund are recorded in assets and liabilities in the amounts of \$8,348,458 and \$7,408,491 as of June 30, 2008 and 2007, respectively.

(p) **Cash Equivalents**

For purposes of the statements of cash flows, cash equivalents consist of investments with original maturities of three months or less from the date of purchase.

(q) **Rebatable Arbitrage**

Rebatable arbitrage involves the investment of proceeds from the sale of tax-exempt debt in a taxable investment that yields a higher rate than the rate of the obligation. This results in investment income in excess of interest costs. Federal law requires such income be rebated to the government if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued. Arbitrage must be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes.

(Continued)

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements  
June 30, 2008 and 2007

(r) **Statement of Net Assets**

The assets presented in the statement of net assets represent the total of similar accounts of the Authority's various groups (note 2). Since the assets of certain of the groups are restricted by the related debt resolutions, the total does not indicate that the combined assets are available in any manner other than that provided for in the resolutions for the separate groups. When both restricted and unrestricted resources are available for use, the Authority's policy is to use restricted resources first, and thereafter unrestricted resources as needed.

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

The Authority's statements of revenues, expenses, and changes in net assets distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally are a result from financing the acquisition, construction, rehabilitation and ownership of housing intended for occupancy and ownership, by families of low or moderate income or as a result from the ownership of certain multi-family housing rental properties. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(t) **Reclassifications**

Certain reclassifications have been made in the June 30, 2007 financial statements to conform to the June 30, 2008 presentation.

(2) **Basis of Presentation**

The accounts of the Authority are presented in a single proprietary fund set of basic financial statements consisting of various programs. The Authority's activities include the following programs:

(a) **General Operating Accounts**

The General Operating Accounts consist of a group of accounts used to record the receipt of income not directly pledged to the repayment of specific notes and bonds and the payment of expenses related to the Authority's administrative functions.

(b) **Multi-Family Housing Bond and Rental Housing Bond Groups**

The proceeds of the Multi-Family Housing Bonds and Rental Housing Bonds are used solely to finance construction and permanent loans on multi-family development projects, as well as, permanent financing for owned rental property.

(c) **General Purpose Bond Group**

The proceeds of these bonds are used solely to finance construction and permanent loans on multi-family projects, loans on single-family dwellings, as well as, permanent financing for owned rental property and the Authority's office facilities.

(Continued)

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements  
June 30, 2008 and 2007

(d) **Commonwealth Mortgage Bond Group**

The proceeds of Commonwealth Mortgage Bonds are used solely to purchase or make long-term loans to owner occupants of single-family dwelling units, as well as, temporary financing for other real estate owned.

(3) **Mortgage and Other Loans Receivable**

Substantially all mortgage and other loans receivable are secured by first liens on real property within the Commonwealth. The following are the interest rates and typical loan terms by loan program or bond group for the major loan programs:

<u>Loan program/bond group</u>	<u>Interest rates</u>	<u>Initial loan terms</u>
General Operating Accounts	0% to 9.14%	Thirty to forty years
Multi-Family Housing Bond Group	3.50% to 12.36%	Thirty to forty years
Rental Housing Bond Group	0% to 13.13%	Thirty to forty years
General Purpose Bond Group	0% to 13.92%	Thirty to forty years
Commonwealth Mortgage Bond Group	0% to 13.85%	Thirty years

Commitments to fund new loans and monies available to provide future loans were as follows at June 30, 2008:

	<u>Committed</u>	<u>Uncommitted</u>
General Operating Loan Programs	\$ 18,149,340	20,161,803
General Purpose Bond Group	—	63,088,806
Multi-Family Housing Bond Group	—	41,085,205
Rental Housing Bond Group	175,749,737	—
Commonwealth Mortgage Bond Group	17,659,990	346,041,841
Total	\$ 211,559,067	470,377,655

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

Cash includes cash on hand and amounts in checking accounts, which are insured by the Federal Depository Insurance Corporation or are collateralized under provisions of the Virginia Security for Public Deposits Act. At June 30, 2008 and 2007, the carrying amount of the Authority's deposits was \$40,163,844 and \$32,686,485, respectively, and checks drawn in excess of bank balances, included in accounts payable and other liabilities were \$8,138,502 and \$27,278,439, respectively. The associated bank balance of the Authority's deposits was \$37,627,646 and \$30,137,564 at June 30, 2008 and 2007, respectively. The difference between the carrying amount and the bank balance is due to outstanding checks, deposits in transit, and other reconciling items.

Cash equivalents include investments with original maturities of three months or less from date of purchase. Investments consist of U.S. Government and agency securities, municipal tax-exempt securities, corporate notes, and various other investments for which there are no securities as evidence of the

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investment. Investments in the bond funds consist of those permitted by the various resolutions adopted by the Authority. At June 30, 2008 and 2007, total cash equivalents were \$1,071,505,930 and \$673,082,179, respectively.

Restricted assets are liquid assets, which have third-party limitations on their usage. The Federal Home Loan Bank notes are required to be fully collateralized at all times by cash on deposit with such bank. Specific cash, cash equivalents, and investments in the General Operating Accounts that are restricted in nature are as follows:

	June 30	
	2008	2007
Escrow funds restricted for the benefit of mortgagors	\$ 34,166,579	31,735,909
HCV program funds restricted by federal grantors	10,678,149	11,235,491
Securities restricted as collateral for Federal Home Loan Bank notes	36,330,000	—
<b>Total restricted assets</b>	<b>\$ 81,174,728</b>	<b>42,971,400</b>

Investments are classified in the statements of net assets as follows:

	June 30	
	2008	2007
Current investments	\$ 9,244,905	46,499,577
Noncurrent investments	227,546,137	452,076,250
<b>Total investments</b>	<b>\$ 236,791,042</b>	<b>498,575,827</b>

The Investment of Public Funds Act of the Code of Virginia permits political subdivisions of the Commonwealth to invest in open repurchase agreements that are collateralized with securities that are approved for direct investment. Within the permitted statutory framework, the Authority's investment policy requires securities collateralizing repurchase agreements to maintain a fair value at least equal to 102% of the cost and accrued interest of the repurchase agreement, and no more than 5% of the Authority's total assets may be invested in any one entity, exclusive of overnight repurchase agreements.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy is to hold all investments to maturity and to limit the length of an investment at purchase, to coincide with expected timing of its use.

**(a) Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates. As a means of communicating interest rate risk, the Authority has elected the segmented time distribution

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method of disclosure, which requires the grouping of investment cash flows into sequential time periods in tabular form.

As of June 30, 2008, the Authority had the following investments (including cash equivalents) and maturities:

Investment type	Less than 1 year	1 – 5 years	6 – 10 years	Over 10 years	Fair value
Corporate notes	\$ —	3,333,460	—	—	3,333,460
Repurchase agreements	310,974,103	—	—	—	310,974,103
Municipal securities	10,156,821	18,705,252	—	—	28,862,073
Asset-backed securities	783,085	7,350,553	—	144,852,591	152,986,229
Agency-mortgage backed securities	—	2,397,443	2,395,179	20,530,626	25,323,248
U.S. government and agency securities	—	1,664,918	694,065	25,112,049	27,471,032
Money market securities	722,599,258	—	—	—	722,599,258
Other interest-bearing securities	36,747,569	—	—	—	36,747,569
<b>Total investments</b>	<b>\$ 1,081,260,836</b>	<b>33,451,626</b>	<b>3,089,244</b>	<b>190,495,266</b>	<b>1,308,296,972</b>

As of June 30, 2007, the Authority had the following investments (including cash equivalents) and maturities:

Investment type	Less than 1 year	1 – 5 years	6 – 10 years	Over 10 years	Fair value
Corporate notes	\$ 2,501,226	2,440,325	820,449	48,399,999	54,161,999
Repurchase agreements	96,831,272	—	—	—	96,831,272
Municipal securities	9,019,256	19,442,370	—	—	28,461,626
Asset-backed securities	—	6,393,632	—	287,607,709	294,001,341
Agency-mortgage backed securities	—	—	6,601,176	27,757,622	34,358,798
U.S. government and agency securities	500,645	2,058,918	25,234,555	25,319,495	53,113,613
Money market securities	610,561,309	—	—	—	610,561,309
Other interest-bearing securities	168,048	—	—	—	168,048
<b>Total investments</b>	<b>\$ 719,581,756</b>	<b>30,335,245</b>	<b>32,656,180</b>	<b>389,084,825</b>	<b>1,171,658,006</b>

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(b) **Credit Risk**

Credit risk is the risk that an issuer or other counterparts to an investment will not fulfill its obligations. The Authority places emphasis on securities of high credit quality and marketability. The following table presents investment exposure to credit risk by investment type as of June 30, 2008:

Investment type	Amount	S & P/ Moody's rating	Percentage of total investments
Money Market Securities	\$ 697,599,258	P-1	53.32%
Repurchase Agreements	310,974,103	P-1	23.77
Asset-Backed Securities	100,366,365	Aaa	7.67
Other Interest Bearing Securities	36,747,569	Aaa	2.81
U.S. Government & Agency Securities	27,471,032	Aaa	2.10
Agency-Mortgage Backed Securities	25,323,248	Aaa	1.94
Money Market Securities	25,000,000	Aa2	1.91
Asset-Backed Securities	21,155,826	Aa2	1.62
Asset-Backed Securities	13,017,473	Aa1	1.00
Municipal Securities	8,086,859	Aa2	0.62
Municipal Securities	7,676,606	Aaa	0.59
Asset-Backed Securities	6,570,198	A2	0.50
Asset-Backed Securities	5,451,334	Aa3	0.42
Municipal Securities	4,504,659	Aa1	0.34
Asset-Backed Securities	4,231,610	A3	0.32
Municipal Securities	2,522,872	A2	0.19
Corporate Notes	2,473,150	Aa3	0.19
Municipal Securities	2,389,537	MIG-1	0.18
Asset-Backed Securities	1,410,338	B2	0.11
Municipal Securities	1,185,000	VMIG-1	0.09
Municipal Securities	1,000,000	Aa3	0.08
Corporate Notes	860,310	A2	0.06
Municipal Securities	841,431	A-	0.06
Asset-Backed Securities	783,085	P-1	0.06
Municipal Securities	655,109	SP-1+	0.05
	<u>\$ 1,308,296,972</u>		<u>100.00%</u>

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(5) **Property, Furniture, and Equipment**

Activity in the property, furniture, and equipment accounts for the year ended June 30, 2008 was as follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Land	\$ 2,837,095	98,720	—	2,935,815
Building	22,882,354	3,267,761	—	26,150,115
Furniture and equipment	14,443,844	3,615,073	(2,755,491)	15,303,426
Motor vehicles	406,987	16,460	—	423,447
	<u>\$ 40,570,280</u>	<u>6,998,014</u>	<u>(2,755,491)</u>	<u>44,812,803</u>

Activity in the related accumulated depreciation and amortization accounts during the year ended June 30, 2008 was as follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Building	\$ (11,157,035)	(846,996)	—	(12,004,031)
Furniture and equipment	(11,837,434)	(1,499,607)	2,360,448	(10,976,593)
Motor vehicles	(264,589)	(44,461)	—	(309,050)
	<u>\$ (23,259,058)</u>	<u>(2,391,064)</u>	<u>2,360,448</u>	<u>(23,289,674)</u>

During the year, the Authority changed the capitalization threshold for fixed assets from \$500 to \$1,000. As a result of this change, \$2,082,673 was recorded in asset deletions, and \$1,748,428 was recorded in accumulated depreciation deletions. The excess of \$334,245, representing undepreciated asset cost, was charged to expense.

Activity in the property, furniture, and equipment accounts for the year ended June 30, 2007 was as follows:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Land	\$ 2,837,095	—	—	2,837,095
Building	22,333,578	548,776	—	22,882,354
Furniture and equipment	14,012,420	2,146,655	(1,715,231)	14,443,844
Motor vehicles	388,808	115,342	(97,163)	406,987
	<u>\$ 39,571,901</u>	<u>2,810,773</u>	<u>(1,812,394)</u>	<u>40,570,280</u>

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Activity in the related accumulated depreciation and amortization accounts during the year ended June 30, 2007 was as follows:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Building	\$ (10,490,197)	(666,838)	—	(11,157,035)
Furniture and equipment	(12,612,507)	(939,371)	1,714,444	(11,837,434)
Motor vehicles	(320,384)	(41,368)	97,163	(264,589)
	<u>\$ (23,423,088)</u>	<u>(1,647,577)</u>	<u>1,811,607</u>	<u>(23,259,058)</u>

**(6) Notes and Bonds Payable**

Notes and bonds payable at June 30, 2007 and June 30, 2008 and changes for the year were as follows:

Description	Balance at June 30, 2007	Issued	Retired	Balance at June 30, 2008
		(Amounts shown in thousands)		
General operating accounts:				
Revolving line of credit:				
Bank of America floating rate (rate of 2.71% at June 30, 2008) no fixed maturity	\$ —	100,000	75,000	25,000
Federal Home Loan Bank floating rate (rate of 2.14% at June 30, 2008) no fixed maturity	—	36,330	—	36,330
Total general operating accounts	—	136,330	75,000	61,330
Multi-family housing bond group:				
1995 Series H/I, dated October 3, 1995, 5.40% effective interest rate, final due date November 1, 2015	7,855	—	3,355	4,500
1995 Series K/L, dated October 26, 1995, 5.58% effective interest rate, final due date November 1, 2015	4,080	—	1,560	2,520
1996 Series A/B/C, dated January 11, 1996, 6.55% effective interest rate, final due date May 1, 2016	11,165	—	1,280	9,885

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Description	Balance at June 30, 2007	Issued	Retired	Balance at June 30, 2008
		(Amounts shown in thousands)		
1996 Series D/E/F, dated March 28, 1996, 6.70% effective interest rate, final due date May 1, 2016	\$ 4,705	—	450	4,255
1996 Series H/I, dated April 25, 1996, 5.83% effective interest rate, final due date May 1, 2016	9,910	—	1,905	8,005
1996 Series J, dated August 8, 1996, 6.15% effective interest rate, final due date May 1, 2017	10,050	—	1,045	9,005
1996 Series K/L/M, dated October 1, 1996, 5.68% effective interest rate, final due date November 1, 2017	8,640	—	565	8,075
1996 Series N/O, dated December 19, 1996, 5.93% effective interest rate, final due date November 1, 2017	10,900	—	740	10,160
1997 Series A/B, dated May 15, 1997, 5.64% effective interest rate, final due date November 1, 2019	36,415	—	22,310	14,105
1997 Series C/D/E, dated September 11, 1997, 6.09% effective interest rate, final due date November 1, 2019	41,630	—	6,010	35,620
1997 Series F, dated October 16, 1997, 5.33% effective interest rate, final due date November 1, 2017	5,385	—	370	5,015
1997 Series G/H/I, dated December 18, 1997, 6.25% effective interest rate, final due date May 1, 2019	41,410	—	2,555	38,855
1998 Series A, dated April 23, 1998, 6.79% effective interest rate, final due date November 1, 2019	39,835	—	2,065	37,770
1998 Series B/C/E, dated April 23, 1998 and September 23, 1998, 5.29% effective interest rate, final due date November 1, 2018	41,700	—	2,640	39,060

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Description	Balance at June 30, 2007	Issued		Balance at June 30, 2008
		Issued	Retired	
(Amounts shown in thousands)				
1998 Series F, dated July 29, 1998, 6.65% effective interest rate, final due date May 1, 2019	\$ 24,785	—	1,430	23,355
1998 Series G, dated July 29, 1998, 5.10% effective interest rate, final due date November 1, 2018	35,535	—	2,345	33,190
1998 Series H, dated October 27, 1998, 6.31% effective interest rate, final due date May 1, 2019	27,820	—	1,600	26,220
1998 Series I, dated October 27, 1998, 4.94% effective interest rate, final due date November 1, 2019	26,910	—	1,590	25,320
1999 Series A/B, dated January 28, 1999, 5.99% effective interest rate, final due date May 1, 2019	58,545	—	3,495	55,050
	447,275	—	57,310	389,965
Unamortized premium	2,075			1,726
Total multi-family housing bond group	449,350			391,691
Rental housing bond group:				
1999 Series C/D/E/F, dated May 20, 1999, 5.89% effective interest rate, final due date May 1, 2022	39,195	—	1,765	37,430
1999 Series G/H, dated August 19, 1999, 6.70% effective interest rate, final due date May 1, 2022	47,740	—	1,780	45,960
1999 Series I/J, dated November 4, 1999, 6.83% effective interest rate, final due date February 1, 2023	31,990	—	1,200	30,790
1999 Series K/L, dated December 16, 1999, 6.41% effective interest rate, final due date February 1, 2023	30,980	—	1,200	29,780
2000 Series A/B, dated May 10, 2000, 7.14% effective interest rate, final due date August 1, 2024	56,295	—	1,685	54,610

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Description	Balance at June 30, 2007	Issued		Balance at June 30, 2008
		Issued	Retired	
(Amounts shown in thousands)				
2000 Series C, dated August 3, 2000, 8.18% effective interest rate, final due date April 1, 2024	\$ 15,270	—	495	14,775
2000 Series D/E, dated August 3, 2000, 5.98% effective interest rate, final due date April 1, 2024	39,785	—	1,520	38,265
2000 Series F/G/H, dated October 12, 2000, 6.90% effective interest rate, final due date October 1, 2024	57,695	—	1,815	55,880
2001 Series A/B, dated January 9, 2001, 7.02% effective interest rate, final due date March 1, 2025	56,050	—	1,680	54,370
2001 Series C/D, dated March 22, 2001, 5.87% effective interest rate, final due date June 1, 2024	12,660	—	500	12,160
2001 Series E/F/G, dated April 26, 2001, 5.94% effective interest rate, final due date June 1, 2025	18,265	—	720	17,545
2001 Series H/I, dated July 31, 2001, 6.56% effective interest rate, final due date July 1, 2025	45,180	—	1,365	43,815
2001 Series J/K/L, dated October 23, 2001, 6.06% effective interest rate, final due date December 1, 2025	57,560	—	1,880	55,680
2001 Series M, dated December 18, 2001, 6.78% effective interest rate, final due date January 1, 2027	39,645	—	1,040	38,605
2001 Series N/O, dated December 18, 2001, 5.40% effective interest rate, final due date January 1, 2027	34,170	—	1,060	33,110
2002 Series A, dated April 11, 2002, 6.70% effective interest rate, final due date April 1, 2027	22,285	—	670	21,615
2002 Series B, dated April 11, 2002, 5.30% effective interest rate, final due date April 1, 2027	40,625	—	1,270	39,355

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Description	Balance at June 30, 2007	Issued		Balance at June 30, 2008
		Retired		
		(Amounts shown in thousands)		
2002 Series C/D, dated June 27, 2002, 6.45% effective interest rate, final due date September 1, 2027	\$ 60,340	—	1,475	58,865
2002 Series E/F/G, dated December 19, 2002, 5.45% effective interest rate, final due date January 1, 2028	72,215	—	1,990	70,225
2003 Series A/B, dated April 24, 2003, 5.04% effective interest rate, final due date June 1, 2028	52,605	—	1,815	50,790
2003 Series C/D, dated August 5, 2003, 3.87% effective interest rate, final due date November 1, 2028	57,775	—	2,760	55,015
2003 Series E, dated August 5, 2003, 4.84% effective interest rate, final due date November 1, 2028	76,465	—	2,850	73,615
2003 Series F/G, dated December 23, 2003, 5.42% effective interest rate, final due date April 1, 2030	49,530	—	1,260	48,270
2004 Series A/B, dated March 17, 2003, 5.25% effective interest rate, final due date March 1, 2030	16,680	—	420	16,260
2004 Series C, dated April 29, 2004, 5.53% effective interest rate, final due date May 1, 2029	71,325	—	1,865	69,460
2004 Series D/E, dated April 29, 2004, 4.72% effective interest rate, final due date May 1, 2029	51,195	—	1,500	49,695
2004 Series F/G, dated September 2, 2004, 5.78% effective interest rate, final due date September 1, 2030	55,765	—	1,220	54,545
2004 Series H/I/J, dated December 16, 2004, 5.10% effective interest rate, final due date December 1, 2029	38,510	—	940	37,570
2005 Series A, dated April 26, 2005, 5.37% effective interest rate, final due date May 1, 2030	40,130	—	1,145	38,985

(Continued)

Description	Balance at June 30, 2007	Issued		Balance at June 30, 2008
		Retired		
		(Amounts shown in thousands)		
2005 Series B/C, dated April 26, 2005, 4.58% effective interest rate, final due date May 1, 2031	\$ 63,205	—	2,165	61,040
2005 Series D, dated June 14, 2005, 5.52% effective interest rate, final due date September 1, 2033	42,065	—	805	41,260
2005 Series E/F, dated June 14, 2005, 4.60% effective interest rate, final due date September 1, 2039	45,120	—	425	44,695
2005 Series G, dated October 20, 2005, 5.30% effective interest rate, final due date December 1, 2030	92,745	—	2,195	90,550
2005 Series H/I, dated October 20, 2005, 4.45% effective interest rate, final due date December 1, 2030	40,115	—	1,060	39,055
2005 Series J/K, dated December 14, 2005, 5.30% effective interest rate, final due date February 1, 2035	40,500	—	685	39,815
2006 Series A, dated May 23, 2006, 4.89% effective interest rate, final due date April 1, 2033	8,795	—	100	8,695
2006 Series B, dated October 31, 2006, 4.68% effective interest rate, final due date November 1, 2038	23,670	—	—	23,670
2006 Series C, dated December 12, 2006, 5.95% effective interest rate, final due date January 1, 2039	44,875	—	—	44,875
2006 Series DEF, dated December 12, 2006, 4.52% effective interest rate, final due date January 1, 2039	82,875	—	255	82,620

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Description	Balance at June 30, 2007	Issued		Retired	Balance at June 30, 2008
		(Amounts shown in thousands)			
2007 Series A, dated June 12, 2007, 6.03% effective interest rate, final due date July 1, 2039	\$ 119,760	—	—	—	119,760
2007 Series B/C, dated September 20, 2007, 6.16% effective interest rate, final due date November 1, 2038	—	23,650	—	—	23,650
2008 Series A, dated March 27, 2008, 5.63% effective interest rate, final due date October 1, 2038	—	200,000	—	—	200,000
	1,891,650	223,650	—	48,575	2,066,725
Unamortized premium	3,057	—	—	—	4,841
Total rental housing bond group	1,894,707	—	—	—	2,071,566
General purpose bond group:					
2002 Series W, dated October 31, 2002, 5.91% effective interest rate, final due date January 1, 2028	76,810	—	—	3,695	73,115
2002 Series X/Y/Z, dated October 31, 2002, 4.82% effective interest rate, final due date January 1, 2043	251,120	—	—	2,670	248,450
2003 Series Q, dated October 30, 2003, 5.65% effective interest rate, final due date October 1, 2028	27,880	—	—	730	27,150
2003 Series R/S/T/U, dated October 30, 2003 4.62% effective interest rate, final due date October 1, 2038	84,800	—	—	1,170	83,630
2003 Series V, dated June 26, 2003 4.52% effective interest rate, final due date October 1, 2029	45,040	—	—	2,165	42,875
	485,650	—	—	10,430	475,220
Unamortized premium	215	—	—	—	1,045
Total general purpose bond group	485,865	—	—	—	476,265

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Description	Balance at June 30, 2007	Issued		Retired	Balance at June 30, 2008
		(Amounts shown in thousands)			
Commonwealth mortgage bond group:					
1996 Series E/F, dated December 18, 1996, 5.45% effective interest rate, final due date January 1, 2046	\$ 140,000	—	—	—	140,000
2001 Series A, dated January 30, 2001, 6.57% effective interest rate, final due date February 25, 2030	4,961	—	—	1,238	3,723
2001 Series B, dated May 4, 2001, 6.52% effective interest rate, final due date May 25, 2031	6,136	—	—	1,488	4,648
2001 Series C/D, dated June 13, 2001, 4.08% effective interest rate, final due date January 1, 2014	25,030	—	—	4,080	20,950
2001 Series F, dated July 31, 2001, 6.50% effective interest rate, final due date September 25, 2031	7,722	—	—	1,532	6,190
2001 Series G, dated October 17, 2001, 6.51% effective interest rate, final due date December 25, 2031	8,887	—	—	1,931	6,956
2001 Series H, dated October 18, 2001, 5.37% effective interest rate, final due date July 1, 2036	223,000	—	—	—	223,000
2001 Series I/J, dated October 18, 2001, 4.13% effective interest rate, final due date July 1, 2011	76,295	—	—	18,990	57,305
2002 Series A, dated January 14, 2002, 6.68% effective interest rate, final due date February 25, 2032	12,121	—	—	2,740	9,381
2002 Series B, dated March 20, 2002, 6.23% effective interest rate, final due date August 25, 2030	39,686	—	—	5,712	33,974
2002 Series CD, dated June 27, 2002, 6.04% effective interest rate, final due date June 25, 2032	13,045	—	—	2,873	10,172

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Description	Balance at			Balance at
	June 30, 2007	Issued	Retired	June 30, 2008
		(Amounts shown in thousands)		
2002 Series E/F/G, dated December 17, 2002, 5.26% effective interest rate, final due date December 25, 2032	\$ 40,974	—	6,437	34,537
2003 Series A/B, dated April 3, 2003, 3.90% effective interest rate, final due date July 1, 2026	125,340	—	18,600	106,740
2003 Series C, dated October 1, 2003, 5.02% effective interest rate, final due date August 25, 2033	2,181	—	35	2,146
2004 Series A, dated March 18, 2004, 4.30% effective interest rate, final due date October 1, 2035	163,170	—	13,840	149,330
2004 Series B, dated June 10, 2004, 5.54% effective interest rate, final due date June 25, 2034	10,651	—	2,066	8,585
2004 Series C, dated November 2, 2004, 4.21% effective interest rate, final due date January 1, 2031	165,310	—	10,120	155,190
2005 Series A, dated April 21, 2005, 4.31% effective interest rate, final due date October 1, 2031	445,700	—	29,400	416,300
2005 Series B, dated April 21, 2005, 4.92% effective interest rate, final due date July 1, 2042	46,120	—	—	46,120
2005 Series C/D/E, dated November 3, 2005, 4.41% effective interest rate, final due date October 1, 2032	446,590	—	17,600	428,990
2006 Series AB, dated April 27, 2006, 5.83% effective interest rate, final due date March 25, 2036	11,705	—	677	11,028
2006 Series C, dated June 8, 2006, 6.38% effective interest rate, final due date June 25, 2034	80,265	—	12,629	67,636
2006 Series DEF, dated July 13, 2006 4.60% effective interest rate, final due date January 1, 2033	648,600	—	18,700	629,900

(Continued)

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements  
June 30, 2008 and 2007

Description	Balance at			Balance at
	June 30, 2007	Issued	Retired	June 30, 2008
		(Amounts shown in thousands)		
2007 Series ABCD, dated May 18, 2007 4.96% effective interest rate, final due date January 1, 2036	\$ 420,000	670,000	—	1,090,000
2008 Series A, dated March 25, 2008, 6.10% effective interest rate, final due March 25, 2038	—	107,003	2,791	104,212
2008 Series B, dated April 10, 2008, 6.22% effective interest rate, final due date March 25, 2038	—	162,008	3,265	158,743
	3,163,489	939,011	176,744	3,925,756
Unamortized premium	4,772			13,709
Total commonwealth mortgage bond group	3,168,261			3,939,465
Total	\$ 5,998,183			6,940,317

Notes and bonds payable at June 30, 2006 and June 30, 2007 and changes for the year were as follows (amounts in thousands):

	June 30, 2006	Issued	Retired	Change in unamortized premium and compound interest payable	June 30 2007
	General operating accounts	\$ 7,220	20,870	28,090	—
Multi-family housing bond group	498,314	—	48,990	26	449,350
Rental housing bond group	1,664,478	271,180	41,185	234	1,894,707
General purpose bond group	498,089	—	13,250	1,026	485,865
Commonwealth mortgage bond group	2,494,134	1,070,000	398,620	2,747	3,168,261
Total	\$ 5,162,235	1,362,050	530,135	4,033	5,998,183

(Continued)

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Notes to Basic Financial Statements

June 30, 2008 and 2007

	June 30	
	2008	2007
	(Amount in thousands)	
Notes and bonds payable – current	\$ 332,143	213,754
Bonds payable – noncurrent	6,608,174	5,784,429
<b>Total</b>	<b>\$ 6,940,317</b>	<b>5,998,183</b>

The Authority has participated in current refundings, in which new debt is issued and the proceeds are used to immediately redeem previously issued debt. Related discounts or premiums previously deferred are recognized in income or expense, respectively. For the years ended June 30, 2008 and 2007, current refundings were \$52,880,000 and \$302,150,000, respectively.

The principal payment obligations and associated interest related to all note and bond indebtedness (excluding the effect of unamortized discounts and premium) commencing July 1, 2008 and thereafter are as follows:

Period ending June 30	Original principal	Current interest	Total debt service
2009	\$ 332,143,055	339,995,989	672,139,044
2010	291,380,000	328,280,045	619,660,045
2011	292,030,000	315,835,733	607,865,733
2012	289,295,000	303,203,454	592,498,454
2013	274,530,000	290,495,881	565,025,881
2014 – 2018	1,348,755,000	1,257,815,940	2,606,570,940
2019 – 2023	1,167,330,000	933,591,868	2,100,921,868
2024 – 2028	1,057,960,000	637,134,132	1,695,094,132
2029 – 2033	861,276,517	380,742,785	1,242,019,302
2034 – 2038	802,385,631	175,283,603	977,669,234
2039 – 2043	157,210,000	22,057,478	179,267,478
2044 – 2048	44,700,000	1,848,923	46,548,923
	<b>\$ 6,918,995,203</b>	<b>4,986,285,831</b>	<b>11,905,281,034</b>

The Authority has a \$200 million revolving credit agreement with Bank of America to provide funds for general corporate purposes. The term of the agreement is for 364 days, and at the end of each day, is automatically extended for 364 days, up to the final expiration date of November 20, 2027. Interest on any advances is charged at a rate equal to the daily floating LIBOR rate for deposits with one month maturity plus 23 basis points per annum, 30 basis points per annum or 40 basis points per annum based upon the Authority's long-term credit ratings of AA or higher, A, or BBB or lower, respectively. All amounts outstanding at a given time are due and payable on the termination date. The Authority is in compliance with all debt covenant requirements. At June 30, 2008, \$25 million was outstanding and at June 30, 2007 there were no amounts outstanding.

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**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Notes to Basic Financial Statements

June 30, 2008 and 2007

The Authority has a \$150 million revolving credit agreement with the Bank of Nova Scotia to provide funds for general corporate purposes. The term of the agreement expires on November 29, 2013. Interest on any advances is charged at rate equal to the daily floating LIBOR rate for deposits with one month maturity plus a margin ranging from 25 basis points to 150 basis points, based upon the Authority's long-term credit ratings and the duration outstanding. All amounts outstanding at in given time are due and payable on the termination date. At June 30, 2008 and 2007 there were no amounts outstanding.

The Authority maintains a credit agreement with the Federal Home Loan Bank of Atlanta, whereby FHLB Bank of Atlanta may advance funds that are secured by government agency securities held in FHLB. Interest on any advance is charged under a floating daily rate, which amounted to 2.14% on June 30, 2008 and there is a maximum maturity for any advance of twenty-four months. The Authority is in compliance with all debt covenant requirements. At June 30, 2008, \$36.33 million was outstanding and at June 30, 2007 there were no amounts outstanding.

**(7) Escrows and Project Reserves**

Escrows and project reserves represent amounts held by the Authority as escrows for insurance, real estate taxes and completion assurance, and as reserves for replacement and operations (note 12). The Authority invests these funds and, for project reserves, allows earnings to accrue to the benefit of the mortgagor. At June 30, 2008 and 2007, these escrows and project reserves were presented in the Authority's statements of net assets as follows:

	2008	2007
Escrows – current	\$ 34,166,579	31,735,909
Project reserves – noncurrent	171,525,076	165,136,963
<b>Total</b>	<b>\$ 205,691,655</b>	<b>196,872,872</b>

**(8) Investment Income and Arbitrage Liabilities**

The amount of investment income the Authority may earn in the Commonwealth Mortgage Bond Group and certain bond issues in the Multi-Family Housing Bond and Rental Housing Bond Group is limited by certain federal legislations. Earnings in excess of the allowable amount must be rebated to the U.S. Department of the Treasury. These excess earnings are recorded in accounts payable and other liabilities. Rebates paid were \$2,700,672 and \$93,458 for the years ended June 30, 2008 and 2007, respectively. Remaining liability balances were \$4,550,703 and \$7,358,136 at June 30, 2008 and 2007, respectively.

**(9) Net Assets**

Capital assets, net of related debt, represent property, furniture, and equipment, as well as an investment in rental property, less the current outstanding applicable debt.

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**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Notes to Basic Financial Statements

June 30, 2008 and 2007

Restricted net assets represent those portions of the total net assets in trust accounts established by the various bond resolutions for the benefit of the respective bond owners. Restricted net assets are generally required reserve funds, mortgage loans and funds held for placement into mortgage loans, investments, and funds held for scheduled debt service. In addition to restricted assets in the General Operating Accounts presented in note 4, restricted assets primarily consist of cash and cash equivalents of \$883,559,343 and \$641,146,269, investments of \$113,852,801 and \$236,935,015, and mortgage and other loans receivable of \$7,752,505,172 and \$6,862,201,625 at June 30, 2008 and 2007, respectively. These assets are offset primarily by restricted bonds payable of \$6,940,316,788 and \$5,998,183,546 at June 30, 2008 and 2007, respectively.

Unrestricted net assets represent those portions of the total net assets set aside to reflect current utilization and tentative plans for future utilization of such net assets. As of June 30, 2008 and 2007, such designations included funds to be available for other loans and loan commitments; over commitments and over allocations in the various bond issues; for support funds and contributions to bond issues; and for working capital and future operating and capital expenditures. Additional unrestricted net assets commitments include contractual obligations for additional contributions to bond reserve funds; maintenance of the Authority's obligation with regard to the general obligation pledge on its bonds; contributions to future bond issues other than those scheduled during the next year; self-insurance on the uninsured, unsubsidized multi-family conventional loan program and any unanticipated losses in connection with the uninsured portions of the balance of the single-family and multi-family loans; self-insurance on the liability exposure of commissioners and officers; the cost of holding foreclosed property prior to resale; costs incurred with the redemption of bonds; single-family loan prepayment shortfalls; and other risks and contingencies.

**(10) Employee Benefits Plans**

The Authority incurs employment retirement savings expense under two defined contribution plans equal to 8% of full-time employees' compensation. Total retirement savings expense for the years ended June 30, 2008 and 2007 was \$1,709,222 and \$1,549,445, respectively.

The Authority sponsors a deferred compensation plan available to all employees created in accordance with Internal Revenue Section 457. The Plan permits participants to defer a portion of their salary or wage until future years. The deferred compensation is not available to employees until termination, retirement, or death. The assets of the Plan are in an irrevocable trust with an external trustee and, accordingly, no assets or liabilities are reflected in the Authority's financial statements.

As of June 30, 2008 and 2007, included in other liabilities is an employee compensated absences accrual of \$3,126,061 and \$2,849,475, respectively (note 12).

**(11) Other Post-Employment Benefits**

At the sole discretion of the Authority, eligible employees may participate in the Virginia Housing Development Authority Retiree Health Care Plan (RHC), a single-employer defined benefit plan. The Authority administers the RHC through the Virginia Housing Development Authority Retiree Health Care Plan Trust (RHC Trust), an irrevocable trust to be used solely for providing benefits to eligible participants in the RHC. Assets of the RHC Trust are irrevocable and legally protected from creditors and dedicated to

(Continued)

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Notes to Basic Financial Statements

June 30, 2008 and 2007

providing postemployment reimbursement of eligible medical and dental expenses to current and eligible future retirees and their spouses in accordance with the terms of the RHC. Employer contributions are recorded in the year in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations.

Effective January 1, 2006, eligible retirees must be at least 55 years of age with 15 years of service, (or at least 55 years of age with 10 years of service if employed by the Authority prior to such date). RHC participants receive an annual benefit based on age and years of service at retirement and based on a matrix, updated annually for cost-of-living plus 2% not to exceed 150% of the annual premium for preferred provider organization medical plan offered that year if the participant under age 65 or not to exceed 75% or the annual premium if the participant is age 65 or over. The annual benefit may be used to pay for health insurance purchased through the Authority's group plan or elsewhere, and for other eligible medical and dental expenses. For the year ended June 30, 2008, there were approximately 70 participating retirees and spouses and 300 active employees earning service credits in the RHC.

The Authority currently contributes amounts to the RHC Trust sufficient to fully fund the annual required contribution (ARC), an actuarially determined rate in accordance with provisions of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year plus an amortized amount of unfunded actuarial liabilities (or fund excess) over a period not to exceed thirty years. The current year ARC of \$753,288 was approximately 3.7% of covered payroll.

The actuarially determined values for disclosure in accordance with GASB 45 are as follows:

Fiscal year-end	Beginning net OPEB obligation (asset)	ARC	Interest on OPEB liability	ARC adjustment	Amortization factor	OPEB cost
June 30, 2008	\$ —	753,288	—	—	12.14	\$ 753,288

The OPEB cost to the Authority and its contributions and changes in the RHC plan for fiscal year 2008 are as follows:

Fiscal year-end	Beginning net OPEB obligation (asset)	OPEB cost	Contribution	Change in net OPEB obligation	Net OPEB obligation (asset) balance
June 30, 2008	\$ —	753,288	(783,024)	(29,736)	(29,736)

For the year ended June 30, 2008, the Authority's Annual OPEB cost was \$753,288; the percentage of Annual OPEB Cost Contributed was 100%; and the ending Net OPEB asset was \$29,736.

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Notes to Basic Financial Statements  
June 30, 2008 and 2007

**(12) Other Long-Term Liabilities**

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the year ended June 30, 2008 was as follows:

	Balance at June 30, 2007	Additions	Decreases	Balance at June 30 2008
Project reserves	\$ 165,136,963	57,273,361	50,885,248	171,525,076
Commonwealth Priority Housing Fund liability	7,300,283	943,229	27,326	8,216,186
Other liabilities	15,538,323	3,773,421	2,799,360	16,512,384
Compensated absences payable	2,849,475	1,489,838	1,213,252	3,126,061
Total	<u>\$ 190,825,044</u>	<u>63,479,849</u>	<u>54,925,186</u>	<u>199,379,707</u>

Activity in the Authority's noncurrent liability accounts, other than bonds payable, for the year ended June 30, 2007 was as follows:

	Balance at June 30, 2006	Additions	Decreases	Balance at June 30 2007
Project reserves	\$ 163,034,955	56,656,993	54,554,985	165,136,963
Commonwealth Priority Housing Fund liability	7,587,252	190,293	477,262	7,300,283
Other liabilities	12,222,477	3,911,296	595,450	15,538,323
Compensated absences payable	2,710,357	1,531,798	1,392,680	2,849,475
Retiree healthcare	6,903,253	1,066,760	7,970,013	—
Total	<u>\$ 192,458,294</u>	<u>63,357,140</u>	<u>64,990,390</u>	<u>190,825,044</u>

**(13) Contingencies and Other Matters**

Certain claims, suits, and complaints arising in the ordinary course of business have been filed and are pending against the Authority. In the opinion of management, all such matters are adequately covered by insurance or, if not so covered, are without merit or are of such kind or involve such amounts as would not have a material adverse effect on the basic financial statements of the Authority.

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June 30, 2008 and 2007

The Authority participates in several Federal financial assistance programs, principal of which is the HUD Section 8 programs. Although the Authority's administration of Federal grant programs has been audited in accordance with the provisions of the *United States Office of Management and Budget Circular A-133*, these programs are still subject to financial and compliance audits. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial in relation to its financial statements.

The Authority is exposed to various risks of loss such as theft of, damage to, and destruction of assets, injuries to employees, and natural disasters. The Authority carries commercial insurance for their risks. There have been no significant reductions in insurance coverage from coverage in the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Required Supplementary Information

Retiree Healthcare Plan – Schedule of Funding Progress by Plan Valuation Date

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability</u>	<u>Unfunded actuarial accrued liability</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>Unfunded as a percent of covered payroll</u>
December 31, 2007	\$ 8,631,596	10,747,191	2,115,595	80%	\$ 20,479,198	10%

As of December 31, 2007, the unfunded actuarial accrued liability (UAAL) for benefits was \$2,115,595. The covered payroll (annual payroll of active employees covered by the RHC) was \$20,479,198 and the ratio of the UAAL to the covered payroll was 10.3%. The Authority established the RHC Trust fund in November 2006 and as of the actuarial valuation date of December 31, 2007, the actuarial value of net assets held by the RHC Trust was \$8,631,596. As of June 30, 2008, the RHC Trust had \$8,425,599 in net assets.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events into the future. Examples include assumptions about mortality and healthcare cost trends. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and revised estimates are made about the future. The Schedule of Funding Progress is presented as required supplementary information for the RHC as of December 31, 2007. In this actuarial valuation, the projected-unit-credit-cost method was used. The actuarial assumptions included a 7% investment rate of return per annum (compounded annually, that includes a 4.5% inflation rate and 2.5% real rate of return). The projected healthcare cost trend is 10% initially, reduced by decrements to an ultimate rate of 5% after ten years. The UAAL is being amortized as a level dollar amount over 30 years.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
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Combining Schedule of Net Assets

June 30, 2008

Assets	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Current assets:						
Cash and cash equivalents	\$ 228,110,431	44,830,605	148,103,161	82,709,299	607,916,278	1,111,669,774
Investments	9,244,905	—	—	—	—	9,244,905
Interest receivable – investments	696,105	462,051	157,755	132,896	301,644	1,750,451
Mortgage and other loans receivable	3,049,981	15,089,587	33,614,459	20,805,771	69,619,092	142,178,890
Interest receivable – mortgage and other loans	1,019,085	3,507,540	11,791,866	2,844,426	18,544,931	37,707,848
Other real estate owned	—	—	10,785,903	938,950	5,244,593	16,969,446
Housing Choice Voucher contributions receivable	3,256,935	—	—	—	—	3,256,935
Other assets	4,777,557	54,158	961,305	2,874,767	59,958	8,727,745
<b>Total current assets</b>	<b>250,154,999</b>	<b>63,943,941</b>	<b>205,414,449</b>	<b>110,306,109</b>	<b>701,686,496</b>	<b>1,331,505,994</b>
Noncurrent assets:						
Investments	113,693,336	35,887,643	77,104,848	860,310	—	227,546,137
Mortgage and other loans receivable	102,224,165	575,501,881	1,980,890,577	480,307,276	4,664,111,785	7,803,035,684
Less allowance for loan loss	2,352,477	4,318,556	19,972,468	4,890,992	33,338,089	64,872,582
Less net deferred loan fees	558,727	8,233,589	29,853,598	3,926,540	(17,098,576)	25,473,878
<b>Mortgage and other loans receivable, net</b>	<b>99,312,961</b>	<b>562,949,736</b>	<b>1,931,064,511</b>	<b>471,489,744</b>	<b>4,647,872,272</b>	<b>7,712,689,224</b>
Investment in rental property, net	1,288,273	2,618,261	28,942,178	5,208,905	—	38,057,617
Property, furniture, and equipment, net depreciation and amortization of \$23,289,674	6,990,102	—	7,227,746	7,305,281	—	21,523,129
Unamortized bond issuance expenses	340,000	707,057	2,338,824	1,765,116	1,235,924	6,386,921
Other assets	6,115,646	—	—	981	498,166	6,614,793
<b>Total noncurrent assets</b>	<b>227,740,318</b>	<b>602,162,697</b>	<b>2,046,678,107</b>	<b>486,630,337</b>	<b>4,649,606,362</b>	<b>8,012,817,821</b>
<b>Total assets</b>	<b>\$ 477,895,317</b>	<b>666,106,638</b>	<b>2,252,092,556</b>	<b>596,936,446</b>	<b>5,351,292,858</b>	<b>9,344,323,815</b>

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**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Assets

June 30, 2008

<b>Liabilities and Net Assets</b>	<b>General Operating Accounts</b>	<b>Multi-Family Housing Bond Group</b>	<b>Rental Housing Bond Group</b>	<b>General Purpose Bond Group</b>	<b>Commonwealth Mortgage Bond Group</b>	<b>Total</b>
<b>Current liabilities:</b>						
Notes and bonds payable	\$ 61,330,000	35,260,000	51,870,000	10,640,000	173,043,055	332,143,055
Accrued interest payable on notes and bonds	11,671	3,864,807	33,185,940	9,668,833	60,776,810	107,508,061
Escrows	34,166,579	—	—	—	—	34,166,579
Accounts payable and other liabilities	9,468,311	508,236	638,224	171,970	10,394,582	21,181,323
<b>Total current liabilities</b>	<b>104,976,561</b>	<b>39,633,043</b>	<b>85,694,164</b>	<b>20,480,803</b>	<b>244,214,447</b>	<b>494,999,018</b>
<b>Noncurrent liabilities:</b>						
Bonds payable, net	—	356,431,413	2,019,696,396	465,625,293	3,766,420,631	6,608,173,733
Project reserves	171,525,076	—	—	—	—	171,525,076
Other liabilities	2,186,226	1,945,794	18,282,800	2,088,483	3,351,328	27,854,631
<b>Total noncurrent liabilities</b>	<b>173,711,302</b>	<b>358,377,207</b>	<b>2,037,979,196</b>	<b>467,713,776</b>	<b>3,769,771,959</b>	<b>6,807,553,440</b>
<b>Total liabilities</b>	<b>278,687,863</b>	<b>398,010,250</b>	<b>2,123,673,360</b>	<b>488,194,579</b>	<b>4,013,986,406</b>	<b>7,302,552,458</b>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	8,278,375	1,114,874	(2,519,591)	(10,574,381)	—	(3,700,723)
Restricted by bond indentures	—	266,981,514	130,938,787	119,316,248	1,337,306,452	1,854,543,001
Unrestricted	190,929,079	—	—	—	—	190,929,079
<b>Total net assets</b>	<b>199,207,454</b>	<b>268,096,388</b>	<b>128,419,196</b>	<b>108,741,867</b>	<b>1,337,306,452</b>	<b>2,041,771,357</b>
<b>Total liabilities and net assets</b>	<b>\$ 477,895,317</b>	<b>666,106,638</b>	<b>2,252,092,556</b>	<b>596,936,446</b>	<b>5,351,292,858</b>	<b>9,344,323,815</b>

See accompanying independent auditors' report.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)  
Combining Schedule of Revenues, Expenses, and Changes in Net Assets  
Year ended June 30, 2008

	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Operating revenues:						
Interest on mortgage and other loans	\$ 6,411,768	47,408,723	131,330,859	39,292,249	263,179,436	487,623,035
Pass-through grants income	72,123,335	—	—	—	—	72,123,335
Housing Choice Voucher program income	62,895,029	—	—	—	—	62,895,029
Gains and recoveries on sale of other real estate owned	16,370	—	—	838	66,871	84,079
Other	6,487,983	400,388	9,182,905	3,405,241	86,900	19,563,417
Total operating revenues	<u>147,934,485</u>	<u>47,809,111</u>	<u>140,513,764</u>	<u>42,698,328</u>	<u>263,333,207</u>	<u>642,288,895</u>
Operating expenses:						
Interest on notes and bonds	2,075,418	26,179,247	109,720,170	23,815,382	173,257,278	335,047,495
Salaries and related employee benefits	29,775,579	—	—	—	—	29,775,579
General operating expenses	15,647,510	892,401	8,700,325	3,026,160	—	28,266,396
Note and bond expenses	233,730	—	—	—	—	233,730
Amortization of bond issuance expenses	—	101,852	112,799	53,997	80,588	349,236
Pass-through grants expenses	72,123,335	—	—	—	—	72,123,335
Housing Choice Voucher program expenses	65,072,785	—	—	—	—	65,072,785
External mortgage servicing expenses	1,554	—	—	9,609	1,360,744	1,371,907
Losses and expenses on other real estate owned	1,879	—	—	594,695	1,830,855	2,427,429
Provision for loan losses	261,049	(495,227)	10,173,279	1,398,962	7,477,343	18,815,406
Total operating expenses	<u>185,192,839</u>	<u>26,678,273</u>	<u>128,706,573</u>	<u>28,898,805</u>	<u>184,006,808</u>	<u>553,483,298</u>
Operating income (expense)	<u>(37,258,354)</u>	<u>21,130,838</u>	<u>11,807,191</u>	<u>13,799,523</u>	<u>79,326,399</u>	<u>88,805,597</u>
Nonoperating revenues:						
Investment income (loss)	(15,992,776)	4,910,129	(24,974,255)	1,608,851	17,119,500	(17,328,551)
Other, net	59,033	—	—	—	1,965	60,998
Total nonoperating revenues (losses)	<u>(15,933,743)</u>	<u>4,910,129</u>	<u>(24,974,255)</u>	<u>1,608,851</u>	<u>17,121,465</u>	<u>(17,267,553)</u>
Income (loss) before transfers	<u>(53,192,097)</u>	<u>26,040,967</u>	<u>(13,167,064)</u>	<u>15,408,374</u>	<u>96,447,864</u>	<u>71,538,044</u>
Transfers between funds						
Change in net assets	<u>(30,937,876)</u>	<u>2,545,521</u>	<u>(9,050,503)</u>	<u>14,166,454</u>	<u>94,814,448</u>	<u>71,538,044</u>
Total net assets, beginning of year	<u>230,145,330</u>	<u>265,550,867</u>	<u>137,469,699</u>	<u>94,575,413</u>	<u>1,242,492,004</u>	<u>1,970,233,313</u>
Total net assets, end of year	<u>\$ 199,207,454</u>	<u>268,096,388</u>	<u>128,419,196</u>	<u>108,741,867</u>	<u>1,337,306,452</u>	<u>2,041,771,357</u>

See accompanying independent auditors' report.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Assets

June 30, 2007

Assets	General Operating Accounts	Multi-Family Housing Bond Group	Rental Housing Bond Group	General Purpose Bond Group	Commonwealth Mortgage Bond Group	Total
Current assets:						
Cash and cash equivalents	\$ 64,622,395	46,802,431	110,240,542	32,378,697	451,724,599	705,768,664
Investments	16,499,577	—	30,000,000	—	—	46,499,577
Interest receivable – investments	968,881	418,927	375,116	6,374	2,607	1,771,905
Mortgage and other loans receivable	3,205,300	15,822,582	27,914,635	20,060,836	57,060,003	124,063,356
Interest receivable – mortgage and other loans	1,109,789	3,829,162	10,169,256	3,236,116	16,804,821	35,149,144
Other real estate owned	—	—	—	122,596	1,522,499	1,645,095
Housing Choice Voucher contributions receivable	4,695,914	—	—	—	—	4,695,914
Other assets	5,840,299	46,073	2,781,447	3,326,413	412,397	12,406,629
<b>Total current assets</b>	<b>96,942,155</b>	<b>66,919,175</b>	<b>181,480,996</b>	<b>59,131,032</b>	<b>527,526,926</b>	<b>932,000,284</b>
Noncurrent assets:						
Investments	245,141,235	42,563,439	163,551,127	820,449	—	452,076,250
Mortgage and other loans receivable	128,299,061	618,249,928	1,711,943,716	519,948,303	3,966,005,878	6,944,446,886
Less allowance for loan loss	2,091,428	4,813,783	13,064,924	3,492,030	25,860,746	49,322,911
Less net deferred loan fees	563,351	8,846,528	25,939,762	4,477,231	(11,690,748)	28,136,124
<b>Mortgage and other loans receivable, net</b>	<b>125,644,282</b>	<b>604,589,617</b>	<b>1,672,939,030</b>	<b>511,979,042</b>	<b>3,951,835,880</b>	<b>6,866,987,851</b>
Investment in rental property, net	1,323,707	2,227,405	33,305,962	6,094,409	—	42,951,483
Property, furniture, and equipment, less accumulated depreciation and amortization of \$23,259,058	5,242,679	—	4,119,185	7,949,358	—	17,311,222
Unamortized bond issuance expenses	338,058	808,908	2,232,862	1,819,113	994,710	6,193,651
Interfund receivable	(30,690,308)	4,171,220	10,212,268	4,360,680	11,946,140	—
Other assets	6,369,958	—	—	1,033	575,266	6,946,257
<b>Total noncurrent assets</b>	<b>353,369,611</b>	<b>654,360,589</b>	<b>1,886,360,434</b>	<b>533,024,084</b>	<b>3,965,351,996</b>	<b>7,392,466,714</b>
<b>Total assets</b>	<b>\$ 450,311,766</b>	<b>721,279,764</b>	<b>2,067,841,430</b>	<b>592,155,116</b>	<b>4,492,878,922</b>	<b>8,324,466,998</b>

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(Continued)

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)

Combining Schedule of Net Assets

June 30, 2007

<b>Liabilities and Net Assets</b>	<b>General Operating Accounts</b>	<b>Multi-Family Housing Bond Group</b>	<b>Rental Housing Bond Group</b>	<b>General Purpose Bond Group</b>	<b>Commonwealth Mortgage Bond Group</b>	<b>Total</b>
Current liabilities:						
Notes and bonds payable	\$ —	33,400,000	48,575,000	10,430,000	121,349,383	213,754,383
Accrued interest payable on notes and bonds	—	4,488,334	27,727,991	9,798,909	47,128,828	89,144,062
Escrows	31,735,909	—	—	—	—	31,735,909
Accounts payable and other liabilities	11,552,344	766,918	399,846	125,196	31,500,820	44,345,124
<b>Total current liabilities</b>	<b>43,288,253</b>	<b>38,655,252</b>	<b>76,702,837</b>	<b>20,354,105</b>	<b>199,979,031</b>	<b>378,979,478</b>
Noncurrent liabilities:						
Bonds payable, net	—	415,950,203	1,846,132,245	475,435,198	3,046,911,517	5,784,429,163
Project reserves	165,136,963	—	—	—	—	165,136,963
Other liabilities	11,741,220	1,123,442	7,536,649	1,790,400	3,496,370	25,688,081
<b>Total noncurrent liabilities</b>	<b>176,878,183</b>	<b>417,073,645</b>	<b>1,853,668,894</b>	<b>477,225,598</b>	<b>3,050,407,887</b>	<b>5,975,254,207</b>
<b>Total liabilities</b>	<b>220,166,436</b>	<b>455,728,897</b>	<b>1,930,371,731</b>	<b>497,579,703</b>	<b>3,250,386,918</b>	<b>6,354,233,685</b>
Net assets:						
Invested in capital assets, net of related debt	6,566,386	622,716	(5,569,166)	(9,615,895)	—	(7,995,959)
Restricted by bond indentures	—	264,928,151	143,038,865	104,191,308	1,242,492,004	1,754,650,328
Unrestricted	223,578,944	—	—	—	—	223,578,944
<b>Total net assets</b>	<b>230,145,330</b>	<b>265,550,867</b>	<b>137,469,699</b>	<b>94,575,413</b>	<b>1,242,492,004</b>	<b>1,970,233,313</b>
<b>Total liabilities and net assets</b>	<b>\$ 450,311,766</b>	<b>721,279,764</b>	<b>2,067,841,430</b>	<b>592,155,116</b>	<b>4,492,878,922</b>	<b>8,324,466,998</b>

See accompanying independent auditors' report.

**VIRGINIA HOUSING DEVELOPMENT AUTHORITY**  
(A Component Unit of the Commonwealth of Virginia)  
Combining Schedule of Revenues, Expenses, and Changes in Net Assets  
Year ended June 30, 2007

	<u>General Operating Accounts</u>	<u>Multi-Family Housing Bond Group</u>	<u>Rental Housing Bond Group</u>	<u>General Purpose Bond Group</u>	<u>Commonwealth Mortgage Bond Group</u>	<u>Total</u>
<b>Operating revenues:</b>						
Interest on mortgage and other loans	\$ 5,085,524	51,254,217	121,624,020	40,123,441	218,266,058	436,353,260
Pass-through grants received	71,566,155	—	—	—	—	71,566,155
Housing Choice Voucher program income	63,962,419	—	—	—	—	63,962,419
Gains and recoveries on sale of other real estate owned	—	—	—	6,153	101,901	108,054
Other	8,407,399	415,667	9,321,901	3,798,171	110,153	22,053,291
Total operating revenues	<u>149,021,497</u>	<u>51,669,884</u>	<u>130,945,921</u>	<u>43,927,765</u>	<u>218,478,112</u>	<u>594,043,179</u>
<b>Operating expenses:</b>						
Interest on notes and bonds	358,402	28,933,513	97,937,400	24,358,423	135,451,764	287,039,502
Salaries and related employee benefits	28,105,305	—	—	—	—	28,105,305
General operating expenses	12,371,923	778,246	9,641,207	2,933,709	—	25,725,085
Note and bond expenses	345,735	—	—	—	—	345,735
Amortization of bond issuance expenses	—	121,214	103,104	73,085	174,895	472,298
Pass-through grants disbursed	71,566,155	—	—	—	—	71,566,155
Housing Choice Voucher program expenses	61,332,866	—	—	—	—	61,332,866
External mortgage servicing expenses	4,843	—	—	10,712	1,179,440	1,194,995
Losses and expenses on other real estate owned	5,338	—	—	23,073	394,017	422,428
Provision for loan losses	834,968	(504,210)	7,866,597	1,546,014	5,477,859	15,221,228
Total operating expenses	<u>174,925,535</u>	<u>29,328,763</u>	<u>115,548,308</u>	<u>28,945,016</u>	<u>142,677,975</u>	<u>491,425,597</u>
Operating income (expense)	<u>(25,904,038)</u>	<u>22,341,121</u>	<u>15,397,613</u>	<u>14,982,749</u>	<u>75,800,137</u>	<u>102,617,582</u>
<b>Nonoperating revenues:</b>						
Investment income	11,419,687	5,577,699	8,578,447	2,052,504	24,700,376	52,328,713
Other, net	32,756	—	—	—	—	32,756
Total nonoperating revenues	<u>11,452,443</u>	<u>5,577,699</u>	<u>8,578,447</u>	<u>2,052,504</u>	<u>24,700,376</u>	<u>52,361,469</u>
Income (loss) before transfers	<u>(14,451,595)</u>	<u>27,918,820</u>	<u>23,976,060</u>	<u>17,035,253</u>	<u>100,500,513</u>	<u>154,979,051</u>
<b>Transfers between funds</b>						
Change in net assets	<u>(28,926,613)</u>	<u>4,555,898</u>	<u>44,530,167</u>	<u>20,785,303</u>	<u>114,034,296</u>	<u>154,979,051</u>
Total net assets, beginning of year	<u>259,071,943</u>	<u>260,994,969</u>	<u>92,939,532</u>	<u>73,790,110</u>	<u>1,128,457,708</u>	<u>1,815,254,262</u>
Total net assets, end of year	<u>\$ 230,145,330</u>	<u>265,550,867</u>	<u>137,469,699</u>	<u>94,575,413</u>	<u>1,242,492,004</u>	<u>1,970,233,313</u>

See accompanying independent auditors' report.



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**Independent Auditors' Report on Internal Control  
over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

The Board of Commissioners  
Virginia Housing Development Authority:

We have audited the basic financial statements of the Virginia Housing Development Authority (the Authority), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2008, and have issued our report thereon dated September 22, 2008. That report recognizes that the Authority implemented a new accounting standard effective July 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the entity's internal control over financial reporting.

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





### **Compliance and Other Matters**

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

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

**KPMG LLP**

September 22, 2008

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## CONTINUING DISCLOSURE AGREEMENT

Certain provisions of the Continuing Disclosure Agreement between us and the Trustee (the “Continuing Disclosure Agreement”) are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Continuing Disclosure Agreement.

In the Continuing Disclosure Agreement, we have covenanted for the benefit of the Holders and the Beneficial Owners of the Offered Certificates to provide certain financial information and operating data relating to us by not later than 180 days following the end of our Fiscal Year (the “Annual Financial Information”), and to provide notices of the occurrence of certain enumerated events, if material.

These covenants have been made in order to assist the Dealer to comply with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the “Rule”). We have never failed to comply in all material respects with any previous undertakings with respect to the Rule to provide annual financial information or notices of material events.

Any failure by us to comply with the Continuing Disclosure Agreement will not constitute an Event of Default under the Bond Resolution.

The Continuing Disclosure Agreement requires us to provide only limited information at specified times and may not require the disclosure of all information necessary for determining the value of the Offered Certificates.

### Certain Definitions

Defined terms used in the Continuing Disclosure Agreement and not otherwise defined therein have the meanings set forth in the Resolutions.

“Annual Financial Information” means the information to be provided by us described under the caption “Content of Annual Financial Information.”

“Beneficial Owner” means a beneficial owner of Subject Bonds as determined pursuant to the Rule.

“Bonds” means, at any time, all of our then Outstanding Commonwealth Mortgage Bonds, collectively.

“Fiscal Year” means that period established by us with respect to which its, as applicable, Audited Financial Statements or Unaudited Financial Statements are prepared. As of the date of the Continuing Disclosure Agreement, our Fiscal Year begins on July 1 and ends on June 30 of the next calendar year.

“Holders” means the registered owners of the Subject Bonds.

“Listed Event” means any of the events listed below under the heading “Reporting of Significant Events.”

“MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

“NRMSIR” means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. The NRMSIRs as of the date of this Prospectus are Bloomberg Municipal Repositories (Princeton, NJ), Interactive Data, (New York) DPC Data Inc. (Fort Lee, NJ), and Standard & Poor’s J.J. Kenny Repository (New York, NY).

“Participating Underwriter” means the respective underwriters in connection with the offering of a series of Bonds which are Subject Bonds.

“Rule” means the applicable provisions of Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as amended, as in effect on the date of the Continuing Disclosure Agreement, including any official interpretations thereof.

“SEC” means the United States Securities and Exchange Commission.

“SID” means, at any time, a then-existing state information depository, if any, as operated or designated as such by or on behalf of the Commonwealth of Virginia and recognized by the SEC as such for the purposes referred in the Rule. As of the date of the Continuing Disclosure Agreement, there is no SID.

“Subject Bonds” means those Bonds which are expressly made subject to the Continuing Disclosure Agreement in our documents related to the issuance of such Bonds. The Offered Certificates are Subject Bonds.

### **Provision of Annual Financial Information**

We will, not later than 180 days after the end of our Fiscal Year, provide to each NRMSIR and the SID the Annual Financial Information.

The Continuing Disclosure Agreement requires us to provide, in a timely manner, notice to (i) either the MSRB or each NRMSIR, and (ii) the SID of any failure by us to provide Annual Financial Information to each NRMSIR and the SID on or before the date described in the first paragraph under this heading and also of any change in our fiscal year.

### **Content of Annual Financial Information**

Our Annual Financial Information shall contain or include by reference information of the following type:

(a) our audited financial statements, if available, or unaudited financial statements for the Fiscal Year ended on the previous June 30, prepared in accordance with generally accepted accounting principles, applied on a consistent basis; provided, however, that we may from time to time, in order to comply with federal or state legal requirements, modify the basis upon which its financial statements are prepared;

(b) the balance of the Debt Service Reserve Fund, valued in accordance with the General Bond Resolution;

(c) the amount of General Fund assets made or expected to be made available to originate mortgage loans with yields which are, at the time such loans are originated, substantially less than the yields of U.S. government or agency-securities of similar maturity;

(d) the amount outstanding under our \$38 million (original amount) line of credit to the Commonwealth’s Virginia Housing Partnership Revolving Fund, if such line of credit is in effect during the applicable Fiscal Year;

(e) the delinquency status of Mortgage Loans, the outstanding balance of all Mortgage Loans, the outstanding balance of delinquent Mortgage Loans, the percentage of delinquent Mortgage Loans, the outstanding balance of Mortgage Loans in foreclosure, and the percentage of Mortgage Loans in foreclosure;

(f) the amount of any allowance for loan losses;

(g) the original principal amounts, outstanding principal amounts, and effective interest rates (if fixed to maturity) on the outstanding general obligation notes and bonds of the Authority;

(h) the percentage of outstanding principal balance of Mortgage Loans, by primary insurance provider; and

(i) the percentage of its single family mortgage loan portfolio serviced by us, overall and newly originated, and the remaining percentage of such portfolio serviced by its principal external servicers.

If our Annual Financial Information do not include its audited financial statements, when and if such audited financial statements become available we shall provide them to each NRMSIR and the SID.

Any of the items (b) through (i) above will not be provided separately if included in our financial statements. In addition, any or all of the items listed above may be included by specific reference to documents, including Official Statements or Prospectuses of debt issues of ours or related public entities, previously either (i) provided to each NRMSIR and the SID, or (ii) filed with the SEC (if such document is a final Official Statements or Prospectus within the meaning of the Rule, it must also be available from the MSRB). Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

In addition to items (a) through (i) above, our Annual Financial Information shall include information regarding amendments to the Continuing Disclosure Agreement as described below in the last two paragraphs under the heading “Amendment of Continuing Disclosure Agreement.”

### **Reporting of Significant Events**

We will give notice, in a timely manner, to the SID and to either each NRMSIR or the MSRB of the occurrence of any of the following events with respect to the Subject Bonds, if material:

(1) principal and interest payment delinquencies;

- (2) non-payment related defaults;
- (3) modification to rights of Holders;
- (4) Subject Bond calls;
- (5) unscheduled draws on credit enhancements reflecting financial difficulties;
- (6) substitution of credit or liquidity providers, or their failure to perform;
- (7) defeasances;
- (8) rating changes;
- (9) adverse tax opinions or events adversely affecting the tax-exempt status (if applicable) of any Subject Bonds;
- (10) unscheduled draws on debt service reserves reflecting financial difficulties; or
- (11) release, substitution or sale of property securing repayment of the Subject Bonds.

Notwithstanding the foregoing, unless the Rule requires otherwise, notice of Listed Events described in items (4) and (7) need not be given any earlier than, if applicable, the date notice is required to be given to Holders of applicable Subject Bonds pursuant to the Resolutions or our documents authorizing the issuance of such Subject Bonds.

The Continuing Disclosure Agreement requires the Trustee to promptly give us notice whenever, in the course of performing its duties as Trustee under the Resolutions, the Trustee identifies a Listed Event; provided, however, that the failure of the Trustee so to advise us shall not constitute a breach by the Trustee of any of its duties and responsibilities under the Continuing Disclosure Agreement and the General Bond Resolution.

#### **Amendment of Continuing Disclosure Agreement**

The Continuing Disclosure Agreement may be amended by written agreement of us and the Trustee, and any provision of the Continuing Disclosure Agreement may be waived, without the consent of the Holders or Beneficial Owners (except to the extent required as described in clause 4 (ii) below), under the following conditions: (1) we determine that such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in our identity, nature or status of or the type of business conducted thereby or is made to facilitate compliance with the Rule and any future amendments to the Rule, (2) the Continuing Disclosure Agreement as so amended or waived would have complied with the requirements of the Rule as of the date of each primary offering of Subject Bonds affected by the amendment or waiver, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) we shall have delivered to the Trustee an opinion of legal counsel expert in federal securities laws ("Securities Counsel"), addressed to us and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) a party unaffiliated with us (such as the Trustee or bond counsel) acceptable to us and the Trustee has determined that the amendment or waiver does not materially impair the interests of the Beneficial Owners, or (ii) the Holders consent to the amendment or waiver of the Continuing Disclosure Agreement pursuant to the same procedures as are required for amendments to the General Bond Resolution with consent of Holders; and (5) shall have delivered copies of such amendment or waiver to the SID and to either each NRMSIR or the MSRB.

In addition to the foregoing, we and the Trustee may amend the Continuing Disclosure Agreement, and any provision of the Continuing Disclosure Agreement may be waived, if the Trustee shall have received an opinion of Securities Counsel, addressed to us and the Trustee, to the effect that the adoption and the terms of such amendment or waiver would not, in and of themselves, cause the undertakings in the Continuing Disclosure Agreement to violate the Rule, taking into account any subsequent change in or official interpretation of the Rule.

To the extent any amendment to the Continuing Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to the Continuing Disclosure Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

If an amendment is made to the basis on which financial statements are prepared, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or

information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

### **Enforcement**

Our obligation to comply with the provisions of the Continuing Disclosure Agreement are enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any Beneficial Owner of Outstanding Subject Bonds, or by the Trustee on behalf of the Holders of Outstanding Subject Bonds, or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the Holders of Outstanding Subject Bonds or by any Beneficial Owner; provided, however, that a Beneficial Owner may not take any enforcement action pursuant to clause (ii) without the consent of the Holders of not less than 25% in aggregate principal amount of the Subject Bonds at the time Outstanding; provided, further, that the Trustee shall not be required to take any enforcement action except at the direction of the Holders of not less than 25% in aggregate principal amount of the Subject Bonds at the time Outstanding who shall have provided the Trustee with adequate security and indemnity. The Holders', the Beneficial Owners' and the Trustee's right to enforce the provisions of the Continuing Disclosure Agreement are limited to a right, by action in mandamus or for specific performance, to compel performance of our obligations under the Continuing Disclosure Agreement. Any failure by us or the Trustee to perform in accordance with the Continuing Disclosure Agreement will not constitute a default or any Event of Default under the General Bond Resolution, and the rights and remedies provided by the General Bond Resolution upon the occurrence of a default or an Event of Default will not apply to any such failure.

### **Termination**

Our and the Trustee's obligations under the Continuing Disclosure Agreement with respect to the Subject Bonds terminate upon legal defeasance pursuant to the General Bond Resolution, prior redemption or payment in full of all of the Subject Bonds.

The Continuing Disclosure Agreement, or any provision thereof, shall be null and void in the event that we (1) deliver to the Trustee an opinion of Securities Counsel, addressed to the Authority and the Trustee, to the effect that those portions of the Rule which require the provisions of the Continuing Disclosure Agreement, or any of such provisions, do not or no longer apply to the Subject Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) deliver notice to such effect to the SID and to either each NRMSIR or the MSRB.

### **Governing Law**

The Continuing Disclosure Agreement must be construed and interpreted in accordance with the laws of the Commonwealth, and any suits and actions arising out of the Continuing Disclosure Agreement must be instituted in a court of competent jurisdiction in the Commonwealth, provided that, to the extent the Continuing Disclosure Agreement addresses matters of federal securities law, including the Rule, the Continuing Disclosure Agreement must be construed in accordance with such federal securities laws and the official interpretation thereof.

**SUPPLEMENTAL BOND RESOLUTION AMENDATORY OF AND SUPPLEMENTAL TO A RESOLUTION  
PROVIDING FOR THE ISSUANCE OF COMMONWEALTH MORTGAGE BONDS OF THE VIRGINIA  
HOUSING DEVELOPMENT AUTHORITY AND FOR THE RIGHTS OF THE HOLDERS THEREOF**

September 21, 2004

**WHEREAS**, the Virginia Housing Development Authority has adopted on July 15, 1986, its resolution entitled “A Resolution Providing for the Issuance of Commonwealth Mortgage Bonds of the Virginia Housing Development Authority and for the Rights of the Holders Thereof” (such resolution, as amended and supplemented prior to the effective date hereof, is referred to as the “1986 Amended Resolution”); and

**WHEREAS**, Section 803 of the 1986 Amended Resolution permits the adoption by the Authority of supplemental bond resolutions but provides that no such resolution shall be effective unless (1) no Bond delivered by the Authority prior to the adoption of such resolution remains Outstanding at the time it becomes effective or (2) such resolution is consented to by or on behalf of the Owners of at least sixty per centum (60%) of the Bond Obligation at the time such consent is given.

**NOW, THEREFORE BE IT RESOLVED BY THE COMMISSIONERS OF THE VIRGINIA HOUSING DEVELOPMENT AUTHORITY**, that the 1986 Amended Resolution be further amended, supplemented and restated in its entirety as follows:

**ARTICLE I**

DEFINITIONS, DETERMINATIONS, SECURITY AND INTERPRETATION

SECTION 101. *Definitions.* In the Bond Resolution, unless a different meaning clearly appears from the context, the following definitions shall apply:

“1986 Amended Resolution” means the resolution adopted by the Authority on July 15, 1986, entitled “A Resolution Providing for the Issuance of Commonwealth Mortgage Bonds of the Virginia Housing Development Authority and for the Rights of the Holders Thereof”, as amended and supplemented prior to the effective date of this Restated Bond Resolution.

“Act” means the Virginia Housing Development Authority Act, being Chapter 1.2 of Title 36 of the Code of Virginia of 1950, as heretofore and hereafter amended.

“Asset” means any Mortgage Loan, Authority Property, Investment Obligation, Revenue, and, to the extent subject to the pledge or lien of the Bond Resolution or the 1986 Amended Resolution as of the effective date of this Restated Bond Resolution or thereafter, any cash, Exchange Agreement, Enhancement Agreement or Other Financial Agreement. Funds and investments on deposit in any Payment Account and Defeasance Obligations in any Defeasance Account are not Assets.

“Authority” means the Virginia Housing Development Authority, a political subdivision of the Commonwealth, and its successors and assigns.

“Authority Designations” means the one or more designations given to a Bond or Bonds as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations or such other designations as may be deemed necessary or convenient by an Authorized Officer or by the Trustee with the consent of an Authorized Officer.

“Authority Property” means real property and improvements thereon or an ownership share in a cooperative housing association or a leasehold interest under a lease and any personal property attached to or used in connection with any of the foregoing which, as of the effective date of this Restated Bond Resolution or thereafter, is owned by the Authority and is either financed pursuant to the Bond Resolution or the 1986 Amended Resolution or acquired by the Authority by purchase or foreclosure of a Mortgage Loan or by deed in lieu thereof.

“Authorized Denominations” means the principal or Maturity Amount denominations authorized for a Bond or Bonds as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

“Authorized Officer” means the Chairman, Vice Chairman, Executive Director, Managing Director of Finance and Administration, Finance Director, General Counsel, any functionally equivalent successor position to any of the

forementioned positions but which bears a different title, or any other person authorized by resolution of the Authority to act as an Authorized Officer hereunder.

“Bond” or “Bonds” means any bond or bonds, as the case may be, authorized and issued pursuant to the Bond Resolution or the 1986 Amended Resolution.

“Bond Amount” means the one or more payments of principal and interest, including any Compounded Amount, Purchase Price, Redemption Price or Sinking Fund Installment, if applicable, due and payable from time to time with respect to a Bond from its date of issuance to its maturity, tender or redemption date, or any payment required to be made by the Authority pursuant to an Exchange Agreement, Enhancement Agreement or Other Financial Agreement to the extent such payment thereunder is payable from Assets.

“Bond Limitations Resolution” means a resolution adopted by the Authority setting forth the limitations required by Section 201(B) and such other limitations and matters as may be deemed appropriate by the Authority.

“Bond Obligation” means, as of a specific date of calculation, the aggregate of (1) all interest due or accrued on Outstanding Bonds, (2) all unpaid principal on Outstanding Bonds, (3) the amount of the payment, if any, the Authority would be obligated to make on any Exchange Agreement payable from Assets if such Exchange Agreement were terminated on such date of calculation, and (4) all amounts owed by the Authority with respect to any Enhancement Agreement or Other Financial Agreement payable from Assets.

“Bond Resolution” means the 1986 Amended Resolution, as amended, supplemented and restated by this Restated Bond Resolution and as the same may from time to time be amended, modified or supplemented by one or more Supplemental Bond Resolutions, Bond Limitations Resolutions or Written Determinations.

“Business Day” means any day other than a Saturday, Sunday or legal holiday on which banking institutions in the Commonwealth, or the state in which Principal Office of the Trustee is located, are authorized to remain closed and other than any day on which the New York Stock Exchange or a security depository with respect to a Bond is closed.

“Capital Appreciation Bond” means a Bond the interest on which is payable only at maturity or prior redemption as a component of its Compounded Amount.

“Chairman” means the Chairman of the Authority.

“Code” means the Internal Revenue Code of 1986, as amended, and any successor code, including the applicable temporary, proposed and permanent regulations, revenue rulings and revenue procedures.

“Commonwealth” means the Commonwealth of Virginia.

“Compounded Amount” means, with respect to a Capital Appreciation Bond, a Delayed Interest Bond or any other Bond so determined in or pursuant to the applicable Written Determinations or Prior Written Determinations, the sum of principal and accrued interest with respect to such Bond, as of any date, as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

“Counsel” means any attorney or firm of attorneys (including, without limitation, the General Counsel) designated by the Authority to render any Counsel’s Opinion.

“Counsel’s Opinion” means an opinion signed by Counsel.

“Current Interest Paying Bond” means a Bond on which interest is not compounded and which is payable at the interest rate or rates and on the dates set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

“Dated Date” means the date on which a Bond initially begins to accrue interest as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

“Defeasance Obligation” means cash, any direct obligation of the United States of America, any direct federal agency obligation the timely payment of the principal of and the interest on which are fully and unconditionally guaranteed by the United States of America, and any Certificates of Accrual on Treasury Securities or Treasury Investors Growth Receipts; provided, however, that the foregoing are not subject to redemption, call or prepayment, in whole or in part, prior to their respective maturity dates.

“Defeasance Account” means a trust account or other financial arrangement whereby the Trustee holds Defeasance Obligations in trust for the payment of all Bond Amounts due and payable or to become due and payable at



maturity or upon earlier redemption with respect to one or more Bonds and all fees and expenses of the Trustee with respect to the administration of such trust account or other financial arrangement.

“Delayed Interest Bond” means a Bond the interest on which accrues and compounds, from its Dated Date and at an interest rate and compounding interval specified in or determined pursuant to the applicable Written Determinations or Prior Written Determinations, to a date specified in such applicable Written Determinations or Prior Written Determinations on which date such Bond shall reach its full Compounded Amount, and with respect to which, from and after such date, interest on such Bond is to be payable on such Compounded Amount on the dates and at the interest rate specified in or determined pursuant to such applicable Written Determinations or Prior Written Determinations.

“Derivative Product” means any instrument of finance entered into by the Authority, the value of which is derived from or based upon any underlying Bond.

“DTC” means The Depository Trust Company.

“Enhancement Agreement” means an agreement with one or more third parties which sets forth the terms and conditions upon which such third party or parties will provide for the payment of all or a portion of one or more Bond Amounts with respect to a Bond or a payment to the Authority. The obligations of and any receipts by the Authority with respect to such Enhancement Agreement shall or shall not, as and to the extent set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations or an Officer’s Certificate, be payable from Assets or constitute an Asset, as applicable.

“Event of Default” means any of the events set forth in Section 902.

“Exchange Agreement” means an agreement with one or more third parties which sets forth the terms and conditions upon which such third party or parties and the Authority will exchange or make payments to the other party or parties. The obligations of and any receipts by the Authority with respect to such Exchange Agreement shall or shall not, as and to the extent set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations or an Officer’s Certificate, be payable from Assets or constitute an Asset, as applicable.

“Executive Director” means the Executive Director of the Authority.

“Expense” means any expenditure payable or reimbursable by the Authority which is directly or indirectly related to the authorization, sale, delivery, issuance, remarketing, enhancement, monitoring, purchase, redemption or trusteeship of any Bond or Asset.

“External Trustee” means a Trustee other than the Authority.

“Federal Funds Rate” means the interest rate on any given date charged by banks with excess bank reserves on deposit at a Federal Reserve Bank to other banks needing overnight loans to meet bank reserve requirements.

“Finance Director” means the Finance Director of the Authority.

“Fiscal Year” means the period of twelve calendar months ending with June 30 of any year, unless some other time period is otherwise designated in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

“General Counsel” means the General Counsel of the Authority.

“Interest Payment Date” shall mean any date, as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations, on which interest is due and payable with respect to a Bond.

“Investment Obligation” means any of the following acquired or pledged, as of the effective date of this Restated Bond Resolution or thereafter, pursuant to the Bond Resolution or the 1986 Amended Resolution or pursuant to an Officer’s Certificate, except to the extent limited by any amendments to the Act:

- (A) direct general obligations of the United States of America;
- (B) direct obligations of any state of the United States of America or any political subdivision thereof or the District of Columbia bearing a Rating;
- (C) obligations the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America;

(D) obligations which bear a Rating and the payment of the principal of and interest on which are unconditionally guaranteed by any state of the United States of America or any political subdivision thereof or the District of Columbia;

(E) bonds, debentures, participation certificates or notes or other obligations (including asset backed securities) issued by any one or any combination of the following: Federal Financing Corporation, Federal Farm Credit Banks (Bank for Cooperatives and Federal Intermediate Credit Banks), Federal Home Loan Bank System, Federal National Mortgage Association, World Bank, Export-Import Bank of the United States, Student Loan Marketing Association, Farmer's Home Administration, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, Inter-American Development Bank, International Bank for Reconstruction and Development, Small Business Administration, Washington Metropolitan Area Transit Authority, Resolution Funding Corporation, Tennessee Valley Authority, or any other agency or corporation which has been or may hereafter be created by or pursuant to an Act of the Congress of the United States as an agency or instrumentality thereof the bonds, debentures, participation certificates or notes or other obligations (including asset backed securities) of which are unconditionally guaranteed by the United States of America or bear a Rating;

(F) certificates of deposit, banker's acceptances, investment contracts, and any interest-bearing time deposits which are issued by any member bank or banks of the Federal Reserve System or banks the deposits of which are insured by the Federal Deposit Insurance Corporation;

(G) Eurodollar time deposits and Eurodollar certificates of deposit the issuers of which have obligations which, at the time of acquisition of such deposits or certificates, bear a Rating;

(H) obligations, including investment contracts, of corporations which have obligations which, at the time of acquisition of such obligations including investment contracts, bear a Rating;

(I) any other investments which, at the time of acquisition thereof, bear a Rating and are legal investments for fiduciaries or for public funds of the Authority, the Commonwealth and/or its political subdivisions;

(J) repurchase agreements with respect to any of the other Investment Obligations; and

(K) any other investment (debt or equity), investment agreement, Exchange Agreement, Other Financial Agreement, swap contract, futures contract, forward contract or other obligation which, in the determination of an Authorized Officer, is a suitable investment hereunder, in light of the amount and timing of Bond Obligation payments, the amount of Assets, and the availability of monies to pay Bond Obligations as they become due, at the time of acquisition thereof.

"Managing Director of Finance and Administration" means the Managing Director of Finance and Administration of the Authority.

"Maturity Amount" means the Compounded Amount due and payable at maturity of a Capital Appreciation Bond, Delayed Interest Bond or any other similar type of Bond as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

"Mortgage" means a mortgage deed, deed of trust, or other security instrument which secures a Mortgage Loan and which shall constitute a lien on real property and improvements thereon or on an ownership share in a cooperative housing association or on a leasehold interest under a lease and may also constitute a lien on or security interest in any personal property attached to or used in connection with any of the foregoing.

"Mortgage Loan" means each of the following financed or pledged, as of the effective date of this Restated Bond Resolution or thereafter, pursuant to the Bond Resolution or the 1986 Amended Resolution and the Act or pursuant to an Officer's Certificate: (1) a loan evidenced by a financial instrument or obligation secured by a Mortgage for financing the acquisition, construction, rehabilitation and/or ownership of single family residential housing as authorized by the Act, (2) an obligation, certificate or instrument for which such a loan secured by a Mortgage is the security or the source of payment, or (3) a participation or other ownership interest in either a loan described in (1) or an obligation, certificate or instrument described in (2) with another party or parties or with another source of funds of the Authority not pledged hereunder.

"Mortgagor" means the obligor or obligors on a Mortgage Loan.

"Officer's Certificate" means a certificate signed by an Authorized Officer.

"Official Statement" means one or more offering or reoffering documents prepared by the Authority which set forth the terms and conditions of the Bonds being offered or reoffered thereby and matters material thereto. Any reference in the Bond Resolution to "Offering Circular" shall be deemed to refer to such Official Statement.

“Other Financial Agreement” means any type of agreement or arrangement not otherwise referred to herein that is provided for in a Written Determinations or Prior Written Determinations. The obligations of and any receipts by the Authority with respect to such Other Financial Agreement shall or shall not, as and to the extent set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations or an Officer’s Certificate, be payable from Assets or constitute an Asset, as applicable.

“Outstanding” means, when used with reference to Bonds and as of any particular date, all Bonds theretofore and thereupon being issued except (1) any Bond for which funds for the payment of all Bond Amounts due and payable or to become due and payable with respect to such Bond have been paid to the Owner thereof or are held in a Defeasance Account or Payment Account, and (2) any Bond in lieu of or in substitution for which another Bond or Bonds shall have been delivered. If an Officer’s Certificate shall have been delivered in accordance with Section 304 with respect to a Bond that the Authority is the Owner thereof, such Bond does not cease to be Outstanding.

“Owner” means the party set forth in the Registration Books as the owner of a Bond or any other party due a Bond Amount.

“Payment Account” means any trust account or other financial arrangement with the Trustee in which payments made by the Authority to the Trustee with respect to Bond Amounts then due and payable are held in trust by the Trustee pending disbursement to the Owners thereof.

“Principal Payment Date” shall mean any date, as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations, on which principal or Compounded Amount is due and payable with respect to a Bond.

“Principal Office” means the office so designated by the Trustee as its office for administering its duties with respect to the Bond Resolution.

“Prior Written Determinations” means any written determinations that, as of the effective date of this Restated Bond Resolution, have been made pursuant to any Series Resolution with respect to Bonds that are Outstanding on such effective date.

“Program” means the Authority’s program of making or purchasing Mortgage Loans and financing Authority Property pursuant to the Bond Resolution.

“Purchase Contract” means any agreement, contract or other document or documents (including notices of sale and/or remarketing and the related bid form(s)) executed or accepted by the Authority which provides for the sale of Bonds, either at initial issuance or upon subsequent remarketing thereof.

“Purchase Price” means the purchase price, including accrued interest, of a Bond on a Tender Date as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

“Rating” means an investment grade rating assigned by a nationally recognized rating agency to an Investment Obligation or, if such Investment Obligation is not rated, an investment grade rating assigned to the obligor or guarantor of such Investment Obligation.

“Record Date” means the date or dates as determined pursuant to Section 1104.

“Redemption Price” means the principal or Compounded Amount of a Bond or portion thereof to be redeemed plus the applicable redemption premium, if any, payable upon redemption thereof.

“Registration Books” means the records of the Trustee and the Authority which set forth the Owner of any Bond or any other party due a Bond Amount and such other information as is usual and customary in the securities industry or as specifically directed by the Authority.

“Restated Bond Resolution” means this resolution adopted by the Authority on September 21, 2004, amending and restating the 1986 Amended Resolution.

“Revenues” means all net proceeds from the sale or other disposition of any Bond or Asset, payments of principal of and interest on Mortgage Loans (including any moneys received by the Authority and applied to such principal and interest) and Investment Obligations, fees and penalties charged or assessed by the Authority with respect to a Mortgage Loan (excluding processing, financing, prepayment or other similar fees), income received by the Authority as owner of Authority Property (excluding such income to be applied to the payment of operating expenses or to be deposited into reserve or escrow funds for such Authority Property), and payments received with respect to an Enhancement Agreement, Exchange Agreement or Other Financial Agreement payable from Assets.

“Revenue Test” means that prior to effecting any proposed action subject to this Revenue Test, an Authorized Officer shall, based on such assumptions as such Officer shall deem reasonable (but without taking into account any future issuances of Bonds and any Assets derived therefrom, or any future execution of an Exchange Agreements, Enhancement Agreements or Other Financial Agreements payable from Assets), determine that, subsequent to the effecting of such action, the anticipated Revenues (including Revenues anticipated to be derived from any acquisition, sale, transfer, exchange, withdrawal or other application or prepayment of any Asset and taking into account any default in the payment of Revenues which such Authorized Officer reasonably expects) to be derived from all Assets which are to remain or anticipated to become subject to the lien or pledge of the Bond Resolution shall be at least sufficient to pay all Bond Amounts as such Bond Amounts are or are anticipated to become due and payable (by purchase, redemption, or otherwise).

“Serial Bonds” means the Bonds as so designated in or pursuant to the applicable Written Determinations or Prior Written Determinations.

“Series Resolution” means any series resolution (including any amendments thereto) which, as of the effective date of this Restated Bond Resolution, have been adopted pursuant to the 1986 Amended Resolution and pursuant to which Bonds are Outstanding as of the effective date of this Restated Bond Resolution.

“Sinking Fund Installment” means the amount of principal or Compounded Amount of any particular Term Bonds to be redeemed or retired prior to the maturity date of such Term Bonds all as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

“Supplemental Bond Resolution” means any resolution of the Authority amending or supplementing the Bond Resolution adopted and becoming effective in accordance with the terms of Article VII on or after the effective date of this Restated Bond Resolution.

“Tax Covenant” means the covenant set forth in Section 504.

“Term Bonds” means the Bonds as so designated in or pursuant to the applicable Written Determinations or Prior Written Determinations.

“Tender Date” means any date on which a Bond is subject to tender to the Trustee or the Authority or any other party serving as tender agent for purchase as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

“Tender Option Agreement” means an agreement under which any party offers a tender option on any Bonds.

“Trustee” means the trustee appointed by or pursuant to Article X.

“Vice Chairman” means the Vice Chairman of the Authority.

“Written Determinations” means one or more determinations made in writing by an Authorized Officer which sets forth those terms and conditions authorized by the Bond Resolution to be contained therein and such other terms and conditions as an Authorized Officer may deem appropriate and as shall not be inconsistent with the Bond Resolution and the applicable Bond Limitations Resolution. Any such Written Determinations may be amended by an Authorized Officer from time to time prior to the issuance of Bonds designated therein and may thereafter be amended as provided in Articles VII and VIII of the Bond Resolution. Any Written Determinations shall be subject to the conditions and limitations set forth in or determined pursuant to the applicable Bond Limitations Resolution.

Articles and Sections mentioned by number only are the respective Articles and Sections of the Bond Resolution so numbered.

The words “herein”, “hereunder”, “hereby”, “hereto”, “hereof”, and any similar terms, refer to this Restated Bond Resolution; the term “heretofore” means before the date of adoption of this Restated Bond Resolution; and the term “hereafter” means after the date of adoption of this Restated Bond Resolution.

Words importing the masculine gender include the feminine and neuter genders.

Words importing persons include firms, associations and corporations.

Words importing the singular number include the plural number, and vice versa.

SECTION 102. *Headings.* Any headings, captions, or titles preceding the text of any Article or Section herein and the table of contents with respect to this Restated Bond Resolution are solely for convenience of reference and shall not constitute part of the Bond Resolution or affect its meaning, construction or effect.

SECTION 103. *Bond Resolution to Constitute Contract.* The Bond Resolution shall constitute a contract between the Authority, the Trustee and the Owners. The pledge made in the Bond Resolution and the provisions, covenants and agreements set forth in the Bond Resolution to be performed by or on behalf of the Authority shall be for the benefit, protection and security of the Owners. All of the Bonds and any Exchange Agreement, Enhancement Agreement or Other Financial Agreement payable from Assets, regardless of the time or times of their issuance, execution, or maturity, shall be of equal rank without preference, priority or distinction, except as otherwise expressly provided in or determined pursuant to a Supplemental Bond Resolution in accordance with Section 701 (8).

SECTION 104. *General Obligation.* The obligation of the Authority with respect to the payment of any Bond Amount shall be a general obligation of the Authority payable out of any of the Authority's revenues, moneys or assets, subject only to agreements heretofore or hereafter made with owners of Authority obligations other than the Owners pledging particular revenues, moneys or assets for the payment thereof or except as otherwise expressly provided in or determined pursuant to a Supplemental Bond Resolution in accordance with Section 701 (8).

SECTION 105. *Pledge of Assets.* Subject only to the right of the Authority to withdraw, transfer, sell, exchange or otherwise apply Assets in accordance with the provisions of the Bond Resolution, a pledge of Assets is hereby made to secure the payment of the Authority's obligations with respect to the Bond Resolution, including any and all Bond Amounts, except as otherwise expressly provided in or determined pursuant to a Supplemental Bond Resolution in accordance with Section 701 (8). A pledge of funds and investments in any Payment Account and Defeasance Obligations in any Defeasance Account is hereby made to secure the payment of the Authority's obligations (including any and all Bond Amounts) on the Bonds, any Enhancement Agreement, any Exchange Agreement and any Other Financial Agreement with respect to which such funds and investments and Defeasance Obligations are so deposited.

SECTION 106. *Assets Held in Trust.* Subject only to the right of the Authority to withdraw, transfer, sell, exchange or otherwise apply Assets in accordance with the provisions of the Bond Resolution, the Assets, regardless of their location or method of identification, are and shall be hereby held in trust for the purposes and under the terms and conditions of the Bond Resolution.

SECTION 107. *Authorization.* Each Authorized Officer is hereby authorized to prepare, distribute, execute and/or accept, and deliver on behalf of the Authority, and the Trustee is hereby authorized to execute and accept when applicable, such Purchase Contracts, Tender Option Agreements, Enhancement Agreements, Exchange Agreements, Other Financial Agreements and such other agreements, instruments, documents and certificates, and to do and perform such other acts, as may be deemed necessary or appropriate by such Authorized Officer to effect the sale, delivery, issuance, tender, remarketing, registration, transfer, exchange, purchase or redemption of any Bond or any Derivative Product or other instrument or agreement related thereto, and the acquisition, sale, transfer, exchange, withdrawal or other application of Assets, and to otherwise carry out the transactions authorized or contemplated by the Bond Resolution. The authorization set forth above with respect to any Exchange Agreement, any Derivative Product or any Other Financial Agreement not otherwise authorized by a Bond Limitations Resolution is conditioned upon the delivery, prior to any execution and delivery of any agreement related thereto, of an Officer's Certificate which states that the form and substance of such Exchange Agreement, Derivative Product or Other Financial Agreement has been discussed at a meeting of the Authority's Board of Commissioners at which a quorum of Commissioners were present.

SECTION 108. *Series Resolutions and Written Determinations.* Except as set forth below, nothing contained herein shall modify, supersede or otherwise affect the terms of the Series Resolutions or the terms of the Prior Written Determinations. The terms of the Series Resolutions and the Prior Written Determinations are hereby ratified and confirmed, are incorporated into this Restated Bond Resolution as though fully set forth herein, and shall remain in full force and effect, except as follows:

1. All funds and accounts established under or pursuant to the Series Resolutions or the Prior Written Determinations shall be governed by the terms of the Bond Resolution and shall not be subject to the terms of the Series Resolutions and the Prior Written Determinations;
2. All references in the Series Resolutions and the Prior Written Determinations to the covenant in the first sentence of Section 604 of the 1986 Amended Resolution or to the "Tax Covenant" as defined in the Series Resolutions shall be deemed to refer to the Tax Covenant as set forth in Section 504 of this Restated Bond Resolution;
3. The Debt Service Reserve Fund Requirement specified in each Series Resolution or each Prior Written Determinations shall be \$0; and

4. The Mortgage Loans which are Assets hereunder shall be governed by the provisions of the Bond Resolution and shall not be subject to the covenants, requirements, restrictions, limits and other provisions relating thereto in the Series Resolutions and the Prior Written Determinations, except as required to comply with the Tax Covenant in Section 504 of this Restated Bond Resolution.

Notwithstanding the foregoing exceptions, the covenants of the Authority in such Prior Written Determinations to deposit into Taxable Revenue Accounts (as established pursuant to the Series Resolutions) (i) funds in amounts equal to the outstanding principal balances of any Mortgage Loans that are delinquent by four consecutive monthly payments or are restructured by having delinquent payments added to their outstanding principal balances and (ii) proceeds from the purchase by financial institutions of Mortgage Loans in the event of any material breach of any of their representations or warranties to the Authority with respect to such Mortgage Loans shall remain in full force and effect, provided that the Authority may deposit such funds and proceeds in any other fund and account that is to be used for the payment of principal and interest on the Bonds that financed such Mortgage Loans.

Furthermore, notwithstanding the foregoing exceptions, the Authority may, in order to comply with the terms of the Series Resolutions or any of the Prior Written Determinations permitting the special redemption of Bonds issued pursuant thereto from excess Revenues and other moneys in the Revenue Fund, maintain the Revenue Fund established by the 1986 Amended Resolution until such Bonds shall not be Outstanding or until the Authority shall determine that such Bonds shall not thereafter be redeemed by special redemption, whichever is earlier, and during the time that the Revenue Fund is so maintained, the Authority shall comply with the requirements set forth in Section 504(A) of the 1986 Amended Resolution. Except for the requirements of Section 504(A) of the 1986 Amended Resolution, the Revenue Fund shall be governed by the terms of the Bond Resolution. Furthermore, during the time that the Revenue Fund is so maintained, the Authority shall maintain the Bond Payment Fund established pursuant to the 1986 Amended Resolution as shall be necessary to comply with the requirements of Section 504(A) of the 1986 Amended Resolution. The Bond Payment Fund shall be governed by the terms of the Bond Resolution. The Authority may maintain each Mortgage Loan Account and Mortgage Loan Purchase Account established pursuant to the Series Resolution or the Prior Written Determinations. Each such Mortgage Loan Account and Mortgage Loan Purchase Account so maintained shall be governed by the terms of the Bond Resolution. The Authority may transfer Assets in the Revenue Fund and in each such Mortgage Loan Account and Mortgage Loan Purchase Account as may be necessary or appropriate to effect any special redemptions in accordance with the terms of the Series Resolutions and the Prior Written Determinations. In lieu of maintaining the foregoing Funds and Accounts, the Authority may establish and comply with such accounting practices and procedures that will ensure that any such special redemptions of Bonds shall be effected in the same or lesser amount and on the same or later date as could have been effected if such Funds and Accounts had been maintained.

SECTION 109. *Parties Interested Herein.* Nothing in the Bond Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person or party, other than the Authority, the Trustee and the Owners, any right, remedy or claim under or by reason of the Bond Resolution or any covenant, stipulation, obligation, agreement or condition therein. All the covenants, stipulations, obligations, promises and agreements in the Bond Resolution contained by and on behalf of the Authority, shall be for the sole and exclusive benefit of the Authority, the Trustee and the Owners.

SECTION 110. *Law Applicable.* The laws of the Commonwealth shall be applicable to the interpretation and construction of the Bond Resolution, except to the extent that the laws of another jurisdiction are determined in or pursuant to the applicable Written Determinations or Prior Written Determinations to be applicable.

SECTION 111. *Severability of Invalid Provision.* If any one or more of the provisions, covenants or agreements in the Bond Resolution should be contrary to law, then such provision or provisions, covenant or covenants, agreement or agreements, shall be deemed separable from the remaining provisions, covenants and agreements, and shall in no way affect the validity of the other provisions of the Bond Resolution.

## ARTICLE II

### BONDS

SECTION 201. *Authorization.* (A) Bonds are hereby authorized to be issued from time to time by the Authority in such amounts and upon such terms and conditions as shall be set forth in or determined pursuant to the Written Determinations approved by an Authorized Officer pursuant to Section 301. Bonds so issued shall comply with the limitations prescribed in the applicable Bond Limitations Resolution.

(B) Each Bond Limitations Resolution shall specify, or set forth the manner for determining, the following limitations with respect to Bonds issued pursuant thereto:

(1) The maximum principal amount of Bonds to be issued or to be Outstanding subject to such Bond Limitations Resolution;

(2) The latest date by which the Authority may enter into the one or more Purchase Contracts providing for the sale of Bonds;

(3) The minimum purchase price for the Bonds upon the issuance thereof; and

(4) Any such other matters as the Authority deems appropriate.

SECTION 202. *Issuance and Delivery.* Subject to the limitations in the applicable Bond Limitations Resolution, Bonds may be delivered, against payment therefor, to the purchaser(s) and/or underwriter(s) thereof in the principal amounts or Maturity Amounts thereof on the date(s) and at the time(s), all as set forth in or determined pursuant to the applicable Written Determinations and upon compliance by the Authority with the requirements of the Bond Resolution.

### ARTICLE III

#### TERMS AND PROVISIONS OF BONDS

SECTION 301. *Terms.* (A) Subject to the limitations set forth in or determined pursuant to the applicable Bond Limitations Resolution, the terms and conditions of the Bonds issued pursuant hereto shall be set forth in or determined pursuant to the applicable Written Determinations. The Written Determinations for any Bonds shall specify the Bond Limitations Resolution which is applicable to such Bonds and shall include, in addition to other matters, all matters applicable to such Bonds which are required or specified by the Bond Resolution or the Bond Limitations Resolution to be included therein. Subject to the provisions of Section 202, the Bonds shall be sold to such purchaser(s) and/or underwriter(s) and at such prices(s) as shall be set forth in or determined pursuant to the applicable Written Determinations and on such other terms and conditions as shall be set forth in or determined pursuant to the applicable Purchase Contract.

(B) Such Written Determinations or other agreement executed by the Authority may include or provide for, without limitation, any such provisions governing or relating to the use and/or investment of assets of the Authority other than Assets as may be deemed by an Authorized Officer to be necessary or appropriate in order to obtain, provide or assure a source of funds for the payment of any Bond Amount.

SECTION 302. *Medium of Payment, Form and Execution.* (A) Each Bond Amount shall be payable to the Owner thereof by check, draft, electronic funds transfer or other means determined by an Authorized Officer (which payment methodology can vary depending upon the amount of the Bond Amount, the Owner of such Bond Amount and the usual and customary practices in the securities industry as determined by an Authorized Officer) in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts, unless otherwise set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

(B) The Bonds shall be issued in the form of fully registered Bonds or such other form as may be set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations. In the event that the Bonds are not issued in the form of fully registered Bonds and notwithstanding any inconsistency with the provisions of Section 302 (E) and Sections 303 and 304, such Bonds shall be registered, issued, exchanged, transferred, redeemed, replaced, surrendered and cancelled in such manner as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

(C) All or any portion of the Bonds may be owned through the facilities of one or more security depositories as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations. Notwithstanding any inconsistency with the provisions of Section 302 (E) and Sections 303 and 304, the Authority and the Trustee are each hereby authorized to execute and deliver any agreement, to conform to any operational procedure, or to take such other action which may be necessary or convenient to make the Bonds eligible for ownership through such security depositories. Furthermore and notwithstanding anything in Section 605 to the contrary, if any Bonds to be redeemed are then available only through the facilities of a security depository, any notice of redemption to the Owners thereof shall be given at such time prior to the date of redemption as shall be set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations and in the manner and containing such information as shall be required by such security depository in order to effect the redemption on the designated date.

(D) Unless otherwise set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations, the Bonds shall bear the title "Commonwealth Mortgage Bonds" and may bear such additional Authority Designations as set forth in or determined pursuant to the applicable Written Determinations or Prior

Written Determinations or as may be deemed necessary or convenient by an Authorized Officer or by the Trustee with the consent of the Authority.

(E) The Bonds shall be in such form as shall be determined by an Authorized Officer to be appropriate to describe or reference the terms thereof and to comply with the Act. Unless otherwise set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations, each Bond shall be issued by the Authority without any manual or facsimile signature of an Authorized Officer but shall be authenticated by the Trustee. Only Bonds bearing a certificate of authentication duly executed by the Trustee shall be entitled to any security, right or benefit pursuant to the Bond Resolution.

SECTION 303. *Registration.* (A) So long as any Bond Amount with respect to a Bond remains payable or is to become payable, the Trustee shall maintain the Registration Books, shall permit the exchange and transfer of ownership of Bonds pursuant to the terms of the Bond Resolution and such other reasonable regulations as it may prescribe without objection thereto by the Authority, and shall make all necessary provisions to permit the exchange and transfer of Bonds at the Principal Office of the Trustee.

(B) The Authority and the Trustee may deem and treat the party in whose name any Bond shall be registered upon the Registration Books on an applicable Record Date as the absolute Owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of any Bond Amount due and payable during the time period such person is the Owner of said Bond, and for all other purposes, and all such payments so made to any such Owner or upon his order shall be valid and effectual to satisfy and discharge the liability with respect to such Bond to the extent of the Bond Amount(s) so paid, and neither the Authority nor the Trustee shall be affected by any notice to the contrary. The Authority agrees, to the extent permitted by law, to indemnify and save the Trustee harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, acting in good faith and without negligence hereunder, in so treating such Owner.

SECTION 304. *Exchange, Transfer, Surrender and Cancellation.* (A) Each Bond shall be negotiable as provided in the Act, and shall be exchangeable and transferable only upon the Registration Books upon (1) surrender thereof to the Trustee at the Principal Office, together with a written instrument of exchange or transfer satisfactory to the Trustee, or (2) the satisfaction of such other conditions as may be established by the Trustee (without objection thereto by the Authority) or as may be set forth in or determined pursuant to the Bond Resolution. For any such exchange or transfer of any such Bond, the Trustee shall issue in the name of the exchangee or transferee a new Bond or Bonds of the same aggregate principal or Maturity Amount, Authority Designations, terms (e.g. interest rate) and maturity as the surrendered Bond and shall execute and deliver such Bond or Bonds in accordance with the provisions of the Bond Resolution. For every such exchange or transfer of Bonds, the Authority or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer.

(B) In case any Bond shall become mutilated or be destroyed, stolen or lost, the Trustee shall deliver a new Bond of like Authority Designations, terms (e.g. interest rate), maturity, and principal or Maturity Amount as the Bond so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Bond upon (1) surrender thereof to the Trustee at the Principal Office, or (2) the satisfaction of such other conditions as may be established by the Trustee (without objection thereto by the Authority) or as may be set forth in or determined pursuant to the Bond Resolution, or in lieu of and in substitution for the Bond destroyed, stolen or lost, upon filing with the Trustee evidence satisfactory to it and complying with such other reasonable requirements as the Trustee may prescribe (without objection thereto by the Authority) and paying such expenses as the Trustee and the Authority may incur in connection therewith.

(C) The Trustee may, and at the direction of the Authority shall, require the surrender of any Bond upon its maturity or redemption as a condition to the payment of the principal or Maturity Amount or any portion thereof.

(D) If less than all of a Bond is to be redeemed, the Trustee shall deliver, upon (1) surrender thereof to the Trustee at the Principal Office or (2) the satisfaction of such other conditions as may be established by the Trustee (without objection thereto by the Authority) or as may be set forth in or determined pursuant to the Bond Resolution, Bonds of similar Authority Designations, terms (e.g. interest rate) and maturity in any of the Authorized Denominations for the portion of the principal or Maturity Amount of the Bond so surrendered which is not to be so redeemed.

(E) Any Bond surrendered to the Trustee pursuant to this Section shall be immediately cancelled by the Trustee. Any Bond surrendered to the Trustee for which all Bond Amounts with respect thereto shall have become due and payable (by maturity, redemption, tender or otherwise) and for which the Authority shall have met all of its obligations under the Bond Resolution with respect to the payment thereof shall be immediately cancelled by the Trustee. Any Bond purchased by the Authority shall be immediately cancelled, unless the Authority shall deliver an Officer's Certificate to the Trustee stating the Authority's intent that any Bond so purchased by the Trustee shall remain Outstanding subject to any such terms and conditions as may be set forth in such Officer's Certificate.



## ARTICLE IV

### APPLICATION OF ASSETS

SECTION 401. *Payment of Bond Amounts.* (A) On any day on which a Bond Amount is due and payable (or, if such day is not a Business Day, the next Business Day thereafter), the Authority shall pay such Bond Amount from Assets or other funds of the Authority to either, at the Authority's option, the Trustee or to the Owner of such Bond Amount. No such payment shall be made unless the Authority shall pay, in full, all Bond Amounts due and payable on such day. Any such payment to the Trustee shall be in the form of cash or Investment Obligation which is a cash equivalent, and any such payment to the Owner shall be made in accordance with Section 302 (A). In the case of a payment to the Trustee, the Trustee shall make payment of such Bond Amount to the Owner thereof in accordance with Section 302 (A). Any such payment to the Trustee shall, pending disbursement thereof to the Owner thereof, be deposited into a Payment Account.

(B) Funds and investments on deposit in any Payment Account shall not be Assets and shall be unavailable for payment to Owners other than the Owners of the Bond Amounts with respect to which such funds and investments were deposited by the Authority or the Trustee in such Payment Account, and the Owners of any such Bond Amounts shall no longer have a lien on or the benefit of a pledge of the Assets with respect to such Bond Amounts but shall have a lien on, and the benefit of the pledge of, the funds and investments in such Payment Account and shall look only to such funds and investments for payment.

(C) No funds and investments shall be withdrawn from any Payment Account other than to pay the applicable Bond Amounts. If funds and investments remain in a Payment Account subsequent to the payment of all the applicable Bond Amounts, such funds and investments shall be transferred to the Authority free of any lien or pledge of the Bond Resolution.

SECTION 402. *Withdrawals and Transfers.* (A) On any date, the Authority may either directly or by direction to the Trustee (1) apply Assets to make, purchase, finance or refinance Mortgage Loans, to acquire, rehabilitate, construct, finance or refinance Authority Property, to purchase Investment Obligations and make any required payments associated therewith, to make payments pursuant to any agreement associated, related or entered into with respect to the Bonds, to make payments to any party to comply with the covenant in Section 504, to purchase any Bond, to pay any Expense, or to make any other withdrawal, transfer, sale, exchange or other application of Assets required, permitted or contemplated by the Bond Resolution, or (2) subject to satisfaction of the Revenue Test, transfer all or any portion of any Asset to the Authority.

(B) Notwithstanding anything to the contrary herein, to the extent that pursuant to an Officer's Certificate the Authority pledges any funds which are not then subject to the pledge in Section 105 hereof and which are expected to be thereafter used to finance Mortgage Loans until the issuance of Bonds therefor, an amount of Assets equivalent to such funds, plus a reasonable charge for interest on such funds if and as determined by an Authorized Officer, may be subsequently withdrawn and transferred to the Authority without regard to the satisfaction of the Revenue Test.

(C) Assets transferred to the Authority pursuant to Subsections (A) (2) and (B) of this Section shall not thereafter be subject to the lien or pledge created by the Bond Resolution.

SECTION 403. *Sales and Exchanges.* The Authority shall be authorized to sell or exchange any Asset to or with any party (including the Authority) at a price and/or for other assets equal to such Asset's fair market value, or subject to satisfaction of the Revenue Test, at any price and/or for any assets. For purposes of the Bond Resolution, a sale to or exchange with the Authority includes any transaction in which cash or assets of the Authority not included in the Assets are used to pay the sales price of or are exchanged for the Assets.

SECTION 404. *Modifications and Amendments.* The Authority may modify or amend, in any manner it deems appropriate in its sole judgment, the terms and conditions of any Asset, subject to satisfaction of the Revenue Test or subject to the determination of an Authorized Officer that such modification or amendment is either (1) not materially adverse to the payment of any Bond Amount, or (2) in the best interests of the Owners.

## ARTICLE V

### COVENANTS AND RIGHTS OF THE AUTHORITY

SECTION 501. *General.* The Authority hereby makes the covenants set forth in this Article with the Trustee and with the Owners. The provisions of this Article shall be effective if any Bond Amount is due and payable or is to become due and payable.

SECTION 502. *Powers as to Bonds; Protection of any Liens and Pledges.* The Authority is duly authorized pursuant to law to adopt the Bond Resolution, to make or create the liens and pledges established by the Bond Resolution, and to authorize and issue the Bonds. The Bonds and the provisions of the Bond Resolution are and will be valid and legal obligations of the Authority and enforceable in accordance with their terms. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect any lien and any pledge made or created pursuant to the Bond Resolution and all the rights of the Owners against all claims and demands of all persons whomsoever.

SECTION 503. *Compliance with Conditions Precedent.* Upon the issuance of any Bond, all conditions, acts and things required by law or by the Bond Resolution to exist, to have happened or to have been performed precedent to or upon the issuance of such Bond shall exist, have happened and have been performed.

SECTION 504. *Tax Covenant.* Notwithstanding any provision herein to the contrary (including any restriction imposed by the Revenue Test), in the event that upon the issuance of a Bond, a Counsel's Opinion is delivered opining to the effect that the interest on such Bond is not included in gross income of the Owner thereof pursuant to the Code, the Authority shall at all times do and perform all acts required by the Code in order to assure that the interest on such Bond shall not be included in gross income of the Owner thereof pursuant to the Code. In order to comply with the covenant made in this Section, an Authorized Officer is hereby authorized to take any action (whether or not expressly authorized or permitted herein) and to omit to take any action (whether or not required by the terms hereof), to the extent permitted by applicable law.

SECTION 505. *Asset Covenants.* (A) Except funds and investments in any Payment Account and Defeasance Obligations in any Defeasance Account, an asset or property may be acquired (by purchase or exchange) or financed pursuant to the Bond Resolution only if such asset or property constitutes an Asset as defined in Section 101 hereof.

(B) Subject to the covenant set forth in Section 504, the Authority shall do all such acts as may be reasonably necessary in the sole judgment of the Authority to receive and collect Revenues and to enforce the terms and conditions relating to the Assets.

(C) The Mortgage securing any Mortgage Loan shall be executed and recorded, or reasonable provisions shall have been made for such recording, all in accordance with the requirements of existing laws.

SECTION 506. *Further Assurance.* The Authority shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning or confirming all and singular the rights, liens and pledges established pursuant to the Bond Resolution.

SECTION 507. *Records.* The Authority shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all its transactions relating to the Bond Resolution and which reflect all Assets, and all of the foregoing shall at all reasonable times be subject to the inspection of the Trustee and the Owners of an aggregate of not less than twenty five percent (25%) of the Bond Obligation or their representatives duly authorized in writing.

SECTION 508. *Rights of the Authority.* (A) Additional Bonds, Exchange Agreements, Enhancement Agreements and Other Financial Agreements payable from Assets may be issued or executed from time to time pursuant to the Bond Resolution. Except as otherwise expressly provided in or determined pursuant to a Supplemental Bond Resolution in accordance with Section 701 (8), such additional Bonds, Exchange Agreements, Enhancement Agreements and Other Financial Agreements payable from Assets shall be issued or executed on a parity basis with the Outstanding Bonds, shall be secured by the lien and pledge of the Bond Resolution, and shall be payable equally and ratably from the Assets. Such additional Bonds may be issued to refund any Outstanding Bonds or other obligation of the Authority, whether by payment at maturity or upon redemption or purchase. The Authority expressly reserves the right to adopt one or more other note or bond resolutions and reserves the right to incur or issue other obligations.

(B) Notwithstanding anything to the contrary herein, the Authority may be the Mortgagor with respect to any Mortgage Loan made or financed pursuant to the Bond Resolution. In such an event, the Authority may execute and deliver the Mortgage securing such Mortgage Loan to the Trustee, on behalf of the Owners.

## ARTICLE VI

### PURCHASE OR REDEMPTION OF BONDS

SECTION 601. *Redemption.* Bonds issued pursuant to the Bond Resolution, the applicable Written Determinations for which provide for redemption prior to maturity, shall be subject to redemption in accordance with such Written Determinations upon compliance by the Authority and the Trustee with the provisions in this Article. Notwithstanding anything in the Bond Resolution to the contrary, Bonds issued under the 1986 Amended Resolution

shall be subject to redemption as provided in the 1986 Amended Resolution, the Series Resolutions and the Prior Written Determinations originally applicable to such Bonds.

SECTION 602. *Purchase.* In lieu of the redemption of any Bond, the Authority may direct the Trustee in an Officer's Certificate to purchase such Bond from any Owner willing to sell such Bond. In addition, the Authority may at any time direct the Trustee in an Officer's Certificate to purchase, with Assets or other assets of the Authority, any Bond from any Owner willing to sell such Bond. In either case, the purchase price shall be determined by, or in accordance with the directions of, the Authority.

SECTION 603. *Notice of Purchase or Redemption to Trustee.* The Authority shall direct the Trustee to purchase or redeem Bonds by the delivery to the Trustee of an Officer's Certificate containing such information as the Trustee may reasonably require in order to effect the proposed purchase or redemption. Such Officer's Certificate shall be delivered to the Trustee at such time prior to the date of purchase or prior to the date any notice of redemption must be given to the Owners as shall be reasonably required by the Trustee.

SECTION 604. *Selection of Bonds to be Redeemed by Lot.* If less than all of the Outstanding Bonds with the same Authority Designations (without regard to bond certificate numbers) and maturity are to be redeemed, the Bonds to be redeemed shall be selected by lot in such manner as the Trustee may determine or shall be selected in such other manner as set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

SECTION 605. *Notice of Redemption to Owners.* (A) When the Trustee shall be required or authorized, or shall receive notice from the Authority of its election, to redeem Bonds, the Trustee shall in accordance with the terms and provisions of the Bond Resolution, select the Bonds to be redeemed and shall give notice of the redemption of Bonds to the Owners thereof unless not required by the Written Determinations or Prior Written Determinations. Such notice shall specify the Authority Designations and maturities of the Bonds to be redeemed, the redemption date, the place or places where the Bond Amounts due upon such redemption will be payable, and any letters, numbers or other distinguishing marks necessary to identify the Bonds to be redeemed, including CUSIPs. In the case of a Bond to be redeemed in part only, such notice shall also specify the portion of the principal amount or Maturity Amount, as the case may be, thereof to be redeemed. Such notice of redemption shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portion of the principal or Maturity Amount, as the case may be, thereof in the case of a Bond to be redeemed in part only, together with interest accrued, if any, to such date, and that from and after such date interest thereon shall cease to accrue.

(B) Any required notice having been given in the manner provided in this Section, the Bonds or portions thereof called for redemption shall become due and payable on the redemption date and at the Redemption Prices, plus accrued interest.

(C) Any notice of redemption to an Owner shall be sent, as directed by the Authority, by mail or other means of physical delivery or transmitted by facsimile or other means of electronic delivery to such Owner at his last address, physical or electronic, as set forth in the Registration Books. Such notice shall be sent at such time prior to the date of redemption as shall be set forth in or determined pursuant to the applicable Written Determinations or Prior Written Determinations.

(D) Notwithstanding anything in this Section to the contrary, in the case of redemption on a Tender Date of any Bond being tendered on such Tender Date, notice of redemption shall not be required to be given to the Owner thereof, unless expressly required by the applicable Written Determinations or Prior Written Determinations.

SECTION 606. *Rescission of Notice of Redemption.* Notwithstanding anything to the contrary herein, (1) any notice of purchase to the Trustee may be rescinded by the Authority at any time prior to the date of purchase, and (2) any notice of redemption to the Trustee may be rescinded at any time prior to the Trustee's sending of the corresponding notice of redemption to the Owners of the Bonds to be redeemed, and thereafter, prior to the date of redemption, such notice of redemption to the Owner may be rescinded by the Authority with respect to any Bond upon consent to such rescission by the Owner of such Bond.

## ARTICLE VII

### SUPPLEMENTAL BOND RESOLUTIONS

SECTION 701. *Supplemental Bond Resolutions Effective Upon Filing.* For any one or more of the following purposes and at any time or from time to time, a resolution of the Authority amending or supplementing the Bond Resolution may be adopted which, upon its filing with the Trustee, shall be fully effective in accordance with its terms:

(1) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Bond Resolution;

(2) To include such provisions as are deemed by an Authorized Officer to be necessary or desirable and are not contrary to or inconsistent with the Bond Resolution as theretofore in effect;

(3) To add other covenants, agreements, limitations, or restrictions to be observed by the Authority which are not contrary to or inconsistent with the Bond Resolution as theretofore in effect;

(4) To add to the rights or privileges of the Owners;

(5) To surrender any right, power or privilege reserved to or conferred upon the Authority by the Bond Resolution;

(6) To comply with any provision of the Code or federal or state law or regulation;

(7) To modify or amend the Bond Resolution in any respect, subject to satisfaction of the Revenue Test; provided, however, that no such modification or amendment pursuant to this Section 701 (7) shall modify or delete, or shall authorize or permit any deletion or modification of, any of the following: (i) any of the covenants, rights or remedies under Section 504 or Article IX, (ii) the definition of Revenue Test in Section 101, (iii) any requirement for satisfaction of the Revenue Test, (iv) the definition of Defeasance Obligation in Section 101, (v) the provisions of Sections 103 through 106, Section 701, Section 1007 and Section 1101, (vi) any requirement for notice to or consent, approval or direction of Owners, or (vii) the terms of redemption or the due date or amount of payment of any Bond Amount without the consent of the Owner of such Bond Amount; or

(8) To set forth such amendments to the Bond Resolution as necessary or desirable to provide for the issuance of Bonds or the execution of Exchange Agreements, Enhancement Agreements or Other Financial Agreements payable from Assets (i) on which the payment of the Bond Amounts may be subordinate to the payment of the Bond Amounts with respect to other Bonds, Exchange Agreements, Enhancement Agreements or Other Financial Agreements payable from Assets, (ii) which may have the payment of their Bond Amounts conditional upon the happening of certain events, (iii) which may not be general obligations of the Authority, (iv) which may not be secured by all or any of the Assets, or (v) whose Owners do not have all of the rights or benefits of the other Owners.

SECTION 702. *Supplemental Bond Resolutions Effective with Consent of Owners.* (A) At any time or from time to time, a resolution may be adopted by the Authority amending, supplementing or eliminating any provision of the Bond Resolution or releasing the Authority from any of the obligations, covenants, agreements, limitations, conditions or restrictions therein contained, but no such resolution shall be effective until after the filing with the Trustee of a copy thereof and unless (1) on the date such resolution becomes effective, no Bond issued prior to the adoption of such resolution remains Outstanding and no Exchange Agreement, Enhancement Agreement or Other Financial Agreement in existence prior to the adoption of such resolution remains payable from Assets, or (2) such resolution is consented to by the Owners in accordance with the provisions of Article VIII.

(B) The provisions of Subsection (A) of this Section shall not be applicable to resolutions of the Authority adopted and becoming effective in accordance with the provisions of Section 701.

SECTION 703. *Restriction on Amendments.* The Bond Resolution shall not be modified or amended except as provided in and in accordance with the provisions of this Article and Article VIII.

SECTION 704. *Adoption of Supplemental Bond Resolutions.* Any resolution of the Authority referred to and permitted or authorized by Sections 701 or 702 (A) (1) may be adopted by the Authority without the consent of the Owners, but such resolution shall become effective only in accordance with such Sections. Every such resolution so becoming effective shall thereupon form a part of the Bond Resolution.

SECTION 705. *Authorization to Trustee.* The Trustee is hereby authorized to accept the delivery of any resolution of the Authority referred to and permitted or authorized by Sections 701 or 702.

## ARTICLE VIII

### AMENDMENTS

SECTION 801. *Notice.* Any provision in this Article relating to the mailing, giving or sending of a notice or other document to an Owner shall be fully complied with if such notice or other document is sent or transmitted, at the Authority's discretion, by mail or other means of physical delivery, or by facsimile or other electronic means to such Owner at his last address, physical or electronic, set forth in the Registration Books.

SECTION 802. *Powers of Amendment.* Any consent to a resolution required by Section 702 (A) (2) shall be deemed given if the Owners of more than sixty percent (60%) of the Bond Obligation (as of the Record Date for such consent) responding to the request for consent described in Section 803 shall so consent within such time period as shall be established (and as may be extended) by the Authority. If, however, such resolution will, by its terms, not take effect so long as certain Bonds shall remain Outstanding, or shall not affect certain Owners, the consent of such Owners shall not be required or recognized and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of the Bond Obligation under this Section. No such resolution shall permit a change in the terms of redemption or in the due date or amount of payment of any Bond Amount without the consent of the Owner of such Bond Amount or lower the percentage of Owners required for consent hereunder.

SECTION 803. *Consent of Owners.* (A) Any resolution of the Authority adopted in accordance with the provisions of Sections 702 (A) (2) and 802 shall take effect when and as provided in this Section. A copy of such resolution (or brief summary thereof or reference thereto), together with a request to Owners to indicate whether they consent or do not consent to such resolution, shall be sent to such Owners. Such resolution shall not be effective unless and until, and shall take effect in accordance with its terms when, (1) there shall have been filed with the Trustee the written consents of Owners specified in Section 802, and (2) a notice shall have been given as hereinafter in this Section provided.

(B) Each such consent shall be effective only if accompanied by proof of the ownership, as of the applicable Record Date, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 1103. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and that such proof is sufficient under the provisions of Section 1103 shall be conclusive that the consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee. Notwithstanding the provisions of Section 1103, any such consent may, if permitted by the Authority, be revoked in writing by the Owner of such Bond giving such consent prior to the effectiveness thereof.

(C) At any time subsequent to the expiration of the time period during which Owners of the required percentage of the Bond Obligation shall have filed their consents to such resolution, the Trustee shall make and file with the Authority a written statement that such Owners have filed and given such consents. Such written statement shall be conclusive that such consents have been so filed and have been given.

(D) Subsequent to the date on which the written statement of the Trustee provided for in Subsection (C) of this Section is filed, a notice stating in substance that such resolution has been consented to by such Owners and will be effective as provided in this Section shall be mailed, sent or given to such Owners. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such resolution shall be deemed conclusively binding upon the Authority, the Trustee and all Owners at the expiration of ten (10) days after the filing with the Trustee of proof of the mailing or other delivery of such last-mentioned notice.

SECTION 804. *Modification of Bonds.* If the Authority shall so determine, new Bonds, as modified in such manner as in the opinion of an Authorized Officer of the Authority is necessary to conform to action provided for in this Article, shall be prepared and delivered to the Trustee.

## ARTICLE IX

### REMEDIES ON DEFAULT

SECTION 901. *Powers of Trustee.* The Authority hereby vests in the Trustee, in trust for the benefit of the Owners and in addition to all its rights, powers and duties set forth in any other provision of the Bond Resolution, the rights, powers and duties set forth in this Article.

SECTION 902. *Events of Default.* Each of the following shall constitute an "Event of Default" under the Bond Resolution:

(1) a Bond Amount shall become due on any date and shall not be paid by the Authority to either the Trustee or party due such Bond Amount on said date; or

(2) a default shall be made in the observance or performance of any covenant, contract or other provision of the Bonds or Bond Resolution, and such default shall continue for a period of ninety (90) days after written notice to the Authority from Owners of twenty-five percent (25%) of the Bond Obligation or from the Trustee specifying such default and requiring the same to be remedied; or

(3) there shall be filed by or against the Authority as debtor a petition in bankruptcy (or other commencement of a bankruptcy or similar proceeding) under any applicable law or statute now or hereafter in effect.

SECTION 903. *Enforcement by Trustee.* (A) Upon the occurrence and continuance of an Event of Default described in Section 902 (1), the Trustee in its own name and as trustee of an express trust, on behalf and for the benefit and protection of the Owners, may, after notice to the Authority, proceed, or upon the written request of the Owners of not less than twenty-five percent (25%) of the Bond Obligation with respect to which such Event of Default has happened, shall proceed, subject to the provisions of Section 1002, to protect and enforce its rights and, to the full extent that the Owners themselves might do, the rights of such Owners under applicable law or under the Bond Resolution by such suits, actions or proceedings in equity or at law, either for the specific performance of any covenant or contract contained herein or in aid or execution of any power herein granted or for any legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce the rights aforesaid.

(B) Upon the occurrence and continuance of an Event of Default described in any of the clauses of Section 902, the Trustee in its own name and as trustee of an express trust, on behalf and for the benefit and protection of all Owners, may, after notice to the Authority, proceed, or upon the written request of the Owners of not less than twenty-five percent (25%) of the Bond Obligation shall proceed, subject to the provisions of Section 1002, to protect and enforce its rights and, to the full extent that the Owners themselves might do, the rights of such Owners under applicable law or under the Bond Resolution by such suits, actions or proceedings in equity or at law, either for the specific performance of any covenant or contract contained herein or in aid or execution of any power herein granted or for any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce the rights aforesaid.

SECTION 904. *Representation of Owners by Trustee.* The Trustee is hereby appointed (and the Owners shall be conclusively deemed to have so appointed the Trustee and to have mutually covenanted and agreed, each with the other, not to revoke such appointment) the true and lawful attorney-in-fact of the Owners with power and authority, at any time in its discretion:

(1) Pursuant to the Bond Resolution or the Act or any other law and subsequent to the occurrence and continuance of an Event of Default, (a) by action in lieu of mandamus or other prerogative writ or by other suit, action or proceeding in equity or at law, to enforce all rights of the Owners including the right to require the Authority to fulfill its obligations with respect to the Bond Resolution, (b) to bring suit upon the Bonds, (c) by action or suit in equity, to require the Authority to account as if it were a trustee of an express trust for the Owners, or (d) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners; and

(2) To make and file in any bankruptcy or similar proceeding either in the respective names of the Owners or on behalf of all the Owners as a class, any proof of debt, amendment of proof of debt, petition or other document, to receive payment of any sums becoming distributable to the Owners, and to execute any other papers and documents and do and perform any and all such acts and things as may be necessary or advisable in the opinion of the Trustee in order to have the respective claims of the Owners against the Authority allowed in any bankruptcy or other proceeding.

SECTION 905. *Limitation on Powers of Trustee.* Nothing in the Bond Resolution shall be deemed to give power to the Trustee either as such or as attorney-in-fact of the Owners to vote the claims of the Owners in any bankruptcy proceeding or to accept or consent to any plan or reorganization, readjustment, arrangement or composition or other like plan, or by other action of any character to waive or change any right of any Owner or to give consent on behalf of any Owner to any modification or amendment of the Bond Resolution requiring such consent or to any resolution requiring such consent pursuant to the provisions of Article VII or Article VIII.

SECTION 906. *Action by Trustee.* (A) All rights of action under the Bond Resolution or upon any of the Bonds, enforceable by the Trustee, may be enforced by the Trustee without the possession of any of the Bonds, or the production thereof in the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the Trustee may be brought in its name for the benefit of the Owners, subject to the provisions of the Bond Resolution.

(B) In the enforcement of any rights under the Bond Resolution, the Trustee shall be entitled to sue for, enforce payment of and to receive any and all Bond Amounts then or during any Event of Default becoming, and at any time remaining, due and unpaid to the Owners thereof, together with interest on such overdue Bond Amounts at the applicable Federal Funds Rate and any and all costs and expenses of collection and of all proceedings hereunder, without prejudice to any other right or remedy of the Trustee or of the Owners, and to recover and enforce judgment

or decree against the Authority for any portion of such Bond Amounts due and remaining unpaid together with interest at the applicable Federal Funds Rate and all costs and expenses as aforesaid, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) In any action, suit or other proceeding by the Trustee pursuant to this Section, the fees and expenses of the Trustee and its counsel allowed by a court of competent jurisdiction, shall be a first lien on the Assets.

SECTION 907. *Accounting, and Examination of Records after Default.* The Authority covenants with the Trustee that, if an Event of Default shall have occurred and shall not have been remedied, (1) the books of record and account of the Authority and all records relating to the Bond Resolution and the Program shall at all reasonable times be subject to the inspection and use of the Trustee and of its agents and attorneys, and (2) the Authority, whenever the Trustee shall reasonably demand, will account, as if it were the trustee of an express trust, for all Assets.

SECTION 908. *Restriction on Owner's Action.* (A) No Owner shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any provision of the Bond Resolution or for the execution of any trust hereunder or for any other remedy hereunder, unless (1) (a) such Owner previously shall have given to the Authority and the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, (b) after the occurrence of such Event of Default, written request shall have been made of the Trustee to institute such suit, action or proceeding by the Owners of not less than twenty-five percent (25%) of the Bond Obligation or, if such Event of Default is an Event of Default set forth in Section 902 (1), by the Owners of not less than twenty-five percent (25%) of the Bond Obligation with respect to which such Event of Default has happened, and there shall have been offered to the Trustee security and indemnity satisfactory to it against the costs and liabilities to be incurred therein or thereby, and (c) the Trustee shall have refused or neglected to comply with such request within a reasonable time, or (2) (a) such Owner previously shall have obtained the written consent of the Trustee to the institution of such suit, action or proceeding, and (b) such suit, action or proceeding is brought for the ratable benefit of all Owners subject to the provisions of the Bond Resolution.

(B) No Owner shall have any right in any manner whatever by his action to affect, disturb or prejudice the pledge of Assets hereunder, or, except in the manner and on the conditions in this Section provided, to enforce any right or duty hereunder.

SECTION 909. *Application of Assets after Default.* (A) All Assets collected by the Trustee pursuant to this Article shall, unless otherwise directed by a court of competent jurisdiction, be held in trust by the Trustee for the benefit of the Owners, and shall be applied in a manner determined by the Trustee to comply with the terms of the Bond Resolution.

(B) In the event that the Assets held by the Authority or Trustee shall be insufficient for the payment of Bond Amounts as such become due and payable, such Assets shall be applied to the payment to the Owners entitled thereto of all Bond Amounts which shall have become due and payable, ratably, according to the amounts due and payable, without any discrimination or preference unless otherwise expressly provided in or determined pursuant to the Bond Resolution.

SECTION 910. *Remedies Not Exclusive.* No remedy by the terms of the Bond Resolution conferred upon or reserved to the Trustee or to Owners is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute, except as provided in Section 908.

SECTION 911. *Control of Proceedings.* In the case of an Event of Default, the Owners of a majority of the Bond Obligation, shall have the right, subject to the provisions of Section 908, by an instrument in writing executed and delivered to the Trustee, to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee; provided, however, that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to Owners not parties to such direction.

SECTION 912. *Effect of Waiver and Other Circumstances.* No delay or omission of the Trustee or of any Owners to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default, or acquiescence therein, and every right, power and remedy given by the Bond Resolution to them or any of them may be exercised from time to time and as often as may be deemed expedient by the Trustee or, in an appropriate case, by the Owners. In case the Trustee shall have proceeded to enforce any right under the Bond Resolution, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then and in every such case the Authority and the Trustee will be restored to their former positions and rights hereunder with respect to all rights, remedies and powers of the Trustee, which shall continue as if no such proceedings had been taken.

SECTION 913. *Right to Enforce Payment of Bond Amounts Unimpaired.* Nothing in this Article shall affect or impair the right of any Owner to enforce the payment of any Bond Amount due such Owner.

## ARTICLE X

### THE TRUSTEE

SECTION 1001. *Appointment and Acceptance of Duties.* Any Trustee hereunder must be (1) a bank, trust company or national banking association, having trust powers, or (2) with the prior approval of its Commissioners, the Authority. As of the date of adoption of this Restated Bond Resolution, the Trustee is SunTrust Bank, Atlanta, Georgia. The rights, responsibilities and duties of the Trustee under the Bond Resolution are hereby vested in said Trustee in trust for the benefit of the Owners. Any successor Trustee shall signify its acceptance of the duties and obligations imposed upon it by the Bond Resolution by executing and delivering to the Authority a written instrument of acceptance thereof.

SECTION 1002. *Limited Liability of Trustee.* The External Trustee shall not be liable in connection with the performance of its duties and responsibilities hereunder except for its own negligence or default. The recitals of fact herein and in the Bonds shall be taken as the statements of the Authority, and the External Trustee assumes no responsibility for the correctness of the same. The External Trustee makes no representations as to the validity or sufficiency of the Bond Resolution or of any Bonds issued thereunder or in respect of the security afforded by the Bond Resolution, and the External Trustee shall not incur any responsibility in respect thereof. The External Trustee shall not be under any responsibility or duty with respect to Assets except to the extent such Assets are paid to the External Trustee in its capacity as Trustee, or the application of any such Assets paid or distributed to the Authority or others in accordance with the Bond Resolution. The External Trustee shall be under no obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any action or suit in respect of the Bond Resolution or Bonds, or to advance any of its own moneys, unless properly indemnified.

SECTION 1003. *Evidence on which Trustee May Act.* The External Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, opinion, bond, or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. The External Trustee may consult with counsel, who may or may not be of counsel to the Authority, and may request an opinion of counsel as a condition to the taking or suffering of any action hereunder, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever the External Trustee shall deem it necessary or desirable that a fact or matter be proved or established prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by an Officer's Certificate stating the same, and such Officer's Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of the Bond Resolution upon the faith thereof. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by or on behalf of the Authority to the External Trustee shall be sufficiently executed if executed by an Authorized Officer.

SECTION 1004. *Compensation and Expenses.* Unless otherwise set forth in a contract between the Authority and the External Trustee, the Authority shall pay to the External Trustee from time to time reasonable compensation for all services rendered by it hereunder, and also reimbursement for all its reasonable expenses, charges, and legal fees and other disbursements and those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties hereunder.

SECTION 1005. *Certain Permitted Acts.* The External Trustee may become the Owner of or may deal in Bonds and may be a party to any agreement or transactions related to the Bonds as fully and with the same rights it would have if it were not the External Trustee. To the extent permitted by law, the External Trustee may act as depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners or to effect or aid in any reorganization growing out of the enforcement of the Bonds or the Bond Resolution, whether or not any such committee shall represent the Owners of a majority of the Bond Obligation.

SECTION 1006. *Resignation.* Unless otherwise provided by contract between an External Trustee and the Authority, the Trustee may at any time resign and be discharged of its duties and obligations created by the Bond Resolution by giving not less than ninety (90) days' written notice to the Authority. Such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed by the Authority as herein provided, in which event such resignation shall take effect immediately on the effective date of the appointment of such successor. Notwithstanding anything in the Bond Resolution to the contrary, the resignation of the Trustee shall not take effect until a successor Trustee shall have been appointed and shall have accepted its duties and obligations as of the effective date of such resignation.



SECTION 1007. *Removal.* Any Trustee may be removed at any time by the Owners of a majority of the Bond Obligation by an instrument or concurrent instruments in writing signed and duly acknowledged by such Owners or by their attorneys duly authorized in writing and delivered to the External Trustee, if any, and to the Authority. The Authority may remove any External Trustee at any time, except during the existence and continuance of an Event of Default. In the event of the occurrence and continuance of an Event of Default and in the event that the Authority is serving in the capacity of the Trustee, the Authority shall immediately appointment a successor Trustee or shall, or any Owner may, petition a court of competent jurisdiction to appoint a successor Trustee, and the Authority shall resign as Trustee as of the effective date of the appointment of such successor Trustee. No Trustee shall be removed unless, on or prior to the effective date of removal of the Trustee, the Owners, the Authority or a court of competent jurisdiction, as the case may be, shall have appointed a successor Trustee and such successor Trustee shall have accepted its duties and obligations hereunder as of the effective date of such removal. Any successor Trustee shall have the qualifications set forth in Section 1001.

SECTION 1008. *Transfer of Rights and Property to Successor Trustee.* Any successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Authority, an instrument accepting such appointment, and on the effective date thereof, such successor Trustee, without any further act, deed or conveyance, shall become the Trustee under the Bond Resolution. Upon the effective date of any appointment of a successor Trustee, the predecessor Trustee shall immediately pay over, assign and deliver to the successor Trustee any property held by it pursuant to the terms of the Bond Resolution, including the Registration Books and any Assets. Upon the written request of the Authority or of the successor Trustee, the predecessor Trustee shall execute, acknowledge and deliver any instruments of conveyance and further assurance and do such other things as may reasonably be required to effect the transfer of all right, title and interest of the predecessor Trustee in and to any property previously held by it pursuant to the terms of the Bond Resolution. Should any deed, conveyance or instrument in writing from the Authority be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such Assets, estates, properties, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by laws, be executed, acknowledged and delivered by the Authority.

SECTION 1009. *Merger or Consolidation.* Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which such Trustee may sell or transfer all or substantially all of its corporate trust business (provided such company shall be a bank or trust company or national banking association which is qualified to be a successor to such Trustee and shall be authorized by law to perform all the duties imposed upon it by the Bond Resolution) shall be the successor to such Trustee without the execution or filing of any paper or the performance of any further act.

SECTION 1010. *Authority as Trustee.* Any notice, consent, resolution, opinion or other document required hereunder to be given, filed or delivered by the Authority to the Trustee or by the Trustee to the Authority shall, if the Authority is serving in the capacity of the Trustee, be considered so given, filed or delivered upon the Authority's generation of such notice, consent, resolution, opinion or other document.

## ARTICLE XI

### MISCELLANEOUS

SECTION 1101. *Defeasance.* (A) If (1) Defeasance Obligations shall have been deposited in a Defeasance Account, (2) the principal of and interest on such Defeasance Obligations at maturity, without reinvestment, shall be sufficient, in the determination of an Authorized Officer, to pay all Bond Amounts when due at maturity or upon earlier redemption with respect to a Bond and all fees and expenses of the Trustee with respect to such Defeasance Account, and (3) any notice of redemption, if applicable, shall have been given to the Owner thereof or provisions satisfactory to the Trustee shall have been made for the giving of such notice, then notwithstanding any other provision of the Bond Resolution to the contrary, the Owner of such Bond shall no longer have a lien on, or the benefit of a pledge of, the Assets. If the foregoing requirements shall have been satisfied with respect to all Outstanding Bonds and no Enhancement Agreement, Exchange Agreement or Other Financial Agreement remains payable from Assets, then the lien, pledge, covenants, agreements and other obligations under the Bond Resolution shall, at the election of the Authority, be discharged and satisfied, and the Trustee shall thereupon deliver to the Authority all Assets held by it.

(B) Defeasance Obligations shall not be Assets and shall be unavailable for payment to Owners other than the Owners of the Bond Amounts with respect to which such Defeasance Obligations shall have been deposited by the Authority in the applicable Defeasance Account. The Owners of such Bond Amounts so deposited shall have a lien on, and the benefit of the pledge of, the Defeasance Obligations in such Defeasance Account and shall look only to such Defeasance Obligations for payment.

(C) No Defeasance Obligation shall be withdrawn from any Defeasance Account other than to pay, when due, the applicable Bond Amounts or the fees and expenses of the Trustee with respect to such Defeasance Account. If any Defeasance Obligation remains in a Defeasance Account subsequent to the payment of all the applicable Bond Amounts and all fees and expenses of the Trustee with respect to such Defeasance Account have been paid, such Defeasance Obligations shall be transferred to the Authority free of any lien or pledge of the Bond Resolution.

(D) For the purpose of this Section, interest on any Bond on which the interest is or may be payable at a variable rate shall be calculated at the maximum interest rate (or, if none, the estimated maximum interest rate as determined by an Authorized Officer in an Officer's Certificate) payable on such Bond.

(E) Cash on deposit in a Defeasance Account shall, upon the direction of an Authorized Officer, be invested by the Trustee in Defeasance Obligations or any repurchase agreement fully collateralized, as determined by an Authorized Officer, by any Defeasance Obligations.

SECTION 1102. *Escheat.* Notwithstanding any provision herein to the contrary, any Bond Amount held in a Payment Account or Defeasance Account which remains unclaimed for a period of six (6) years subsequent to the date such Bond Amount was due and payable shall be paid by the Trustee to the Authority free of the trust created by the Payment Account or Defeasance Account and free of any lien or pledge of the Bond Resolution, and thereafter the Owner of such Bond Amount shall look only to the Authority for the payment thereof. If any of the provisions of this Section 1102 shall conflict or be inconsistent with any applicable provisions of law, the applicable provisions of law shall control.

SECTION 1103. *Evidence of Signatures of Owners.* (A) Any request, consent, revocation of consent, assignment or other instrument which the Bond Resolution may require or permit to be signed and executed by Owners may be in one or more instruments of similar tenor, and shall be signed or executed by such Owners in person or by their attorneys duly authorized in writing. Proof of (1) the execution of any such instrument or of an instrument appointing or authorizing any such attorney, or (2) ownership by the Owner of any Bond or Bond Amount shall be sufficient for any purpose of the Bond Resolution if made in the following manner or in any other manner satisfactory to the Trustee and the Authority:

(a) The fact and date of such execution or ownership may be proved (1) by the acknowledgment of such execution by a witness, who may be required by the Trustee or the Authority to be a notary public, or (2) by the certificate, which need not be acknowledged or verified, of an officer of a bank, trust company or financial firm or corporation (including members of the National Association of Securities Dealers, Inc.) satisfactory to the Trustee that the person signing such instrument acknowledged to such bank, trust company, firm or corporation the execution thereof.

(b) The authority of a person or persons to execute any such instrument on behalf of a corporate Owner may be established without further proof if such instrument is signed by a person purporting to be the president, vice-president or other authorized officer of such corporation.

The Authority or the Trustee may in their discretion require further or other proof in cases where they deem the same desirable.

(B) Any request, consent or other instrument executed by the Owner of any Bond shall bind all future Owners of such Bond with respect to anything done or suffered to be done hereunder by the Authority or the Trustee in accordance therewith.

(C) Each Owner may elect to give consent or not give consent with respect to each Authorized Denomination of Bonds owned by such Owner.

SECTION 1104. *Record Dates.* The Trustee shall establish such Record Date(s), which the Authority may require to be subject to its prior approval, for the purposes of determining the Owner of any Bond or Bond Amount or determining the Owners who are eligible to give their consent or who are to receive notices of certain events under the Bond Resolution or who may exercise certain rights under the Bond Resolution.

SECTION 1105. *Exclusion of Bonds.* Bonds which are owned by the Authority and which have not been cancelled by the Trustee shall be excluded and shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Bond Obligation under Section 507 and Articles VIII, IX and X.

SECTION 1106. *Preservation and Inspection of Documents.* All reports, resolutions, certificates, statements, and other documents received by the Trustee with respect to the Bond Resolution shall be retained in its possession and shall be available at all reasonable times to the inspection of the Authority or the Owners of an aggregate of not less than twenty-five percent (25%) of the Bond Obligation or their agents or representatives duly authorized in writing, any of whom may make copies thereof, but any such reports, resolutions, certificates, statements or other documents

may, at the election of the Trustee, be destroyed or otherwise disposed of at any time six years subsequent to such date as any and all liens and pledges and all covenants, agreements and other obligations of the Authority with respect to the Bond Resolution shall be discharged as provided in Section 1101.

SECTION 1107. *No Recourse.* No recourse shall be had for the payment of any Bond Amount or for any claim based thereon or on the Bond Resolution or the 1986 Amended Resolution or on any other agreement, instrument, certificate or opinion relating to any Bond against any current or former Commissioner, Authorized Officer or employee of the Authority, the Trustee or its officers or employees, or any person executing a Bond.

SECTION 1108. *Effective Date.* *This Restated Bond Resolution shall be effective upon the satisfaction of the condition in Section 803(A)(1) of the 1986 Amended Resolution or the condition in Section 803(A)(2) of the 1986 Amended Resolution, whichever occurs first, and upon satisfaction of the other requirements specified in Sections 803, 805 and (in the case of satisfaction of the condition in Section 803(A) (2) of the 1986 Amended Resolution) 903 of the 1986 Amended Resolution.*

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**Set forth below is the proposed form of the Approving Opinion of Hunton & Williams LLP, Bond Counsel for the Offered Certificates. Such opinion is subject to change prior to the delivery of the Offered Certificates.**

Virginia Housing Development Authority  
Richmond, Virginia

Commissioners:

We have examined a record of proceedings relating to the issuance of \$55,500,706 of Commonwealth Mortgage Bond Pass-Through Certificates, 2008 Series C (the "Offered Certificates"), by the Virginia Housing Development Authority (the "Authority"), a political subdivision of the Commonwealth of Virginia (the "Commonwealth") created by the Virginia Housing Development Authority Act, being Chapter 1.2 of Title 36 of the Code of Virginia, 1950, as amended (the "Act"), and organized and existing under the Act and other laws of the Commonwealth.

The Offered Certificates are authorized to be issued pursuant to the Act and a resolution of the Authority adopted July 15, 1986, entitled "A Resolution Providing for the Issuance of Commonwealth Mortgage Bonds of the Virginia Housing Development Authority and for the Rights of the Owners Thereof" as amended and supplemented to the date hereof (the "Resolution"); a resolution of the Authority adopted February 6, 2008, entitled "Bond Limitations Resolution" (the "Bond Limitation Resolution"); and the Written Determinations of an Authorized Officer of the Authority dated November 7, 2008, executed and delivered in accordance therewith. Such Written Determinations, the Bond Limitations Resolution and the Resolution are collectively herein referred to as the "Bond Resolution." The Offered Certificates are authorized to be issued pursuant to the Resolution for the purpose of providing funds to carry out the Authority's Program of making Mortgage Loans. All capitalized terms used herein and not otherwise defined have the meanings set forth in the Bond Resolution.

Based upon the foregoing, we are of the opinion that:

1. Under the Constitution and laws of the Commonwealth, the Act is valid and the Authority has been duly created and validly exists as a political subdivision with such political and corporate powers as set forth in the Act with lawful authority, among other things, to carry out the Program of making Mortgage Loans, to provide funds therefor and to perform its obligations under the terms and conditions of the Bond Resolution.
2. The Bond Resolution has been duly adopted by the Authority, is valid and binding upon the Authority and is enforceable in accordance with its terms.
3. The Offered Certificates are valid and legally binding general obligations of the Authority secured by a pledge in the manner and to the extent set forth in the Resolution and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Resolution. The Resolution creates a valid pledge of, and the lien that it purports to create upon, the Assets held or set aside or to be held and set aside pursuant to the Resolution, subject only to the provisions of the Resolution permitting the use and payment thereof for or to the purposes and on the terms and conditions set forth in the Resolution.

The foregoing opinion is qualified to the extent that the enforceability of the Offered Certificates and the Bond Resolution may be limited by bankruptcy, moratorium or insolvency or other laws affecting creditors' rights or remedies generally and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Our services as bond counsel to the Authority have been limited to delivery of the foregoing opinion based upon our review of such proceedings and documents as we deem necessary to approve the validity of the Offered Certificates and the Bond Resolution. We express no opinion herein as to the financial resources of the Authority, the adequacy of the Assets pledged to payment of the Offered Certificates, the ability of the Authority to provide for the payment of the Offered Certificates, the yield to be realized by owners of the Offered Certificates, or the accuracy or completeness of any information that may have been relied on by anyone in making a decision to purchase the Offered Certificates, including the Authority's Preliminary Offering Circular for the Offered Certificates dated September 26, 2008 and its Offering Circular for the Offered Certificates dated November 7, 2008.

Very truly yours,

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No dealer, broker, salesman or other person has been authorized by us or the Dealer to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized. There shall not be any offer to sell or the solicitation of an offer to buy, nor shall there be any offer, solicitation or sale of the Offered Certificates in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. Information set forth herein has been furnished by us and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by the Dealer.

**\$55,500,706**

**Commonwealth Mortgage Bonds  
Pass-Through Certificates  
2008 Series C**

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**U.S. Bank National Association**  
*Trustee*

**OFFERING CIRCULAR**

**Virginia Housing  
Development Authority**

*Issuer*

November 7, 2008

