

## NEW ISSUE - Book-Entry Only

INTEREST ON THE TAXABLE ADJUSTABLE 2006 SERIES A-1 BONDS IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. In the opinion of Sherman & Howard L.L.C., Bond Counsel, assuming continuous compliance with certain covenants and representations described herein, interest on the Adjustable 2006 Series A-2 Bonds, the Adjustable 2006 Series A-3 Bonds, the 2006 Series A-4 Class II Bonds and the 2006 Series A-5 Bonds is excluded from gross income under federal income tax laws pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date of delivery of the Adjustable 2006 Series A-2 Bonds, the Adjustable 2006 Series A-3 Bonds, the 2006 Series A-4 Class II Bonds and the 2006 Series A-5 Bonds (the "Tax Code"); however (a) interest on the Adjustable 2006 Series A-3 Bonds and the 2006 Series A-4 Class II Bonds is an item of tax preference for purposes of calculating alternative minimum taxable income as defined in section 55(b)(2) of the Tax Code under federal income tax laws, and (b) interest on the Adjustable 2006 Series A-2 Bonds and the 2006 Series A-5 Bonds is excluded from alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code, except that such interest is required to be included in calculating the "adjusted current earnings" adjustment applicable to corporations for purposes of computing the alternative minimum taxable income of corporations as described herein. In addition, in the opinion of Bond Counsel, the 2006 Series A Bonds and the income therefrom shall at all times be free from taxation by the State of Colorado under Colorado law in effect on the date of delivery of the 2006 Series A Bonds. See "Part I - TAX MATTERS."



# \$180,700,000 COLORADO HOUSING AND FINANCE AUTHORITY Single Family Mortgage Bonds

**\$30,000,000**  
Taxable Class I  
Adjustable Rate Bonds  
2006 Series A-1

**\$20,590,000**  
Class I Adjustable Rate  
Bonds  
2006 Series A-2  
(non-AMT)

**\$40,000,000**  
Class I Adjustable Rate Bonds  
2006 Series A-3  
(AMT)

**\$19,410,000**  
Class II Bonds  
2006 Series A-4  
(AMT)

**\$70,700,000**  
Class I Bonds  
2006 Series A-5  
(non-AMT)

**Dated:** Date of delivery

**Due:** As shown on inside front cover

The 2006 Series A Bonds are being issued by the Colorado Housing and Finance Authority in the series shown above as fully registered bonds pursuant to a Master Indenture of Trust and a 2006 Series A Indenture, each between the Authority and Zions First National Bank, Denver, Colorado, as Trustee. The proceeds of the 2006 Series A Bonds (and certain amounts exchanged therefor) will be (i) deposited to certain funds established under the Indenture, and (ii) used by the Trustee to purchase guaranteed, insured or uninsured mortgage loans made to finance single family residences in the State of Colorado.

The 2006 Series A-4 Class II Bonds and the 2006 Series A-5 Bonds being offered by this Official Statement will bear interest at the fixed interest rates shown on the inside front cover. The Taxable Adjustable 2006 Series A-1 Bonds, the Adjustable 2006 Series A-2 Bonds and the Adjustable 2006 Series A-3 Bonds (collectively, the "Adjustable 2006 Series A Bonds") initially will each bear interest at a weekly rate (the "Weekly Rate") determined prior to the date of delivery of the 2006 Series A Bonds to be effective to and including the following Tuesday, and thereafter determined on each Tuesday by Lehman Brothers Inc.† in its capacity as Remarketing Agent, to be effective from and including each Wednesday to and including the following Tuesday. Following the first Interest Period, the interest rates on the Adjustable 2006 Series A Bonds or any portion thereof may be adjusted at the election of the Authority to a Commercial Paper Rate, Daily Rate, Term Rate, Select Auction Variable Rate Securities<sup>SM</sup> ("SAVRS") Rate, or Fixed Rate, as described herein. Interest on the 2006 Series A Bonds will be payable on each May 1 and November 1, commencing on May 1, 2006, on any redemption date, on any mandatory tender date and at maturity.

While any of the Adjustable 2006 Series A Bonds are in a Weekly Mode Period, owners of any such Adjustable 2006 Series A Bonds will have the right to tender their Bonds for purchase and will also be required to tender their Bonds for purchase at the times and subject to the conditions set forth in the Indenture. Payment of the purchase price for the Adjustable 2006 Series A Bonds tendered for purchase and not remarketed or for which remarketing proceeds are not available will be supported by a Standby Bond Purchase Agreement (referred to herein as the "Initial 2006A Liquidity Facility") among the Authority, Dexia Credit Local, acting through its New York Branch (the "2006A Liquidity Facility Provider"), and Zions First National Bank, as Tender Agent. Coverage under the Initial 2006A Liquidity Facility, unless extended or earlier terminated, is stated to expire on January 18, 2009. Under certain circumstances described herein, the obligation of the 2006A Liquidity Facility Provider to purchase Adjustable 2006 Series A Bonds tendered for purchase under the Initial 2006A Liquidity Facility or subject to mandatory purchase may be terminated or suspended and, in some of such circumstances, the termination or suspension of such obligation will be immediate and without notice to such owners. In such event, sufficient funds may not be available to purchase such Adjustable 2006 Series A Bonds. The Authority is not obligated to purchase Adjustable 2006 Series A Bonds tendered for purchase if remarketing proceeds and payments under the Initial 2006A Liquidity Facility are insufficient to pay the purchase price of such Adjustable 2006 Series A Bonds.

The 2006 Series A Bonds, when issued, will be registered in the name of Cede & Co., as holder of the 2006 Series A Bonds and nominee of The Depository Trust Company, New York, New York. One fully registered bond equal to the principal amount of each maturity of the 2006 Series A Bonds will be registered in the name of Cede & Co. Individual purchases of 2006 Series A Bonds will be made in book-entry form only, and beneficial owners of the 2006 Series A Bonds will not receive physical delivery of bond certificates representing their interest in the 2006 Series A Bonds, except as described herein. Upon receipt of payments of principal and interest, DTC is to remit such payments to the DTC participants for subsequent disbursement to the beneficial owners of the 2006 Series A Bonds. Payments of principal of and interest on the 2006 Series A Bonds will be made directly to DTC or its nominee, Cede & Co., by the Paying Agent, so long as DTC or Cede & Co. is the sole registered owner. Disbursement of such payments to DTC participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners of the 2006 Series A Bonds is the responsibility of the DTC participants and the indirect participants, as more fully described herein.

### Maturity Schedules on Inside Front Cover

*The 2006 Series A Bonds are subject to special redemption, optional redemption and sinking fund redemption prior to maturity as described herein.*

The Master Indenture provides for four classes of Bonds or Auxiliary Obligations thereunder - Class I, Class II, Class III and Class IV Obligations. The 2006 Series A Bonds are being issued as Class I and Class II Bonds. The Class I 2006 Series A Bonds (comprised of the Taxable Adjustable 2006 Series A-1 Bonds, the Adjustable 2006 Series A-2 Bonds, the Adjustable 2006 Series A-3 Bonds and the 2006 Series A-5 Bonds) are special, limited obligations of the Authority payable solely from the revenues, assets and moneys pledged under the Master Indenture as described herein on an equal and ratable basis with all other Class I Obligations now or hereafter outstanding under the Master Indenture. The 2006 Series A-4 Class II Bonds will be payable from the revenues, assets and moneys pledged under the Master Indenture on an equal and ratable basis with all other Class II Obligations now or hereafter outstanding under the Master Indenture, on a basis subordinate to the Class I Obligations. Additional Bonds or Auxiliary Obligations may be issued or incurred by the Authority under the Master Indenture in each of the four Classes and as general obligations of the Authority upon delivery of a Cash Flow Certificate and satisfaction of certain other conditions as set forth in the Master Indenture. In no event shall the 2006 Series A Bonds constitute an obligation or liability of the State of Colorado or any political subdivision thereof other than the Authority. The Authority has no taxing power nor does it have the power to pledge the general credit or taxing power of the State of Colorado or any political subdivision thereof other than the general credit of the Authority, which general credit is not being pledged for the payment of the 2006 Series A Bonds.

The 2006 Series A Bonds are offered when, as and if issued and delivered, subject to the approval of legality by Sherman & Howard L.L.C., Denver, Colorado, Bond Counsel and certain other conditions. Certain legal matters will be passed on for the Authority by Charles L. Borgman, Esq., its General Counsel; by Hogan & Hartson L.L.P., Denver, Colorado, Disclosure Counsel to the Authority; and for the 2006A Liquidity Facility Provider by its special counsel, Kutak Rock LLP, Atlanta, Georgia. The Underwriters are being represented in connection with their purchase of the 2006 Series A Bonds by their counsel, Bookhardt & O'Toole, Denver, Colorado. CSG Advisors Incorporated has served as financial advisor to the Authority in connection with the offering of the 2006 Series A Bonds. See "Part I - FINANCIAL ADVISOR." Subject to prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the 2006 Series A Bonds. For details of the Underwriters' compensation, see "Part I - UNDERWRITING" herein. It is expected that the 2006 Series A Bonds will be delivered (through DTC) in New York, New York on or about January 18, 2006.

## LEHMAN BROTHERS<sup>†</sup>

George K. Baum & Company

Newman & Associates  
a Division of GMAC Commercial Holding Capital Markets Corp

RBC Capital Markets

Stifel, Nicolaus & Company Incorporated  
Hanifen Imhoff Division

Piper Jaffray & Co.

A.G. Edwards & Sons, Inc.

Harvestons Securities, Inc.

UBS Financial Services Inc.

This Official Statement is dated December 14, 2005.

† Remarketing Agent for the Adjustable 2006 Series A Bonds and sole underwriter for the 2006 Series A-5 Bonds  
<sup>SM</sup> Service Mark of Lehman Brothers, Inc.

## **Maturity Schedules**

**\$30,000,000**

**Taxable Adjustable 2006 Series A-1 Bonds  
(CUSIP No. 196479 LF4†)**

\$30,000,000 Taxable Class I Adjustable Rate Bonds, 2006 Series A-1 due November 1, 2036 - Price: 100%

**\$20,590,000**

**Adjustable 2006 Series A-2 Bonds (non-AMT)  
(CUSIP No. 196479 LG2†)**

\$20,590,000 Class I Adjustable Rate Bonds, 2006 Series A-2 due November 1, 2034 - Price: 100%

**\$40,000,000**

**Adjustable 2006 Series A-3 Bonds (AMT)  
(CUSIP No. 196479 LHO†)**

\$40,000,000 Class I Adjustable Rate Bonds, 2006 Series A-3 due November 1, 2036 - Price: 100%

**\$19,410,000**

**2006 Series A-4 Bonds (AMT)  
(CUSIP No. 196479 LJ6†)**

\$19,410,000 of 5.00% Class II Term Bonds, 2006 Series A-4 due November 1, 2036 - Price: 100%

**\$70,700,000**

**2006 Series A-5 Bonds (non-AMT)  
(CUSIP No. 196479 LE7†)**

\$70,700,000 of 3.43% Class I Bonds, 2006 Series A-5 due January 3, 2007 - Price: 100%

† The Authority takes no responsibility for the accuracy of the CUSIP numbers, which are being provided solely for the convenience of the owners of the 2006 Series A Bonds.

No dealer, broker, salesman or other person has been authorized by the Colorado Housing and Finance Authority or by the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. The information in this Official Statement is subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder, under any circumstances, creates any implication that there has been no change in the affairs of the Authority or otherwise since the date hereof. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2006 Series A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth in this Official Statement has been furnished by the Authority and obtained from other sources believed to be reliable. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions, or that they will be realized. All information for investors regarding the Authority and the 2006 Series A Bonds is contained in this Official Statement. While the Authority maintains an Internet website for various purposes, none of the information on this website is intended to assist investors in making any investment decision or to provide any continuing information (except in the case of the limited information provided in the section entitled "Bond Disclosures") with respect to the 2006 Series A Bonds, the Mortgage Loans, the 2006A Liquidity Facility Provider or any other bonds or obligations of the Authority.

THE PRICES AT WHICH THE 2006 SERIES A BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITERS (AND THE YIELDS RESULTING THEREFROM) MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES APPEARING ON THE INSIDE COVER PAGE HEREOF. IN ADDITION, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING PRICES TO DEALERS AND OTHERS. IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 2006 SERIES A BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The 2006 Series A Bonds have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission nor has the commission or any state securities commission passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

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**This Official Statement is comprised of the front cover page and inside front cover,  
Parts I and II and the Appendices.**

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# OFFICIAL STATEMENT

**\$180,700,000**

## **COLORADO HOUSING AND FINANCE AUTHORITY Single Family Mortgage Bonds**

<b>\$30,000,000</b> Taxable Class I Adjustable Rate Bonds 2006 Series A-1	<b>\$20,590,000</b> Class I Adjustable Rate Bonds 2006 Series A-2 (non-AMT)	<b>\$40,000,000</b> Class I Adjustable Rate Bonds 2006 Series A-3 (AMT)	<b>\$19,410,000</b> Class II Bonds 2006 Series A-4 (AMT)	<b>\$70,700,000</b> Class I Bonds 2006 Series A-5 (non-AMT)
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### **PART I**

#### **INTRODUCTION**

This Official Statement, which includes the front cover and inside front cover, this Part I, Part II and the Appendices hereto, provides certain information concerning the Colorado Housing and Finance Authority (the "**Authority**") and otherwise in connection with the offer and sale of the above-captioned bonds, which are referred to in this Official Statement as the "**2006 Series A Bonds**." The 2006 Series A Bonds are being issued pursuant to the Master Indenture of Trust dated as of October 1, 2001, as amended (the "**Master Indenture**"), and the 2006 Series A Indenture dated as of January 1, 2006 (the "**2006 Series A Indenture**," and together with the Master Indenture, the "**Indenture**"), each between the Authority and Zions First National Bank, Denver, Colorado, as Trustee (the "**Trustee**"). Capitalized terms used herein and not defined have the meanings specified in the Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE " in **Appendix A** to this Official Statement.

*This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by the information contained in, the entire Official Statement, including the front cover page and inside front cover, this Part I, Part II hereof and the Appendices hereto, and the documents summarized or described herein. A full review should be made of this entire Official Statement. The offering of 2006 Series A Bonds to potential investors is made only by means of this entire Official Statement. This Official Statement does not constitute a contract between the Authority or the Underwriters, and any one or more owners of the 2006 Series A Bonds.*

#### **Colorado Housing and Finance Authority**

The Authority is a body corporate and political subdivision of the State of Colorado (the "**State**") established by the Colorado General Assembly for the purpose of increasing the supply of decent, safe and sanitary housing for low and moderate income families. In order to achieve its authorized purposes, the Authority currently operates numerous housing and business loan programs. See "Part II – COLORADO HOUSING AND FINANCE AUTHORITY – Programs to Date." The 2006 Series A Bonds are being issued, among other things, to provide funds to purchase and originate Mortgage Loans under the Authority's Single Family Mortgage Program. Proceeds of the 2006 Series A Bonds may not be used to finance any activities of the Authority other than the Single Family Mortgage Program. See "Part II – THE SINGLE FAMILY MORTGAGE PROGRAM." The Authority is governed by a Board of Directors and is authorized to issue its bonds, notes and other obligations in order to provide sufficient funds to achieve its purposes. *For additional information concerning the Authority, see "Part II –*

*COLORADO HOUSING AND FINANCE AUTHORITY" and the audited 2004 and 2003 financial statements of the Authority attached hereto as Appendix G hereto.*

### **Authority for Issuance**

The 2006 Series A Bonds are authorized to be issued pursuant to the Colorado Housing and Finance Authority Act, being Part 7 of Article 4 of Title 29 of the Colorado Revised Statutes, as amended (the "Act") and the Supplemental Public Securities Act, being Part 2 of Article 57 of Title 11 of the Colorado Revised Statutes. The 2006 Series A Bonds are being issued and secured under the Indenture.

### **Purposes of the 2006 Series A Bonds**

Proceeds of the 2006 Series A Bonds (and certain amounts exchanged for such proceeds) will be used to (i) repay an advance by the Authority made to redeem certain of the Authority's outstanding bonds, (ii) finance mortgage loans as described herein (the "**2006 Series A Mortgage Loans**" which shall be comprised of First Mortgage Loans and Second Mortgage Loans as further described herein) for borrowers purchasing single family residences in the State, (iii) fund the debt service reserve fund requirement relating to the 2006 Series A Bonds, and (iv) pay costs of issuance associated with the 2006 Series A Bonds. See "Part I – PLAN OF FINANCE."

### **Description of the 2006 Series A Bonds**

#### *Interest Rates and Payments*

Interest on the Authority's Single Family Mortgage Class II Bonds, 2006 Series A-4 (the "**2006 Series A-4 Class II Bonds**") and the Authority's Single Family Mortgage Class I Bonds, 2006 Series A-5 (the "**2006 Series A-5 Bonds**") is payable at the rates shown on the inside front cover hereof on May 1, 2006 and thereafter semiannually on May 1 and November 1 of each year, to be computed on the basis of a 360-day year of twelve 30-day months. The 2006 Series A-4 Class II Bonds and the 2006 Series A-5 Bonds are collectively herein referred to as the "**2006A Fixed Rate Bonds**." See "Part I – TERMS OF THE 2006 SERIES A BONDS – 2006A Fixed Rate Bonds." The 2006A Fixed Rate Bonds are to be issued in denominations of \$5,000 or any integral multiple thereof. The Authority's Taxable Single Family Mortgage Class I Adjustable Rate Bonds, 2006 Series A-1 (the "**Taxable Adjustable 2006 Series A-1 Bonds**"), the Authority's Single Family Mortgage Class I Adjustable Rate Bonds, 2006 Series A-2 (the "**Adjustable 2006 Series A-2 Bonds**") and the Authority's Single Family Mortgage Class I Adjustable Rate Bonds, 2006 Series A-3 (the "**Adjustable 2006 Series A-3 Bonds**" and, together with the Taxable Adjustable 2006 Series A-1 Bonds and the Adjustable 2006 Series A-2 Bonds, the "**Adjustable 2006 Series A Bonds**") initially will bear interest at Weekly Rates. While in a Weekly Rate Mode, interest on the Adjustable 2006 Series A Bonds will be determined and adjusted weekly, is payable semiannually on May 1 and November 1 of each year, commencing on May 1, 2006, as described in "Part I – TERMS OF THE 2006 SERIES A BONDS – Adjustable 2006 Series A Bonds," and will be computed on the basis of a 365-day year or a 366-day year, as applicable, for the number of days actually elapsed. The Adjustable 2006 Series A Bonds will be issued in denominations of \$100,000 or integral multiples of \$5,000 in excess of \$100,000. Principal of the 2006 Series A Bonds is payable in the amounts and on the dates as shown on the inside front cover hereof, subject to prior redemption or purchase.

#### *Redemption and Tender*

Certain of the 2006 Series A Bonds are subject to special, optional and sinking fund redemption, and the Adjustable 2006 Series A Bonds are also subject to optional and mandatory tender for purchase,



prior to maturity as described under "Part I – TERMS OF THE 2006 SERIES A BONDS." See "Part II – CERTAIN BONDOWNERS' RISKS – Considerations Regarding Redemption."

**For a more complete description of the 2006 Series A Bonds and the Indenture pursuant to which such 2006 Series A Bonds are being issued, see "Part I – TERMS OF THE 2006 SERIES A BONDS" and Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."**

### **Security and Sources of Payment**

All Bonds and Auxiliary Obligations outstanding under the Master Indenture (other than Auxiliary Obligations which are General Obligations of the Authority) will be secured by and payable from all of the Authority's rights and interests in and to the revenues, assets and moneys pledged under the Master Indenture, in particular the Revenues and the Mortgage Loans (collectively, the "**Trust Estate**"). See "Part II – SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS" and **Appendix B-2 – "THE MORTGAGE LOAN PORTFOLIO."** In accordance with the Master Indenture, any Bonds or Auxiliary Obligations may be outstanding as Class I, Class II, Class III or Class IV Obligations, and may also be designated as General Obligations of the Authority. As of November 1, 2005, Bonds issued under the Master Indenture were outstanding in an aggregate principal amount of \$1,328,885,000 for the Class I Bonds, \$64,455,000 for the Class II Bonds and \$91,330,000 for the Class III Bonds. No Class IV Bonds were outstanding under the Master Indenture as of such date. See "Part I – PLAN OF FINANCE," "Part I – CERTAIN PROGRAM ASSUMPTIONS" and **Appendix B-1 – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS."**

The 2006 Series A Bonds as described on the inside front cover hereof are being issued as Class I Obligations and Class II Obligations pursuant to the Indenture and will be payable and secured by the Trust Estate as described herein. No 2006 Series A Bonds are being issued as Class III or Class IV Obligations. The 2006 Series A Bonds will be secured by amounts deposited to the Debt Service Reserve Fund established under the Indenture. See "Part I – CERTAIN PROGRAM ASSUMPTIONS – Debt Service Reserve Fund." **In no event shall the 2006 Series A Bonds constitute an obligation or liability of the State or any political subdivision thereof other than the Authority. The Authority has no taxing power nor does it have the power to pledge the general credit or the taxing power of the State or any political subdivision thereof other than the general credit of the Authority, which general credit is not being pledged for payment of the 2006 Series A Bonds.**

Upon delivery of the Adjustable 2006 Series A Bonds, the Authority will enter into a Standby Bond Purchase Agreement to establish a liquidity facility for the Adjustable 2006 Series A Bonds (the "**Initial 2006A Liquidity Facility**") with Dexia Credit Local, acting through its New York Branch, as the initial standby bond purchaser (referred to herein as the "**2006A Liquidity Facility Provider**"). See **Appendix C – "CERTAIN TERMS OF THE INITIAL 2006A LIQUIDITY FACILITY"** and **Appendix D – "2006A LIQUIDITY FACILITY PROVIDER."** UNDER CERTAIN CIRCUMSTANCES, THE OBLIGATION OF THE 2006A LIQUIDITY FACILITY PROVIDER TO PURCHASE ADJUSTABLE 2006 SERIES A BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED OR SUSPENDED AND, IN SOME OF SUCH CIRCUMSTANCES, THE TERMINATION OR SUSPENSION OF SUCH OBLIGATION WILL BE IMMEDIATE AND WITHOUT NOTICE TO SUCH OWNERS. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE ADJUSTABLE 2006 SERIES A BONDS TENDERED BY THE OWNERS OR SUBJECT TO MANDATORY PURCHASE. IN ADDITION, THE INITIAL 2006A LIQUIDITY FACILITY DOES NOT PROVIDE SECURITY FOR THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE ADJUSTABLE 2006 SERIES A BONDS.

## **Professionals Involved in the Offering**

In connection with the issuance and sale of the 2006 Series A Bonds, Sherman & Howard L.L.C., as Bond Counsel, will deliver an opinion in the form included as **Appendix E** hereto. See "Part I – TAX MATTERS." Certain legal matters relating to the 2006 Series A Bonds will be passed upon for the Underwriters by their counsel, Bookhardt & O'Toole. Certain legal matters will be passed upon for the Authority by its General Counsel, Charles L. Borgman, Esq.; by Hogan & Hartson, L.L.P., Disclosure Counsel to the Authority; and for the 2006A Liquidity Facility Provider by its special counsel, Kutak Rock LLP. CSG Advisors Incorporated has served as financial advisor to the Authority in connection with the offering of the 2006 Series A Bonds.

## **Availability of Continuing Information**

In connection with issuance of the 2006A Fixed Rate Bonds, the Authority will deliver a Continuing Disclosure Undertaking, in the form attached as **Appendix J** hereto, by which the Authority will agree to provide to the National Repositories (which may be accomplished by a single filing with DisclosureUSA, the central post office filing system recently approved by the Securities and Exchange Commission as in compliance with Rule 15c2-12 under the Securities Exchange Act of 1934) certain annual financial information and audited financial statements commencing with the fiscal year ending December 31, 2005, and notice of certain material events. **The Authority has not agreed to provide continuing financial or other information for the benefit of the owners of the Adjustable 2006 Series A Bonds while in any Mode not subject to Rule 15c2-12.**

In January, 2002, the Authority determined that it had failed to comply with the disclosure agreements relating to certain of its outstanding multi-family revenue bonds by not satisfying its agreement to forward to each National Repository then designated by the Securities and Exchange Commission audited financial statements provided to the Authority by certain of the borrowers relating to such bonds. All such financial statements were immediately forwarded. The Authority is currently in compliance with all continuing disclosure undertakings entered in connection with its outstanding bonds and has established procedures to assure future compliance.

## **Investment Considerations**

*The purchase and ownership of the 2006 Series A Bonds involve investment risks. Prospective purchasers of the 2006 Series A Bonds being offered by this Official Statement are urged to read this Official Statement in its entirety. For a discussion of certain such risks relating to the 2006 Series A Bonds, see "Part II – CERTAIN BONDOWNERS' RISKS."*

## **TERMS OF THE 2006 SERIES A BONDS**

### **General Terms**

#### *Payment*

The principal or redemption price of the 2006 Series A Bonds is payable at the corporate trust office of Zions First National Bank, the Paying Agent and the Trustee for the 2006 Series A Bonds. Interest on the 2006 Series A Bonds will be payable on the Interest Payment Dates to Cede & Co.

### *Book-Entry System*

DTC will act as securities depository for the 2006 Series A Bonds. The ownership of one fully registered Bond for each maturity as set forth on the inside front cover, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. Information concerning the book-entry system provided by DTC is set forth in **Appendix H – "BOOK-ENTRY SYSTEM."** So long as the 2006 Series A Bonds are registered in the DTC book-entry form described in Appendix H, each Beneficial Owner of a 2006 Series A Bond should make arrangements with a Participant in DTC to receive notices or communications with respect to matters concerning the 2006 Series A Bonds.

### *Defeasance and Discharge*

The Indenture provides the Authority with the right to discharge the pledge and lien created by the Indenture with respect to any 2006 Series A Bonds by depositing with the Trustee or the Paying Agent sufficient moneys or Defeasance Securities to pay when due the principal or Redemption Price of, if applicable, and interest due or to become due on such 2006 Series A Bonds at the maturity or redemption thereof. See **Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Defeasance."**

### **2006A Fixed Rate Bonds**

The 2006A Fixed Rate Bonds, to be dated the date of delivery thereof, will bear interest at the rates, and will mature, subject to prior redemption as described in "Prior Redemption" under this caption, in the amounts and on the dates as shown on the inside front cover of this Official Statement. Interest on the 2006A Fixed Rate Bonds will be computed on the basis of a 360-day year of twelve 30-day months and will be payable each May 1 and November 1, commencing May 1, 2006, and at maturity. The 2006A Fixed Rate Bonds will be issued as fully registered bonds without coupons. Purchases of the 2006A Fixed Rate Bonds are to be made in denominations of \$5,000 or any integral multiple thereof. The 2006A Fixed Rate Bonds are to be redeemed as described in "Prior Redemption" under this caption.

### **Adjustable 2006 Series A Bonds**

#### *Generally*

The Adjustable 2006 Series A Bonds will be dated the date of delivery and will mature, subject to prior redemption or purchase as described below, in the amount and on the date as shown on the inside front cover of this Official Statement. The Adjustable 2006 Series A Bonds initially will bear interest at Weekly Rates determined prior to the date of delivery by Lehman Brothers Inc. Thereafter, the interest rate on any of the Adjustable 2006 Series A Bonds may be adjusted at the election of the Authority to a Commercial Paper Rate, Daily Rate, Term Rate, Select Auction Variable Rate Securities<sup>SM</sup> ("SAVRS") Rate or Fixed Rate, as described herein. While the Adjustable 2006 Series A Bonds are in an Interest Period for a Weekly Mode, interest will be payable on each May 1 and November 1, commencing May 1, 2006, on any redemption date or mode change date and on the maturity date. The Adjustable 2006 Series A Bonds are to be redeemed as described in "Prior Redemption" under this caption.

While in an Interest Period for a Term Rate shorter than one year, a Commercial Paper Mode, a Daily Mode or a Weekly Mode, interest on the Adjustable 2006 Series A Bonds is to be calculated on the

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<sup>SM</sup> Service Mark of Lehman Brothers, Inc.

basis of a 365/366 day year for the actual number of days elapsed. Interest on the Adjustable 2006 Series A Bonds in a Fixed Rate Mode or a Term Rate Mode of one year or longer is to be computed on the basis of a 360-day year comprised of twelve 30-day months. When a SAVRS Rate Mode for Adjustable 2006 Series A Bonds is in effect, interest shall accrue daily and shall be computed for the actual number of days elapsed on the basis of a year consisting of 360 days. The Adjustable 2006 Series A Bonds in a Daily Mode, Weekly Mode, Commercial Paper Mode or SAVRS Rate Mode may be purchased in denominations of \$100,000, or any integral multiples of \$5,000 in excess of \$100,000. Adjustable 2006 Series A Bonds in a Term Rate Mode or Fixed Rate Mode are issuable in denominations of \$5,000 or any integral multiple thereof.

#### *Determination of Interest Rate*

General. Any Adjustable 2006 Series A Bond may bear interest at a Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Term Rate, a SAVRS Rate or a Fixed Rate until its respective maturity or prior redemption. The Mode of the Adjustable 2006 Series A Bonds from the delivery date until further designation by the Authority will be the Weekly Mode. Thereafter, the Authority may change any of the Adjustable 2006 Series A Bonds from one Mode to another Mode as described in "Adjustment Between Modes" under this caption. The interest rate on the Adjustable 2006 Series A Bonds (other than when in a SAVRS Rate Mode) is to be determined by the 2006A Remarketing Agent in accordance with the Indenture as described below. The interest on the Adjustable 2006 Series A Bonds may also be changed to a SAVRS Rate. The SAVRS Rate for each respective SAVRS Mode Period will be determined pursuant to auctions conducted in accordance with procedures set forth in the Master Indenture. *This Official Statement does not contain a detailed description of SAVRS Rate Bonds, auction procedures and other relevant information relating thereto.*

*Adjustment of the interest rate on the Adjustable 2006 Series A Bonds such that all of the Adjustable 2006 Series A Bonds bear interest at a Fixed Interest Rate or the SAVRS Rate would result in a termination of the Initial 2006A Liquidity Facility. See Appendix C – "CERTAIN TERMS OF THE INITIAL 2006A LIQUIDITY FACILITY."*

Weekly Rate. During any Interest Period in which any Adjustable 2006 Series A Bonds are in a Weekly Mode, the 2006A Remarketing Agent is to determine the Weekly Rate by 4:00 p.m., Eastern time, on Tuesday of each week or, if such Tuesday is not a Business Day, the next succeeding day or, if such day is not a Business Day, then the Business Day next preceding such Tuesday. The Weekly Rate determined by the 2006A Remarketing Agent is to be the minimum interest rate which, in the opinion of the 2006A Remarketing Agent under then-existing market conditions, would result in the sale of the Adjustable 2006 Series A Bonds on such date at a price equal to the principal amount thereof plus accrued and unpaid interest, if any. If the 2006A Remarketing Agent fails to establish a Weekly Rate for any week (or if the method for determining the Weekly Rate shall be held to be unenforceable by a court of law of competent jurisdiction), then such Adjustable 2006 Series A Bonds are to bear interest from the last date on which the Weekly Rate was determined by the 2006A Remarketing Agent (or the last date on which interest was legally paid) until such time as the 2006A Remarketing Agent determines the Weekly Rate (or until there is delivered an opinion of counsel to the effect that the method of determining such interest was enforceable) (i) in the case of the Taxable Adjustable 2006 Series A-1 Bonds, at the One Month LIBOR Rate plus 0.20% as reported on the day such Weekly Rate would otherwise have been determined by the 2006A Remarketing Agent, or (ii) in the case of the Adjustable 2006 Series A-2 Bonds or the Adjustable 2006 Series A-3 Bonds, at the BMA Municipal Swap Index plus 0.20% (or, in the event that the Indexing Agent no longer publishes an index satisfying the requirements of the definition of BMA Municipal Swap Index, the J.J. Kenny Index plus 0.20%; provided, however, that if the J.J. Kenny Index also ceases to be published, an alternative index shall be calculated by an entity selected in good faith by the Authority, and shall be determined using the criteria for the BMA Municipal Swap Index). The 2006A Remarketing Agent is to make the Weekly Rate available:

(i) after 4:00 p.m., Eastern time, on the date of determination of such rate by telephone to any Owner, the Authority, the Trustee, the Paying Agent and the Liquidity Facility Provider; and (ii) by telecopy, telegraph, telex, facsimile transmission, e-mail transmission or other similar electronic means of communication, including a telephonic communication confirmed by writing or other transmission, to the Paying Agent, not later than 4:00 p.m., Eastern time, on the second Business Day after the date of such rate determination.

Daily Rate. During any Interest Period in which any Adjustable 2006 Series A Bonds are in a Daily Mode, the 2006A Remarketing Agent is to determine the Daily Rate by 10:00 a.m., Eastern time, on each Business Day. The Daily Rate for any day during the Daily Rate Mode which is not a Business Day will be the Daily Rate established as of the immediately preceding Business Day. The Daily Rate determined by the 2006A Remarketing Agent is to be the minimum interest rate which, in the opinion of the 2006A Remarketing Agent under then-existing market conditions, would result in the sale of such Adjustable 2006 Series A Bonds on the date of rate determination at a price equal to the principal amount thereof plus accrued and unpaid interest, if any. If the 2006A Remarketing Agent fails to establish a Daily Rate for any day (or if the method for determining the Daily Rate shall be held to be unenforceable by a court of law of competent jurisdiction), then such Adjustable 2006 Series A Bonds are to bear interest from the last date on which the Daily Rate was determined by the 2006A Remarketing Agent (or the last date on which interest was legally paid) until such time as the 2006A Remarketing Agent determines the Daily Rate (or until there is delivered an opinion of counsel to the effect that the method of determining such interest was enforceable) at the last lawful interest rate set by the 2006A Remarketing Agent.

Term Rates. During any Interest Period in which any Adjustable 2006 Series A Bonds are in a Term Rate Mode, the 2006A Remarketing Agent is to determine the Term Rate by 4:00 p.m., Eastern time, on a Business Day no earlier than 30 Business Days and no later than the Business Day next preceding the first day of an Interest Period. The Term Rate determined by the 2006A Remarketing Agent is to be the minimum interest rate which, in the sole judgment of the 2006A Remarketing Agent, will result in the sale of such Adjustable 2006 Series A Bonds at a price equal to the principal amount thereof. If, for any reason, a new Term Rate for a Adjustable 2006 Series A Bond that has been in the Term Rate Mode and is to continue in the Term Rate Mode is not or cannot be established, then (i) if such Adjustable 2006 Series A Bond is secured by a Liquidity Facility, it will be changed automatically to the Commercial Paper Mode with an Interest Period and Commercial Paper Rate to be determined by the 2006A Remarketing Agent in accordance with the Indenture or (ii) if such Adjustable 2006 Series A Bond is not secured by a Liquidity Facility, then such Bond shall stay in the Term Rate Mode for an Interest Period ending on the next May 1 or November 1 and shall bear interest (A) in the case of the Taxable Adjustable 2006 Series A-1 Bonds based on the One-Year LIBOR Rate in effect on such Rate Determination Date plus 0.20% and (B) in the case of the Adjustable 2006 Series A-2 Bonds or Adjustable 2006 Series A-3 Bonds, based on an index published by Kenny Information Systems plus 0.20%, which index is based on yield evaluations at par of non-AMT tax-exempt bonds. The bonds upon which the index is based shall include not less than five "high grade" component issuers selected by Kenny Information Systems which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time to time by Kenny Information Systems in its discretion. The yield evaluation period for the index shall be a one year evaluation. The 2006A Remarketing Agent is to give written notice of the Term Rate to the Authority and the Paying Agent upon request. If a new Interest Period is not selected by the Authority prior to the Business Day next preceding the Purchase Date for the Interest Period then in effect, the new Interest Period will be the same length as the current Interest Period, or such lesser period necessary to prevent the Interest Period from extending beyond the date which is five Business Days prior to the stated term, expiration date or termination date of the Liquidity Facility, or such date as it may be extended, or any earlier date on which the Liquidity Facility is to terminate, expire or be cancelled. No Interest Period in the Term Rate Mode may extend beyond the applicable Maturity Date.

**Fixed Rate.** During each Fixed Rate Mode for any Adjustable 2006 Series A Bonds, the 2006A Remarketing Agent is to determine the Fixed Rate by 4:00 p.m., Eastern time, no later than the Business Day prior to the first day of the Fixed Rate Mode. The Fixed Rate determined by the 2006A Remarketing Agent is to be the minimum interest rate which, in the sole judgment of the 2006A Remarketing Agent, would result in the sale of such Adjustable 2006 Series A Bonds on the date of rate determination at a price equal to the principal amount thereof. Upon request of any Owner, the Authority, the Trustee, the Paying Agent or the Liquidity Facility Provider, the 2006A Remarketing Agent is to make the Fixed Rate available by telephone and by telecopy, telegraph, telex, facsimile transmission, e-mail transmission or other similar electronic means of communication, including a telephonic communication confirmed by writing or other transmission.

**Commercial Paper Rates.** On the first day of each Interest Period for a Adjustable 2006 Series A Bond in a Commercial Paper Mode, the 2006A Remarketing Agent is to select for such Adjustable 2006 Series A Bond the Interest Period which would result in the 2006A Remarketing Agent being able to remarket such Adjustable 2006 Series A Bond at par in the secondary market at the lowest interest rate then available and for the longest Interest Period available at such rate, provided that if on the first day of any Interest Period the 2006A Remarketing Agent determines that current or anticipated future market conditions or anticipated future events are such that a different Interest Period would result in a lower average interest cost on such Adjustable 2006 Series A Bond, then the 2006A Remarketing Agent is to select the Interest Period which in the judgment of the 2006A Remarketing Agent would permit such Adjustable 2006 Series A Bond to achieve such lower average interest cost; provided, however, that if the 2006A Remarketing Agent has received notice from the Authority that any Adjustable 2006 Series A Bond is to be changed from the Commercial Paper Mode to any other Mode or is to be purchased in accordance with a mandatory purchase pursuant to the Indenture, the 2006A Remarketing Agent shall, with respect to such Adjustable 2006 Series A Bond, select Interest Periods which do not extend beyond the Mandatory Purchase Date. On or after 4:00 p.m., Eastern time, on the Business Day next preceding the first day of each Interest Period for a Adjustable 2006 Series A Bond in the Commercial Paper Mode, any Owner of such Adjustable 2006 Series A Bond may telephone the 2006A Remarketing Agent and receive notice of the anticipated next Interest Period and the anticipated Commercial Paper Rate for such Interest Period for such Adjustable 2006 Series A Bond. To receive payment of the Purchase Price, the Owner of any Adjustable 2006 Series A Bond in the Commercial Paper Mode must present such Bond to the Paying Agent by 12:00 noon, Eastern time, on the first day of the Interest Period for a Commercial Paper Mode, in which case the Paying Agent shall pay the Purchase Price to such Owner by the close of business on the same day. By 12:30 p.m., Eastern time, on the first day of each Interest Period for a Commercial Paper Mode, the 2006A Remarketing Agent is to determine the Commercial Paper Rate for the Interest Period then selected for such Adjustable 2006 Series A Bond and is to give notice to the Paying Agent by telecopy, telegraph, telex, facsimile transmission, e-mail transmission or other similar electronic means of communication, including a telephonic communication confirmed by writing or written transmission, of the new Owner, the Interest Period, the Purchase Date and the Commercial Paper Rate. By 1:00 p.m., Eastern time, on the first day of each Interest Period for a Commercial Paper Mode, the 2006A Remarketing Agent is to assign CUSIP numbers for each Commercial Paper Bond for which a Commercial Paper Rate and Interest Period have been determined on such date and notify the Paying Agent of such assignment by telecopy, telegraph, telex, facsimile transmission, e-mail transmission or other similar electronic means of communication, including a telephonic communication confirmed by writing or written transmission. If, for any reason, a New Commercial Paper Rate for a Adjustable 2006 Series A Bond that has been in the Commercial Paper Rate Mode and is to continue in the Commercial Paper Rate Mode is not or cannot be established, then such Bond shall stay in the Commercial Paper Rate Mode and shall bear interest (i) in the case of the Taxable Adjustable 2006 Series A-1 Bonds at the Three-Month LIBOR Rate in effect on such Rate Determination Date plus 0.20%, or (ii) in the case of the Adjustable 2006 Series A-2 Bonds or the Adjustable 2006 Series A-3 Bonds, at the Lehman Brothers Commercial Paper Index plus 0.20% in effect on such Rate Determination Date.

### *Adjustment Between Modes*

Any change to a different Mode requires delivery to the Trustee, the Paying Agent and the 2006A Remarketing Agent of: (i) a notice from each Rating Agency confirming that the rating on the Adjustable 2006 Series A Bonds will not be withdrawn (other than a withdrawal of a short term rating upon a change to the Term Rate Mode or Fixed Rate Mode) or reduced as a result of such change in Mode; (ii) if the change is from a Short-Term Mode to a Term Rate Mode, SAVRS Rate Mode or Fixed Rate Mode, or from a Term Rate Mode to a Short-Term Mode, a favorable opinion of bond counsel; and (iii) a Liquidity Facility (except if the change is to the Fixed Rate Mode or, in the case of a change to a Term Rate, the Authority elects not to have a Liquidity Facility with respect to such Bonds in a Term Rate Mode). The Authority may change a Adjustable 2006 Series A Bond (other than a Adjustable 2006 Series A Bond in the Fixed Rate Mode) from one Mode to another Mode by giving written notice no later than the 45<sup>th</sup> day (or such shorter time as may be agreed upon by the Authority, the Trustee, the Paying Agent and the 2006A Remarketing Agent) preceding the proposed date of Mode change to the Trustee, the Paying Agent and the Liquidity Facility Provider. Such notice is to include: (i) the new Mode; (ii) the length of the initial Interest Period if the change is to a Term Rate Mode; and (iii) whether or not the Adjustable 2006 Series A Bonds to be converted to a new Mode will be covered by a 2006A Liquidity Facility. The Trustee is to give notice to Owners of Adjustable 2006 Series A Bonds by mail no less than 30 days prior to the proposed date of the Mode change stating that such Bonds are subject to mandatory purchase on such date. The Adjustable 2006 Series A Bonds are subject to mandatory purchase on any day on which a different Mode for such Bonds begins. See "Mandatory Purchase - Mandatory Purchase on Mode Change Date" under this caption. **So long as the Adjustable 2006 Series A Bonds are registered in the DTC book-entry system described in Appendix H, such notices will be sent only to DTC's nominee.**

### *Optional Tender and Purchase*

Optional Tender during a Weekly Mode or Daily Mode. During any Interest Period for a Weekly Mode or Daily Mode, any Adjustable 2006 Series A Bond (other than a Bank Bond) is to be purchased in an Authorized Denomination from its Owner at the option of the Owner on any Business Day at a purchase price equal to the principal amount thereof tendered for purchase plus accrued interest to the Purchase Date defined below (the "**Purchase Price**"), payable by wire transfer in immediately available funds, upon delivery to the 2006A Remarketing Agent of an irrevocable telephonic notice in the case of Adjustable 2006 Series A Bonds in the Daily Mode and an irrevocable written notice or an irrevocable telephonic notice, promptly confirmed in writing to the Paying Agent, in the case of Adjustable 2006 Series A Bonds in the Weekly Mode, which notice states the CUSIP number, the Bond number, the principal amount of such Adjustable 2006 Series A Bond, the principal amount thereof to be purchased and the date on which the same is to be purchased (the "**Purchase Date**"), which date is to be a Business Day specified by the Owner. In the case of Adjustable 2006 Series A Bonds tendered for purchase during the Daily Mode, such notice is to be delivered by the Owner by no later than 11:00 a.m., Eastern time on such Business Day. In the case of Adjustable 2006 Series A Bonds tendered for purchase during the Weekly Mode, such notice is to be delivered by the Owner by no later than 4:00 p.m., Eastern time on a Business Day not less than seven days before the Purchase Date specified by the Owner in such notice. For payment of such Purchase Price, such Adjustable 2006 Series A Bonds are to be delivered (with all necessary endorsements) at or before 12:00 noon, Eastern time, on the Purchase Date at the office of the Paying Agent in Denver, Colorado. Payment of the Purchase Price is to be made by wire transfer in immediately available funds by the Paying Agent by the close of business on the Purchase Date. An Owner who gives the notice described above may repurchase the Bonds so tendered, if the 2006A Remarketing Agent agrees to sell the tendered Bonds to such Owner, in which case the delivery requirements set forth above will be waived.

Optional Purchase at End of Term Rate Period. Unless such Adjustable 2006 Series A Bonds are being changed to a Mode other than another Term Rate Mode, the owner of Adjustable 2006 Series A Bonds in a Term Rate Mode may act to have its Bond (or portions thereof in Authorized Denominations) purchased on the last day of any Interest Period for a Term Rate Mode (or the next Business Day if such last day is not a Business Day) (the "**Purchase Date**") at a purchase price equal to the principal amount thereof tendered for purchase (the "**Purchase Price**") upon delivery to the 2006A Remarketing Agent of an irrevocable written notice of tender or an irrevocable telephonic notice of tender, confirmed in writing to the Paying Agent, which notice states the CUSIP number, the Bond number and the principal amount of such Adjustable 2006 Series A Bond to be purchased. Such notice is to be given not later than 10:00 a.m. on a Business Day not less than seven days before such last day of the Interest Period. For payment of such Purchase Price, such Adjustable 2006 Series A Bonds are to be delivered (with all necessary endorsements) at or before 12:00 noon, Eastern time, on the Purchase Date at the office of the Paying Agent in Denver, Colorado. Payment of the Purchase Price is to be made by wire transfer in immediately available funds by the Paying Agent by the close of business on the Purchase Date.

#### *Mandatory Purchase*

Mandatory Purchase at End of Commercial Rate Period. On the last day of any Interest Period for the Commercial Paper Mode, the Adjustable 2006 Series A Bonds in such mode are subject to mandatory tender without notice at the Purchase Price. Owners are to deliver such Bonds to the office of the Paying Agent in Denver, Colorado, at or before 12:00 noon, Eastern time, on such date. Payment of the Purchase Price is to be made by wire transfer of immediately available funds by the close of business on such date.

Mandatory Purchase on Mode Change Date. Adjustable 2006 Series A Bonds to be changed from one Mode to another Mode will be subject to mandatory tender for purchase on each day on which a new Mode for such Bonds begins (the "**Mode Change Date**") at a purchase price equal to the Purchase Price. The Trustee is to give notice by first-class mail, or transmitted in such other matter (such as by electronic means) as may be customary for the industry as directed in writing by the Authority, to the Owners of such Bonds no less than 30 days prior to the Mandatory Purchase Date. Such notice is to state the Mandatory Purchase Date, the Purchase Price, the numbers of the Adjustable 2006 Series A Bonds to be purchased if less than all of the Bonds owned by such Owners are to be purchased and that interest on such Bonds subject to mandatory purchase will cease to accrue from and after the Mandatory Purchase Date. The failure to mail such notice with respect to any Adjustable 2006 Series A Bond shall not affect the validity of the mandatory purchase of any other Bond with respect to which such notice was mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by the Owner. Adjustable 2006 Series A Bonds subject to mandatory purchase on the Mandatory Purchase Date are to be delivered (with all necessary endorsements) to the office of the Paying Agent in Denver, Colorado at or before 12:00 noon, Eastern time, on the Mandatory Purchase Date. Payment of the Purchase Price is to be made by wire transfer in immediately available funds by the close of business on the Mandatory Purchase Date. **So long as the Adjustable 2006 Series A Bonds are registered in the DTC book-entry system described in Appendix H, such notices will be sent only to DTC's nominee.**

Mandatory Purchase For Failure to Replace Liquidity Facility or Upon Certain Substitution of Alternate Liquidity Facility. In the event that the Authority does not replace a Liquidity Facility with another Liquidity Facility prior to its expiration date in accordance with the Indenture, the Adjustable 2006 Series A Bonds having the benefit of such Liquidity Facility will be subject to mandatory purchase on the earlier of the last Interest Payment Date before the then current Liquidity Facility expires (whether at the stated expiration date thereof or earlier termination date) or 45 days before such stated expiration date or earlier termination date. In addition, in the event that on or prior to the 45<sup>th</sup> day next preceding the date on which an Alternate Liquidity Facility is to be substituted for the current Liquidity Facility (the "**Substitution Date**") the Authority has failed to deliver to the Paying Agent a Rating Confirmation



Notice in connection with such substitution, the Adjustable 2006 Series A Bonds having the benefit of the Liquidity Facility will be subject to mandatory tender for purchase five Business Days prior to the Substitution Date. The Trustee is to give notice by first-class mail (or transmitted in such other manner, such as electronic means, as may be customary for the industry as directed in writing by the Authority) to the Owners of the Adjustable 2006 Series A Bonds subject to mandatory purchase no less than 30 days prior to the Mandatory Purchase Date. Such notice is to state the Mandatory Purchase Date, the Purchase Price, and that interest on such Bonds subject to mandatory purchase will cease to accrue from and after the Mandatory Purchase Date. The failure to transmit such notice with respect to any Adjustable 2006 Series A Bond shall not affect the validity of the mandatory purchase of any other Bond with respect to which such notice was transmitted. Any notice transmitted as aforesaid will be conclusively presumed to have been given, whether or not actually received by the Owner. For payment of such Purchase Price, such Adjustable 2006 Series A Bonds are to be delivered (with all necessary endorsements) at or before 12:00 noon, Eastern time, on the Mandatory Purchase Date at the office of the Paying Agent in Denver, Colorado. Payment of the Purchase Price is to be made by wire transfer in immediately available funds by the Paying Agent by the close of business on the Mandatory Purchase Date.

**In the event that the long-term ratings of the Adjustable 2006 Series A Bonds by Moody's and S&P are withdrawn, suspended or reduced below "Baa3" and "BBB-," respectively, then the obligations of the 2006A Liquidity Facility Provider to purchase Adjustable 2006 Series A Bonds shall immediately terminate and expire without requirement of notice by such 2006A Liquidity Facility Provider. See Appendix C – "CERTAIN TERMS OF THE INITIAL 2006A LIQUIDITY FACILITY – Termination by 2006A Liquidity Facility Provider" for a description of certain other Events of Default upon which the obligations of the 2006A Liquidity Facility Provider shall also immediately terminate without notice.**

Mandatory Purchase Upon Termination of the Initial 2006A Liquidity Facility. The Adjustable 2006 Series A Bonds will be subject to mandatory purchase if the Trustee receives notice from the 2006A Liquidity Facility Provider that the Initial 2006A Liquidity Facility will be terminated in accordance with the provisions thereof because of the occurrence and continuance of certain specified events while any of the Adjustable 2006 Series A Bonds are outstanding. Such Adjustable 2006 Series A Bonds will be subject to mandatory tender for purchase on a Business Day which is at least ten days subsequent to such notice from the 2006A Liquidity Facility Provider and at least five Business Days prior to the termination of the Initial 2006A Liquidity Facility. The Trustee is to give notice by first-class mail (or transmittal in such other manner, such as by electronic means, as may be customary for the industry as directed in writing by the Authority) to the Owners of the Adjustable 2006 Series A Bonds subject to such mandatory purchase within two Business Days after receipt of notice from the 2006A Liquidity Facility Provider. Such notice is to state the Mandatory Purchase Date, the Purchase Price, and that interest on such Bonds subject to mandatory purchase will cease to accrue from and after the Mandatory Purchase Date. The failure to transmit such notice with respect to any Bond shall not affect the validity of the mandatory purchase of any other Bond with respect to which such notice was transmitted. Any notice transmitted as aforesaid will be conclusively presumed to have been given, whether or not actually received by the Owner. For payment of such Purchase Price, such Adjustable 2006 Series A Bonds are to be delivered (with all necessary endorsements) at or before 12:00 noon, Eastern time, on the Purchase Date at the office of the Paying Agent in Denver, Colorado. Payment of the Purchase Price is to be made by wire transfer in immediately available funds by the Paying Agent by the close of business on the Purchase Date.

Payment of Tender Price Upon Purchase. Any Adjustable 2006 Series A Bonds required to be purchased in accordance with the Indenture as described above are to be purchased from the Owners thereof on the Purchase Date at the Purchase Price. The Indenture creates a separate fund (the "**Purchase Fund**") to be maintained by the Paying Agent, with separate accounts designated as the Remarketing Proceeds Account and the Standby Purchase Account. Funds for the payment of the Purchase Price are to be made solely from the following sources in the order of priority indicated:

(1) proceeds of the sale of remarketed Adjustable 2006 Series A Bonds (except proceeds of remarketed Bank Bonds to the extent applied to any amount owing to the related 2006A Liquidity Facility Provider) pursuant to the Indenture and the Remarketing Agreement and furnished to the Tender Agent by the 2006A Remarketing Agent for deposit into the Remarketing Proceeds Account; and

(2) money furnished by the 2006A Liquidity Facility Provider to the Trustee for deposit with the Paying Agent from requests under the Initial 2006A Liquidity Facility, if any, as described in **Appendix C – "CERTAIN TERMS OF THE INITIAL 2006A LIQUIDITY FACILITY."**

Moneys held in the Standby Purchase Account and the Remarketing Proceeds Account will be held by the Trustee uninvested and separate and apart from all other funds and accounts. **So long as the Adjustable 2006 Series A Bonds are registered in the DTC book-entry system described in Appendix H, any notices will be sent only to DTC's nominee.**

## **Prior Redemption**

### *Special Redemption*

Unexpended Amounts in Acquisition Account. The 2006 Series A Bonds (other than the 2006 Series A-5 Bonds) are subject to special redemption prior to their respective stated maturities, as a whole or in part at a redemption price equal to 100% of the principal amount of the 2006 Series A Bonds or portions thereof to be so redeemed plus accrued interest to the date of redemption without premium, at any time from amounts equal to moneys transferred from the 2006 Series A subaccount of the Acquisition Account to the 2006 Series A subaccount of the Redemption Fund. The Indenture requires that the Trustee so transfer amounts equal to \$100,000 or more which are not used to purchase 2006 Series A Mortgage Loans and remain on deposit in the 2006 Series A subaccount of the Acquisition Account pursuant to an Authority Request filed with the Trustee stating that the Authority no longer reasonably expects to apply the amount to be transferred for any such purpose. Such amounts are to be transferred not later than January 1, 2009; provided that the Indenture permits the Authority to extend such date to a later date if the Authority has filed with the Trustee an Authority Request specifying a later date or dates for such withdrawal, accompanied by a Cash Flow Statement (unless the principal amount and term of such extension are covered by a previous Cash Flow Statement). See **Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Program Fund; Acquisition Account"** and **"Part I – PLAN OF FINANCE – Sources and Uses of Funds."** See also **"Part I – CERTAIN PROGRAM ASSUMPTIONS,"** and **"Part II – CERTAIN BONDOWNERS' RISKS – Special Considerations Relative to Loan Origination."**

Amounts on deposit in the 2006 Series A subaccount of the Acquisition Account shall be transferred to the 2006 Series A subaccount of the Redemption Fund to redeem 2006 Series A Class I Bonds (other than the 2006 Series A-5 Bonds) and 2006 Series A-4 Class II Bonds as follows: (i) first, there shall be transferred to the applicable subaccounts of the 2006 Series A subaccount of the Class I Special Redemption Account the amount necessary to satisfy the 2006 Series A Class I Asset

Requirement; and (ii) second, there shall be transferred to the 2006 Series A subaccount of the Class II Special Redemption Account the amount necessary to satisfy the 2006 Series A Class II Asset Requirement; and (iii) third, the remainder of funds to be transferred shall be allocated to the 2006 Series A subaccount of the Class I Special Redemption Account and the 2006 Series A subaccount of the Class II Special Redemption Account on the basis of the respective ratios represented by the Aggregate Principal Amount of Outstanding 2006 Series A Class I Bonds (other than the 2006 Series A-5 Bonds) and the Aggregate Principal Amount of Outstanding 2006 Series A-4 Class II Bonds, respectively, to the Aggregate Principal Amount of all 2006 Series A Bonds Outstanding (other than the 2006 Series A-5 Bonds). See **Appendix F – "CLASS ASSET REQUIREMENTS FOR BONDS."** Notwithstanding the provision described above, moneys in the Note Proceeds Subaccount of the 2006 Series A subaccount of the Acquisition Account in an amount equal to \$67,165,000 shall be transferred to the Class I Debt Service Fund on January 1, 2007 for the purpose of (together with \$3,535,000 transferred from the 2006 Series A Subaccount of the Debt Service Reserve Fund to the Class I Debt Service Fund) either paying the principal of the 2006 Series A-5 Bonds upon the maturity thereof or exchanging such amount for an equal amount to be used to pay the principal of the 2006 Series A-5 Bonds upon the maturity thereof. See "Part I – PLAN OF FINANCE – Deposit to Acquisition Account."

Subject to the provisions described in "Selection of 2006 Series A Bonds within a Maturity" under this caption, if less than all of the 2006 Series A Bonds are to be redeemed in accordance with the provisions described in the preceding two paragraphs, then, except with respect to Bank Bonds and as otherwise directed by an Authority Request that certifies that such request is consistent with the most recently filed Cash Flow Statement Related to the 2006 Series A Bonds, the 2006 Series A Bonds shall be redeemed on a pro rata by maturity basis.

Prepayments, Excess Revenues and Debt Service Reserve Fund Reductions. The 2006 Series A Bonds (other than the 2006 Series A-5 Bonds) are also subject to special redemption prior to maturity, as a whole or in part, upon notice as provided in the Indenture, at a Redemption Price equal to 100% of the principal amount of the 2006 Series A Bonds or portions thereof to be so redeemed, together with accrued interest to the date of redemption, without premium, on any date, from amounts deposited in the 2006 Series A subaccounts of the Redemption Fund pursuant to the Master Indenture provisions as follows: (i) first, following any redemptions required by and other payments and transfers pursuant to the Master Indenture using Revenues in the Revenue Fund as described in **Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Revenue Fund,"** moneys in the 2006 Series A subaccount of the Class I Special Redemption Account shall be used to redeem 2006 Series A Class I Bonds in an amount necessary to satisfy the 2006 Series A Class I Asset Requirement; (ii) second, moneys in the 2006 Series A subaccount of the Class II Special Redemption Account shall be used to redeem 2006 Series A Class II Bonds in the amount necessary to satisfy the 2006 Series A Class II Asset Requirement; and (iii) third, moneys in the 2006 Series A subaccount of the Class I Special Redemption Account and the Class II Special Redemption Account shall be used to redeem remaining 2006 Series A Bonds as shall be designated in an Authority Request. *Notwithstanding the provision described above, the 2006 Series A Bonds are subject to redemption from other amounts on deposit in the Revenue Fund as described in "Cross Calls and Recycling" under this caption.*

If less than all of the 2006 Series A Class I Bonds are to be redeemed as described under this caption "Prepayments, Excess Revenues and Debt Service Reserve Fund Reductions," then, except as otherwise directed by an Authority Request that certifies that such request is consistent with the most recently filed Cash Flow Statement related to the 2006 Series A Bonds and except as provided by the provision of the 2006 Series A Indenture described in the "Selection of 2006 Series A Bonds within a Maturity" under this caption, the 2006 Series A Class I Bonds shall be redeemed on a pro rata by maturity basis.

**It is anticipated that moneys will be available to redeem a substantial portion of the 2006 Series A Bonds without premium in accordance with the preceding paragraphs. General information concerning prepayments on mortgage loans relating to outstanding bonds of the Authority (other than the Bonds) has been filed by the Authority with and is available from the National Repositories. See "Part II – CERTAIN BONDOWNERS' RISKS – Considerations Regarding Redemption."**

**Cross Calls and Recycling.** Pursuant to the Master Indenture, the Authority may, by delivery of an Authority Request to the Trustee, instruct the Trustee to transfer moneys on deposit in any subaccount of an Account in the Redemption Fund to another subaccount of the same Account in the Redemption Fund to be applied to the redemption of the same Class of Bonds of a different Series. See **Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Redemption Fund."** Each such Authority Request is required to: (i) certify that it is consistent with the most recently filed Related Cash Flow Statement (which may, if necessary, link the Related Series) and not prohibited by the Related Series Indentures; and (ii) be accompanied by evidence of satisfaction of all Asset Requirements for the Related Series. **Although a Series Indenture may prohibit such cross calls with respect to the Related Series of Bonds, the 2006 Series A Indenture does not limit cross calls of the 2006 Series A Bonds, which may result in early redemption of the 2006 Series A Bonds at par.** In addition, the Master Indenture permits the Authority, by delivery of an Authority Request to the Trustee at any time prior to the giving of notice of redemption, to instruct the Trustee to transfer moneys on deposit in a subaccount of an Account in the Redemption Fund to a Related or an Unrelated subaccount of the Acquisition Account to be used to make or purchase Mortgage Loans as permitted by the Master Indenture. Each such Authority Request is to (a) certify that it is consistent with the most recently filed Related Cash Flow Statement and not prohibited by the Related Series Indenture and (b) be accompanied by evidence of the satisfaction of all Asset Requirements for the Related Series. See **Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Revenue Fund."** *The Authority expects in most cases to transfer Prepayments or Mortgage Prepayments to the Special Redemption Accounts of the Redemption Fund in accordance with the Master Indenture.* See "Part II – CERTAIN BONDOWNERS' RISKS – Considerations Regarding Redemption."

#### *Optional Redemption*

**General.** The 2006 Series A Bonds shall be subject to redemption prior to maturity at the option of the Authority from any source, including without limitation the proceeds of refunding bonds or other financing provided by the Authority or from the sale or other voluntary disposition of Mortgage Loans, as further described under this caption. In the event of an optional redemption in part, subject to the provisions described in "Selection of 2006 Series A Bonds within a Maturity" under this caption, the Authority may, by Authority Request certifying that it is consistent with the most recently filed Related Cash Flow Statement, direct the class, term, series, maturity or maturities and amounts thereof so to be redeemed (provided however that any Bank Bonds shall be redeemed prior to any other 2006 Series A Bonds of the same class, term, series and maturity).

**2006 Series A-4 Class II Bonds.** The 2006 Series A-4 Class II Bonds are subject to redemption at the option of the Authority, on or after November 1, 2015, in whole or in part at any time, at a Redemption Price equal to 100% of the principal amount thereof, or portions thereof, to be redeemed, plus the accrued interest thereon to the date of redemption.

**Adjustable 2006 Series A Bonds – Weekly Mode or Daily Mode.** Adjustable 2006 Series A Bonds in the Daily Mode or the Weekly Mode are subject to optional redemption by the Authority, in whole or in part, in Authorized Denominations on any date at a redemption price equal to 100% of the Aggregate Principal Amount of Adjustable 2006 Series A Bonds to be so redeemed.

Adjustable 2006 Series A Bonds – Commercial Paper Mode. Adjustable 2006 Series A Bonds in the Commercial Paper Mode are not subject to optional redemption prior to their respective Purchase Dates. Adjustable 2006 Series A Bonds in the Commercial Paper Mode shall be subject to redemption at the option of the Authority in whole or in part in Authorized Denominations on their respective Purchase Dates at a Redemption Price equal to the principal amount thereof.

Adjustable 2006 Series A Bonds – Term Rate Mode or Fixed Rate Mode. During any Interest Period for a Term Rate Mode or Fixed Rate Mode, the Adjustable 2006 Series A Bonds may be redeemed in whole or in part on any date (and if in part, in such order of maturity as the Authority shall specify and within a maturity by lot or by such other method as the Paying Agent determines to be fair and reasonable and in Authorized Denominations) at a redemption price equal to 100%, provided that, if on the Mode Change Date the length of Interest Period or remaining term: (i) is greater than 15 years, then such Adjustable 2006 Series A Bonds will be subject to such optional redemption on any date on or after the first May 1 or November 1 following the tenth anniversary of the beginning of such Mode; and (ii) is equal to or less than 15 years, but greater than 10 years, then such Adjustable 2006 Series A Bonds will be subject to such optional redemption on any date on or after the first May 1 or November 1 following the seventh anniversary of the beginning of such Mode. The Adjustable 2006 Series A Bonds will not be subject to optional redemption during a particular Term Rate Mode or Fixed Rate Mode if, on the day on which the Term Rate Mode or Fixed Rate Mode begins, the length of the Interest Period or remaining term is equal to or less than ten years. The Authority, in connection with a change to a Term Rate or a Fixed Rate Mode, may waive or otherwise alter its rights to direct the redemption of any such Adjustable 2006 Series A Bonds so changed to a Term Rate Mode or a Fixed Rate Mode at any time without premium; provided that, notice describing the waiver or alteration must be submitted to the Paying Agent, the Trustee and the 2006A Remarketing Agent, together with a favorable opinion of bond counsel, addressed to them.

Adjustable 2006 Series A Bonds – SAVRS Rate Mode. After a conversion, if any, to the SAVRS Rate Mode, such Adjustable 2006 Series A Bonds may be redeemed prior to maturity as provided in the Supplemental Indenture to be entered into in connection with such conversion.

2006 Series A-5 Bonds. The 2006 Series A-5 Bonds are not subject to optional redemption.

#### *Sinking Fund Redemption*

Adjustable 2006 Series A-2 Bonds. The Adjustable 2006 Series A-2 Bonds shall be redeemed prior to their maturity, in part, by lot by payment of 2006 Series A Class I Sinking Fund Installments, upon notice as provided in the Indenture, on each of the dates set forth below and in the respective principal amounts set forth opposite each such date, in each case at a Redemption Price equal to 100% of the principal amount of such Adjustable 2006 Series A-2 Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date as follows:

### Adjustable 2006 Series A-2 Bonds

<u>Year</u> <u>(May 1)</u>	<u>Class I</u> <u>Sinking Fund</u> <u>Installment</u>	<u>Year</u> <u>(November 1)</u>	<u>Class I</u> <u>Sinking Fund</u> <u>Installment</u>
--	\$ --	2013	\$ 300,000
2014	310,000	2014	315,000
2015	525,000	2015	330,000
2016	4,335,000	2016	2,950,000
2017	2,425,000	2017	2,975,000
2032	1,975,000	2032	425,000
--	--	2033	2,625,000
2034	775,000	2034 (1)	325,000

(1) Maturity Date

Upon any purchase pursuant to the Indenture or redemption (other than sinking fund redemption) of the Adjustable 2006 Series A-2 Bonds for which 2006 Series A Class I Sinking Fund Installments have been established, there shall be credited toward each 2006 Series A Class I Sinking Fund Installment thereafter to become for such Adjustable 2006 Series A-2 Bonds due an amount bearing the same ratio to such 2006 Series A Class I Sinking Fund Installment as (i) the total principal amount of such Adjustable 2006 Series A-2 Bonds so purchased or redeemed bears to (ii) the aggregate principal amount of such Adjustable 2006 Series A-2 Bonds Outstanding prior to such redemption or purchase. If, however, there shall be filed with the Trustee an Authority Request specifying a different method for crediting 2006 Series A Class I Sinking Fund Installments upon any such purchase or redemption of Adjustable 2006 Series A-2 Bonds and certifying that such request is consistent with the most recently filed Cash Flow Statement Related to the 2006 Series A Bonds, then such 2006 Series A Class I Sinking Fund Installments shall be so credited as shall be provided in such Authority Request.

Adjustable 2006 Series A-3 Bonds. The Adjustable 2006 Series A-3 Bonds shall be redeemed prior to their maturity, in part, by lot by payment of 2006 Series A Class I Sinking Fund Installments, upon notice as provided in the Indenture, on each of the dates set forth below and in the respective principal amounts set forth opposite each such date, in each case at a Redemption Price equal to 100% of the principal amount of such Adjustable 2006 Series A-3 Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date as follows:

### Adjustable 2006 Series A-3 Bonds

<u>Year</u> <u>(May 1)</u>	Class I Sinking Fund <u>Installment</u>	<u>Year</u> <u>(November 1)</u>	Class I Sinking Fund <u>Installment</u>
2018	\$ 710,000	2018	\$ 730,000
2019	750,000	2019	760,000
2020	780,000	2020	800,000
2021	820,000	2021	830,000
2022	850,000	2022	870,000
2023	890,000	2023	910,000
2024	930,000	2024	950,000
2025	970,000	2025	990,000
2026	1,020,000	2026	1,040,000
2027	1,070,000	2027	1,090,000
2028	1,110,000	2028	1,140,000
2029	1,160,000	2029	1,190,000
2030	1,210,000	2030	1,240,000
2031	1,270,000	2031	1,290,000
2032	170,000	2032	1,110,000
2033	1,380,000	2033	--
2034	990,000	2034	1,280,000
2035	1,500,000	2035	1,750,000
2036	2,050,000	2036 (1)	2,400,000

(1) Maturity Date

Upon any purchase pursuant to the Indenture or redemption (other than sinking fund redemption) of the Adjustable 2006 Series A-3 Bonds for which 2006 Series A Class I Sinking Fund Installments have been established, there shall be credited toward each 2006 Series A Class I Sinking Fund Installment thereafter to become for such Adjustable 2006 Series A-3 Bonds due an amount bearing the same ratio to such 2006 Series A Class I Sinking Fund Installment as (i) the total principal amount of such Adjustable 2006 Series A-3 Bonds so purchased or redeemed bears to (ii) the aggregate principal amount of such Adjustable 2006 Series A-3 Bonds Outstanding prior to such redemption or purchase. If, however, there shall be filed with the Trustee an Authority Request specifying a different method for crediting 2006 Series A Class I Sinking Fund Installments upon any such purchase or redemption of Adjustable 2006 Series A-3 Bonds and certifying that such request is consistent with the most recently filed Cash Flow Statement Related to the 2006 Series A Bonds, then such 2006 Series A Class I Sinking Fund Installments shall be so credited as shall be provided in such Authority Request.

2006 Series A-4 Class II Bonds. The 2006 Series A-4 Class II Bonds shall be redeemed prior to their maturity, in part, by lot by payment of 2006 Series A Class II Sinking Fund Installments, to the extent moneys available therefor are deposited or expected to be deposited in the 2006 Series A subaccount of the Class II Debt Service Fund, upon notice as provided in the Indenture, on each of the dates set forth below and in the respective principal amounts set forth opposite each such date, in each case at a Redemption Price equal to 100% of the principal amount of such 2006 Series A-4 Class II Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date as follows:

**2006 Series A-4 Class II Bonds**

<u>Year (May 1)</u>	<u>Class II Sinking Fund Installment</u>	<u>Year (November 1)</u>	<u>Class II Sinking Fund Installment</u>
2014	\$ 25,000	--	\$ --
2018	385,000	2018	390,000
2019	395,000	2019	415,000
2020	420,000	2020	430,000
2021	435,000	2021	455,000
2022	465,000	2022	475,000
2023	485,000	2023	495,000
2024	505,000	2024	520,000
2025	535,000	2025	550,000
2026	555,000	2026	570,000
2027	575,000	2027	595,000
2028	610,000	2028	620,000
2029	640,000	2029	650,000
2030	675,000	2030	685,000
2031	700,000	2031	725,000
--	--	2032	565,000
2033	765,000	--	--
2034	475,000	2034	680,000
2035	835,000	2035	640,000
2036	395,000	2036 (1)	75,000

(1) Maturity Date

If the amount on deposit in the 2006 Series A subaccount of the Class II Debt Service Fund is not sufficient on any Payment Date to pay the scheduled 2006 Series A Class II Sinking Fund Installment for such date, the amount of the insufficiency is to be added to the next scheduled 2006 Series A Class II Sinking Fund Installment, until paid. **Failure to pay a 2006 Series A Class II Sinking Fund Installment is not an Event of Default under the Indenture if sufficient moneys for such payment are not available in the 2006 Series A subaccount of the Class II Debt Service Fund on the date that notice of redemption is given.**

Upon any purchase pursuant to the Indenture or redemption (other than cumulative sinking fund redemption) of the 2006 Series A-4 Class II Bonds for which 2006 Series A Class II Sinking Fund Installments have been established, there shall be credited toward each 2006 Series A Class II Sinking Fund Installment thereafter to become due for such 2006 Series A-4 Class II Bonds an amount bearing the same ratio to such 2006 Series A Class II Sinking Fund Installment as (i) the total principal amount of such 2006 Series A-4 Class II Bonds so purchased or redeemed bears to (ii) the aggregate principal amount of such 2006 Series A-4 Class II Bonds Outstanding prior to such redemption or purchase. If, however, there shall be filed with the Trustee an Authority Request specifying a different method for crediting 2006 Series A Class II Sinking Fund Installments upon any such purchase or redemption of 2006 Series A-4 Class II Bonds and certifying that such request is consistent with the most recently filed Cash Flow Statement Related to the 2006 Series A Bonds, then such 2006 Series A Class II Sinking Fund Installments shall be so credited as shall be provided in such Authority Request.



### *Selection of 2006 Series A Bonds within a Maturity*

If less than all of the 2006 Series A Bonds of like class, series and maturity are to be redeemed, the particular 2006 Series A Bonds or respective portions thereof to be redeemed are to be selected pro rata among the Participants (for pro rata distribution by the Participants to the beneficial owners of such 2006 Series A Bonds) based on the Aggregate Principal Amounts of such 2006 Series A Bonds shown on the records of the Securities Depository for such respective Participants, and not by lot, except that any Bank Bonds shall be redeemed prior to any other 2006 Series A Bonds of the same class, series and maturity.

### *Notice of Redemption*

When any 2006 Series A Bonds are to be redeemed, the Bond Registrar is to cause notice of such redemption to be mailed by first class mail, or transmitted in such other manner (such as by readily available electronic means) as may be customary for the industry as directed in writing by the Authority, not more than 30 days nor less than 15 days prior to the redemption date with respect to the Adjustable 2006 Series A Bonds and not more than 60 days nor less than 25 days prior to the redemption date with respect to the 2006A Fixed Rate Bonds, to the registered owner of each 2006 Series A Bond to be redeemed at such owner's address as it appears in the registration records of the Bond Registrar or at such other address as is furnished in writing by such Owner to the Bond Registrar. However, failure to give any such notice to any Owner, or any defect therein, shall not affect the validity of the redemption proceedings for any 2006 Series A Bond with respect to which no such failure or defect has occurred.

**If DTC or its nominee is the registered owner of any 2006 Series A Bonds to be redeemed, notice of redemption will only be given to DTC or its nominee as the registered owner of such 2006 Series A Bond. Any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner of any 2006 Series A Bond to be redeemed shall not affect the validity of the redemption of such 2006 Series A Bond. See Appendix H – "BOOK-ENTRY SYSTEM."**

### *Cancellation in Lieu of Redemption*

Subject to the terms and conditions set forth in the Indenture and prior to the mailing by the Bond Registrar of a notice of redemption with respect to 2006 Series A Bonds of any particular tenor and maturity, the Authority may direct the Trustee or the Paying Agent to purchase such 2006 Series A Bonds with available moneys under the Indenture for cancellation in lieu of redemption. The Trustee and the Paying Agent shall apply available moneys in accordance with the Indenture from the Funds and Accounts specified in the Indenture to purchase such 2006 Series A Bonds.

## PLAN OF FINANCE

### Sources and Uses of Funds

The following are the estimated sources and uses of funds relating to the 2006 Series A Bonds.

SOURCES OF FUNDS:	<u>Estimated Amounts</u>
Bond proceeds:	
Taxable Adjustable 2006 Series A-1 Bonds.....	\$30,000,000
Adjustable 2006 Series A-2 Bonds .....	20,590,000
Adjustable 2006 Series A-3 Bonds .....	40,000,000
2006 Series A-4 Class II Bonds .....	19,410,000
2006 Series A-5 Bonds.....	70,700,000
Exchanged amounts (1).....	<u>108,570,000</u>
TOTAL SOURCES OF FUNDS.....	<u>\$289,270,000</u>
USES OF FUNDS:	
For payment of Advances (2) .....	\$108,570,000
For deposit to 2006 Series A subaccount of Acquisition Account (3).....	170,448,541
For deposit to 2006 Series A subaccount of Debt Service Reserve Fund (4).....	9,035,000
For costs of issuance and Underwriters' compensation (5).....	<u>1,216,459</u>
TOTAL USES OF FUNDS.....	<u>\$289,270,000</u>

- (1) Such funds will be exchanged for proceeds of certain 2006 Series A Bonds, as described in "Funds Exchange Refunding" under this caption.
- (2) Certain proceeds of the 2006 Series A Bonds, exchanged for an equal amount of funds under the Funds Exchange Agreement, will be used to repay an equal principal amount of the Advances, as described in "Funds Exchange Refunding" under this caption.
- (3) Deposits to the 2006 Series A subaccount of the Acquisition Account (other than amounts exchanged for proceeds of the 2006 Series A-5 Bonds) are expected to be used to originate 2006 Series A Mortgage Loans as First Mortgage Loans and Second Mortgage Loans to Borrowers of such First Mortgage Loans (as described in "Part II – THE SINGLE FAMILY MORTGAGE PROGRAM – Special Program Features – Second Mortgage Loans"). Such amounts while on deposit in the 2006 Series A subaccount of the Acquisition Account prior to being used for such purposes are expected to be invested in an investment agreement as described in "Part I – CERTAIN PROGRAM ASSUMPTIONS – Investments." Amounts exchanged for proceeds of the 2006 Series A-5 Bonds in an amount equal to \$67,165,000 are expected to be deposited to and remain in the Note Proceeds Subaccount of the 2006 Series A subaccount invested in an investment agreement as described in "Part I – CERTAIN PROGRAM ASSUMPTIONS – Investments." See "Deposits to Acquisition Account" under this caption. "Part I – CERTAIN PROGRAM ASSUMPTIONS – Mortgage Loan Rates; Amounts" and "Part II – SINGLE FAMILY MORTGAGE PROGRAM." See also "Part I – TERMS OF THE 2006 SERIES A BONDS – Prior Redemption – Special Redemption – Unexpended Amounts in Acquisition Account."
- (4) Proceeds of the Taxable Adjustable 2006 Series A-1 Bonds, the Adjustable 2006 Series A-3 Bonds and the 2006 Series A-4 Bonds and amounts exchanged for proceeds of the Adjustable 2006 Series A-2 Bonds, and amounts exchanged for proceeds of the 2006 Series A-5 Bonds in an amount equal to \$3,535,000, will be deposited to the 2006 Series A subaccount of the Debt Service Reserve Fund in an amount equal to 5% of the aggregate principal amount of all 2006 Series A Bonds then Outstanding, which is the Debt Service Reserve Fund Requirement for the 2006 Series A Bonds. See "Part II – SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS – Debt Service Reserve Fund." The amounts deposited to the Debt Service Reserve Fund are expected to be invested as described in "Part I – CERTAIN PROGRAM ASSUMPTIONS – Investments." Under the Indenture, the Authority may at any time replace such cash on deposit with a Qualified Surety Bond.
- (5) Proceeds will be deposited to the Costs of Issuance Account in the Program Fund and used to pay costs of issuance (including, among other things, \$134,000 for homebuyer education costs and \$87,400 for second mortgage delivery fees) and Underwriters' compensation relating to the 2006 Series A Bonds. See "Part I – UNDERWRITING."

## **Funds Exchange Refunding**

Certain proceeds of the 2006 Series A Bonds will be exchanged pursuant to the Funds Exchange Agreement to finance the repayment of advances ("**Advances**") previously made under the Authority's line of credit to finance the refunding or redemption of certain other outstanding bonds of the Authority. The amount exchanged for such proceeds in accordance with the Funds Exchange Agreement will be deposited to the 2006 Series A subaccount of the Acquisition Account to be invested as described in "Deposit to Acquisition Account" under this caption. See also "Sources and Uses of Funds" under this caption.

## **Deposit to Acquisition Account**

The 2006 Series A subaccount of the Acquisition Account is established by the 2006 Series A Indenture in the Program Fund. Certain proceeds of the 2006 Series A Bonds (and amounts exchanged for such proceeds) will be deposited to such 2006 Series A subaccount. Such amounts deposited to the 2006 Series A subaccount of the Acquisition Account (other than amounts exchanged for proceeds of the 2006 Series A-5 Bonds) are expected to be used to purchase or originate 2006 Series A Mortgage Loans in accordance with "Part I – CERTAIN PROGRAM ASSUMPTIONS – Mortgage Loan Rates; Amounts" and "Part II – THE SINGLE FAMILY MORTGAGE PROGRAM." Prior to being used for such purpose, such amounts are expected to be invested in an investment agreement as described in "Part I – CERTAIN PROGRAM ASSUMPTIONS – Investments." Amounts exchanged for proceeds of the 2006 Series A-5 Bonds so deposited are expected to remain on deposit in the 2006 Series A subaccount of the Acquisition Account, invested so as to permit withdrawals on the scheduled interest payment dates and maturity for the 2006 Series A-5 Bonds. See "Part I – CERTAIN PROGRAM ASSUMPTIONS – Investments."

## **CERTAIN PROGRAM ASSUMPTIONS**

### **Generally**

As described in "Part I – PLAN OF FINANCE – Sources and Uses of Funds," certain amounts deposited to the 2006 Series A subaccount of the Acquisition Account in accordance with the 2006 Series A Indenture will be available to purchase 2006 Series A First Mortgage Loans. The Bonds (including the 2006 Series A Bonds) and Auxiliary Obligations outstanding under the Master Indenture (other than Auxiliary Obligations which are General Obligations of the Authority) will be secured by, among other moneys, rights and interests, the Revenues derived from the Mortgage Loans, including the 2006 Series A Mortgage Loans. See "Part II – SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS." Such Revenues are expected by the Authority (based on certain assumptions some of which are described under this caption) to be sufficient to pay the debt service on the Bonds, including the 2006 Series A Bonds.

As required by the Master Indenture and at the request of the Authority, Lehman Brothers Inc. has prepared certain cash flow projections giving effect to the issuance of the 2006 Series A Bonds (the "**Cash Flow Statement**") which indicates that, after such issuance, the amounts expected to be available in the Trust Estate will be sufficient to pay principal of and interest on the Bonds, including the 2006 Series A Bonds, when due. The Cash Flow Statement uses numerous assumptions, including assumptions discussed under this caption, to illustrate the expected receipt of Revenues in the Trust Estate and the expected expenditures to be incurred in connection with the Bonds and the Mortgage Loans held and to be held under the Master Indenture. There can be no assurance that any or all of the assumptions made will apply to the actual Mortgage Loans included or to be included in the Trust Estate, or that the Mortgage Loans in the Trust Estate will perform as assumed in the Cash Flow Statement. To the extent

that these assumptions are not met, for example (i) 2006 Series A Mortgage Loans are not purchased at the times anticipated by the Authority, or are not purchased at all, (ii) 2006 Series A Mortgage Loans are not paid on a timely basis in accordance with their terms, (iii) the rate of receipt of Prepayments is either more rapid or less rapid than that projected, (iv) interest payable on Adjustable Rate Bonds and amounts due under Related Auxiliary Obligations differs from Related Interest Rate Contract Revenues, or (v) actual investment income differs from that estimated by the Cash Flow Statement, the moneys available may be insufficient for the payment of debt service on the Bonds and amounts due under Related Auxiliary Obligations and operating expenses of the Program.

### **Mortgage Loan Rates; Amounts**

Payments on Mortgage Loans, whether from scheduled monthly installments or from Prepayments, together with Revenues generated as investment income on the funds held under the Indenture, and invested under the investment agreements, are assumed to be the primary source of Revenues. See **Appendix B-2** – "THE MORTGAGE LOAN PORTFOLIO." It is assumed that all amounts in the 2006 Series A subaccount of the Acquisition Account (other than the exchanged amounts as described in "Part I – PLAN OF FINANCE – Deposit to Acquisition Account") will be used to acquire 2006 Series A Mortgage Loans which are First Mortgage Loans and amortize as thirty-year, fixed-rate mortgages, with equal monthly installments of principal and interest taken together (see "Part II – THE SINGLE FAMILY MORTGAGE PROGRAM"). As of November 2, 2005, reservations for first mortgage loans expected to be funded with proceeds of 2006 Series A Bonds (or amounts exchanged for such proceeds) in the Authority's Qualified Single Family Mortgage Program had been made in an aggregate principal amount of approximately \$55 million in accordance with "Part II – THE SINGLE FAMILY MORTGAGE PROGRAM – Reservation, Delivery and Purchase of Mortgage Loans." The Authority generally requires Mortgage Lenders to close reserved mortgage loans within 60 days of the reservation date to receive the reserved interest rate. Lenders will be permitted 120 days to close new construction loans upon payment of a 1% nonrefundable fee. Lenders may obtain additional 30 day extensions to close either existing or new construction loans, without an additional fee, provided that the interest rate will be reset by the Authority at the time of the extension. The Authority expects that proceeds of the 2006 Series A Bonds or amounts exchanged for such proceeds will be used to acquire the mortgage loans so reserved, in the event such mortgage loans close as required, as described in "Origination Period" under this caption. See "Part II – CERTAIN BONDOWNERS' RISKS – Special Considerations Relative to Loan Origination" and "Part I – TERMS OF THE 2006 SERIES A BONDS – Prior Redemption – Special Redemption – Unexpended Amounts in Acquisition Account."

The 2006 Series A Mortgage Loans which are First Mortgage Loans to be acquired with the proceeds of the 2006 Series A Bonds will bear mortgage loan interest rates, and be originated in the aggregate principal amounts, with or without a Second Mortgage Loan, to the extent consistent with the then current Cash Flow Statement and Authority Certification required by the 2006 Series A Indenture to demonstrate that the 2006 Series A Class I Asset Requirement and the 2006 Series A Class II Asset Requirement will be met after taking into account such interest rates and principal amounts. See "Part II – THE SINGLE FAMILY MORTGAGE PROGRAM." See also **Appendix F** – "CLASS ASSET REQUIREMENTS FOR BONDS."

### **Insurance Limitations and Requirements**

The 2006 Series A Indenture requires that 2006 Series A Mortgage Loans (i) be insured by the FHA, (ii) be guaranteed by the VA or the Rural Housing Service (formerly the RHCDS, a successor agency to the FmHA), (iii) be Private Mortgage Insurance Mortgage Loans, (iv) be a Mortgage Loan which is not insured or guaranteed but has an original principal amount equal to or less than 80% of the appraised value (at the time of origination of such Mortgage Loan) or purchase price, whichever is less, of

the property securing such Mortgage Loan (an "**Uninsured Mortgage Loan**") or (v) otherwise be a type of Mortgage Loan the purchase of which (as confirmed by each Rating Agency) will not adversely affect such Rating Agency's then current rating on any Bonds. Private Mortgage Insurance Mortgage Loans must be insured by a private insurance company approved by the Authority, qualified to transact business in the State and to provide insurance on mortgages purchased by the Federal Home Loan Mortgage Corporation or Fannie Mae and rated by the agency then rating the Bonds at least as high as "AA-" or "Aa3" (a "**Private Insurer**"), and such insurance must remain in force unless required to be terminated pursuant to federal law. See "Part II – THE SINGLE FAMILY MORTGAGE PROGRAM" and **Appendix I – "INSURANCE AND GUARANTEE PROGRAMS; FORECLOSURE."** The 2006 Series A Indenture provides that percentages of each type of Mortgage Loan (including the 2006 Series A Mortgage Loans) in the aggregate Mortgage Loan portfolio shall be percentages that each Rating Agency confirms will not adversely affect the then current rating on any Bonds (including the 2006 Series A Bonds).

### **Investments**

Until disbursed, amounts in the 2006 Series A subaccount of the Acquisition Account (other than amounts exchanged for proceeds of the 2006 Series A-5 Bonds) and amounts in the 2006 Series A subaccount of the Debt Service Reserve Fund (other than amounts relating to the 2006 Series A-5 Bonds) will initially be invested in permitted Investment Securities under the Master Indenture.

Amounts exchanged for proceeds of the 2006 Series A-5 Bonds deposited to the Note Proceeds Subaccount of the 2006 Series A subaccount of the Acquisition Account and the 2006 Series A subaccount of the Debt Service Reserve Fund, and any amounts deposited to the 2006 Series A subaccounts of the Revenue Fund and Redemption Fund relating to the 2006 Series A-5 Bonds, are expected to be invested in an Investment Agreement (the "**2006A Investment Agreement**") between the Trustee and AIG Matched Funding Corp. (the "**2006A Investment Provider**") at 4.826% per annum. Such investment and the earnings thereon under the 2006A Investment Agreement are not pledged solely to the payment of the 2006 Series A-5 Bonds and are part of the Trust Estate pledged under the Indenture to secure all outstanding Bonds, but are expected to be available to pay interest on the 2006 Series A-5 Bonds on May 1, 2006 and on November 1, 2006 and to pay the principal amount of such 2006 Series A-5 Bonds (plus accrued interest) at maturity.

In connection with the prior issuance of Bonds outstanding under the Master Indenture, the Authority has invested certain amounts in Series subaccounts of Funds related to such Bonds in investment agreements with the investment providers and at the rates set forth in the following table:

## Outstanding Investment Agreements

<u>Series</u>	<u>Funds Invested (in related Series subaccounts)</u>	<u>Investment Provider(1)</u>	<u>Rate</u>	<u>Termination Dates</u>
2001AA	Revenue Fund, Redemption Fund	Trinity Funding Company, LLC	5.30%/	5/1/36
			3 month LIBOR	
2001AA	Debt Service Reserve Fund	Trinity Funding Company, LLC	5.30%	5/1/36
2002A	Revenue Fund, Redemption Fund	Trinity Funding Company, LLC	5.10%	11/1/32
2002A	Debt Service Reserve Fund	Trinity Funding Company, LLC	5.60%	11/1/32
2002C	Revenue Fund, Redemption Fund	TransAmerica Occidental Life Insurance Company	3.950%	11/1/36
2003A	Revenue Fund, Redemption Fund	Trinity Funding Company, LLC	4.13%	11/1/32
2003B	Revenue Fund, Redemption Fund	TransAmerica Occidental Life Insurance Company	3.50%	11/1/33
2003C	Revenue Fund Redemption Fund Costs of Issuance Account	TransAmerica Occidental Life Insurance Company	4.42%	11/1/32
2003C	Debt Service Reserve Fund	AIG Matched Funding Corp.	5.21%	11/1/32
2004A	Revenue Fund Redemption Fund Costs of Issuance Account	AIG Matched Funding Corp.	4.19%	11/1/34
2004A	Debt Service Reserve Fund	AIG Matched Funding Corp.	5.40%	11/1/34
2005A	Revenue Fund Redemption Fund Costs of Issuance Account	AIG Matched Funding Corp.	3.92%	5/1/35
2005A	Debt Service Reserve Fund	AIG Matched Funding Corp.	4.96%	5/1/35
2005A-4 and A-5	Acquisition Account, Debt Service Reserve Fund	AIG Matched Funding Corp.	3.542%	3/29/06
2005B	Acquisition Account	Royal Bank of Canada	3.26%	12/31/05
2005B	Revenue Fund Redemption Fund Costs of Issuance Account	AIG Matched Funding Corp.	3.41%	5/1/36
2005B	Debt Service Reserve Fund	AIG Matched Funding Corp.	4.46%	5/1/36
2005B-4 and B-5	Acquisition Account, Debt Service Reserve Fund	Trinity Funding Company, LLC	3.875%	7/5/06

(1) Neither the Authority nor the Underwriters make any representation about the financial condition or creditworthiness of the Investment Providers. Prospective investors are urged to make their own investigation into the financial condition and creditworthiness of the Investment Providers. See "Part II – SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS."

In accordance with the terms of the Master Indenture, the Authority has also from time to time instructed the Trustee to invest certain moneys held by the Trustee in Funds and Accounts relating to prior Bonds in permitted Investment Securities. Information relating to such investments is available in filings of certain financial information and operating data relating to the Trust Estate that the Authority is obligated to make in connection with certain outstanding Bonds under the Master Indenture with the national repositories on an annual basis. See "Part I – INTRODUCTION – Availability of Continuing Information."

The assumptions made by the Authority as to projected cashflows under the Indenture include the assumption that the investment rates provided by the 2006A Investment Agreement and the Investment Agreements shown on the preceding table will be available as described. However, in the event that the 2006A Investment Agreement or any Investment Agreement shown on the preceding table is terminated as a result of default by the respective Investment Provider or for any other reason, it may not be possible to reinvest such proceeds and deposits at these assumed rates and the cashflows may be adversely affected. *Neither the Authority nor the Underwriters make any representation about the financial condition or creditworthiness of the 2006A Investment Provider or any of the Investment Providers shown on the preceding table. Prospective investors are urged to make their own investigation into the financial condition and creditworthiness of the 2006A Investment Provider and all such Investment Providers shown on the preceding table.*

### **2006A Interest Rate Contracts**

In connection with the issuance of the Taxable Adjustable 2006 Series A-1 Bonds, the Authority has entered into a certain interest rate swap agreement (the "**2006A-1 Interest Rate Contract**") with JPMorgan Chase Bank National Association (the "**2006A-1 Counterparty**"). In connection with the issuance of the Adjustable 2006 Series A-3 Bonds, the Authority has entered a certain interest rate swap agreement (the "**2006A-3 Interest Rate Contract**" and, together with the 2006A-1 Interest Rate Contract, the "**2006A Interest Rate Contracts**") with Bank of America, N.A. (the "**2006A-3 Counterparty**" and together with the 2006A-1 Counterparty, the "**2006A Counterparties**" and each a "**2006A Counterparty**"). In general, the terms of each of the 2006A Interest Rate Contracts provide that, on a same-day net-payment basis determined by reference to a notional amount equal to the principal amount of such Outstanding Adjustable 2006 Series A Bonds, the Authority will pay a fixed interest rate on the notional amount. In return, the 2006A Counterparty will pay a variable rate of interest on a like notional amount. The agreement by the respective 2006A Counterparty to make payments under the related 2006A Interest Rate Contract does not affect the Authority's obligation to pay such Adjustable 2006 Series A Bonds. Neither the Owners of such Adjustable 2006 Series A Bonds nor any other person other than the Authority will have any rights under the respective 2006A Interest Rate Contract or against the related 2006A Counterparty. The Authority's obligation to make regular interest payments to the related 2006A Counterparty under the respective 2006A Interest Rate Contract constitutes a Class I Obligation under the Master Indenture, secured on parity with the lien on the Trust Estate of the other Class I Obligations. The Authority's obligation to make termination payments under the 2006A Interest Rate Contracts in the event of early termination is a General Obligation of the Authority and not secured by the Trust Estate under the Master Indenture. See "Part II – COLORADO HOUSING AND FINANCE AUTHORITY – Long-Term Obligations of the Authority" and " – Authority Policy Regarding Derivatives." For information concerning the Interest Rate Contracts and other Auxiliary Obligations currently Outstanding under the Master Indenture, see **Appendix B-1 – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS."**

### **Set Asides**

It is assumed for purposes of the Cash Flow Statement (and the Indenture requires) that \$12,000,000 of the proceeds of the 2006 Series A Bonds will be reserved and set aside for at least the first year after the Authority begins accepting reservations from lenders (until February 1, 2007) for use in financing the purchase of 2006 Series A First Mortgage Loans on Targeted Area Residences on or prior to such date. In connection with the transfer of volume cap allocations, the Authority has committed to finance Mortgage Loans to borrowers in various jurisdictions and for certain purposes but does not plan to set aside proceeds of the 2006 Series A Bonds or any other Bonds as specifically reserved for the

financing of such Mortgage Loans. However, the 2006 Series A Indenture permits the Authority to reserve amounts in the 2006 Series A subaccount of the Acquisition Account for designated periods for (1) the purchase of Mortgage Loans on Residential Housing located within designated areas within the State, (2) Eligible Borrowers meeting designated requirements and (3) Residential Housing meeting designated requirements, all as may be set forth in the Authority's Program directives from time to time. Furthermore, the Authority does expect that, if it determines to use Prepayments and Mortgage Repayments for recycling as permitted by the Master Indenture, the Authority may limit such amounts for specific programs and Borrowers as the Authority designates from time to time and to the extent consistent with the then current Cash Flow Statement and Authority Certification required by the Related Series Indenture to demonstrate that the Related Class I Asset Requirement, the Related Class II Asset Requirement and the Related Class III Asset Requirement will be met after taking into account such set asides.

### **Origination Period**

The Authority expects that proceeds of the 2006 Series A Bonds (and amounts exchanged for such proceeds) will be used to purchase 2006 Series A Mortgage Loans (assuming satisfaction of the set aside requirements discussed in "Set Asides" under this caption) during the period between January 18, 2006 and May 31, 2006.

## **TAX MATTERS**

### **Tax Treatment of Interest on Tax-Exempt 2006 Series A Bonds**

Sherman & Howard L.L.C., Bond Counsel, is of the opinion that (i) assuming continuous compliance with certain covenants and representations of the Authority, interest on the Adjustable 2006 Series A-2 Bonds, the Adjustable 2006 Series A-3 Bonds, the 2006 Series A-4 Class II Bonds and the 2006 Series A-5 Bonds (collectively, the "**Tax-Exempt 2006 Series A Bonds**") is excluded from gross income for federal income tax purposes under federal income tax laws pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date of delivery of the 2006 Series A Bonds (the "**Tax Code**"); however, (a) interest on the Adjustable 2006 Series A-3 Bonds and the 2006 Series A-4 Class II Bonds is an item of tax preference for purposes of calculating alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code under federal income tax laws, and (b) interest on the Adjustable 2006 Series A-2 Bonds and the 2006 Series A-5 Bonds is excluded from alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code except that such interest is required to be included in calculating the "adjusted current earnings" adjustment applicable to corporations for purposes of computing the alternative minimum taxable income applicable to corporations; and (ii) the Tax-Exempt 2006 Series A Bonds and the income therefrom shall at all times be free from taxation by the State of Colorado under Colorado laws in effect as of the date of delivery of the Tax-Exempt 2006 Series A Bonds.

The Tax Code imposes several requirements which must be met with respect to the Tax-Exempt 2006 Series A Bonds in order for the interest thereon to be excluded from gross income and alternative minimum taxable income. Certain of these requirements must be met on a continuous basis throughout the term of the Tax-Exempt 2006 Series A Bonds. These requirements include: (a) limitations as to the use of proceeds of the Tax-Exempt 2006 Series A Bonds; (b) limitations on the extent to which proceeds of the Tax-Exempt 2006 Series A Bonds may be invested in higher yielding investments; and (c) a provision, subject to certain limited exceptions, that requires all investment earnings on the proceeds of the Tax-Exempt 2006 Series A Bonds above the yield on the Tax-Exempt 2006 Series A Bonds to be paid to the United States Treasury. The Authority will covenant and represent in the Indenture that it will take



all steps to comply with the requirements of the Tax Code to the extent necessary to maintain the exclusion of interest on the Tax-Exempt 2006 Series A Bonds from gross income and (in the case of the Adjustable 2006 Series A-2 Bonds and the 2006 Series A-5 Bonds) alternative minimum taxable income under the Tax Code. Bond Counsel's opinion as to the exclusion of interest on the Tax-Exempt 2006 Series A Bonds from gross income and (in the case of the Adjustable 2006 Series A-2 Bonds and the 2006 Series A-5 Bonds) alternative minimum taxable income is rendered in reliance on these covenants, and assumes continuous compliance therewith. The failure or inability of the Authority to comply with these requirements could cause the interest on the Tax-Exempt 2006 Series A Bonds to be included in gross income and (in the case of the Adjustable 2006 Series A-2 Bonds and the 2006 Series A-5 Bonds) alternative minimum taxable income from the date of issuance.

Section 55 of the Tax Code contains a 20 percent alternative minimum tax on the alternative minimum taxable income of corporations and a 24 percent alternative minimum tax on the alternative minimum taxable income of taxpayers other than corporations. Alternative minimum taxable income is defined to include "items of preference" and under Section 57 of the Tax Code, interest on the Adjustable 2006 Series A-3 Bonds and the 2006 Series A-4 Class II Bonds is an item of tax preference.

Under the Tax Code, an "adjusted current earnings" adjustment is required to be made for purposes of the alternative minimum tax provision applicable to corporations. Under this adjustment, 75 percent of the excess of a corporation's "adjusted current earnings" over the corporation's alternative minimum taxable income (computed without regard to this adjustment and the alternative tax net operating loss deduction) is included in calculating the corporation's alternative minimum taxable income for purposes of the alternative minimum tax applicable to the corporation. "Adjusted current earnings" includes interest on the Adjustable 2006 Series A-2 Bonds and the 2006 Series A-5 Bonds.

The Tax Code contains numerous provisions which may affect an investor's decision to purchase the Tax-Exempt 2006 Series A Bonds. Owners of the Tax-Exempt 2006 Series A Bonds should be aware that the ownership of tax-exempt obligations by particular persons and entities, including, without limitation, financial institutions, insurance companies, recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, foreign corporations doing business in the United States and certain "subchapter S" corporations may result in adverse federal tax consequences. Bond Counsel's opinion relates only to the exclusion of interest on the Tax-Exempt 2006 Series A Bonds from gross income and (in the case of the Adjustable 2006 Series A-2 Bonds and the 2006 Series A-5 Bonds) alternative minimum taxable income as described above and will state that no opinion is expressed regarding other federal or State of Colorado tax consequences arising from the receipt or accrual of interest on or ownership of the Tax-Exempt 2006 Series A Bonds. Owners of the Tax-Exempt 2006 Series A Bonds should consult their own tax advisors as to the applicability of these consequences.

The opinions expressed by Bond Counsel are based upon existing law as of the delivery date of the Tax-Exempt 2006 Series A Bonds. No opinion is expressed as of any subsequent date nor is any opinion expressed with respect to any pending or proposed legislation. Amendments to federal and Colorado tax laws may be pending now or could be proposed in the future which, if enacted into law, could adversely affect the value of the Tax-Exempt 2006 Series A Bonds, the exclusion of interest on the Tax-Exempt 2006 Series A Bonds from gross income, alternative minimum taxable income (in the case of the Adjustable 2006 Series A-2 Bonds and the 2006 Series A-5 Bonds), or any combination thereof from the date of issuance of the Tax-Exempt 2006 Series A Bonds or any other date, or which could result in other adverse federal or State of Colorado tax consequences. Bond Owners are advised to consult with their own advisors with respect to such matters.

## **Tax Treatment of Interest on Taxable Adjustable 2006 Series A-1 Bonds**

IN THE OPINION OF BOND COUNSEL, THE INTEREST ON THE TAXABLE ADJUSTABLE 2006 SERIES A-1 BONDS IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES PURSUANT TO THE TAX CODE. THE TAXABLE ADJUSTABLE 2006 SERIES A-1 BONDS AND THE INCOME THEREFROM ARE FREE FROM TAXATION BY THE STATE OF COLORADO UNDER COLORADO LAWS IN EFFECT AS OF THE DATE OF DELIVERY OF THE TAXABLE ADJUSTABLE 2006 SERIES A-1 BONDS.

Bond Counsel will express no other opinion as to any tax consequences regarding the Taxable Adjustable 2006 Series A-1 Bonds. Owners of the Taxable Adjustable 2006 Series A-1 Bonds should consult with their own tax advisors as to the tax consequences pertaining to the Taxable Adjustable 2006 Series A-1 Bonds, such as the consequences of a sale, transfer, redemption or other disposition of the Taxable Adjustable 2006 Series A-1 Bonds prior to stated maturity, and as to other applications of federal, state, local or foreign tax laws.

Any tax advice concerning the Taxable Adjustable 2006 Series A-1 Bonds, interest on the Taxable Adjustable 2006 Series A-1 Bonds or any other federal income tax issues associated with the Taxable Adjustable 2006 Series A-1 Bonds, express or implicit in the provisions of this Official Statement, is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on any taxpayer by the Internal Revenue Service. This document supports the promotion or marketing of the transactions or matters addressed herein. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

## **IRS Audit Program**

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Service will commence an audit of the Tax-Exempt 2006 Series A Bonds. If an audit is commenced, the market value of the Tax-Exempt 2006 Series A Bonds may be adversely affected. Under current procedures the Service will treat the Authority as the taxpayer and the Bondowners may have no right to participate in such procedure. The Authority has covenanted in the Indenture not to take any action that would cause the interest on the Tax-Exempt 2006 Series A Bonds to lose its exclusion from gross income for federal income tax purposes. None of the Authority, the Underwriters nor Bond Counsel is responsible for paying or reimbursing any Bondowner for any audit or litigation costs relating to the Tax-Exempt 2006 Series A Bonds.

## **UNDERWRITING**

The 2006 Series A Bonds (other than the 2006 Series A-5 Bonds) are to be purchased from the Authority by the underwriters listed on the front cover page of this Official Statement (the "**Underwriters**"). The Underwriters have agreed, subject to certain conditions, to purchase all but not less than all of the 2006 Series A Bonds (other than the 2006 Series A-5 Bonds) at a price equal to 100% of the aggregate principal amount of the 2006 Series A Bonds. Lehman Brothers Inc. will act as underwriter and will purchase the 2006 Series A-5 Bonds from the Authority at a price equal to the par amount thereof. The Underwriters will be paid a fee of \$559,222 (plus reimbursement of certain expenses) in connection with the 2006 Series A Bonds (other than the 2006 Series A-5 Bonds), and Lehman Brothers Inc. will be paid a fee of \$57,237 in connection with the underwriting of the 2006 Series A-5 Bonds. The initial public offering prices of the 2006 Series A Bonds may be changed from time to time by the Underwriters. RBC Capital Markets is the trade name under which RBC Dain

Rauscher Inc. will be performing underwriting services in connection with the issuance of the 2006 Series A Bonds. UBS Financial Services Inc. has announced its intention to transfer its Municipal Securities Group to UBS Securities LLC once appropriate regulatory and operational steps have been accomplished. If such transfer is formally completed on or before the date of consummation of the contemplated transaction, underwriting and related services will be performed by the Municipal Securities Group as a business unit of UBS Securities LLC.

### **2006A REMARKETING AGENT**

Lehman Brothers Inc. has initially been appointed to serve as Remarketing Agent for the Adjustable 2006 Series A Bonds (other than SAVRS Rate Bonds) (the "**2006A Remarketing Agent**") pursuant to a Remarketing Agreement dated as of January 1, 2006 between the Authority and Lehman Brothers Inc. If Adjustable 2006 Series A Bonds are tendered or deemed tendered for purchase as described herein under the caption "Part I – TERMS OF THE 2006 SERIES A BONDS – Adjustable 2006 Series A Bonds – Optional Tender and Purchase" and "– Mandatory Purchase," the 2006A Remarketing Agent is required to use its best efforts to remarket such Adjustable 2006 Series A Bonds in accordance with the terms of the Indenture and the Remarketing Agreement. The 2006A Remarketing Agent will also be responsible for determining the rates of interest for such Adjustable 2006 Series A Bonds in accordance with the 2006 Series A Indenture. The 2006A Remarketing Agent is to transfer any proceeds of remarketing of the Adjustable 2006 Series A Bonds it receives to the Tender Agent for deposit in accordance with the 2006 Series A Indenture.

The 2006A Remarketing Agent may at any time resign and be discharged of its duties and obligations under the Remarketing Agreement upon providing the Authority, the Trustee, the Paying Agent, and the 2006A Liquidity Facility Provider with thirty (30) days' prior written notice, except that such resignation shall not take effect until the appointment of a successor 2006A Remarketing Agent under the 2006 Series A Indenture. The 2006A Remarketing Agent may be removed at any time, at the direction of the Authority, by an instrument filed with the 2006A Remarketing Agent, the Trustee, the Paying Agent and the 2006A Liquidity Facility Provider, except that the Authority shall not remove the 2006 Series A Remarketing Agent until the appointment of a successor 2006A Remarketing Agent under the 2006 Series A Indenture. Any successor 2006A Remarketing Agent shall be selected by the Authority. Upon the resignation or removal of the 2006A Remarketing Agent, the 2006A Remarketing Agent shall pay over, deliver and assign any monies and Adjustable 2006 Series A Bonds held by it in such capacity to its successor.

### **FINANCIAL ADVISOR**

The Authority has retained CSG Advisors Incorporated, New York, New York, as financial advisor (the "**Financial Advisor**") in connection with the issuance of the 2006 Series A Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Financial Advisor will act as an independent advisory firm and will not be engaged in underwriting or distributing the 2006 Series A Bonds.

### **LITIGATION**

At the time of the delivery of and payment for the 2006 Series A Bonds, the Authority will deliver an opinion of its General Counsel, Charles L. Borgman, Esq., to the effect that no litigation before any court is pending or, to his knowledge, threatened against the Authority in any way affecting the

existence of the Authority or the titles of its officers to their respective offices, or seeking to restrain or to enjoin the issuance, sale or delivery of the 2006 Series A Bonds, or which would materially adversely affect the financial condition of the Authority, or in any way contesting or affecting the validity or enforceability of the 2006 Series A Bonds, the Indenture or the contract for the purchase of the 2006 Series A Bonds.

### **FORWARD-LOOKING STATEMENTS**

Statements in this Official Statement, including those concerning expectations and assumptions as to the future financial performance of the Trust Estate and the Authority, and certain of the information presented in this Official Statement, constitute forward-looking statements, which represent the expectations and beliefs about future events. Actual results may vary materially from expectations. For a discussion of the factors which could cause actual results to differ from expectations, please see the caption entitled "Part II – CERTAIN BONDOWNERS' RISKS" in this Official Statement.

### **RATINGS**

Moody's Investors Service ("**Moody's**") and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("**S&P**"), are expected to give the Adjustable 2006 Series A Bonds ratings of "Aaa/VMIG-1" and "AAA/A-1+," respectively, based (in the case of the short-term ratings for the Adjustable 2006 Series A Bonds) on the delivery of the Initial 2006A Liquidity Facility by the 2006A Liquidity Facility Provider. The 2006 Series A-4 Class II Bonds are expected to be rated "Aa2" and "AA" by Moody's and S&P, respectively. Moody's and S&P are expected to give the 2006 Series A-5 Bonds ratings of "Aaa/MIG-1" and "SP-1+," respectively, based (in the case of the short-term ratings) on the investment of amounts exchanged for proceeds of the 2006 Series A-5 Bonds as described in "Part I – CERTAIN PROGRAM ASSUMPTIONS – Investments." Such ratings reflect only the views of Moody's and S&P, respectively, and are not a recommendation to buy, sell or hold the 2006 Series A Bonds. An explanation of the significance of the ratings given by Moody's and S&P, respectively, may be obtained from Moody's and S&P, respectively. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely by Moody's or S&P, respectively, if circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the marketability or market price of the respective 2006 Series A Bonds.

**(End of Part I)**

## **PART II**

### **COLORADO HOUSING AND FINANCE AUTHORITY**

#### **Background**

In 1973, upon a finding that there existed in the State a shortage of decent, safe and sanitary housing available within the financial capabilities of low and moderate income families, the Colorado General Assembly established the Colorado Housing Finance Authority, since renamed the Colorado Housing and Finance Authority, as a body corporate and a political subdivision of the State for the purpose of increasing the supply of decent, safe and sanitary housing for such families. The Act authorizes the Authority, among other things, to make loans to individuals and sponsors to finance the construction, reconstruction, rehabilitation or purchase of housing facilities for low and moderate income families and to purchase mortgage loans from, and lend moneys to, qualified Mortgage Lenders under terms and conditions which provide for loans to finance housing facilities for low and moderate income families. The Act was amended in 1982 to authorize the Authority to finance project and working capital loans to commercial and industrial enterprises of small and moderate size. The Act was amended again in 1987 to create an economic development fund to enable the Authority to finance projects or provide capital for business purposes.

In order to achieve its authorized purposes, the Authority currently operates Qualified and Non-Qualified Single Family Mortgage Programs, a Rental Acquisition Program and various rental and business finance programs. See "Programs To Date" under this caption. The Act authorizes the Authority to issue its bonds, notes and other obligations in order to provide sufficient funds to achieve its purposes as set forth in the Act. Bonds or notes issued with respect to such programs are and will be separately secured from other bonds of the Authority, including the Bonds, except as described in "Part II – SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS."

#### **Board of Directors and Staff Officers**

The Board of Directors of the Authority consists of the Colorado State Auditor, a member of the Colorado General Assembly appointed jointly by the Speaker of the House and the Majority Leader in the Senate, an executive director of a principal department of State government appointed by the Governor of Colorado and eight public members appointed by the Governor with the consent of the Senate. Members of the Board of Directors continue to serve after the end of their respective terms until a successor has been duly appointed and confirmed. The present members of the Board of Directors of the Authority are as follows:

### Present Board of Directors of the Authority

Name	Affiliation	End of Term
Nancy J. McCallin, Chair (1)	President, Colorado Community College System; Denver, Colorado	July 1, 2007
Joseph A. Garcia, Chair, <u>pro tem</u> (1)	President, Pikes Peak Community College; Colorado Springs, Colorado	July 1, 2009
Michelle Dressel Secretary/Treasurer (1)	President, Mortgage Division, Alpine Banks of Colorado; Glenwood Springs, Colorado	July 1, 2009
John Blumberg	Co-Founder and Principal, Black Creek Capital LLC; Denver, Colorado	July 1, 2009
M. Michael Cooke	Executive Director, Colorado Department of Revenue; Denver, Colorado	At the pleasure of the Governor
John R. Davidson	Chairman of the Board and Chief Executive Officer, First American State Bank; Greenwood Village, Colorado	July 1, 2007
Richard Grice	Executive Director, Governor's Office of Energy Management and Conservation; Denver, Colorado	July 1, 2007
Jim Isgar	State Senator; Hesperus, Colorado	End of legislative biennium 2005-2006
Joanne Hill	Colorado State Auditor; Denver, Colorado	July 1, 2006
Eric C. Moore	Chief Information Officer, Arapahoe Douglas Mental Health Network; Denver, Colorado	July 1, 2009
Joel S. Rosenstein	Attorney, Senn, Lewis & Visciano; Denver, Colorado	July 1, 2009

(1) These Board members were elected to their respective offices effective March 25, 2005.

The principal staff officers of the Authority are as follows:

*Milroy A. Alexander*, Executive Director, joined the staff in October 1988. Mr. Alexander is a graduate of Metropolitan State College, Denver, Colorado, with a Bachelor's Degree in Accounting. Prior to assuming the responsibilities of Executive Director on January 1, 2001, Mr. Alexander served as the Authority's Director of Finance. Mr. Alexander was previously a financial manager with a major Colorado manufacturer and a senior manager with Touche Ross, a big eight international accounting and consulting firm. Mr. Alexander is a member of the Colorado Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

*Cris A. White*, Chief Operating Officer since February 2002, joined the staff in 1988 and served in various capacities until January 1996. He rejoined the staff in September of 1996 as the Director of

Asset Management, after serving in the interim as a business development executive with an international equipment and real estate mortgage lender. On February 1, 2001, Mr. White was appointed Deputy Executive Director for Asset Management and Business Support Services and served until his present appointment. He also continued to serve as Director of Asset Management until December 10, 2001. Mr. White has a Bachelor's Degree in Business Administration from Regis College.

*Thomas Hemmings*, Chief Financial Officer, joined the staff in October 2003. Prior to joining the Authority, Mr. Hemmings served as chief financial officer for a \$650 million commercial bank located in Alabama. Mr. Hemmings has over seventeen years experience in banking and financial services, with over 10 of those years at the chief financial officer level. Mr. Hemmings is a graduate of the University of Colorado and is a Certified Public Accountant.

*Charles L. Borgman*, General Counsel, joined the staff in September 2004 and assumed the position of General Counsel on December 1, 2004. Mr. Borgman is a graduate of the University of Iowa and the University of Iowa College of Law and has over 30 years experience in private practice and as in-house counsel in the areas of real estate, mortgage finance, commercial transactions, title insurance, banking and work-outs. Immediately prior to joining the Authority, Mr. Borgman was Vice President and Regional Counsel for North American Title Company, a part of Lennar Corporation.

*John Dolton*, the head of Corporate Debt and Investment Management, joined the staff in August 1990. Prior to assuming this newly created position, Mr. Dolton served as Director of Finance/CFO (January 2001 – July 2003) and as the Manager of Treasury Operations (September 1994 – December 2000). Before joining the Authority, Mr. Dolton was an analyst for a financial planning and investment management firm. Mr. Dolton has a Bachelor's Degree in Finance from the University of Colorado and holds the Chartered Financial Analyst designation.

*Steven R. Felten*, Controller, joined the staff in January 2005. Prior to joining the Authority, Mr. Felten served as finance director of the City of Boulder, Colorado. Mr. Felten has also served in various financial roles in the commercial banking sector, including more than ten years as controller. Mr. Felten is a graduate of the University of Mississippi and is a Certified Public Accountant.

*Karen Harkin* was appointed as Director of Home Finance in February 2001 and as Interim Director of Loan Servicing in November 2005. Ms. Harkin joined the staff in June, 1999. Ms. Harkin received a Bachelor of Science degree from the University of Wisconsin-Madison and a Masters Degree in Business Administration from the University of Dubuque, Iowa. Ms. Harkin has fifteen years experience in various capacities in public, private and non-profit real estate lending and development. Management of the Authority determined in November 2005 to create a new division to handle loan servicing operations for the Authority. A search is currently underway for a Director of Loan Servicing.

*Jaime Gomez*, Director of Commercial Lending, joined the staff in August 1999. Prior to his current position, Mr. Gomez served as the Director of Business Finance. A corporate reorganization in July 2003 merged the Authority's Business Finance and Rental Finance Divisions, forming the Commercial Lending Division. Mr. Gomez is a graduate of the University of Colorado with a degree in Finance. Mr. Gomez has prior experience working in both the public and private sector, including five-and-a-half years as director of finance and business development for the Colorado Office of Economic Development. Mr. Gomez was also designated as a certified bank examiner by the Federal Reserve Board of Governors in February of 1991.

*D. Brian Miller* was appointed as Director of Asset Management in October 2003. Prior to his current position, Mr. Miller served as the Manager of Multifamily Loan Compliance Department, as well as various other positions within the Asset Management Division since joining the Authority in August

1998. Mr. Miller has over fifteen years experience in financial services and asset management. Mr. Miller is a graduate of the University of Northern Colorado with a Bachelor's Degree in Finance.

*Linda Bessinger* joined the staff as Director of Human Resources in February 2003. She has a Bachelor's Degree in Human Resources Development from Metropolitan State College and a Master's Degree in Organizational Performance and Change from Colorado State University. During her fifteen years in employee relations and organization development, Ms. Bessinger has worked with companies ranging from entrepreneurial organizations to Fortune 200 corporations.

*Rachel Basye*, the Director of Marketing and Strategic Development, joined the business finance division of the Authority in 1994. Ms. Basye moved to the Authority's planning and development division in 1995 which, in 2003, was expanded to include marketing and community relations activities in addition to strategic planning and program development/evaluation. Ms. Basye is a graduate of the University of Colorado at Boulder with a Bachelor's Degree in International Affairs and German. She earned her Masters Degree in Public Administration from the University of Colorado at Denver.

*Rodney D. Hardin* joined the staff as Director of Information Technology in January 2005. Prior to joining the Authority, Mr. Hardin served as SVP/CIO at Pulte Mortgage LLC for 11 years. He also served as SVP/MIS Manager at North American Mortgage for five years. He is past Chairman of the MBA Residential Technology Steering Committee. His education includes a Bachelor's Degree in Business Administration from Sonoma State University in Rohnert Park, California and a Masters Degree in Business Administration from Regis University in Denver, Colorado.

### **Employees and Pension Information**

As of December 31, 2004, the Authority had approximately 150 full-time employees, all of whom are members of the Public Employees' Retirement Association of Colorado ("PERA"). State statutes required the Authority to contribute ten percent (10%) of each participating employee's gross salary to PERA in 2004. In 2004, the Authority's PERA contribution totaled approximately \$792,000, compared to an Authority contribution in 2003 of \$816,000. See footnote (7) of the audited 2004 and 2003 financial statements attached as **Appendix G** hereto for further information.

### **Insurance Coverage**

The Authority has general liability, errors and omission and employee dishonesty insurance coverage.

### **The General Fund**

#### *Generally*

CERTAIN OBLIGATIONS UNDER THE MASTER INDENTURE HAVE BEEN OR MAY IN THE FUTURE BE DESIGNATED AS GENERAL OBLIGATIONS OF THE AUTHORITY. SEE "PART II – SECURITY FOR THE OBLIGATIONS" AND **APPENDIX B-1** – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS." THE FOLLOWING INFORMATION REGARDING THE AUTHORITY'S GENERAL FUND IS PROVIDED ONLY IN CONNECTION WITH OBLIGATIONS WHICH HAVE BEEN OR ARE IN THE FUTURE SO DESIGNATED.

The audited 2004 and 2003 financial statements of the Authority included in **Appendix G** to this Official Statement provide certain financial information about the Authority on a fund accounting basis, including a description of its General Fund. The General Fund is funded principally from reimbursement of administrative expenses and other allowable transfers from other funds (including the transfer of assets



in excess of specified parity levels from other bond issues); loan fees payable to the Authority by borrowers; servicing fees payable to the Authority in connection with outstanding loans, income from the Authority's Rental Acquisition Program; income on investments and mortgage loans held temporarily (for warehousing purposes) and permanently in the General Fund; and administrative fees payable by the federal government in connection with the Section 8 housing assistance payments program. Uses of amounts in the General Fund include payment of general and other administrative expenses and payment of costs relating to those activities deemed necessary to fulfill the Authority's corporate purposes and not payable from other funds of the Authority. The General Fund itself is not subject to any pledge created under the Indenture. As discussed below, the Authority Board, in its discretion, has historically from time to time designated portions of the General Fund balance to particular purposes, and may do so in the future.

*Financial Information for the General Fund*

The following table sets forth historical selected financial information for the General Fund for the five years ended December 31, 2004, as provided by the Authority.

**Colorado Housing and Finance Authority**  
**General Fund**  
**Selected Financial Information**  
**Years Ended December 31**  
**(000s)**

	<u>FY</u> <u>2004</u>	<u>FY</u> <u>2003</u>	<u>FY</u> <u>2002</u>	<u>FY</u> <u>2001</u>	<u>FY</u> <u>2000</u>
Interest and investment revenue:					
Loans receivable	\$10,454	\$10,094	\$12,177	\$16,987	\$14,966
Marketable securities	1,744	1,955	3,084	3,135	3,252
Net increase (decrease) fair value of long-term marketable securities	<u>(392)</u>	<u>(570)</u>	<u>(10)</u>	<u>473</u>	<u>179</u>
Total interest and investment revenue	11,806	11,479	15,251	20,595	18,397
Interest expense - bonds and notes payable	<u>5,799</u>	<u>5,345</u>	<u>8,100</u>	<u>11,267</u>	<u>11,983</u>
Net interest and investment revenue	6,007	6,134	7,151	9,328	6,414
Other revenue (expense):					
Rental operations	10,279	9,549	10,569	10,373	9,858
Fees and miscellaneous income	12,756	14,058	12,461	11,679	11,413
Program fees	<u>--</u>	<u>4,665</u>	<u>4,705</u>	<u>5,539</u>	<u>4,024</u>
Total other revenue	<u>23,035</u>	<u>28,272</u>	<u>27,735</u>	<u>27,591</u>	<u>25,295</u>
Net revenue	29,042	34,406	34,886	36,919	31,709
Other expenses:					
Salaries and related benefits	10,668	11,545	10,869	9,892	9,356
General operating (1)	13,462	13,651	9,725	10,280	8,503
Provision for losses	(816)	133	996	953	(438)
Other interest expense	1,326	1,260	1,274	1,332	1,346
Transfers	--	--	--	(1,059)	(2,058)
Depreciation	<u>2,574</u>	<u>2,745</u>	<u>2,246</u>	<u>--</u>	<u>--</u>
Total other expense	<u>27,214</u>	<u>29,334</u>	<u>25,110</u>	<u>21,398</u>	<u>16,709</u>
Operating income	<u>\$ 1,828</u>	<u>\$ 5,072</u>	<u>\$ 9,776</u>	<u>\$ 15,521</u>	<u>\$ 15,000</u>
Fund Balance, end of year	<u>\$136,479</u>	<u>\$131,204</u>	<u>\$122,975</u>	<u>\$112,179</u>	<u>\$ 96,658</u>
Bonds and Notes Payable	<u>\$212,798</u>	<u>\$162,623</u>	<u>\$202,012</u>	<u>\$224,414</u>	<u>\$213,588</u>
Total Assets	<u>\$359,139</u>	<u>\$305,912</u>	<u>\$336,322</u>	<u>\$353,547</u>	<u>\$326,427</u>

(1) The Authority's general operating expenses increased between 2002 and 2003 as a result of a rise in loan payoffs (prepayments) which increased the amortization of certain deferred expenses included in general operating expenses, such as service release premiums. Further information is available in the Authority's audited 2004 and 2003 financial statements attached as **Appendix G** hereto.

Sources: Derived from the audited financial statements of the Authority for years ended December 31, 2000-2004

Set forth below is a summary of the revenues, expenses and changes in net assets for the Authority as a whole, set forth in accordance with new GASB requirements, for Fiscal Years 2004, 2003 and 2002, which are the only years for which this presentation is available. See **Appendix G**.

**Colorado Housing and Finance Authority**  
**General Fund**  
**Statement of Revenues, Expenditures and Other Charges**  
**Years Ended December 31, 2004, 2003 and 2002**  
**(000s)**

<u>Revenues</u>	<u>FY</u> <u>2004</u>	<u>FY</u> <u>2003</u>	<u>FY</u> <u>2002</u>
Interest and investment revenue:			
Loans receivable	\$10,454	\$10,094	\$12,177
Marketable securities	1,744	1,955	3,084
Net decrease fair value of long-term marketable securities	(392)	(570)	(10)
Other revenue:			
Rental operations	10,279	9,549	10,569
Fees and miscellaneous income	12,756	14,058	12,461
Program fees	--	4,665	4,705
Grant Income	<u>15</u>	<u>292</u>	<u>222</u>
Total Revenues	\$34,856	\$40,043	\$43,208
 <u>Expenditures</u>			
Interest expense - bonds and notes payable	\$ 5,799	\$ 5,345	\$ 8,100
Other expenses:			
Salaries and related benefits	\$10,668	\$11,545	\$10,869
General operating (1)	13,462	13,651	9,725
Provision for losses	(816)	133	996
Other interest expense	1,326	1,260	1,274
Depreciation	2,574	2,745	2,246
Total Expenditures	\$33,013	\$34,679	\$33,210
<u>Transfers (To) From Other Program</u>	<u>(3,432)</u>	<u>2,865</u>	<u>798</u>
Change in Net Assets	\$(1,589)	\$ 8,229	\$10,796

(1) The Authority's general operating expenses increased between 2002 and 2003 as a result of a rise in loan payoffs (prepayments) which increased the amortization of certain deferred expenses included in general operating expenses, such as service release premiums. Further information is available in the Authority's audited 2004 and 2003 financial statements attached as **Appendix G** hereto.

Sources: Derived from audited financial statements for the years ended December 31, 2004, 2003 and 2002

*Appropriations, Reserves and Restrictions*

The Authority Board, in its discretion and from time to time, designates portions of the fund balance of the General Fund for particular uses by means of annual appropriations to certain programs, the establishment of reserves in limited situations and the imposition of restrictions on the fund balance. Designations by the Authority's Board using each of these means may also be redesignated at any time in the Board's discretion. The Authority Board also annually restricts the fund balance of the General Fund (net of amounts previously appropriated or restricted for various funds, debt service reserves, or operating

reserves) for the benefit of the holders of certain bonds of the Authority in the event that no other moneys are legally available for debt service payments. As long as the Authority is not in default under the related indenture or resolution for such bonds, the Board may withdraw such restricted amounts at any time.

### **Authority Policy Regarding Derivatives**

The Master Indenture permits the Authority to enter into "Auxiliary Agreements," which include interest rate exchange or swap contracts, cash flow exchange contracts, forward swaps, interest rate floors, caps or collars and other derivative products which qualify as "Interest Rate Contracts." See **Appendix A** and "Part II – SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS – Interest Rate Contracts." Under the master indenture relating to its Multi-Family/Project Bonds, the Authority is also permitted to, and has entered into, certain derivative obligations which are described in footnote (5) of the audited 2004 and 2003 financial statements of the Authority attached in **Appendix G**. The Board of the Authority adopted a Bond Issuance Policy dated March 27, 2003 as revised on March 25, 2004, July 22, 2004 and March 24, 2005, which, among other things, establishes parameters for swap agreements which may be authorized from time to time by resolution of the Board in connection with the issuance of bonds by the Authority (including Bonds under the Master Indenture). On an annual basis, the Authority staff is to provide a report to the Board regarding all outstanding swap agreements. The Board may change its Bond Issuance Policy at any time and from time to time at its sole discretion, including an expansion of the Policy to permit derivative products other than swap agreements. Any changes to the Bond Issuance Policy may impact future derivative obligations including Interest Rate Contracts authorized in connection with Bonds under the Master Indenture.

### **Programs to Date**

The following is a brief summary of the programs currently operated by the Authority. This summary has been included solely for purposes of providing information about the Authority's activities to assist a potential investor in evaluating the Authority and its programs. **Except as otherwise described herein, the loans referred to below are not pledged in any way as security for the Bonds. See "Part II – SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS."** See also "Long-Term Obligations of the Authority" under this caption.

#### *Single Family Mortgage Programs*

Under its Single Family Mortgage Programs, the Authority may make mortgage loans for single-family residential dwellings directly to individual borrowers or may purchase such mortgage loans from qualified originating Mortgage Lenders. The Authority presently purchases and originates mortgage loans under its *Qualified Single Family Mortgage Program* and its *Non-Qualified Single Family Mortgage Program*. Under its Qualified Single Family Mortgage Program, the Authority may make mortgage loans to Eligible Borrowers meeting certain income limit requirements, for Eligible Property not exceeding certain Purchase Price limits, and subject to certain other restrictions imposed, in some cases, by the Tax Code. The Authority permits Eligible Borrowers under its Non-Qualified Single Family Mortgage Program to meet certain income limits which are somewhat higher than the limits permitted for the Qualified Single Family Mortgage Program. There is also no limit on prior home ownership or limit on the purchase price of a residence which may be acquired with the proceeds of a loan under the Non-Qualified Single Family Mortgage Program. In many other respects, the requirements for the Non-Qualified Single Family Mortgage Program are the same as the requirements for the Authority's Qualified Single Family Mortgage Program. See "Part II – THE SINGLE FAMILY MORTGAGE PROGRAM." For certain information regarding the outstanding mortgage loans originated under the Single Family

Mortgage Programs, see footnote (3) to the audited 2004 and 2003 financial statements of the Authority included in this Official Statement as **Appendix G**.

### *Commercial Loan Programs*

**Rental Finance Programs.** The Commercial Lending Division of the Authority encompasses the business finance programs (described below) as well as the rental finance programs under which the Authority makes mortgage loans to qualified sponsors of low and moderate income multi-family housing within Colorado. As part of its rental finance activities, the Authority makes mortgage loans insured by an agency or instrumentality of the United States. The insured rental loans made by the Authority must be insured by an agency or instrumentality of the United States under an insurance program requiring payment of not less than 99% of the principal amount of such mortgage in the event of default. Insured rental loans made to date have been insured by the Federal Housing Administration ("FHA") under Sections 221(d)(3), 221(d)4 and 223(f) of the National Housing Act of 1934, as amended, and under Section 542(c) of the Housing and Community Development Act of 1992, as amended. These insured rental loans have been funded by the Authority as described in "Long-Term Obligations of the Authority – Revenue Bonds and Notes – Rental Finance Programs" under this caption. In the case of a Section 542(c) claim, the Authority is responsible to reimburse FHA for 50% of any loss incurred by the FHA as a result of and after settlement of such claim. See "Long-Term Obligations of the Authority – General Obligations – Section 542(c) Risk Sharing Loans" under this caption. For certain information regarding the Authority's outstanding insured rental loans, see footnote (3) to the audited 2004 and 2003 financial statements of the Authority included in this Official Statement as **Appendix G**.

The Authority also makes uninsured rental loans to §501(c)(3) nonprofit corporations and public housing authorities as well as to for-profit developers. Certain of these uninsured rental loans have been made as a part of the Authority's Small Affordable Rental Transactions Program (the "**SMART Program**") in principal amounts under \$5 million (or in such greater amounts as approved from time to time pursuant to the delegated authority policy of the Authority as approved or amended from time to time by the Board). Uninsured rental loans have also been made by the Authority using funds from amounts in its General Fund designated as the Housing Opportunity Fund. The Housing Opportunity Fund was created by the Authority in 1989 to provide small loans at flexible interest rates, either with first mortgages or on a subordinate basis to other loans, and thereby supplement other available financing as needed for rental housing facility projects.

Under another rental finance program, the *Rental Acquisition Program* (the "**RAP Program**"), the Authority acquires and rehabilitates apartment buildings located throughout Colorado for rental to persons and families of low and moderate income. The Authority contracts with private entities to manage such buildings. For certain information concerning the RAP Program and facilities acquired, rehabilitated and operated by the Authority, see footnote (1) to the audited 2004 and 2003 financial statements of the Authority included in this Official Statement as **Appendix G**.

**Business Finance Programs.** The Authority originates uninsured loans as part of certain of its business loan programs, including the CHFA Direct Loan Program, the Non-Profit Real Estate Loan Program, the U.S. Small Business Administration ("SBA") 504 Program, the CHFA Rural Loan Program, the RENEW Program and the Business and Industry Loan I ("**B&I I**") Program, described below. These uninsured business loans must meet certain economic development or job creation/retention objectives under the Act and are made to small and moderate-size Colorado businesses to provide long-term, fixed rate financing for real estate and equipment. The uninsured business loans are secured by a first lien on the assets financed, are made in amounts up to ninety percent (90%) of the lesser of cost or appraised value of the collateral, are fully-amortizing over terms of up to thirty (30) years for real estate loans and seven years for equipment, and generally require guarantees from principals of the business having a

twenty percent or greater ownership interest. A guaranty is also required from the operating company if different from the Borrower.

- Under the *CHFA Direct Loan Program*, the Authority provides loans to for-profit businesses to acquire, construct and/or rehabilitate and equip commercial, retail or manufacturing facilities.
- Under the *Non-Profit Real Estate Loan Program*, the Authority provides loans to non-profit organizations to fund real estate acquisition.
- Under the *SBA 504 Program*, the Authority provides loans to for-profit businesses to finance owner-occupied real estate and/or equipment. The Program provides two structures, a direct loan option (where the Authority originates the first mortgage loan which generally finances 50% of the project costs) and a loan participation option (where the Authority purchases up to a 90% participation in a first mortgage loan). An SBA-approved company provides a second mortgage for up to 40% of the total project costs (or \$1.3 million, whichever is less), with the Borrower providing the remaining 10% of the costs.
- Under the *CHFA Rural Program*, the Authority provides loans to rural small for-profit businesses to finance real estate and/or equipment.
- Under the *RENEW Program*, the Authority provides loans to businesses involved in the recycling and waste diversion industries, with funding received from the Colorado Department of Local Affairs.
- Under the *B&I I Program*, the Authority provides loans to for-profit businesses located in rural areas, which loans are supported by the partial guaranty of the Rural Business-Cooperative Services (which guarantees to date have ranged from 55% to 80% of the loan principal amount).

In connection with its *Special Projects financing program*, the Authority has financed business loans to corporations for certain manufacturing and solid waste disposal facility projects.

The business loan programs of the Authority also include three secondary market programs described below. Under these programs, the Authority purchases the guaranteed portion of a business loan (the "**participation interest**"), and is thereby able to provide the Borrower with the safety and predictability of a fixed-rate throughout the term of the loan at an attractive interest rate. Additionally, each of these secondary market programs is a source of profit and liquidity for originating lenders. The *Quality Investment Capital ("QIC") Program* is a secondary market program whereby the Authority purchases the guaranteed portion of loans originated by local lenders and guaranteed by the SBA. Typically, the Authority markets the QIC Program to local lenders and potential borrowers and purchases the participation interest (which is 100% guaranteed by the SBA). Proceeds of these participation interests may be used to fund real estate, equipment, machinery and working capital.

The *Quality Agricultural Loan ("QAL") Program* is a secondary market program whereby the Authority purchases the guaranteed portion of loans originated by local lenders and guaranteed 100% by the United States Farm Service Agency ("FSA"). The Borrowers are involved in the ranching and agricultural industry throughout Colorado. Proceeds of these loans may be used to finance real estate, equipment, and machinery used in farming and ranching operations.

The *Business & Industry II ("B&I II") Program* creates a secondary market for the purchase of the United States Rural Business Service ("RBS") guaranteed portion of qualified loans with funds provided by the Authority. Participating lenders originate loans according to their own credit criteria and RBS requirements. The Program provides fixed-rate financing on the guaranteed portion of RBS loans made to borrowers located in a rural community serviced by RBS guaranteed lenders. The originating lender acts as servicer of the loans for a fee not to exceed one percent (1%) per annum of the outstanding principal balance of the guaranteed portion purchased. Proceeds of the loans may be used to finance real estate, equipment, and machinery. The participation interest is 100% guaranteed by the RBS.

### **Long-Term Obligations of the Authority**

The following is a summary of the long-term obligations incurred by the Authority to provide funds for and otherwise operate the Authority and the Programs described in "Programs to Date" under this caption. This summary has been included solely for purposes of providing information to assist a potential investor in evaluating the Authority's financial status. See also footnote (4) to the audited 2004 and 2003 financial statements of the Authority included in this Official Statement as **Appendix G**.

#### *Revenue Bonds and Notes*

**Single Family Mortgage Programs.** In connection with its Single Family Mortgage Programs, the Authority has previously issued numerous series of its single-family housing revenue bonds as senior and subordinate bonds, single family mortgage bonds and taxable mortgage revenue bonds payable from the revenues of pledged mortgage loans. The aggregate principal amount of such single family bonds (which include Bonds issued and payable under the Master Indenture) outstanding as of December 31, 2004 was approximately \$1.6 billion. For information concerning the outstanding bonds of the Authority issued in connection with its Single Family Mortgage Programs, see [www.colohfa.org](http://www.colohfa.org) and footnote (4) of the audited 2004 and 2003 financial statements of the Authority attached in **Appendix G**. **Except for bonds specifically identified in Appendix B-1 as Bonds under the Master Indenture, the revenue bonds described above and at the Authority's website are secured separately from and are not on parity with the Bonds and are issued and secured under resolutions or indentures of the Authority other than the Master Indenture.**

**Rental Finance Programs.** The Authority has financed insured rental loans with proceeds of its **Multifamily Housing Insured Mortgage Revenue Bonds** (outstanding as of December 31, 2004 in an aggregate principal amount of \$301.7 million) and, since 2000, with proceeds of certain **Multi-Family/Project Bonds** which are secured and payable from revenues of certain pledged rental and business loans. Such **Multi-Family/Project Bonds**, which have been issued not only to finance such insured rental loans but also uninsured rental and business loans, were outstanding as of December 31, 2004 in an aggregate principal amount of \$451.4 million. The Authority has also financed its uninsured rental loans using proceeds of its **Mortgage Revenue Bonds** sold to institutional purchasers and secured solely by and payable solely from such uninsured rental loans, and its **Multi-Family Housing Revenue Bonds** issued by the Authority as a conduit issuer and supported by letters of credit or other credit facilities. One outstanding series of bonds which financed an uninsured rental loan in connection with the Denver Dry housing project is secured by a pledge of loan revenues as well as the full faith and credit of the Authority. See "General Obligations – Rental Finance – Bonds/Notes." Bonds have also been privately placed by the Authority in order to finance uninsured rental loans under the SMART program. Projects in the RAP Program have been acquired using a combination of revenue bonds, the Authority's general fund monies, proceeds of general obligation bonds and non-recourse seller carryback financing secured solely by the acquired projects. See footnote (4) of the audited 2004 and 2003 financial statements of the Authority attached in **Appendix G** for more information regarding these outstanding bonds and notes.

Business Finance Programs. The Authority has financed uninsured business loans and certain loan participations under the QIC, QAL and B&I II Programs using proceeds of its Multi-Family/Project Bonds which are secured and payable from revenues of pledged rental and business loans. See "Rental Finance Programs" under this caption. These uninsured business loans and loan participations have also been financed by the Authority with the proceeds of privately placed bonds secured by loan and participation revenues as well as the full faith and credit of the Authority. See "General Obligations – Business Finance – Bonds/Notes." One outstanding series of bonds which financed an uninsured business loan in connection with a headquarters building for the Colorado Municipal League is secured by a pledge of loan revenues as well as the general obligation of the Authority. See "General Obligations – Business Finance – Bonds/Notes." In connection with its Special Projects financing program, the Authority has issued as a conduit issuer its industrial development revenue bonds to finance certain manufacturing facilities and solid waste disposal facility projects for corporations.

#### *General Obligations*

Certain of the bonds and notes issued by the Authority to finance its programs are general obligations of the Authority, rather than payable from specific revenues or assets as described in "Revenue Bonds and Notes" under this caption. In other cases described in "Revenue Bonds and Notes," the Authority has issued bonds and notes secured by a pledge of specific revenues, with an additional pledge of its full faith and credit. The bonds and notes and other obligations which are general obligations of the Authority are described below:

Single Family Mortgage Programs – Bonds. The Subordinate Bonds for the various series of the Authority's Single Family Program Senior and Subordinate Bonds are payable from mortgage loan revenues on a subordinate lien basis and are also general obligations of the Authority. The aggregate principal amount of such Subordinate Bonds as of December 31, 2004 was \$4,715,000. The Authority has also issued Class III Bonds under the Master Indenture, the proceeds of which have been used to finance mortgage loans for the Single Family Mortgage Programs. These Class III Bonds, outstanding in the aggregate principal amount of \$98,000,000 as of December 31, 2004, are payable from mortgage loan revenues and are also general obligations of the Authority. In addition to these bonds which have been publicly offered by the Authority, the Authority has issued general obligation bonds through private placement in order to finance single family mortgage loans. As of December 31, 2004, such privately placed bonds were outstanding in an aggregate principal amount of \$20.3 million.

Rental Finance and Business Finance – Multi-Family/Project Bonds. The Authority has issued Class I Multi-Family/Project Bonds (outstanding as of December 31, 2004 in an aggregate principal amount of \$103.6 million) in order to finance uninsured rental and business loans which are payable not only from a senior lien on loan revenues but also as general obligations of the Authority. The Authority has also issued Class III Multi-Family/Project Bonds (outstanding as of December 31, 2004 in an aggregate principal amount of \$21.1 million) in order to finance uninsured rental and business loans. These Class III Multi-Family/Project Bonds are payable from loan revenues on a subordinate lien basis and also as general obligations of the Authority.

Rental Finance and Business Finance – Uninsured Loans. The Authority has acquired or originated certain uninsured rental and business loans using proceeds of and pledged to the repayment of its Multi-Family/Project Bonds. The Authority has pledged its full faith and credit to the payment of certain such loans, outstanding as of December 31, 2004 in the aggregate principal amount of \$69.6 million.

Section 542(c) Risk Sharing Loans. The Authority has also assumed as a general obligation 50% risk of loss in the mortgage loans insured by the FHA under Section 542(c) of the Housing and



Community Development Act of 1992, as amended. As of December 31, 2004, such 542(c) mortgage loans were outstanding in the amount of approximately \$312 million. In the case of a §542(c) claim, the Authority is responsible, as a general obligation, to reimburse FHA for 50% of any loss incurred by the FHA as a result of and after the final settlement of such claim. See "Programs to Date – Commercial Loan Programs – Rental Finance Programs" under this caption. To date, the Authority has incurred risk-sharing liabilities of approximately \$7.3 million as a result of defaults on insured mortgage loans for the Marycrest, Allied Lowry, Sterling Manor, Skyview Village and Heritage Center projects, the foreclosure and sale of those projects and the settlement of the respective final insurance claims with FHA. In addition, two insured mortgage loans in the approximate aggregate principal amount of \$5.1 million are currently in default. The Authority is in work-out discussions with the respective project owners for such mortgage loans and has not determined if it will be necessary to file insurance claims with respect to these two loans. In the event that claims are filed, it is likely that the Authority would incur a risk-sharing liability with respect to each of the projects, for which the Authority believes it is adequately reserved.

Rental Finance – Bonds/Notes. The Authority has financed an uninsured rental loan in connection with the Denver Dry housing project using proceeds of its publicly-offered bonds. As of December 31, 2004, such bonds, secured by a general obligation pledge and loan revenues, were outstanding in an aggregate principal amount of \$3,285,000. In addition, the Authority has issued general obligation bonds and notes through private placement in order to finance uninsured rental loans. As of December 31, 2004, such privately placed bonds were outstanding in an aggregate principal amount of \$29,239,000, and such notes were outstanding in an aggregate principal amount of \$6 million.

Business Finance – Bonds/Notes. In connection with the Special Projects financing program, the Authority has financed certain business loans to non-profit organizations through the public offering of Authority bonds. As of December 31, 2004, such bonds, issued to finance a business loan to the Colorado Municipal League, were outstanding in the aggregate principal amount of \$1,280,000. The Authority has funded participation interests in business loans under the QIC, QAL and B&I II Programs as well as business loans under the CHFA Direct Loan and SBA 504 Programs using proceeds of its Guaranteed Loan Participation Purchase Bonds and its Project Loan Participation Purchase Bonds and Refunding Bonds, outstanding as of December 31, 2004 in the aggregate principal amount of \$30,502,000. These Bonds, which are general obligations of the Authority, have been privately placed. The Authority has also issued by private placement its Rural Business Cooperative Service Notes (outstanding as of December 31, 2004 in the aggregate principal amount of \$1,372,000 and secured by a general obligation pledge of the Authority), the proceeds of which have been used to finance project or working capital loans or participations therein for small businesses in rural areas.

Derivative Obligations. The Authority has pledged its full faith and credit to secure its obligation to make termination payments under the Derivative Obligations relating to the Multi-Family/Project Bonds and under the Interest Rate Contracts relating to the Bonds under the Master Indenture. See **APPENDIX B-1 – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS – The Outstanding Auxiliary Obligations."** See also "Authority Policy Regarding Derivatives" under this caption and footnote (5) to the audited 2004 and 2003 financial statements of the Authority included in this Official Statement as **Appendix G.**

Line of Credit Borrowings. The Authority has entered into agreements with the Federal Home Loan Bank of Topeka and a commercial bank for the borrowing from time to time of up to an aggregate amount of \$295,000,000. Such borrowings are also general obligations of the Authority and have generally been used to date to make or purchase loans pending the permanent financing of such loans. As of September 30, 2005, \$21 million in borrowings were outstanding under those agreements.

General Obligation Ratings. Moody's has assigned an "A1" rating and S&P has assigned an "A+" rating to the Authority's ability to repay its long-term general obligation liabilities. The ratings have been assigned based on the Authority's management, financial performance and overall program performance. There is no assurance that any such rating will continue for any given period of time or that any such rating will not be revised downward entirely by Moody's or S&P, respectively, if circumstances so warrant.

## SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS

### Pledge of Trust Estate

All Bonds and obligations of the Authority for the payment of money under the Interest Rate Contracts and Liquidity Facilities (the "**Auxiliary Obligations**") outstanding under the Master Indenture (other than Auxiliary Obligations which are General Obligations of the Authority) are secured by and payable from revenues, assets and moneys pledged for the payment thereof under the Master Indenture (the "**Trust Estate**"). The pledge and lien of the Master Indenture on the Trust Estate is created and established in the following order of priority: first, to secure the payment of the principal of and interest on the Class I Obligations; second, to secure the payment of the principal of and interest on the Class II Obligations; third, to secure the payment of the principal and interest on the Class III Obligations; and fourth, to secure the payment of principal of and interest on the Class IV Obligations. Bonds and Auxiliary Obligations may also be designated as General Obligations of the Authority.

No Bonds or Auxiliary Obligations are presently outstanding under the Master Indenture other than as listed on **Appendix B-1** – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS." The Authority's obligation to pay principal of Bank Bonds at maturity or in accordance with a scheduled amortization date as set forth in any Liquidity Facility is a Class I Obligation. However, to the extent of any principal of Bank Bonds which is payable in advance of the maturity or scheduled amortization date as set forth in any Liquidity Facility, such portion of any Bank Bonds will constitute Class III Bonds and are designated as General Obligations of the Authority. The Authority's obligation to make regular interest payments under any Interest Rate Contract has been (and is expected in the future to be) a Class I Obligation, and the Authority's obligation to make certain payments due upon early termination of any such Interest Rate Contract has been (and is expected in the future to be) a General Obligation of the Authority and not secured by the Trust Estate under the Master Indenture. The Authority expects to issue Additional Bonds under the Master Indenture, as described in "Issuance of Additional Bonds; Refunding Bonds; Auxiliary Obligations" under this caption. *Notes and bonds heretofore or hereafter issued to provide funds for programs of the Authority (other than the Bonds under the Master Indenture) are and will be authorized and secured by separate resolutions or indentures and are not and will not be secured by the pledge of the Master Indenture and do not and will not rank on a parity with the Bonds. See "Part II – COLORADO HOUSING AND FINANCE AUTHORITY – Programs to Date."*

Under the Master Indenture, the Trust Estate pledged to secure the Bonds and Auxiliary Obligations includes:

- (i) all right, title and interest of the Authority in and to the proceeds of Bonds until used as set forth in the Master Indenture;
- (ii) all right, title and interest of the Authority in and to the Revenues (as described in "Revenues" under this caption);

(iii) all right, title and interest of the Authority in and to all moneys and securities in the Funds and Accounts from time to time held by the Trustee under the terms of the Master Indenture (except moneys and securities in the Rebate Fund, the Excess Earnings Fund and a Bond Purchase Fund) and investments, if any, thereof (other than the Rebate Requirement which is to be deposited in the Rebate Fund and any Excess Earnings which are to be deposited in the Excess Earnings Fund);

(iv) all right, title and interest of the Authority in the Mortgage Loans described in "The Mortgage Loans" under this caption; and

(v) all other property of any kind from time to time pledged under the Master Indenture as additional security.

**In no event shall the Bonds constitute an obligation or liability of the State or any political subdivision thereof (except the Authority). The Authority has no taxing power nor does it have the power to pledge the general credit or the taxing power of the State or any political subdivision thereof, other than the general credit of the Authority, which general credit is not pledged for the payment of the Bonds except in the case of Bonds specifically designated as general obligations of the Authority.**

## **Revenues**

Under the Master Indenture, the term "Revenues" means:

(a) all Mortgage Repayments, which include the amounts received by the Authority as scheduled payments of the principal of or interest on any Mortgage Loan by or on behalf of the Borrower to or for the account of the Authority, but does not include Prepayments, Servicing Fees or Escrow Payments;

(b) any penalty payments received on account of overdue Mortgage Repayments, except insofar as such payments may constitute Servicing Fees;

(c) Prepayments, which include moneys received or recovered by or for the account of the Authority from any unscheduled payment of or with respect to principal on any Mortgage Loan prior to the scheduled payments of principal called for by such Mortgage Loan, whether (i) by voluntary prepayment made by the Borrower, or (ii) as a consequence of the damage, destruction or condemnation of all or any part of the mortgaged premises, or (iii) by the sale, assignment, endorsement or other disposition of such Mortgage Loan by the Authority, or (iv) in the event of a default thereon by the Borrower, by the acceleration, sale, assignment, endorsement or other disposition of such Mortgage Loan by the Authority or by any other proceedings taken by the Authority;

(d) all amounts earned on investments (other than Mortgage Loans) credited to any Fund or Account pursuant to the Indenture (including gains upon the sale or disposition of such investments), except the Rebate Requirement payable to the United States and any Excess Earnings;

(e) all payments and receipts received by the Authority under Interest Rate Contracts; and

(f) all other payments and receipts received by the Authority with respect to Mortgage Loans (other than amounts held in any Payment Account, Escrow Payments, Servicing Fees which have not been specifically pledged to the Trustee, any commitment, reservation, extension or application fees charged by the Authority in connection with a Mortgage Loan or Mortgage Purchase Agreement, any commitment, reservation, extension or applicable fees charged by a Mortgage Lender in connection with a Mortgage Loan, or accrued interest received in connection with the purchase of Investment Securities).

For a further description of the Revenues, the pledge thereof and the payment and transfer thereof from the Revenue Fund, see "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Revenue Fund" in **Appendix A** hereto.

Pursuant to the Master Indenture, all Revenues related to each Series of Bonds, in addition to other amounts, are to be deposited into the subaccount of the Revenue Fund related to such Series of Bonds. On the last business day prior to each Payment Date or on the other dates specifically provided in the Indenture, the Trustee is required to make certain transfers of amounts from each Series subaccount of the Revenue Fund, to the extent moneys are available, to various Funds and Accounts in a certain priority, as provided in the Master Indenture. See **Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Revenue Fund."** Among these transfers, the Trustee is to deposit into: (i) the related Series Subaccount of the related Class Special Redemption Account, Loan Recycling Account (at the election of the Authority), or any combination of the two, the amount needed, if any, to ensure that the Class Asset Requirements for the related Series of Bonds will be met on such Payment Date; and (ii) each Series subaccount of the Related Class Special Redemption Account not related to such Series of Bonds, on a proportionate basis with all such unrelated subaccounts, the amount of any deficiency resulting from the lack of moneys sufficient to make the deposit described in (i). The Class Asset Requirements applicable to each Series of Bonds are set forth in each Related Series Indenture. **For information on the Class Asset Requirements, see Appendix F – "CLASS ASSET REQUIREMENTS FOR BONDS."**

## **The Mortgage Loans**

### *Generally*

The Trust Estate pledged under the Master Indenture to secure Bonds and Auxiliary Obligations issued thereunder includes the right, title and interest of the Authority in the Mortgage Loans. Under the Master Indenture, "**Mortgage Loan**" means a permanent loan secured by a Mortgage for the purchase or rehabilitation of Residential Housing made to a Borrower by the Authority or an originating Mortgage Lender which is purchased pursuant to a Mortgage Purchase Agreement and which satisfies certain requirements of the Master Indenture. See "Mortgage Loan Requirements" under this caption.

### *Mortgage Loan Requirements*

The Mortgage Loans must be permanent loans secured by a mortgage, deed of trust or other instrument constituting a valid lien on real property in the State and improvements constructed or to be constructed thereon or on a leasehold under a lease having a remaining term, at the time such instrument is acquired by the Authority, of not less than the term for repayment of the Mortgage Loan secured by such instrument. The Mortgage Loans may be secured by a first mortgage on the real property (a "**First Mortgage Loan**") or may be originated on behalf of the Authority by the Mortgage Lender and secured by a second mortgage loan on the real property (a "**Second Mortgage Loan**"). A Second Mortgage Loan will only be originated in connection with a First Mortgage Loan. Each Mortgage Loan must be made in connection with the purchase of a single-family, owner-occupied dwelling located within the State that

qualifies for financing by the Authority within the meaning of the Act, the Rules and Regulations of the Program, the relevant provisions of the Tax Code and related regulations (referred herein as "**Residential Housing**"). A Second Mortgage Loan may be originated for the purpose of assisting Eligible Borrowers with their upfront cash requirements in connection with the purchase of Residential Housing. See "Part II – THE SINGLE-FAMILY MORTGAGE PROGRAM – Reservation, Delivery and Purchase of Mortgage Loans." A First Mortgage Loan must be the subject of a title insurance policy in an amount at least equal to the outstanding principal amount of such Mortgage Loan and must be made to a Borrower by the Authority or made by an originating Mortgage Lender and purchased by the Authority pursuant to a Mortgage Purchase Agreement. For this purpose, a *Borrower* means the maker of, and any other party obligated on, a Mortgage Loan in connection with the acquisition or rehabilitation of Residential Housing, who is a person or family of "low or moderate income" qualifying as such under the Act and the Rules and Regulations of the Program and, as applicable, in accordance with the Tax Code. The Mortgage Lenders may include certain banks, trust companies, FHA-approved direct endorsement mortgagees, VA-approved automatic lenders, Fannie Mae-approved seller/servicers, RHS-approved mortgagees, Federal Home Loan Mortgage Corporation approved seller/servicers, national banking associations and savings and loan associations which make mortgage loans on properties located in the State and mortgage bankers approved by a private mortgage company insuring a Mortgage Loan.

First Mortgage Loans are required by the Master Indenture to be subject to mortgage insurance or guaranty to the extent required by any Series Indenture. See "Part I – CERTAIN PROGRAM ASSUMPTIONS – Insurance Limitations and Requirements." The Master Indenture further requires that the buildings on the premises with respect to which each First Mortgage Loan is made are to be insured, as and to the extent required by the Authority to protect its interest and with the Authority designated as the loss payee as its interest may appear, against loss or damage by fire, lightning and other hazards (including flooding in some cases). Each Mortgage Loan will initially be serviced by the Authority and may also be serviced for the Authority by an eligible financial institution approved by the Authority. See "Part II – THE SINGLE FAMILY MORTGAGE PROGRAM – Servicing of the Mortgage Loans." In the Master Indenture, the Authority has covenanted to take certain action to protect the interests of the owners of the Bonds in the Mortgage Loans. See **Appendix A** – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Program Covenants; Enforcement of Mortgage Loans and Servicing Agreements." In one such covenant, the Authority has agreed to diligently enforce and take or cause to be taken all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of all Mortgage Loans consistent with sound lending practices and principles and applicable requirements under the Tax Code including the prompt payment of all Mortgage Repayments and all other amounts due the Authority thereunder.

### *Mortgage Loans*

The Mortgage Loans securing the Bonds and Auxiliary Obligations under the Master Indenture will include Mortgage Loans originated by the Authority, or by Mortgage Lenders and thereafter purchased by the Authority, using amounts on deposit in the Acquisition Account and transferred to the Trustee. Upon transfer of any Mortgage Loans by the Authority to the Trustee, the Trustee is to reimburse the Authority for its costs of purchasing such Mortgage Loans using amounts on deposit in the Acquisition Account. The Mortgage Loans must satisfy the requirements described in "Mortgage Loan Requirements" under this caption. See "Part I – PLAN OF FINANCE," "Part I – CERTAIN PROGRAM ASSUMPTIONS," **Appendix B-2** – "THE MORTGAGE LOAN PORTFOLIO" and **Appendix A** – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Acquisition Account." The Mortgage Loans securing the Bonds and Auxiliary Obligations under the Master Indenture will include any Mortgage Loans acquired using proceeds (or amounts exchanged therefor) of additional Bonds which may be issued by the Authority under the Master Indenture as described in "Issuance of Additional

Bonds; Refunding Bonds; Auxiliary Obligations" under this caption. Any Additional Mortgage Loans so acquired must meet the requirements required by the Series Indenture relating to such additional Bonds.

### **Debt Service Reserve Fund**

The Debt Service Reserve Fund Requirement for each Series of Bonds is established by the Related Series Indenture. See "Part I – PLAN OF FINANCE." Upon the issuance of any Series of Bonds, the Debt Service Reserve Fund Requirement for such Bonds is expected to be funded by a deposit of proceeds to the Debt Service Reserve Fund or by the deposit of a Qualified Surety Bond as permitted by the Indenture. Additional moneys are to be transferred into the various subaccounts of the Debt Service Reserve Fund from the Revenue Fund as provided in the Master Indenture in the amounts needed, if any, to increase the amount in any subaccount of the Debt Service Reserve Fund, together with any Qualified Surety Bond therein, to the Debt Service Reserve Fund Requirement for the Bonds. See **Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Allocation of Moneys in the Revenue Fund."**

Amounts in the Debt Service Reserve Fund are to be transferred to the Debt Service Fund and applied by the Trustee to the payment of principal and interest on the Bonds issued under the Master Indenture, in order of Class, in the event that amounts on deposit in the Debt Service Fund for the Related Class are insufficient to make such payments on any Bond Payment Date. **When making such payments, the Trustee is to transfer amounts first from the Series subaccount of the Debt Service Reserve Fund related to the Bonds for which the payment will be made and, second, from any unrelated Series subaccounts.** See **Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE –Debt Service Reserve Fund."**

### **Liquidity Facilities**

Pursuant to the respective Series Indentures, the Authority has entered, and expects in the future to enter, into Liquidity Facilities in connection with Adjustable Rate Bonds issued under the Master Indenture. See **Appendix B-1 – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS."** The Authority may elect to replace any Liquidity Facility with an Alternate Liquidity Facility. The Authority is to promptly notify the Trustee, the Remarketing Agent and the Tender Agent of the Authority's intention to deliver an Alternate Liquidity Facility at least 45 days prior to the date of such delivery. Upon receipt of such notice, the Trustee is to promptly mail a notice of the anticipated delivery of an Alternate Liquidity Facility, including the name of the provider of such Alternate Liquidity Facility, by first-class mail to the Remarketing Agent and to each Owner of the Adjustable Rate Bonds at such Owner's registered address and to each National Repository. The Authority is to deliver such Alternate Liquidity Facility to the Trustee on or before the day preceding the date of expiration of the then expiring Liquidity Facility or on the date of its intent to deliver.

The Authority is to use its best efforts to obtain an Alternate Liquidity Facility to replace the Liquidity Facility or cause the Adjustable Rate Bonds to be Converted to Fixed Rate Bonds or to bear interest in a Mode which does not require a Liquidity Facility in the event (i) the Liquidity Facility Provider shall decide not to extend the term of the Liquidity Facility beyond the expiration date thereof pursuant to the terms of the Liquidity Facility, (ii) the Authority terminates the Liquidity Facility pursuant to its terms, (iii) the Liquidity Facility Provider furnishes a termination notice to the Trustee, or (iv) the Liquidity Facility Provider fails to purchase Bonds as permitted by the Liquidity Facility.

No Alternate Liquidity Facility may be delivered to the Trustee for any purpose under the respective Series Indenture unless accompanied by certain documents, including letters from Moody's and S&P evidencing that the replacement of the Liquidity Facility with the Alternate Liquidity Facility will

result in the reconfirmation of the then existing rating or the assignment of a new short-term rating of not less than "A-1+" or "P-1/VMIG-1" (in the case of S&P and Moody's, respectively) on the related Adjustable Rate Bonds.

Unless the Trustee has received (a) written notice from the Liquidity Facility Provider that it elects to extend or renew the Liquidity Facility or (b) written notice from the Authority that it has determined to provide or cause to be provided an Alternate Liquidity Facility, which notice shall be received not less than 30 days prior to the stated expiration date of the Liquidity Facility, the Trustee is to give notice to the Owners of Adjustable Rate Bonds and to each National Repository that the Adjustable Rate Bonds will be subject to mandatory tender for purchase, with no right to retain, not less than 20 days from the date of such notice to such Bondowners, at the Purchase Price (payable by the Liquidity Facility Provider) on the date set forth for purchase in such notice. See Part I.

### **Interest Rate Contracts**

In connection with the issuance of certain Adjustable Rate Bonds, the Authority has entered, and expects in the future to enter, into interest rate swap agreements (the "**Interest Rate Contracts**") with a counterparty for the purpose of converting the floating rate interest payments the Authority is obligated to make with respect to the Adjustable Rate Bonds into substantially fixed rate payments. See "Part I – CERTAIN PROGRAM ASSUMPTIONS" and **Appendix B-1 – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS."** See also "Part II – COLORADO HOUSING AND FINANCE AUTHORITY – Authority Policy Regarding Derivatives." Any payments or receipts received by the Authority under the Interest Rate Contracts will be pledged as Revenues, as described in "Revenues" under this caption. The Authority's obligation to make regular interest payments to the Counterparty under each of the Interest Rate Contracts has constituted, and is expected in the future to constitute, a Class I Obligation under the Master Indenture, secured on parity with the lien on the Trust Estate of the other Class I Obligations. The Authority's obligation to make termination payments under each of the Interest Rate Contracts in the event of early termination and in the future is expected to be a general obligation of the Authority and not an Auxiliary Obligation under the Master Indenture. See "Part II – COLORADO HOUSING AND FINANCE AUTHORITY – Long-Term Obligations of the Authority."

### **Issuance of Additional Bonds; Auxiliary Obligations**

No Bonds or Auxiliary Obligations are outstanding under the Master Indenture other than as described on **Appendix B-1 – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS."** However, the Master Indenture permits the Authority to issue additional Bonds and to incur additional Auxiliary Obligations thereunder from time to time, without limitation as to amount, secured on an equal lien with the outstanding Bonds and Auxiliary Obligations of the respective class, upon delivery of a Cash Flow Statement and satisfaction of certain other conditions contained therein. The Authority may not issue additional Bonds if such issuance would result in a lowering, suspension or withdrawal of the ratings then applicable to any Bonds issued under the Master Indenture. The Authority may also enter into any Interest Rate Contract or Liquidity Facility it deems necessary or desirable with respect to any or all of the Bonds issued under the Master Indenture, subject to the requirements of the Master Indenture. The Authority expects to issue additional Bonds and to incur additional Auxiliary Obligations in the future under the Master Indenture.

## **CERTAIN BONDOWNERS' RISKS**

### **Limited Security**

The Bonds are special limited obligations of the Authority payable by Class priority and solely from the Trust Estate (except in the case of Bonds which have been specifically designated as general obligations of the Authority). See "Part II – SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS – Pledge of Trust Estate." There is no assurance that the Mortgage Loans in or expected to be in the Trust Estate will perform in accordance with the assumptions made and that Revenues will be sufficient to pay debt service on the Bonds and Auxiliary Obligations under the Master Indenture when due. See **Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Revenue Fund."** Additional Bonds and Auxiliary Obligations may be issued by the Authority under the Master Indenture on a parity with each Class of Bonds outstanding, upon satisfaction of certain conditions set forth in the Master Indenture.

### **Special Considerations Relative to Loan Origination**

There are numerous reasons why the entire amount on deposit in any subaccount of the Acquisition Account for a particular Series of Bonds may not be used to acquire, or to reimburse the Authority for its costs of purchasing, Mortgage Loans in accordance with the Indenture. One of the principal factors in originating real estate loans is the availability of funds to make such loans at interest rates and on other terms that prospective borrowers can afford. The Authority has determined that there is at the present time a shortage of funds in the State to make such loans on terms competitive with those terms specified for the Mortgage Loans. This condition could change during the origination period for the Mortgage Loans. For example, prevailing interest rates for conventional mortgages in the State could decrease and make the Mortgage Loans less attractive to potential Applicants. See "Part II – COLORADO HOUSING AND FINANCE AUTHORITY – Programs to Date – Single Family Mortgage Programs." See also "Part I – CERTAIN PROGRAM ASSUMPTIONS – Mortgage Loan Rates; Amounts." The Authority has taken reservations for mortgage loans which may, if closed, be acquired using proceeds of Bonds in the Acquisition Account. However, other issuers may issue bonds and make funds available on terms competitive with those terms specified for the Mortgage Loans.

**In the event that sufficient Mortgage Loans have not been originated and acquired so that the costs of such Mortgage Loans do not equal the amounts in a particular subaccount of the Acquisition Account, such amounts in the Acquisition Account which cannot be used to acquire, or to reimburse the Authority for its costs of acquiring, Mortgage Loans as certified by the Authority are required to be used to redeem Bonds in the Related Series as described in Part I.**

### **Considerations Regarding Redemption**

PURSUANT TO THE SPECIAL REDEMPTION PROVISIONS OF THE INDENTURE, CERTAIN BONDS MAY BE REDEEMED PRIOR TO THEIR STATED MATURITY FROM ANY MONEYS AND/OR INVESTMENT SECURITIES ON DEPOSIT IN THE RESPECTIVE ACCOUNTS OF THE REDEMPTION FUND, INCLUDING UNEXPENDED BOND PROCEEDS, EXCESS REVENUES FROM REGULAR LOAN PAYMENTS, VOLUNTARY OR INVOLUNTARY PREPAYMENTS AND AMOUNTS DEPOSITED AS A RESULT OF ANY OTHER EVENT AS DESCRIBED HEREIN. SEE "PART I – TERMS OF THE 2006 SERIES A BONDS – PRIOR REDEMPTION" FOR A DESCRIPTION OF THE PROVISIONS SPECIFICALLY APPLICABLE TO THE 2006 SERIES A BONDS. THE TIME OR RATE OF SUCH PREPAYMENTS OR DEPOSITS CANNOT BE PREDICTED. **However, it is assumed that a substantial portion of each Series of**



**Bonds subject to such special redemption under the Indenture will be redeemed prior to their respective stated maturities at a redemption price equal to the principal amount of such Series of Bonds to be redeemed, without premium (except in certain limited circumstances).**

### **Tax Exempt Status of Tax-Exempt Bonds**

The opinion to be delivered by Bond Counsel concurrently with delivery of any tax-exempt Bonds as described in "Part I – TAX MATTERS" will assume compliance by the Authority with certain requirements of the Tax Code that must be met subsequent to the issuance of such Bonds. The Authority will certify, represent and covenant to comply with such requirements. Failure to comply with such requirements could cause the interest on the tax-exempt Bonds to be included in gross income, or could otherwise adversely affect such opinions, retroactive to the date of issuance of such Bonds. Furthermore, the opinion of Bond Counsel is rendered as of the date of delivery of the particular Series of Bonds and speaks only to laws in effect as of such date. Amendments to federal and state tax laws are proposed from time to time and could be enacted in the future. There can be no assurance that any such future amendments will not adversely affect the value of such Series of Bonds, the exclusion of interest on the tax-exempt Bonds from gross income, alternative minimum taxable income, state taxable income, or any combination from the date of issuance of the particular Series of Bonds or any other date, or that such changes will not result in other adverse federal or state tax consequences.

### **Interest Rate Contracts**

Pursuant to each of the Interest Rate Contracts, the Authority will pay interest to the Counterparty at a fixed rate and will receive interest from the Counterparty at a variable rate which either will be based on a LIBOR or BMA Index or will be an amount equal to the actual interest payments by the Authority on the respective Adjustable Rate Bonds. To the extent Counterparty payments are based on a LIBOR or BMA Index, the amount of actual interest payments due on the respective Adjustable Rate Bonds may differ from the amount of such interest payments to be made by the Counterparty and the Trust Estate may not be sufficient to pay interest as due. See "Part I – CERTAIN PROGRAM ASSUMPTIONS" and "Part II – SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS – Interest Rate Contracts." See also **Appendix B-1** – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS."

### **Delays after Defaults on Mortgage Loans**

The Authority anticipates that there will be some delinquent Mortgage Loan payments and foreclosed Mortgage Loans. In the event that a Borrower defaults in the payment of a Mortgage Loan and the Authority institutes foreclosure proceedings, there may be certain required time delays which, should they occur with respect to a sufficient number of Mortgage Loans, could disrupt the flow of Revenues available for the payment of principal of and interest on the Bonds. These time delays derive from the procedures applicable to the collection of mortgage insurance or guarantees as well as those required under Colorado law for the enforcement of rights of beneficiaries under deeds of trusts. Those procedures and their effect on the Authority's ability to collect on defaulted Mortgage Loans are described in **Appendix I** – "INSURANCE AND GUARANTEE PROGRAMS; FORECLOSURE." Any Second Mortgage Loans made to Borrowers in connection with the First Mortgage Loans will decrease the Borrower's equity in the property and, as a result, it is possible that the First Mortgage Loans may in the aggregate perform with higher default rates than First Mortgage Loans originated without a Second Mortgage Loan. Bondholders should consider the possibility that such higher default rates could result in insufficient Revenues available to pay debt service on the Bonds when due. Information about historical default rates on portfolios of mortgage loans which secure outstanding bonds of the Authority has been provided by the Authority in its past filings with the nationally recognized municipal securities

information repositories. See **Appendix J** – "FORM OF CONTINUING DISCLOSURE UNDERTAKING" for a description of the Authority's future obligations with respect to providing information about the Mortgage Loan portfolio, including default rate information. In addition, physical damage to the residences securing the Mortgage Loans may exceed the limits of, or be caused by a peril not insured under, the standard hazard insurance policies insuring such residences, thereby diminishing the value of the Mortgage Loans securing the Bonds.

### **Other Risks**

The remedies available to the owners of the Bonds upon an event of default under the Indenture or other documents described herein are in many respects dependent upon regulatory and judicial actions which often are subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified by the Indenture and the various Program documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

## **THE SINGLE FAMILY MORTGAGE PROGRAM**

The following sections describe requirements for the Mortgage Loans which are based on requirements in the Act or derive from general policies and limits established by the Authority for qualification of Mortgage Lenders, Servicers, Borrowers and Eligible Properties as well as basic requirements for Mortgage Loans (with noted exceptions). As indicated, certain requirements described below relate only to Mortgage Loans made as a part of the Authority's Qualified Single Family Mortgage Program. A number of the procedures described below may not apply to the Zero Interest First Mortgage Loans. *It is expected that there will be variations in particular cases and that the policies and procedures of the Authority will be modified from time to time consistent with the Act, the Indenture and any procedures applicable to the Mortgage Loans.*

### **Communication of Program Information**

The Authority communicates information on its website ([www.colohfa.org](http://www.colohfa.org)) regarding the interest rates for First Mortgage Loans under the Program. Interest rates announced on the Authority website may change daily. The Authority also makes available on the website a guide to Mortgage Lenders setting forth requirements for the Program and information relating to the reservation procedure as more fully described in "Seller's Guide" under this caption (the "**Seller's Guide**") and certain directives outlining the terms of the Program (the "**Program Directive**"). Prospective Mortgage Lenders are expected to obtain this information from the website. The Program Directive describes the program parameters, mortgage purchase prices, discounts, income limits and other parameters and information necessary for Mortgage Lenders to determine the eligibility of Applicants, residences and Mortgage Loans under the Program. The Seller's Guide and the Program Directive are incorporated by reference into the Mortgage Purchase Agreement entered into between the Authority and each respective Mortgage Lender for eligible Mortgage Loans. See "Mortgage Purchase Agreements" under this caption.

### **Reservation, Delivery and Purchase of Mortgage Loans**

The Seller's Guide references and incorporates a description of reservation procedures by which a Mortgage Lender may reserve Mortgage Loan funds. Reservations may be made on a continuous basis

without regard to the availability of proceeds from a specific Series of Bonds. The reservation procedures require a Mortgage Lender to have taken a loan application from an Applicant who has entered into a purchase contract with the seller of a residence. Other than for certain Mortgage Loans, the Mortgage Lender may then use the Internet Reservation System to reserve funds. To reserve certain Mortgage Loans, the Mortgage Lender must fax certain documentation to the Authority. Prior to closing the Mortgage Loan, the Mortgage Lender must deliver to the Authority certain documents in order for the Authority to review the eligibility of the Applicant and the residence. The Mortgage Lender must then close the Mortgage Loan and deliver to the Authority certain information regarding the Mortgage Loan within five (5) business days of the closing to permit the Authority to begin servicing the Mortgage Loan. The Mortgage Lender must deliver the remaining closing documents to the Authority for purchase of the Mortgage Loan within fifteen (15) business days of such closing, but in any event no later than approximately thirty (30) days after expiration of any applicable origination period. All Applicants for Mortgage Loans (but not for Zero Interest First Mortgage Loans) originated under the Qualified Single Family Mortgage Program will be required by the Authority (at the Authority's expense) to attend homebuyer education classes intended to give Applicants a clearer understanding, among other things, of their debt obligations. Applicants for Mortgage Loans originated under the Non-Qualified Single Family Mortgage Program will be required by the Authority to attend homebuyer education classes only if they have not owned a residence in the previous three years. Applicants obtaining financing under the Authority's HomeAccess or HomeAccess Plus Program must attend the class prior to executing a contract with respect to the applicable property.

In connection with any First Mortgage Loan originated by a Mortgage Lender, a Borrower may request and obtain a Second Mortgage Loan, the proceeds of which may be used to fund upfront cash requirements of the applicable First Mortgage Loan, including payment of the origination fee, closing costs, initial required escrow deposits and/or all or a portion of a downpayment. Proceeds of a Second Mortgage Loan may also be used by a Borrower for a temporary "buy down" of the interest rate. See "Special Program Features – Second Mortgage Loans" under this caption. First Mortgage Loans will be offered with and without a Second Mortgage Loan at varying interest rates. In addition, the Authority may require a Borrower to make a cash contribution using funds other than the proceeds of a Second Mortgage Loan. The cash contribution does not have to be from the Borrower's own funds although it must be from a source acceptable to the First Mortgage Loan insurer or guarantor. The Authority or the Trustee will purchase First Mortgage Loans from the Mortgage Lenders with available funds of the Authority at a price sufficient, in some cases, to pay additional lender fees. The Authority or the Trustee will also use available funds to reimburse Mortgage Lenders for any related Second Mortgage Loans originated by such Mortgage Lenders on behalf of the Authority in connection with such First Mortgage Loans.

In order to satisfy the requirements of the Tax Code in connection with certain tax-exempt Bonds, the Authority is required by the Indenture to reserve an amount in the Acquisition Account for the purchase of First Mortgage Loans on "targeted area residences" within the meaning of Section 143 of the Tax Code ("Targeted Area Residences"). Such amount must be reserved until all of such amount is used to purchase First Mortgage Loans on such Targeted Area Residences or a date at least one year after the date on which the proceeds of the Series of Bonds or amounts exchanged therefor are first made available for the purchase of such First Mortgage Loans. See "Part I – CERTAIN PROGRAM ASSUMPTIONS – Set Asides" for a discussion of this reservation.

## **Eligibility Requirements**

### *Residency Requirements*

In the case of Mortgage Loans made in the Qualified Single Family Mortgage Program, Mortgage Loans must be made only to Applicants who have not owned an interest in a principal residence during the three-year period prior to the date of execution of each respective Mortgage which secures each such Mortgage Loan. Mortgage Loans made in the Non-Qualified Single Family Mortgage Program will not be subject to this requirement. Each Applicant must also intend to occupy the Eligible Property as his or her principal place of residence.

### *Purchase Price Limitations*

In the case of Mortgage Loans made in the Qualified Single Family Mortgage Program, the Purchase Price of an Eligible Property financed in connection with such a Mortgage Loan may not exceed certain Purchase Price limits as established by the Authority. The Authority has established Purchase Price limits for Eligible Properties, both new and existing residences, based on the county in which such Eligible Property is located. These limits range from \$189,600 to \$332,000. Certain of these Purchase Price limits are somewhat lower than those permitted by the Tax Code in order to better serve persons and families of lower income. Purchase Price limits determined by the Authority may be amended by the Authority from time to time without notice to Bondowners. Furthermore, a Mortgage Loan may be made in an amount up to \$15,000 in excess of the applicable Purchase Price limit for an existing Residence to finance certain capital improvements to the Eligible Property for energy efficiency purposes. In addition to the proceeds of a First Mortgage Loan, an Eligible Property may be financed with amounts received as a grant or loaned and secured by a second mortgage encumbering the property. For other Mortgage Loans and in certain jurisdictions, the Authority has established or may establish higher Purchase Price limits, not in excess of 90% (110% in the case of Targeted Area Residences) of the Average Area Purchase Price, as defined below, of previously occupied or new single family residences, as the case may be, for the statistical area in which the Eligible Property is located.

The term "Purchase Price" means that cost of acquiring an Eligible Property from the seller as a completed residential unit, including: (i) all amounts paid, either in cash or in kind, by the Eligible Borrower (or a related party or for the benefit of the Eligible Borrower) to the seller (or a related person or for the benefit of the seller) as consideration for the Eligible Property, (ii) the purchase price of the land and (iii) if the Eligible Property is incomplete, the reasonable cost of completing it (to the extent that the builder thereof normally completes work on similar residences which he builds, and so that occupancy thereof is legally permitted); but exclusive of (A) usual and reasonable settlement or financing costs (but only to the extent that such amounts do not exceed the usual and reasonable costs which would be paid by the Applicant where financing is not provided through the proceeds of qualified mortgage bonds the interest on which is excludable from the gross income of the recipient for federal income tax purposes), (B) the value of services performed by the Eligible Borrower or members of his or her family in completing the Eligible Property, (C) the value of an income-producing component of the Eligible Property, (D) the value of all items of personal property included in the Eligible Property and (E) the cost of land if owned by the Eligible Borrower for at least two years prior to the commencement of construction.

The term "Average Area Purchase Price" means the most current average area purchase price under the safe harbor limitations calculated as provided in Revenue Procedure 2004-18. This Revenue Procedure announces that the Treasury Department and the Internal Revenue Service have determined that FHA loan limits provide a reasonable basis for determining average area purchase price safe harbor limitations. Because FHA loan limits do not differentiate between new and existing residences, the

Revenue Procedure contains a single average area purchase price safe harbor for both new and existing residences in a statistical area. If the Treasury Department and the Internal Revenue Service become aware of other sources of average purchase price data, including data that differentiate between new and existing residences, consideration will be given as to whether such data provide a more accurate method for calculating average area purchase price safe harbors. If no purchase price safe harbor is available for a statistical area, the safe harbor for "All Other Areas" may be used for that statistical area.

If the FHA revises the FHA loan limit for any statistical area after December 31, 2003, an issuer of qualified mortgage bonds or mortgage credit certificates may use the revised FHA loan limit for the statistical area to compute a revised average area purchase price safe harbor for that statistical area, provided that the issuer maintains records evidencing the revised FHA loan limit. The revised average area purchase price safe harbor for that statistical area is computed by dividing the revised FHA loan limit by 0.76. In accordance with the Tax Code, the average area purchase price may be determined by the Authority, in lieu of the safe harbor limitations described above, if the Authority uses more accurate and comprehensive data.

The most recently published safe harbor limitations for Average Area Purchase Prices for Single Family Residences in the State were as follows:

<u>Area</u>	<u>Average Purchase Price</u>
Boulder MSA	\$381,999
Denver – Aurora MSA	344,222
Eagle County	411,703
Lake County	411,703
San Miguel County	344,222
Silverthorne MSA	380,000
Greeley MSA	286,875
Fort Collins – Loveland MSA	280,000
Routt County	270,000
Ouray County	262,500
Colorado Springs MSA	272,102
Gunnison County	259,938
Garfield County	292,293
Grand County	293,750
Pitkin County	381,999
La Plata County	303,750
All Other Areas	227,147

Source: FHA mortgage limits list published as of January 21, 2005.

### *Condominium Projects*

Under the Qualified Single Family Mortgage Program, Mortgage Loans on a limited number of condominium units which qualify for FHA insurance, VA or Rural Housing Service guarantees or PMI may be purchased. The aggregate principal amount of Mortgage Loans encumbering condominium units may not exceed 20% of the aggregate principal amount of all Mortgage Loans financed by the Bonds at the time such Mortgage Loans are originated or purchased.

### *Income Limits*

An Applicant may be a Borrower for purposes of a Mortgage Loan only if such Applicant has a current Gross Annual Household Income which does not exceed the limits set forth in the Program Directive. Income limits determined by the Authority may be amended by the Authority from time to time without notice to Bondowners.

### *Homebuyer Education Requirement*

Prior to receiving a Mortgage Loan (except in the case of a Zero Interest First Mortgage Loan) originated under the Qualified Single Family Mortgage Program, the Authority expects to require each Borrower to complete a homebuyer education class approved by the Authority. Applicants for Mortgage Loans originated under the Non-Qualified Single Family Mortgage Program will be required by the Authority to attend homebuyer education classes only if they have not owned a residence in the previous three years. Homebuyer education classes are offered statewide and at no cost to the Borrower by Authority-approved housing counseling agencies and housing authorities under contract with the Authority. Homebuyer education certificates are only valid for nine months from the date of the certificate through the date of the purchase contract. Pursuant to its contracts with such agencies, the Authority will pay up to certain amounts for the classroom education.

### **Mortgage Purchase Agreement**

Each Mortgage Lender approved by the Authority to participate in the Authority's Single Family Mortgage Program has executed a Mortgage Purchase Agreement. Additional Mortgage Lenders may become eligible to participate and, if approved by the Authority, will enter into a Mortgage Purchase Agreement. Purchases of Mortgage Loans by the Authority from Mortgage Lenders are made pursuant to Mortgage Purchase Agreements, which in most cases incorporate by reference the terms and provisions of the Seller's Guide. A reservation of Mortgage Loan funds is for a specific Applicant, residence, Mortgage Loan amount and interest rate. The Seller's Guide provides that an origination fee equal to one percent (1%) of the aggregate principal amount of each First Mortgage Loan may be charged to a Borrower and Mortgage Lenders may receive an additional payment from the Authority equal to one percent (1%) of the aggregate principal amount for certain First Mortgage Loans and, in the case of First Mortgage Loans originated in non-metropolitan areas, an additional .50% fee will be paid to Mortgage Lenders.

The Mortgage Lender will warrant, represent, covenant and agree that each time it sells a Mortgage Loan to the Authority such Mortgage Loan will, to the best of its knowledge, meet the conditions required by the Indenture.

The Authority reserves the right to modify or otherwise change its procedures under the Program from time to time on the basis of its experience in order to meet changed conditions. To the extent that such modifications or changes are made, the Authority will be governed by the Act and by the covenants contained in the Indenture.

### **Seller's Guide**

Each Mortgage Purchase Agreement (applicable only to Mortgage Loans other than Zero Interest First Mortgage Loans) incorporates by reference the Seller's Guide, including all of the terms, conditions, representations and warranties therein. The Seller's Guide describes the procedures for reservation, loan delivery and purchase, and contains representations, warranties, covenants and agreements of the Mortgage Lender to the Authority, certain of which relate to: (i) the legality and validity of the Mortgage Loans and related documents; (ii) the existence and conveyance to the Authority of a valid lien (subject

only to current taxes and assessments not yet due and payable, and encumbrances permitted by the Authority) on the Eligible Property, located in the State and held in fee simple; (iii) the absence of delinquencies with respect to payments on each Mortgage Loan; (iv) the absence of defaults under each Mortgage Loan; (v) the Mortgage Lender's right to sell each Mortgage Loan to the Authority; (vi) the existence and validity of hazard insurance on the Eligible Property in an amount not less than 100% of the replacement costs of the improvements at the time of the origination of the Mortgage Loan; (vii) compliance by the Mortgage Lender with all requirements relating to the insurance or guaranty of the Mortgage Loan; (viii) compliance with the applicable requirements of the Tax Code; and (ix) the requirement that any insurance or guaranty will inure to the benefit of the Authority. The Authority has the right to decline to purchase any Mortgage Loan offered to it if, in the reasonable opinion of the Authority, the Mortgage Loan does not conform to the requirements of the Act or the Seller's Guide. See "Mortgage Purchase Agreement" under this caption.

*The Seller's Guide may be amended or supplemented by the Authority from time to time without notice to the owners of the Bonds.*

### **Servicing of the Mortgage Loans**

Prior to 1997, the Authority caused its portfolios of single-family mortgage loans to be serviced by eligible financial institutions ("Servicers") pursuant to servicing agreements with the Authority ("Servicing Agreements"). In 1997, the Board of Directors of the Authority adopted a plan for in-house servicing of mortgage loans by the Authority as an alternative to this historical servicing by Servicers. The Authority believes that, through its in-house servicing operations, the Authority is servicing mortgage loans in accordance with servicing practices or standards as required to maintain any applicable insurance with respect to such loans. For more information concerning the Authority, see "Part II – COLORADO HOUSING AND FINANCE AUTHORITY."

The Seller's Guide relating to the Mortgage Loans requires all originating Mortgage Lenders to sell to the Authority all of the loan servicing rights to the Mortgage Loans. The Authority intends to service all of the Mortgage Loans. In that connection, the Authority will retain an annual servicing fee of 30/100 of one percent (0.30%) of the outstanding balance of the Mortgage Loans (except that no servicing fee will be charged for any Zero Interest First Mortgage Loans or Second Mortgage Loans). In addition, the Authority plans to retain any and all investment earnings on the loan payments which accrue after such payments are received by the Authority but before the date the Authority is required by the Indenture to remit such payments to the Trustee.

In most cases, the Authority begins servicing the Mortgage Loans within five (5) business days of closing, which is prior to the Authority's purchase of the Mortgage Loans. The Seller's Guide sets forth the Authority's servicing obligations with respect to a Mortgage Loan for the period prior to the Authority's purchase of the Mortgage Loan. The Seller's Guide also gives the Authority the right to retransfer the servicing of a Mortgage Loan back to the Mortgage Lender if the Mortgage Loan is not purchased within a specified time. The Authority has made representations in the Indenture to service, or cause to be serviced, each Mortgage Loan in accordance with acceptable mortgage servicing practices of prudent lending institutions or in accordance with such other standards as are required to maintain the government mortgage insurance or guaranty or private mortgage insurance, as applicable, with respect to such Mortgage Loan.

### **Loss Mitigation**

For Mortgagors in default, the Authority actively seeks alternatives to foreclosure. The Authority is making use of HUD's loss mitigation procedures (see **Appendix I – "INSURANCE AND**

GUARANTEE PROGRAMS; FORECLOSURE – FHA Insurance") as applicable, for all loan types. These loss mitigation alternatives include an informal or formal forbearance plan (depending on length of the repayment period), a forbearance with a partial claim (FHA-insured loans only), a pre-foreclosure sale or a deed in lieu of foreclosure. The Authority also refers all Mortgagors in default to default counselors for assistance.

### **Hazard Insurance**

Each Mortgagor must maintain a hazard insurance policy covering loss against fire and hazards included within the term extended coverage.

In general, the standard form of fire and extended coverage policy covers physical damage to or destruction of a residence by fire, lightning, smoke, windstorm and hail, riot, strike and civil commotion, subject to the conditions and exclusions particularized in each policy. Although the policies relating to the Mortgage Loans may be underwritten by different insurers and therefore will not contain identical terms and conditions, the basic terms thereof are dictated by Colorado law. Most such policies typically do not cover any "physical damage" resulting from the following: war, revolution, governmental actions, earthquake, floods and other water-related causes, nuclear reactions, wet or dry rot, vermin, rodents, insects or domestic animals, theft and, in certain cases, vandalism. The foregoing list is merely indicative of certain kinds of uninsured risks and is not intended to be all-inclusive.

Most hazard insurance policies typically contain a "coinsurance" clause which will require the Mortgagor at all times to carry insurance of a specified percentage (generally 80% to 90%) of the full replacement value of the improvements on the residence in order to recover the full amount of any partial loss. If the coverage falls below the specified percentage, the insurer's liability in the event of partial loss would not exceed the larger of (i) the actual cash value of the improvements damaged or destroyed or (ii) such proportion of the loss as the amount of insurance carried bears to the specified percentage of the full replacement cost of such improvements. The effect of coinsurance in the event of partial loss may be that hazard insurance proceeds will be insufficient to restore fully the damage to the Eligible Property.

### **Special Program Features**

#### *Zero Interest First Mortgage Loans*

The Authority may use amounts in the subaccount of the Acquisition Account to acquire as Mortgage Loans certain loans referred to as "**Zero Interest First Mortgage Loans.**" Zero Interest First Mortgage Loans are loans which have been made by a non-profit organization to borrowers in principal amounts equal to the cost of construction of the dwelling, with no interest. The annual repayment obligation of Zero Interest First Mortgage Loans will be based on 25% of the respective borrower's gross annual income and the respective maturities of the Zero Interest First Mortgage Loans will be derived as a result of the repayment terms. The Zero Interest First Mortgage Loans will not be insured or guaranteed and do not need to meet any loan-to-value ratios. Zero Interest First Mortgage Loans will be originated without cash assistance or a Second Mortgage Loan. Terms of the Zero Interest First Mortgage Loans may be amended from time to time and the level of such Zero Interest First Mortgage Loans so acquired may be determined by the Authority, to the extent consistent with the then current Cash Flow Statement and Authority Certification required by the related Series Indenture to demonstrate that the Class I Asset Requirement, the Class II Asset Requirement and the Class III Asset Requirement for the particular Series of Bonds will be met after taking into account such terms and level.



### *HomeAccess Program*

The Authority may use amounts in the Acquisition Account to purchase Mortgage Loans originated under the Authority's HomeAccess Program, which assists persons with disabilities to achieve homeownership. Under the HomeAccess Program, persons with disabilities may receive First Mortgage Loans (referred to herein as "**HomeAccess Loans**") at an annual interest rate of 3.00%. In connection with its HomeAccess Program, the Authority has introduced its HomeAccess Plus Loans (referred to herein as "**HomeAccess Plus Loans**") which may also be made to persons with disabilities. HomeAccess Plus Loans may be financed by amounts in the respective subaccount of the Acquisition Account at varying annual interest rates. A HomeAccess Loan or a HomeAccess Plus Loan will be made only to a borrower who makes a cash contribution of at least \$750 and who meets certain income limits lower than those established for Borrowers of other First Mortgage Loans. The Authority may provide up to \$10,000 to certain borrowers under the HomeAccess and HomeAccess Plus Programs with a Second Mortgage Loan for downpayment assistance. The HomeAccess and HomeAccess Plus Second Mortgage Loans bear deferred interest at an annual interest rate of 1.5%. Terms of the HomeAccess Loans and HomeAccess Plus Loans may be amended from time to time and the level of such HomeAccess Loans and HomeAccess Plus Loans so acquired may be determined by the Authority, to the extent consistent with the then current Cash Flow Statement and Authority Certification required by the related Series Indenture to demonstrate that the Class I Asset Requirement, the Class II Asset Requirement and the Class III Asset Requirement for the particular Series of Bonds will be met after taking into account such terms and level.

### *Second Mortgage Loans*

Proceeds of certain Bonds may be used (and are expected to be used) by the Authority to originate Second Mortgage Loans to Borrowers of First Mortgage Loans and to pay a flat \$150 delivery fee for each Second Mortgage Loan. Second Mortgage Loans can be originated for up to three percent (3%) of the First Mortgage Loan amount at a zero percent (0%) interest rate, with a term of 30 years. Second Mortgage Loans will be due in full upon the sale of the property, the refinance of the related First Mortgage Loan, payment in full of the related First Mortgage Loan, transfer of title, or if the property is no longer the Borrower's principal residence. Repayment of the entire balance of the Second Mortgage Loan will be due in month 360 (after repayment of the thirty (30) year First Mortgage Loan). The Second Mortgage Loan can be prepaid in full or in part at any time without penalty. The Second Mortgage Loan is assumable, subject to the assumptor's eligibility as it relates to the applicable Program Income Limits at the time of assumption, the assumptor's first-time homebuyer status (as applicable), and approval of the Authority. The percentage and aggregate amounts available for origination of such Second Mortgage Loans from time to time must be at levels consistent with the then current Cash Flow Statements and Authority Certification required by the Related Series Indenture to demonstrate that the Related Class I Asset Requirement, the Related Class II Asset Requirement and the Class III Asset Requirement will be met after taking into account such levels for Second Mortgage Loans.

### *Refinancing Program*

Proceeds of the Bonds (or amounts exchanged therefor) provide funding for the Authority's mortgage purchase activities under the Program. The Authority is considering the possible use in the future of such proceeds and exchanged amounts to fund mortgage refinancing activities. Implementation by the Authority of such a mortgage refinancing program as part of the Program is likely to result in the prepayment of outstanding mortgage loans, including the Mortgage Loans, with a corresponding redemption at par of Bonds secured by such Mortgage Loans in accordance with the redemption provisions of the respective Series Indenture. See "Part II – CERTAIN BONDOWNERS' RISKS – Considerations Regarding Redemption."

### *Community Land Trust Program*

The Authority plans to use of proceeds of Bonds to originate First Mortgage Loans with a first lien on a residence built on leased ground in connection with a Community Land Trust. The remaining term of the ground lease will not be less than the term for repayment of the Bonds secured by the First Mortgage Loan. The Community Land Trust's ground lease may include certain resale restrictions to limit future property purchasers to low and moderate families or to limit the maximum sales price of the property. The Authority will require that a Land Lease Rider (the "**Rider**") among the Borrower, the Authority and the Community Land Trust be recorded which will provide that such restrictions will terminate automatically on foreclosure of, or acceptance of a deed-in-lieu of foreclosure for, the leasehold mortgage. The Rider will also provide that in no event shall the leasehold terminate except for (1) nonpayment of amounts due under the lease; (2) violation of the restrictions on sale; and (3) violation of the requirement that the Borrower occupy the land as their primary residence. The Rider shall give the Authority the prior right to cure any such default without terminating the lease or to foreclose its mortgage, at which point a new lease between the Authority and the Community Land Trust will be automatically created.

### **NO IMPAIRMENT OF CONTRACT BY THE STATE**

Pursuant to the provisions of Section 29-4-731 of the Act, the Authority has included in the Indenture the pledge and agreement of the State of Colorado that the State of Colorado will not limit or alter the rights vested by the Act in the Authority to fulfill the terms of any agreements made with Bond Owners, or in any way impair the rights and remedies of such Owners until the Bonds, together with the interest thereon and all costs and expenses in connection with any action or proceedings by or on behalf of such Owners, are fully met and discharged.

### **LEGALITY FOR INVESTMENT AND SECURITY FOR DEPOSITS**

The Act provides that the Bonds are eligible for investment in the State by all public officers, public bodies and political subdivisions of the State, banking associations, savings and loan associations, trust companies, investment companies and insurance companies, and all executors, administrators, trustees and other fiduciaries of funds in their control or belonging to them; provided that, at the time of purchase by a public entity, such Bonds are rated in one of the two highest rating categories by one or more nationally recognized organizations which regularly rate such obligations. The Act makes the Bonds securities which may properly and legally be deposited with and received by any municipal officer or any agency or political subdivision of the State for any purpose for which the deposit of bonds, notes or obligations of the State is authorized by law.

### **INDEPENDENT AUDITORS**

The financial statements of the Authority as of and for the years ended December 31, 2004 and 2003, included in this Official Statement as **Appendix G**, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing therein.

## MISCELLANEOUS

This Official Statement speaks only as of its date, and the information contained herein is subject to change. All quotations from, and summaries and explanations of the statutes, regulations and documents contained herein do not purport to be complete and reference is made to said laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, including the Indenture and the Liquidity Facilities, may be obtained, during the offering period, upon request to the Authority and upon payment to the Authority of a charge for copying, mailing and handling, at 1981 Blake Street, Denver, Colorado 80202, Attention: Executive Director.

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

### **COLORADO HOUSING AND FINANCE AUTHORITY**

By: /s/ Cris A. White  
Chief Operating Officer

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## APPENDIX A

### Summary of Certain Provisions of the Indenture

The Master Indenture and the 2006 Series A Indenture, copies of which are available from the Authority and the Trustee, contains various covenants and security provisions, some of which are summarized below.

#### Definitions of Certain Terms

"Accreted Value" means, with respect to each compound interest Bond as of any date of calculation, an amount equal to the sum of (i) the principal amount of such Bond, plus (ii) any interest that has been compounded, i.e., any interest amount that is itself then bearing interest, all determined as of such date.

"Acquisition Account" means the Account so designated, which is created and established in the Program Fund by the Master Indenture. See "Program Fund; Acquisition Account" under this caption.

"Act" means the Colorado Housing and Finance Authority Act, being Part 7, Article 4, Title 29 of Colorado Revised Statutes.

"Adjustable Rate Bonds" means Bonds the interest rate on which is not fixed to maturity.

"Aggregate Debt Service" means for any particular period, Bonds and Auxiliary Obligations, the Debt Service Payments becoming due and payable on all Payment Dates during such period with respect to such Bonds and such Auxiliary Obligations.

"Aggregate Principal Amount" means as of any date of calculation, the principal amount or Accreted Value of the Bonds referred to.

"Alternate Tax-Exempt Term Rate" means on any Rate Determination Date for an Adjustable Rate Tax-Exempt Bond in the Term Rate Mode, an index published or provided by Kenny Information Systems, which index is based on yield evaluations at par of bonds the interest on which is excluded from gross income for purposes of Federal income taxation and are not subject to a "minimum tax" or similar tax under the Code (unless all tax-exempt bonds are subject to such tax). The bonds upon which the index is based shall include not less than five "high grade" component issuers selected by Kenny Information Systems which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time-to-time by Kenny Information Systems in its discretion. The yield evaluation period for the index shall be a one year evaluation.

"Amortized Value" means, when used with respect to an Investment Security purchased at a premium above or at a discount below par, the value as of any given date obtained by dividing the total amount of the premium or the discount at which such Investment Security was purchased by the number of days remaining to the first call date (if callable) or the maturity date (if not callable) of such Investment Securities at the time of such purchase and by multiplying the amount so calculated by the number of days having passed from the date of such purchase; and (a) in the case of an Investment Security purchased at a premium, by deducting the product thus obtained from the purchase price and (b) in the case of an Investment Security purchased at a discount, by adding the product thus obtained to the purchase price.

"Authority" means the Colorado Housing and Finance Authority, the body corporate and political subdivision of the State or any successor thereto under or with respect to the Act.

"Authority Certificate" means, as the case may be, a document signed by the Chair, Vice Chair or an Authorized Officer either (a) attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or (b) setting forth matters to be determined by such Authorized Officer pursuant to the Indenture.

"Authorized Officer" means the Chair, Chair pro tem or Executive Director of the Authority, and any other officer designated from time to time as an Authorized Officer by resolution of the Authority and, when used with reference to any act or document, also means any other person authorized by resolution of the Authority to perform such act or sign such document.

"Auxiliary Agreements" means Interest Rate Contracts and Liquidity Facilities.

"Auxiliary Agreement Providers" means Interest Rate Contract Providers and Liquidity Facility Providers.

"Auxiliary Obligations" means obligations of the Authority for the payment of money under Auxiliary Agreements.

"BMA Municipal Swap Index" means with respect to any Adjustable 2006 Series A Bond in the Weekly Mode for which a rate is not set pursuant to the 2006 Series A Indenture, the rate per annum determined on the basis of an index based upon the weekly interest rates of tax-exempt variable rate issues included in a database maintained by the Indexing Agent which meet specific criteria established by The Bond Market Association, formerly known as the Public Securities Association.

"Bond" or "Bonds" means any of the bonds, notes or other financial obligations (however denominated) of the Authority authorized and issued under the Indenture, including any Refunding Bonds.

"Bond Counsel" means any attorney or firm of attorneys of nationally recognized standing in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds, appointed from time to time by the Authority.

"Bondowner" or "Owner" or "Owner of Bonds" or similar term, when used with respect to a Bond or Bonds, means the registered owner of any Outstanding Bond.

"Bond Year" means, with respect to each Series, the twelve-month period designated as such by the Related Series Indenture, except that the first Bond Year for any Bonds may commence on the date of issuance thereof and end on the date specified by such Series Indenture.

"Borrower" means the maker of, and any other party obligated on, a Mortgage Loan in connection with the acquisition or rehabilitation of Residential Housing, who is a person or family of "low or moderate income" qualifying as such under the Act and the Rules and Regulations and in accordance with the Code.

"Business Day" means, except as set forth in a Series Indenture, any day (a) on which banks in the cities in which the respective principal offices of the Paying Agent, the Bond Registrar, the Trustee and Related Auxiliary Obligation Providers are located are not required or authorized by law to be closed

and (b) on which the New York Stock Exchange is open. For purposes of this definition, the principal office of a Liquidity Facility Provider shall be the office to which demands for payment are delivered.

**"Cash Flow Statement"** means, with respect to any particular Bonds and Auxiliary Obligations, an Authority Certificate (a) setting forth, for the then current and each future Bond Year during which such Bonds and Auxiliary Obligations will be Outstanding, and taking into account (i) any such Bonds expected to be issued or redeemed or purchased for cancellation in each such Bond Year upon or in connection with the filing of such Certificate, (for which purpose, if such Authority Certificate is delivered as of a date prior to a scheduled mandatory tender date for any Adjustable Rate Bonds, the Purchase Price of all such Adjustable Rate Bonds subject to mandatory tender on such tender date shall be assumed to be due and payable on such mandatory tender date), (ii) any such Auxiliary Obligations expected to be incurred upon or in connection with the filing of such Certificate, (iii) the interest rate, purchase price, discount points and other terms of any Related Mortgage Loans, and (iv) the application, withdrawal or transfer of any moneys expected to be applied, withdrawn or transferred upon or in connection with the filing of such Certificate:

(A) the amount of Mortgage Repayments and Prepayments reasonably expected to be received by the Authority in each such Bond Year from Related Mortgage Loans, together with Related Investment Revenues, Related Interest Rate Contract Revenues and other moneys (including without limitation moneys in any special escrows established with the Trustee) that are reasonably expected to be available to make Related Debt Service Payments, to pay Related Program Expenses and to pay the Purchase Price of any such Adjustable Rate Bonds subject to mandatory tender on any such tender date; and

(B) the Aggregate Debt Service for each such Bond Year on all such Bonds and Auxiliary Obligations reasonably expected to be Outstanding, together with the Related Program Expenses reasonably estimated for each such Bond Year;

and (b) showing that in each such Bond Year the aggregate of the amounts set forth in clause (a)(iv)(A) of this definition exceeds the aggregate of the amounts set forth in clause (a)(iv)(B) of this definition. Reference to a Cash Flow Statement with respect to a Series shall be taken to mean a Cash Flow Statement with respect to such Series and any Related Auxiliary Obligations and any other Series and Related Auxiliary Obligations to which such Series has been linked for Cash Flow Statement purposes.

**"Class I Auxiliary Obligations"** means Auxiliary Obligations which the Authority designates as Class I Auxiliary Obligations in the Related Series Indenture.

**"Class I Bonds"** means the Colorado Housing and Finance Authority Single Family Mortgage Class I Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

**"Class I Obligations"** means the Class I Bonds and the Class I Auxiliary Obligations and, with respect to a Series of Bonds, the Related Class I Bonds and any Related Class I Auxiliary Obligations.

**"Class I Sinking Fund Installment"** means the amount designated for any particular due date in the Related Series Indenture for the retirement of Class I Bonds on an unconditional basis, less any amount credited pursuant to the Master Indenture.

**"Class II Auxiliary Obligations"** means Auxiliary Obligations which the Authority designates as Class II Auxiliary Obligations in the Related Series Indenture.

**"Class II Bonds"** means the Colorado Housing and Finance Authority Single Family Mortgage Class II Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

**"Class II Obligations"** means the Class II Bonds and the Class II Auxiliary Obligations and, with respect to a Series of Bonds, the Related Class II Bonds and any Related Class II Auxiliary Obligations.

**"Class II Sinking Fund Installment"** means the amount designated for any particular due date for the retirement of Class II Bonds, as set forth in the Related Series Indenture, which amount may be conditioned upon the transfer of sufficient moneys to the Class II Debt Service Fund, plus all such amounts specified for any prior date or dates, to the extent such amounts have not been paid or discharged, less any amounts credited pursuant to the Master Indenture.

**"Class III Auxiliary Obligations"** means Auxiliary Obligations which the Authority designates as Class III Auxiliary Obligations in the Related Series Indenture.

**"Class III Bonds"** means the Colorado Housing and Finance Authority Single Family Mortgage Class III Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

**"Class III Obligations"** means the Class III Bonds and the Class III Auxiliary Obligations and, with respect to a Series of Bonds, the Related Class III Bonds and any Related Class III Auxiliary Obligations.

**"Class III Sinking Fund Installment"** means the amount designated for any particular due date for the retirement of Class III Bonds, as set forth in the Related Series Indenture, which amount may be conditioned upon the transfer of sufficient moneys to the Class III Debt Service Fund, plus all such amounts specified for any prior date or dates, to the extent such amounts have not been paid or discharged, less any amounts credited pursuant to the Master Indenture.

**"Class IV Auxiliary Obligations"** means Auxiliary Obligations which the Authority designates as Class IV Auxiliary Obligations in the Related Series Indenture.

**"Class IV Bonds"** means the Colorado Housing and Finance Authority Single Family Mortgage Class IV Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

**"Class IV Obligations"** means the Class IV Bonds and the Class IV Auxiliary Obligations and, with respect to a Series of Bonds, the Related Class IV Bonds and any Related Class IV Auxiliary Obligations.

**"Code"** means the Internal Revenue Code of 1986, as amended, with respect to a Series, to the date of initial issuance of such Series, and the regulations of the United States Treasury Department promulgated thereunder.

**"Costs of Issuance"** means the items of expense payable or reimbursable directly or indirectly by the Authority and other costs incurred by the Authority, all related to the authorization, sale and issuance of Bonds, the execution and delivery of Auxiliary Agreements and the establishment of the Program, which costs and items of expense shall include, but not be limited to, underwriters' compensation, printing costs, costs of developing, reproducing, storing and safekeeping documents and other information processing or storage of materials, equipment and software related to the Bonds, filing and recording fees, travel expenses incurred by the Authority in relation to such issuance of Bonds or for the Program, initial fees, charges and expenses (including counsel's fees and expenses) of the Authority, the Trustee, the Bond Registrar and the Paying Agent, initial premiums with respect to insurance required by the Indenture to be



paid by the Authority or by the Trustee, legal fees and charges (including, without limitation, the fees and expenses of Bond Counsel, the Authority's disclosure counsel, counsel to the underwriter and counsel to the Authority), professional consultants' fees, accountants' fees, mortgagor counseling fees, costs of bond ratings, fees and charges for execution, transportation and safekeeping of the Bonds, accrued interest paid in connection with the purchase of any Investment Securities with the proceeds of Bonds and any other costs, charges and fees in connection with the foregoing.

"Debt Service Payment" means, when used with respect to any Payment Date, the sum of the (a) interest, if any, and (b) Principal Installments, if any, and (c) Auxiliary Obligations, if any, due and payable on such date with respect to the Bonds and Auxiliary Agreements referred to.

"Debt Service Reserve Fund" means the Fund so designated, which is created and established by the Master Indenture. See "Debt Service Reserve Fund" under this caption.

"Debt Service Reserve Fund Requirement" with respect to each Series of Bonds, shall have the meaning set forth in the Related Series Indenture.

"Defeasance Securities" means any Investment Securities used to effect defeasance of Bonds in accordance with the Master Indenture if upon such defeasance the Bonds so defeased are rated in the highest rating category by each Rating Agency rating such Bonds, and which are not subject to redemption by the issuer thereof prior to their maturity.

"Depository" means any bank, trust company, or savings and loan association (including any Fiduciary) selected by the Authority and approved by the Trustee as a depository of moneys, Mortgage Loans or Investment Securities held under the provisions of the Indenture, and its successor or successors.

"Eligible Borrower" means a person or a family qualifying as a mortgagor for a Mortgage Loan under determinations made by the Authority in accordance with the Act.

"Escrow Payment" means all payments made by or on behalf of the obligor of a Mortgage Loan in order to obtain or maintain mortgage insurance or guaranty coverage of, and fire and other hazard insurance with respect to, a Mortgage Loan, and any payments required to be made with respect to such Mortgage Loan for taxes, other governmental charges and other similar charges required to be escrowed under the Mortgage.

"Excess Earnings" means, with respect to Mortgage Loans held in any subaccount of the Acquisition Account or the Loan Recycling Account established in connection with a Series of Tax-exempt Bonds, the "excess earnings," as defined in Treasury Regulations § 1.148-10T, with respect thereto.

"Fiduciary" means the Trustee, the Bond Registrar, the Paying Agent or a Depository or any or all of them, as may be appropriate.

"Fiduciary Expenses" means the fees and expenses of Fiduciaries, including fees and expenses of Fiduciary's counsel, but not including Servicing Fees payable to such Persons.

"General Obligation Bond" means a Bond, the payment of principal of and interest on which is a General Obligation of the Authority.

"General Obligations" means Bonds or Auxiliary Obligations secured or additionally secured, as provided in the Related Series Indenture, by a pledge of general revenues or moneys of the Authority

legally available therefor, subject only to agreements made or to be made with owners of notes, bonds or other obligations pledging particular revenues or moneys for the payment thereof and subject to the Authority's right at any time to apply such revenues and moneys to any lawful purpose.

**"Indenture"** means the Master Indenture authorized, executed and issued by an Authorized Officer and any amendments or supplements made in accordance with its terms, including all Series Indentures.

**"Interest Payment Date"** means, for each Bond, any date upon which interest on such Bond is due and payable in accordance with the Related Series Indenture.

**"Interest Rate Contract"** means an interest rate exchange or swap contract, a cash flow exchange or swap contract, any derivative of such contracts, including forward swaps and options to enter into swaps, and interest rate floors, caps or collars, entered into between the Authority and an Interest Rate Contract Provider.

**"Interest Rate Contract Provider"** means a Person that is a party to an Interest Rate Contract with the Authority with respect to specified Bonds and who satisfies the applicable requirements of the Interest Rate Exchange Agreements Act, being Article 59.3, Title 11 of Colorado Revised Statutes, and whose credit rating by each nationally recognized Rating Agency then rating the Class I Bonds is sufficiently high to maintain the then current rating on such Bonds by such Rating Agency or the equivalent of such rating by virtue of guarantees or insurance arrangements.

**"Interest Rate Contract Revenues"** means all payments and receipts received by the Authority under an Interest Rate Contract.

**"Investment Provider"** means any commercial bank or trust company, bank holding company, investment company or other entity (which may include the Trustee, the Bond Registrar or the Paying Agent), whose credit rating (or the equivalent of such rating by virtue of guarantees or insurance arrangements) by each nationally recognized Rating Agency then rating the Class I Bonds or Class II Bonds is sufficiently high to maintain the then current rating on the such Bonds by such Rating Agency or is otherwise acceptable to each such Rating Agency in order to maintain the then current rating on such Bonds by such Rating Agency, which Investment Providers shall be approved by the Agency for the purpose of providing investment agreements.

**"Investment Revenues"** means amounts earned on investments (other than Mortgage Loans) credited to any Fund or Account pursuant to the Indenture (including gains upon the sale or disposition of such investments) except the Rebate Requirement and any Excess Earnings.

**"Investment Securities"** means and includes any of the following securities, if and to the extent the same are at the time legal for investment of the Authority's funds:

(i) Direct, general obligations, or obligations the timely payment of principal and interest of which are unconditionally guaranteed by, the United States of America;

(ii) Obligations, debentures, notes, collateralized mortgage obligations, mortgage backed securities or other evidence of indebtedness issued or guaranteed by any of the following: Cooperatives; Federal Farm Credit Banks; Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Land Banks; Fannie Mae (excluding "interest only" mortgage strip securities, and excluding other mortgage strip securities which are valued greater than par); Farmers Home Administration; Federal Home Loan Mortgage Corporation (including participation certificates only if they guarantee timely

payment of principal and interest); Government National Mortgage Association (excluding "interest only" mortgage strip securities, and excluding other mortgage strip securities which are valued greater than par); Federal Financing Bank; Federal Housing Administration; or any other agency or instrumentality of the United States of America (created by an Act of Congress) substantially similar to the foregoing in its legal relationship to the United States of America;

(iii) Repurchase agreements, collateralized by Investment Securities described in clause (i) or clause (ii) of this definition, with any institution, any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank rated by each Rating Agency rating the Bonds sufficiently high to maintain the then current rating on such Bonds by such Rating Agency, and collateralized in such manner to meet all requirements for collateralized repurchase agreements of each Rating Agency rating the Bonds in order to maintain the then current rating on such Bonds by such Rating Agency;

(iv) General obligations or revenue obligations (including bonds, notes or participation certificates) of, or "private activity bonds" (within the meaning of the Code) issued by any state of the United States of America or any political subdivision thereof, or any agency or instrumentality of any state of the United States of America or any political subdivision thereof, which obligations are rated by each Rating Agency then rating the Bonds sufficiently high to maintain the then current rating on such Bonds by such Rating Agency, or any money market or short term investment fund investing substantially in or consisting substantially of and secured by obligations described above in this item (iv), which fund is rated by each Rating Agency then rating the Bonds sufficiently high to maintain the then current rating on such Bonds by such Rating Agency and which fund, if the income from such investment is intended to be excluded from gross income for federal income tax purposes, is included in the definition of "tax-exempt bond" set forth in Treasury Regulation § 1.150-1(b);

(v) General obligations of Investment Providers under the investment agreement described under "Assumptions Regarding Revenues, Debt Service Requirements, Operating Expenses and Certain Other Matters" or other investment agreements having substantially similar terms;

(vi) Certificates of deposit, interest-bearing time deposits, or other similar banking arrangements with a bank or banks (a) rated by each Rating Agency rating Bonds sufficiently high to maintain the then current rating on such Bonds by such Rating Agency or (b) collateralized in such manner to meet all requirements for collateralized agreements of each Rating Agency rating the Bonds in order to maintain the then current rating on such Bonds by such Rating Agency;

(vii) Commercial paper rated by each Rating Agency rating the Bonds sufficiently high to maintain the then current rating on such Bonds by such Rating Agency;

(viii) Shares in the statutory law trust known as the Colorado Local Government Liquid Asset Trust (COLOTRUST), created pursuant to Part 7 of Article 75 of Title 24, Colorado Revised Statutes; and

(ix) Units of a money market fund or a money market mutual fund which has a rating from each Rating Agency then rating the Bonds sufficiently high to maintain the then current rating on such Bonds by such Rating Agency;

provided, that it is expressly understood that the definition of Investment Securities shall be, and be deemed to be, expanded, or new definitions and related provisions shall be added to the Indenture, thus permitting investments with different characteristics from those listed above which the Authority deems from time to time to be in the interest of the Authority to include as Investment Securities if at the time of

inclusion the Trustee shall have received written confirmation from the Rating Agencies that such inclusion will not, in and of itself, impair, or cause any of the Bonds to fail to retain, the then existing rating assigned to them by the Rating Agencies.

**"Liquidity Facility"** means a letter of credit, standby bond purchase agreement, security bond, reimbursement agreement or other agreement between the Authority and a Liquidity Facility Provider with respect to specified Bonds issued under the Master Indenture.

**"Liquidity Facility Provider"** means a Person that is a party to a Liquidity Facility with the Authority with respect to specified Bonds and whose credit rating by each nationally recognized Rating Agency then rating the Class I Bonds is sufficiently high to maintain the then current rating on such Bonds by such Rating Agency or the equivalent of such rating by virtue of guarantees or insurance arrangements.

**"Mortgage"** means a mortgage, deed of trust or other instrument constituting a valid lien on real property in the State and improvements constructed or to be constructed thereon or on a leasehold under a lease having a remaining term, at the time such instrument is acquired by the Authority, of not less than the term for repayment of the Mortgage Loan secured by such instrument.

**"Mortgage Lender"** means a "lender" as defined in the Act and which has been approved by the Authority pursuant to the Rules and Regulations.

**"Mortgage Loan"** means a permanent loan secured by a Mortgage for the purchase or rehabilitation of Residential Housing made to a Borrower either by the Authority or by an originating Mortgage Lender which is purchased by the Authority pursuant to a Mortgage Purchase Agreement and which loan satisfies the requirements of the Master Indenture.

**"Mortgage Repayments"** means, with respect to any Mortgage Loan, the amounts received by or for the account of the Authority as scheduled payments of principal and interest on such Mortgage Loan by or on behalf of the Borrower to or for the account of the Authority and does not include Prepayments, Servicing Fees or Escrow Payments.

**"Mortgage Revenues"** means all Revenues other than Investment Revenues and Interest Rate Contract Revenues.

**"National Repository"** shall mean, at the Authority's option, either (i) each Nationally Recognized Municipal Securities Information Repository (collectively, the "NRMSIRs") recognized by the Securities and Exchange Commission from time to time for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time, or (ii) any other filing system approved by the Securities and Exchange Commission for transmission of continuing disclosure filings under said Rule 15c2-12(b)(5) for submission to the NRMSIRs (without also separately submitting such filings to the NRMSIRs and any applicable State Information Depositories by some other means), including without limitation the central post office known as DisclosureUSA, managed by the Municipal Advisory Council of Texas and located at the website [www.DisclosureUSA.org](http://www.DisclosureUSA.org).

**"One-Month LIBOR Rate," "Three-Month LIBOR Rate" or "One-Year LIBOR Rate"** means the rate per annum relating to quotations for London Interbank Offered Rates on U.S. dollar deposits for a one month period, a three month period or a one-year period, respectively, fixed by the British Bankers' Association at 11:00 a.m., London time, on the applicable Rate determination Date, as displayed at the Internet site, <http://www.bba.org.uk>. If such Rate Determination Date is not a business day in London,

the most recently fixed London Interbank Offered Rates on U.S. dollar deposits for a one month period, a three month period or a one-year period, respectively, shall be used. If the rate is no longer available at <http://www.bba.org.uk>, the Trustee will ascertain the rate in good faith from such sources as it shall determine to be comparable to such source.

**"Outstanding"** means, when used with respect to all Bonds as of any date, all Bonds theretofore authenticated and delivered under the Indenture except:

(a) any Bond cancelled or delivered to the Bond Registrar for cancellation on or before such date;

(b) any Bond (or any portion thereof) (i) for the payment or redemption of which there shall be held in trust under the Indenture and set aside for such payment or redemption, moneys and/or Defeasance Securities maturing or redeemable at the option of the holder thereof not later than such maturity or redemption date which, together with income to be earned on such Defeasance Securities prior to such maturity or redemption date, will be sufficient to pay the principal or Redemption Price thereof, as the case may be, together with interest thereon to the date of maturity or redemption, and (ii) in the case of any such Bond (or any portion thereof) to be redeemed prior to maturity, notice of the redemption of which shall have been given in accordance with the Indenture or provided for in a manner satisfactory to the Bond Registrar;

(c) any Bond in lieu of or in exchange for which another Bond shall have been authenticated and delivered pursuant to the Indenture; and

(d) any Bond deemed to have been paid as provided in the Master Indenture;

and, with respect to any Auxiliary Obligations, means Auxiliary Obligations which have not been paid or otherwise satisfied.

**"Participant"** means a broker-dealer, bank or other financial institution from time to time for which the Securities Depository effects book-entry transfers and pledges of securities deposited with the Securities Depository.

**"Payment Date"** means for each Bond, each date on which interest or a Principal Installment or both are payable on such Bond; and for each Auxiliary Obligation, each date on which an amount is payable with respect to such Auxiliary Obligation, and, unless limited, means all such dates.

**"Person"** means an individual, partnership, corporation, trust or unincorporated organization or a government or any agency, instrumentality, program, account, fund, political subdivision or corporation thereof.

**"Prepayment"** means any moneys received or recovered by or for the account of the Authority from any unscheduled payment of or with respect to principal (including any penalty, fee, premium or other additional charge for prepayment of principal which may be provided by the terms of a Mortgage Loan, but excluding any Servicing Fees with respect to the collection of such moneys) on any Mortgage Loan prior to the scheduled payments of principal called for by such Mortgage Loan, whether (a) by voluntary prepayment made by the Borrower or (b) as a consequence of the damage, destruction or condemnation of the mortgaged premises or any part thereof or (c) by the sale, assignment, endorsement or other disposition of such Mortgage Loan by the Authority or (d) in the event of a default thereon by the Borrower, by the acceleration, sale, assignment, endorsement or other disposition of such Mortgage Loan by the Authority or by any other proceedings taken by the Authority.

**"Principal Installment"** means, as of any date of calculation, and for any Payment Date, (a) the principal amount or Accreted Value of all Bonds due and payable on such date, plus (b) any Class I, Class II, Class III and Class IV Sinking Fund Installments due and payable on such date.

**"Program"** means the Authority's Single Family Mortgage Program pursuant to which the Authority has determined to purchase Mortgage Loans in accordance with the Act, the Rules and Regulations and the Indenture.

**"Program Expenses"** means all the Authority's expenses of administering the Program under the Indenture and the Act and shall include without limiting the generality of the foregoing; salaries, supplies, utilities, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, including information processing equipment; software, insurance premiums, credit enhancement fees, legal, accounting, management, consulting and banking services and expenses; Fiduciary Expenses; remarketing fees; Costs of Issuance not paid from proceeds of Bonds; payments to pension, retirement, health and hospitalization funds; and any other expenses required or permitted to be paid by the Authority.

**"Qualified Mortgage Loan Mortgage Backed Securities"** means Investment Securities which constitute collateralized mortgage obligations issued by Fannie Mae, the Government National Mortgage Association or the Federal Home Loan Mortgage Corporation, underlying mortgages of which would constitute Mortgage Loans for purposes of the Indenture if acquired by the Trustee from moneys in the Acquisition Account.

**"Qualified Surety Bond"** means any surety bond, letter of credit, insurance policy or other instrument which has liquidity features equivalent to a letter of credit, deposited in the Debt Service Reserve Fund in lieu of or in partial substitution for moneys on deposit therein, which shall have no adverse impact on the rating assigned to any Bonds by any Rating Agency.

**"Rating Agency"** means, at any particular time, any nationally recognized credit rating service designated by the Authority, if and to the extent such service has at the time one or more outstanding ratings of Bonds. The Authority shall at all times have designated at least one such service as a Rating Agency under the Indenture.

**"Rebate Requirement"** means the amount of arbitrage profits earned from the investment of gross proceeds of Tax-exempt Bonds in nonpurpose investments described in Section 148(f)(2) of the Code and defined as "Rebate Amount" in Section 1.148-3 of the Treasury Regulations, which is payable to the United States at the times and in the amounts specified in such provisions.

**"Record Date"** means, except as otherwise provided in a Series Indenture (i) with respect to each Payment Date, with respect to Bonds which are not Adjustable Rate Bonds the Bond Registrar's close of business on the fifteenth day of the month immediately preceding such Payment Date or, if any such date is not a Business Day, the next preceding day which is a Business Day, and with respect to Adjustable Rate Bonds the Bond Registrar's close of business on the Business Day immediately preceding such Payment Date; and (ii) in the case of each redemption, such Record Date as shall be specified by the Bond Registrar in the notice of redemption, provided that such Record Date shall not be less than fifteen (15) calendar days before the transmission of such notice of redemption.

**"Redemption Price"** means, when used with respect to a Bond or portion thereof to be redeemed, the principal amount or Accreted Value of such Bond or such portion thereof plus the applicable premium, if any, payable upon redemption thereof as determined by the Series Indenture authorizing the Series of Bonds.

**"Related"** (whether capitalized or not) means, with respect to any particular Bond, Class, Series, Series Indenture, Supplemental Indenture, Cash Flow Statement, Fund, Account, Mortgage Loan (or portion thereof), Auxiliary Agreement, moneys, Investment Securities, Mortgage Repayment or Prepayment, having been created in connection with the issuance of, or having been derived from the proceeds of, or having been reallocated to, or concerning, the same Series, as the case may be.

**"Residential Housing"** or **"Residence"** means a single-family, owner-occupied dwelling located within the State that qualifies for financing by the Authority within the meaning of the Act, the Rules and Regulations, the Code and related regulations.

**"Revenue Fund"** means the Fund so designated, which is created and established by the Master Indenture. See "Revenue Fund" under this caption.

**"Revenues"** means (a) all Mortgage Repayments, Prepayments and, except insofar as such payments may constitute Servicing Fees, any penalty payments on account of overdue Mortgage Repayments, (b) Investment Revenues, (c) Interest Rate Contract Revenues, and (d) all other payments and receipts received by the Authority with respect to Mortgage Loans, but shall not include (i) Escrow Payments, (ii) Servicing Fees, unless such fees are specifically pledged to the Trustee, (iii) any commitment, reservation, extension, or application fees charged by the Authority in connection with a Mortgage Loan or Mortgage Purchase Agreement, (iv) any commitment, reservation, extension or application fees charged by a Mortgage Lender in connection with a Mortgage Loan or (v) accrued interest received in connection with the purchase of any Investment Securities.

**"Rules and Regulations"** means the Authority's Single Family Mortgage Program Rules and Regulations adopted by the Authority pursuant to the Act governing the activities authorized by the Act as the same may be amended and supplemented from time to time.

**"Second Mortgage Loan"** means a Mortgage Loan secured by a Mortgage constituting a second lien on real property.

**"Securities Depository"** means The Depository Trust Company, New York, New York, and its successors and assigns, or any additional or other securities depository designated in a Series Indenture, or (i) if the then Securities Depository resigns from its functions as depository of the Bonds, or (ii) if the Authority discontinues use of the Securities Depository pursuant to the Master Indenture, then any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Authority with the consent of the Trustee.

**"Series"** means and refers to all of the Bonds designated as such in the Related Series Indenture and authenticated and delivered on original issuance in a simultaneous transaction, regardless of variations in Class, dated date, maturity, interest rate or other provisions, and any Bond thereafter delivered in lieu of or substitution for any of such Bonds pursuant to the Master Indenture and a Related Series Indenture.

**"Servicer"** means a state-chartered bank or national banking association, state or federal savings and loan association or mortgage banking or other financial institution which has been approved by the Authority as experienced and qualified to service Loans, and any successor thereto.

**"Servicing Agreement"** means a written agreement between the Authority and a Servicer (other than the Authority) providing for the servicing of Mortgage Loans on behalf of the Authority.

"Servicing Fees" means (a) any fees paid to or retained by a Servicer in connection with the servicing obligations undertaken by the Servicer in accordance with the Related Servicing Agreement and (b) any fees and ancillary income retained by or expenses reimbursed to the Authority with respect to Mortgage Loans serviced by the Authority.

"Supplemental Indenture" means any supplemental indenture (including a Series Indenture) approved by the Agency in accordance with the Master Indenture amending or supplementing the Indenture.

"Targeted Area" means a "targeted area" within the meaning of Section 143 of the Code.

"Targeted Area Residence" means a "targeted area residence" within the meaning of Section 143 of the Code.

"Tax-exempt Bonds" means Bonds the interest on which is intended to be excluded from gross income of the owner thereof for federal income tax purposes.

"Trust Estate" means the property, rights, moneys, securities and other amounts pledged and assigned to the Trustee pursuant to the Granting Clauses of the Master Indenture.

"Unrelated" (whether capitalized or not) means not "Related," within the meaning of that term.

"Zero Interest First Mortgage Loans" means Mortgage Loans made to certain Purchasers under specific terms as described in "Part II – SINGLE FAMILY MORTGAGE PROGRAM – Special Program Features – Zero Interest First Mortgage Loans."

#### **Funds and Accounts Established by the Indenture**

The Indenture establishes the following Funds and Accounts to be held by the Trustee for application in accordance with the Indenture:

- (a) the Program Fund, consisting of:
  - (i) the Acquisition Account
  - (ii) the Short Term Bond Account;
  - (iii) the Cost of Issuance Account; and
  - (iv) the Loan Recycling Account;
- (b) the Revenue Fund;
- (c) the Debt Service Reserve Fund, which shall include the Interest Reserve Account;
- (d) the Class I Debt Service Fund which may include an Authority Payment Account;
- (e) the Class II Debt Service Fund which may include an Authority Payment Account;
- (f) the Class III Debt Service Fund which may include an Authority Payment Account;



- (g) the Class IV Debt Service Fund which may include an Authority Payment Account;
- (h) the Redemption Fund, consisting of:
  - (i) the Class I Special Redemption Account;
  - (ii) the Class II Special Redemption Account;
  - (iii) the Class III Special Redemption Account; and
  - (iv) the Class IV Special Redemption Account;
- (i) the Rebate Fund; and
- (j) the Excess Earnings Fund.

Subaccounts shall be created in all Funds and Accounts described in the Master Indenture for each Series of Bonds. Except as otherwise provided in the Master Indenture or in a Series Indenture, bond proceeds and other moneys relating to a Series of Bonds shall be deposited in the Related subaccounts created with respect to such Series of Bonds.

The Authority may reallocate moneys, investments and Mortgage Loans (or portions thereof or interest therein) among Series under any of the following circumstances:

- (a) if and to the extent required by the Indenture;
- (b) if and to the extent necessary to enable the Authority to deliver a Cash Flow Statement with respect to one or more Series;
- (c) in connection with an Authority Request filed pursuant to the Indenture; and
- (d) if and to the extent that the aggregate amount of moneys, investments and Mortgage Loans allocated to any particular Series exceeds the aggregate amount of Outstanding Bonds of such Series.

If the Authority determines to make such a reallocation of moneys, investments and Mortgage Loans among Series, the Authority shall deliver to the Trustee an Authority Request specifying such reallocations. Upon receipt of such request, the Trustee shall transfer moneys, investments and/or Mortgage Loans (or portions thereof or interests therein) among subaccounts Related to each Series as requested. Mortgage Loans (or portions thereof or interests therein) reallocated among Series are not required to meet the requirements of the Series Indenture Related to the Series to which such Mortgage Loans (or portions thereof or interests therein) are being reallocated, if such Mortgage Loans at the time of their original acquisition by the Authority met the requirements of the Master Indenture and the applicable requirements of the Series Indenture Related to such Mortgage Loans at the time of their purchase.

Special temporary accounts in the Program Fund and the Debt Service Reserve Fund may be created and established to facilitate the refunding of the Authority's bonds and any exchange of funds related thereto.

### **Program Fund; Acquisition Account**

Proceeds of the Bonds and other moneys deposited in the Acquisition Account shall be applied to make or purchase Mortgage Loans in accordance with the provisions of the Indenture; provided, however, that such Mortgage Loans must satisfy the terms and conditions set forth in the Master Indenture and applicable provisions of the Related Series Indenture, and the Authority shall not use such proceeds or other moneys to finance a Mortgage Loan providing a yield that, in the aggregate with other Mortgage Loans credited or expected to be credited to the Acquisition Account or the Loan Recycling Account, exceeds any limitation on yield required by Section 103 or Section 143 of the Code, unless there shall be filed with the Trustee an opinion of Bond Counsel to the effect that the financing of Mortgage Loans providing a higher yield will not cause the interest on the Related Tax-exempt Bonds to be included in the gross income of the recipient thereof for federal income tax purposes.

The Trustee shall withdraw moneys from the Acquisition Account for the purchase of a Mortgage Loan pursuant to the Master Indenture upon receipt of an Authority Request stating (i) the name of the Person to be paid, (ii) the amount to be paid, including principal, premium, if any, unpaid accrued interest and prepaid discount fees, if any, and (iii) that all conditions precedent to the purchase of such Mortgage Loan have been fulfilled. Any moneys deposited in the Acquisition Account that the Authority certifies from time to time will not be used to purchase Mortgage Loans in accordance with the Master Indenture and the Related Series Indenture shall be withdrawn by the Trustee on the date specified in the Related Series Indenture or such other date or dates on or after such date as may be specified by the Authority, and transferred to the Related subaccount of the Redemption Fund for application in accordance with the Related Series Indenture; provided, however, that such transfer or transfers may be made on a later date as to all or any part of such moneys, if the Authority shall have filed with the Trustee an Authority Request specifying a later date or dates for such withdrawal, and certifying that such Authority Request is consistent with the most recently filed Cash Flow Statement and the Related Series Indenture.

When no Bonds of a particular Series or Related Auxiliary Obligations remain Outstanding, upon receipt of an Authority Request to withdraw all or any portion of the Related moneys, investments and/or Mortgage Loans from the Related Funds, Accounts and subaccounts, the Trustee shall make such withdrawal and shall transfer such moneys, investments and/or Mortgage Loans, as the case may be, to or upon the order of, the Authority; provided, however, that the Authority Request must certify that such withdrawal is consistent with the most recently filed Cash Flow Statement for all Bonds and the most recently filed Cash Flow Statement for any Series to which such retired Series has been linked.

The Authority may determine that a Mortgage Loan will be financed or refinanced with proceeds of more than one Series of Bonds. In such event, all provisions of the Indenture which relate to a Mortgage Loan, Mortgage Repayments and Prepayments, and moneys in any Fund or Account, shall be interpreted and applied to relate such Mortgage Loan, Mortgage Repayments, Prepayments and moneys to each Series furnishing proceeds for such Mortgage Loan in proportion to the respective principal amounts of Bonds of each such Series the proceeds of which were or will be used to finance or refinance such Mortgage Loan.

### **Cost of Issuance Account**

Upon the issuance, sale and delivery of Bonds, certain moneys as specified in the Related Series Indenture shall be deposited in the Related subaccount of the Cost of Issuance Account. There may also be paid into the Cost of Issuance Account, at the option of the Authority, any moneys received by the Authority from any source, unless required to be otherwise applied as provided by the Indenture. Moneys in such Account shall be used to pay Costs of Issuance and for no other purpose except that any excess

remaining upon payment of all Costs of Issuance shall be transferred by the Trustee to the Authority or to the Related subaccount in the Acquisition Account.

In the event that the moneys deposited in the Cost of Issuance Account are not sufficient to pay all Costs of Issuance, Costs of Issuance may be paid from any available moneys of the Authority.

### **Program Fund; Loan Recycling Account**

There shall be paid into the Related subaccount of the Loan Recycling Account established within the Program Fund any amounts transferred pursuant to the Master Indenture. Except as otherwise required or permitted by the Master Indenture, Mortgage Loans (or portions thereof) allocated to a Series of Bonds and financed or refinanced with moneys in the Related subaccount of the Loan Recycling Account shall be held in such subaccount of the Loan Recycling Account.

Before any moneys are transferred to the Loan Recycling Account pursuant to the Master Indenture, the Authority shall file with the Trustee (a) a Cash Flow Statement, (b) an Authority Certificate demonstrating that the Related Class I Asset Requirement, Class II Asset Requirement, Class III Asset Requirement or Class IV Asset Requirement, as applicable, will be met, and (c) a letter from each Rating Agency then rating any Bonds confirming that such transfer will not, in and of itself, result in a lowering, suspension, or withdrawal of the ratings then applicable to any Bonds, except to the extent a previous Cash Flow Statement, Authority Certificate and rating confirmation shall apply to such transfer and the Mortgage Loans to be made with such amounts.

Amounts deposited in the Loan Recycling Account shall be applied, upon Authority Request, to finance or refinance Mortgage Loans that satisfy the requirements of the Master Indenture and applicable provisions of the Related Series Indenture with respect to the Mortgage Loans to be financed or refinanced. The Trustee shall withdraw moneys from the Related subaccount of the Loan Recycling Account for the financing of a Mortgage Loan upon receipt of an Authority Request stating (i) the name of the Person to be paid, and (ii) the amount to be paid.

Moneys remaining in the Related subaccount of the Loan Recycling Account on the date set forth in the Cash Flow Statement in connection with which such moneys were deposited in such subaccount shall be withdrawn therefrom by the Trustee on such date (or such earlier date or dates as may be specified by the Authority), and shall be transferred to the Revenue Fund.

### **Revenue Fund**

The Authority shall pay all Revenues or cause all Revenues to be paid to the Trustee at least once each month. Except as otherwise provided in the Master Indenture or in a Series Indenture, all Revenues Related to each Series of Bonds shall be deposited by the Trustee in the Related subaccount of the Revenue Fund amounts transferred thereto from the Related subaccount of the Loan Recycling Account pursuant to the Master Indenture, from the Related subaccount of the Class I Debt Service Fund pursuant to the Master Indenture, from the Related subaccount of the Debt Service Reserve Fund pursuant to the Master Indenture, from the Related subaccount of the Class I Special Redemption Account pursuant to the Master Indenture, from the Related subaccount of the Class II Special Redemption Account pursuant to the Master Indenture, from the Related subaccount of the Class III Special Redemption Account pursuant to the Master Indenture, from the Related subaccount of the Class IV Special Redemption Account pursuant to the Master Indenture, from the Related subaccount of the Class II Debt Service Fund pursuant to the Master Indenture, from the Related subaccount of the Class III Debt Service Fund pursuant to the Master Indenture, from the Related subaccount of the Class IV Debt Service Fund pursuant to the Master

Indenture, from the Related subaccount of the Rebate Fund pursuant to the Master Indenture, and from the Related subaccount of the Excess Earnings Fund pursuant to the Master Indenture.

There may also be deposited in the Revenue Fund, at the option of the Authority, any other moneys of the Authority, unless required to be otherwise applied as provided by the Indenture.

Promptly upon receipt of interest on a Mortgage Loan with respect to which moneys were withdrawn from the Acquisition Account to pay for interest accrued on such Mortgage Loan at the time of purchase from a Mortgage Lender, the Trustee shall withdraw from the Related subaccount of the Revenue Fund and transfer to the Related subaccount of the Acquisition Account an amount equal to such accrued interest paid. Alternatively, accrued interest on Mortgage Loans at the time of purchase may be paid from the Related subaccount of the Revenue Fund as the Authority shall direct in an Authority Request.

The Trustee shall pay or transfer from the Related subaccount of the Revenue Fund (i) directly to the Fiduciaries, all Fiduciary Expenses, when and as payable and (ii) to the Authority or to its order other reasonable and necessary Program Expenses, respectively, only to the extent, if any, provided in the following paragraphs.

On the last Business Day prior to each Payment Date or more frequently if required by a Series Indenture, or on other dates specifically provided below, the Trustee shall withdraw from each subaccount of the Revenue Fund and deposit into the Related subaccounts of the following Funds or Accounts and shall pay to the following parties the following amounts, in the following order of priority, the requirements of each such Fund, Account or party (including the making up of any deficiencies in any such Fund or Account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied, and the results of such satisfaction being taken into account, before any payment or transfer is made subsequent in priority:

(A) On each August 1, into the Related accounts of the Rebate Fund, an amount to be calculated by the Authority which, when added to the amount already within such respective accounts, will equal the Rebate Requirement Related to the Tax-exempt Bonds of each respective Series, as determined by the Authority;

(B) On each August 1, into the Related accounts of the Excess Earnings Fund, an amount to be calculated by the Authority which, when added to the amount already within such respective accounts, will equal the amount determined by the Authority to be required to be on deposit therein;

(C) Into the Related subaccount of the Class I Debt Service Fund (x) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount of interest becoming due and payable on such Payment Date upon all Class I Bonds of the Related Series then Outstanding; plus (y) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount of Principal Installments becoming due and payable on the Outstanding Related Class I Bonds on such Payment Date; plus (z) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount becoming due and payable on Outstanding Related Class I Auxiliary Obligations on such Payment Date; provided however, that if such Payment Date is not a date for the payment of a Principal Installment on Related Class I Bonds, such transfer shall include an amount equal to that, if made in substantially equal installments on each subsequent Payment Date to and including the next Payment Date that is a date for the Payment of a Principal Installment on Related Class I Bonds,

will equal the amount of the Principal Installments becoming due and payable on Outstanding Related Class I Bonds on the next Payment Date;

(D) Into each Unrelated subaccount of the Class I Debt Service Fund, after making any transfer into such subaccount required by the Master Indenture, on a proportionate basis with all other such Unrelated subaccounts or as otherwise directed by Authority Request, any deficiency in such subaccount resulting from the lack of moneys sufficient to make the deposit required by paragraph (C) as of such date;

(E) Into (1) the Related subaccount of the Loan Recycling Account, at the election of the Authority evidenced by an Authority Certificate filed with the Trustee, but subject to the requirements of the Master Indenture, or (2) the Related subaccount of the Class I Special Redemption Account, or any combination of (1) and (2) above at the election of the Authority evidenced by an Authority Certificate filed with the Trustee, the amount, if any, needed to ensure that the Class I Asset Requirement of the Related Series of Bonds will be met on such Payment Date following such transfer;

(F) Into each Unrelated subaccount of the Class I Special Redemption Account, on a proportionate basis with all other such Unrelated subaccounts or as otherwise directed by Authority Request, any deficiency in such subaccount resulting from the lack of moneys sufficient to make the deposit required by paragraph (E) as of such date;

(G) Into the Related subaccount of the Class II Debt Service Fund (x) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount of interest becoming due and payable on such Payment Date upon all Class II Bonds of the Related Series then Outstanding; plus (y) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount of Principal Installments becoming due and payable on Outstanding Related Class II Bonds on such Payment Date; plus (z) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount becoming due and payable on Outstanding Related Class II Auxiliary Obligations on such Payment Date; provided however, that if such Payment Date is not a date for the payment of a Principal Installment on Related Class II Bonds, such transfer shall include an amount equal to that, if made in substantially equal installments on each subsequent Payment Date to and including the next Payment Date that is a date for the payment of a Principal Installment on Related Class II Bonds, will equal the amount of the Principal Installments becoming due and payable on Outstanding Related Class II Bonds on the next following Payment Date;

(H) Into each Unrelated subaccount of the Class II Debt Service Fund, after making any transfer into such subaccount required by the Master Indenture, on a proportionate basis with all other such Unrelated subaccounts or as otherwise directed by Authority Request, any deficiency in such subaccount resulting from the lack of moneys sufficient to make the deposit required by paragraph (G) as of such date;

(I) Into the Related subaccount of the Debt Service Reserve Fund, the amount, if any, needed to increase the amount in such subaccount (including the Related Interest Reserve Account), together with the available amount of any Qualified Surety Bond therein, to the Debt Service Reserve Fund Requirement of the Related Series of Bonds;

(J) Into each Unrelated subaccount of the Debt Service Reserve Fund, on a proportionate basis with all other such Unrelated subaccounts or as otherwise directed by

Authority Request, any deficiency in such subaccount resulting from the lack of Related Revenues sufficient to make the deposit required by paragraph (I) as of such date;

(K) Into (1) the Related subaccount of the Loan Recycling Account, at the election of the Authority evidenced by an Authority Certificate filed with the Trustee, but subject to the requirements of the Master Indenture, or (2) the Related subaccount of the Class II Special Redemption Account, or any combination of (1) and (2) above at the election of the Authority evidenced by an Authority Certificate filed with the Trustee, the amount, if any, needed to ensure that the Class II Asset Requirement of the Related Series of Bonds will be met on such Payment Date following such transfer;

(L) Into each Unrelated subaccount of the Class II Special Redemption Account, on a proportionate basis with all other such Unrelated subaccounts or as otherwise directed by Authority Request, any deficiency in such subaccount resulting from the lack of moneys sufficient to make the deposit required by paragraph (K) as of such date;

(M) To the Authority, the amount of any reasonable and necessary Fiduciary Expenses with respect to the Related Series of Bonds previously incurred but not reimbursed to the Authority or reasonably anticipated to be payable in the following six months (or directly to the Fiduciaries, Fiduciary Expenses with respect to the Related Series of Bonds, when and as payable); provided, however, that in no event shall the aggregate of all Fiduciary Expenses with respect to the Related Series of Bonds paid directly to Fiduciaries or to the Authority under this paragraph (M) exceed any limitation set forth in the Related Series Indenture for any period;

(N) To the Authority, the amount of any reasonable and necessary Fiduciary Expenses with respect to Unrelated Series of Bonds, on a proportionate basis with all other Unrelated Series of Bonds or as otherwise directed by Authority Request, any deficiency resulting from the lack of moneys sufficient to make the deposit required by subsection (M) as of such date;

(O) Into the Related subaccount of the Class III Debt Service Fund (x) the amount, if any, needed to increase the amount in such subaccount to the aggregate amount of interest becoming due and payable on such Payment Date upon all Class III Bonds of the Related Series then Outstanding; plus (y) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount of Principal Installments required to be paid for the Outstanding Related Class III Bonds on such Payment Date; plus (z) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount becoming due and payable on Outstanding Related Class III Auxiliary Obligations on such Payment Date; provided however, that if such Payment Date is not a date for the payment of a Principal Installment on Related Class III Bonds, such transfer shall include an amount that, if made in substantially equal installments on each subsequent Payment Date to and including the next Payment Date that is a date for the payment of a Principal Installment on Related Class III Bonds, will equal the amount of the Principal Installments becoming due and payable on Outstanding Related Class III Bonds on the next following Payment Date;

(P) Into each Unrelated subaccount of the Class III Debt Service Fund, after making any transfer into such subaccount required by the Master Indenture, on a proportionate basis with all other such Unrelated subaccounts or as otherwise directed by Authority Request, any deficiency in such subaccount resulting from the lack of moneys sufficient to make the deposit required by subsection (O) as of such date;

(Q) To the Authority, the amount of any reasonable and necessary Program Expenses with respect to the Related Series of Bonds previously incurred but not reimbursed to the Authority or reasonably anticipated to be payable in the following six months; provided, however, that in no event shall the aggregate of such amounts paid to the Authority, plus amounts paid to the Authority with respect to such Series of Bonds pursuant to subsections (M) and (N) above and plus all Fiduciary Expenses with respect to the Related Series of Bonds paid directly to Fiduciaries exceed any limitations set forth in the Related Series Indenture;

(R) To the Authority, the amount of any reasonable and necessary Program Expenses with respect to Unrelated Series of Bonds, on a proportionate basis with all other Unrelated Series of Bonds or as otherwise directed by Authority Request, any deficiency resulting from the lack of moneys sufficient to make the deposit required by subsection (Q) as of such date;

(S) Into (1) the Related subaccount of the Loan Recycling Account, at the election of the Authority evidenced by an Authority Certificate filed with the Trustee, but subject to the requirements of the Master Indenture, or (2) the Related subaccounts of the Redemption Fund, or any combination of (1) and (2) above at the election of the Authority evidenced by an Authority Certificate filed with the Trustee, the amount, if any, necessary to satisfy the Class III Asset Requirement of the Related Series of Bonds, calculated as of such next succeeding Payment Date and giving effect to such transfer, which amount shall be allocated to the Related subaccounts of the Class I Special Redemption Account, the Class II Special Redemption Account and the Class III Special Redemption Account on the basis of the relative ratios represented by the Aggregate Principal Amounts Outstanding of the Related Class I Bonds, Class II Bonds and Class III Bonds, respectively, to the Aggregate Principal Amount of all Related Class I, Class II and Class III Bonds Outstanding;

(T) Into each Unrelated subaccount of the Redemption Fund, on a proportionate basis with all other such Unrelated subaccounts or as otherwise directed by Authority Request, the additional amount, if any, necessary (after the deposits required by subsection (S) for the Related Series of Bonds) to satisfy the Class III Asset Requirement of such Unrelated Series of Bonds, calculated as of such next succeeding Payment Date and giving effect to such transfer, which amount shall be allocated to the applicable subaccount of the Class I Special Redemption Account, the Class II Special Redemption Account and the Class III Special Redemption Account on the basis of the relative ratios represented by the Aggregate Principal Amount Outstanding of the applicable Class I Bonds, Class II Bonds and Class III Bonds, respectively, to the Aggregate Principal Amount of all applicable Class I, Class II, and Class III Bonds Outstanding (for purposes of this subsection (T), "applicable" means Related to such Unrelated Series);

(U) Into the Related subaccount of the Class IV Debt Service Fund (x) the amount, if any, needed to increase the amount in such subaccount to the aggregate amount of interest becoming due and payable on such Payment Date upon all Class IV Bonds of the Related Series then Outstanding; plus (y) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount of Principal Installments required to be paid for the Outstanding Related Class IV Bonds on such Payment Date; plus (z) the amount, if any, needed to increase the amount in such subaccount to include the aggregate amount becoming due and payable on Outstanding Related Class IV Auxiliary Obligations on such Payment Date;

(V) Into each Unrelated subaccount of the Class IV Debt Service Fund, after making the transfer into such subaccount required by the Master Indenture, on a proportionate basis with all other such Unrelated subaccounts or as otherwise directed by Authority Request, any

deficiency in such subaccounts resulting from the lack of moneys sufficient to make the deposit required by subsection (U) as of such date; and

(W) Upon Authority Request, to the Related subaccount of the Loan Recycling Account, in order to finance or refinance Loans or Authority Projects, to the extent permitted by the applicable Series Indenture.

The Authority may direct the Trustee to make any of the above transfers more frequently than on the last Business Day prior to Payment Dates, in amounts proportionate to the frequency of transfers so directed.

Following such transfers, the balance, if any, in each subaccount of the Revenue Fund, or such lesser amount thereof as shall be requested by the Authority shall be paid to the Authority for the payment of Program Expenses or for any other purposes free and clear of the lien and pledge of the Indenture upon receipt of an Authority Request made within 30 days of such Payment Date. Any amount in each subaccount of the Revenue Fund not so paid to the Authority shall be transferred to the Related subaccounts of the Redemption Fund and allocated among the Related subaccounts of the Class I Special Redemption Account, the Class II Special Redemption Account and the Class III Special Redemption Account as provided in the Related Series Indenture.

Prior to, but as close as practicable to, the latest date on which the Trustee would be permitted to give notice of a redemption to occur on a Payment Date from amounts deposited in the Redemption Fund, the Trustee shall calculate the amounts then on deposit in each subaccount of the Revenue Fund which would be transferred to the Related subaccounts of the Class I Debt Service Fund, the Class II Debt Service Fund, the Class III Debt Service Fund and the Class IV Debt Service Fund, and the Related subaccounts of the Redemption Fund, in accordance with the priorities and provisions of such subsection. Such amounts may be withdrawn from such subaccount of the Revenue Fund for application on or prior to the next succeeding Payment Date (A) upon receipt of an Authority Request, to the purchase in lieu of redemption of the Related Class I Bonds, Class II Bonds, Class III Bonds or Class IV Bonds, (B) to the payment of accrued interest on Bonds being purchased pursuant to or redeemed pursuant to the Indenture, or (C) to the redemption of Related Class I Bonds, Class II Bonds, Class III Bonds and Class IV Bonds on such Payment Date.

In the event Bonds are to be redeemed on a date other than a Payment Date, and to the extent moneys are not available in the Related subaccounts of the Class I Debt Service Fund, the Class II Debt Service Fund, the Class III Debt Service Fund or the Class IV Debt Service Fund to pay accrued interest on such redemption date for such Class I Bonds, Class II Bonds, Class III Bonds and Class IV Bonds, respectively, the Trustee shall apply or cause the Paying Agent to apply available moneys in the Related subaccount of the Revenue Fund for the payment of such interest.

### **Class I Debt Service Fund**

Amounts in each subaccount of the Class I Debt Service Fund shall be used and withdrawn by the Trustee solely for transfer to the Paying Agent (i) on each Payment Date for the purpose of paying the interest and Principal Installments on the Related Class I Bonds as the same shall become due and payable (including accrued interest on any Class I Bonds purchased or redeemed prior to maturity pursuant to the Indenture), (ii) on each Payment Date for the purpose of paying amounts due under Related Class I Auxiliary Obligations as the same shall become due and payable or (iii) on each purchase date for the purpose of paying the purchase price of Related Class I Bonds purchased in lieu of redemption by Related Class I Sinking Fund Installments.



Amounts remaining in each subaccount of the Class I Debt Service Fund after all the Related Class I Obligations have been paid or funds have been set aside and held in trust for such payment shall be transferred to the Related subaccount of the Revenue Fund.

### **Debt Service Reserve Fund**

Upon the issuance, sale and delivery of a Series of Bonds pursuant to the Indenture, the Trustee shall deposit in the Related subaccount of the Debt Service Reserve Fund and in the Related subaccount of the Interest Reserve Account therein such amounts, if any, as shall be required by the provisions of the Related Series Indenture, which aggregate amount, together with the available amount of any Qualified Surety Bond or Bonds in the Debt Service Reserve Fund, shall be at least sufficient to equal the Debt Service Reserve Fund Requirement relating to such Series of Bonds, calculated after giving effect to the issuance of such Bonds. Moneys on deposit in the Related subaccount of the Interest Reserve Account shall at all times be deemed to be a part of the Related subaccount of the Debt Service Reserve Fund. Additional moneys may be deposited in the Related subaccount of the Debt Service Reserve Fund in accordance with the provision relating to the allocation of moneys in the Revenue Fund described in "Revenue Fund" under this caption.

On or prior to each Payment Date, the Trustee shall calculate the amount of the Debt Service Reserve Fund Requirement for each Series of Bonds as of the next succeeding Payment Date and shall determine the amount, if any, which would then be in the Related subaccount of the Debt Service Reserve Fund (other than amounts attributable to accrued, but unrealized interest purchased on Investment Securities) is in excess of such Requirement, shall notify the Authority of such excess amount and shall, unless otherwise instructed by an Authority Request, transfer such excess amount from the Related subaccount of the Debt Service Reserve Fund, other than the Related subaccount of the Interest Reserve Account therein, to the Related subaccount of the Revenue Fund; provided, however, that if such excess is attributable to amounts invested in Qualified Mortgage Loan Backed Securities, such excess may, at the option of the Authority, be retained in the Debt Service Reserve Fund. The transfer of such amounts may result in the redemption of Bonds.

On the last Business Day prior to each Payment Date or more frequently if required by a Series Indenture, and in each case in conjunction with the transfers, deposits and payments to be made from the Revenue Fund, the Trustee shall transfer from each subaccount of the Debt Service Reserve Fund (including from the Interest Reserve Account as provided below) to the specified subaccounts of other Funds or Accounts the following amounts (from any cash, Investment Securities or Qualified Surety Bonds therein), in the following order of priority, the requirements of each such transfer to be satisfied, and the results of such satisfaction being taken into account, before any payment or transfer is made subsequent in priority:

(i) In the event that the amount transferred to any subaccount of the Class I Debt Service Fund is insufficient to pay the interest and Principal Installments, if any, and other amounts, if any, due on Related Class I Obligations on the next succeeding Payment Date, the Trustee shall transfer first from the Related subaccount of the Interest Reserve Account, and then if and to the extent necessary from the Related subaccount of the Debt Service Reserve Fund, to such subaccount of the Class I Debt Service Fund the amount of such insufficiency.

(ii) In the event that the amount transferred to any subaccount of the Class I Debt Service Fund is insufficient to pay the interest and Principal Installments, if any, and other amounts, if any, due on Related Class I Obligations on the next succeeding Payment Date, the Trustee shall transfer from Unrelated subaccounts in the Debt Service Reserve Fund on a proportionate basis or as otherwise directed by Authority Request, first from subaccounts of the

Interest Reserve Account, and then if and to the extent necessary from subaccounts of the Debt Service Reserve Fund, to such subaccount of the Class I Debt Service Fund the amount of such insufficiency.

(iii) In the event that the amount transferred to any subaccount of the Class II Debt Service Fund is insufficient to pay the interest and Principal Installments, if any, and other amounts, if any, due on Related Class II Obligations on the next succeeding Payment Date, the Trustee shall transfer first from the Related subaccount of the Interest Reserve Account, and then if and to the extent necessary from the Related subaccount of the Debt Service Reserve Fund, to such subaccount of the Class II Debt Service Fund the amount of such insufficiency.

(iv) In the event that the amount transferred to any subaccount of the Class II Debt Service Fund is insufficient to pay the interest and Principal Installments, if any, and other amounts, if any, due on Related Class II Obligations on the next succeeding Payment Date, the Trustee shall transfer from Unrelated subaccounts in the Debt Service Reserve Fund, on a proportionate basis or as otherwise directed by Authority Request, first from subaccounts of the Interest Reserve Account, and then if and to the extent necessary from subaccounts in the Debt Service Reserve Fund, to such subaccount of the Class II Debt Service Fund, the amount of such insufficiency.

(v) In the event that the amount transferred to any subaccount of the Class III Debt Service Fund is insufficient to pay the interest and Principal Installments, if any, and other amounts, if any, due on Related Class III Obligations on the next succeeding Payment Date, the Trustee shall transfer first from the Related subaccount of the Interest Reserve Account and then if and to the extent necessary from the Related subaccount of the Debt Service Reserve Fund to such subaccount of the Class III Debt Service Fund the amount of such insufficiency; provided, however, that no such transfer may result in (A) the amount on deposit in the Related subaccount of the Debt Service Reserve Fund being reduced to an amount less than any minimum deposit specified in the Related Series Indenture or (B) a failure to meet the Related Class II Asset Requirement.

(vi) In the event that the amount transferred to any subaccount of the Class III Debt Service Fund is insufficient to pay the interest and Principal Installments, if any, and other amounts, if any, due on Related Class III Obligations on the next succeeding Payment Date, the Trustee shall transfer from Unrelated subaccounts in the Debt Service Reserve Fund on a proportionate basis or as otherwise directed by Authority Request, first from subaccounts in the Interest Reserve Account, and then if and to the extent necessary from subaccounts in the Debt Service Reserve Fund, to such subaccount of the Class III Debt Service Fund the amount of such insufficiency; provided, however, that no such transfer may result in (A) the amount on deposit in a subaccount of the Debt Service Reserve Fund being reduced to an amount less than any minimum deposit specified in the Related Series Indenture or (B) a failure to meet the Related Class II Asset Requirement.

(vii) In the event that the amount transferred to any subaccount of the Class IV Debt Service Fund is insufficient to pay the interest and Principal Installments, if any, and other amounts, if any, due on Related Class IV Obligations on the next succeeding Payment Date, the Trustee shall transfer from first the Related subaccount of the Interest Reserve Account and then if and to the extent necessary the Related subaccount of the Debt Service Reserve Fund to such subaccount of the Class IV Debt Service Fund the amount of such insufficiency; provided, however, that no such transfer may result in (A) the amount on deposit in the Related subaccount of the Debt Service Reserve Fund being reduced to an amount less than any minimum deposit

specified in the Related Series Indenture or (B) a failure to meet the Related Class III Asset Requirement.

(viii) In the event that the amount transferred to any subaccount of the Class IV Debt Service Fund is insufficient to pay the interest and Principal Installments, if any, and other amounts, if any, due on Related Class IV Obligations on the next succeeding Payment Date, the Trustee shall transfer from Unrelated subaccounts in the Debt Service Reserve Fund on a proportionate basis or as otherwise directed by Authority Request, first from subaccounts in the Interest Reserve Account, and then if and to the extent necessary from subaccounts in the Debt Service Reserve Fund to such subaccount of the Class IV Debt Service Fund the amount of such insufficiency; provided, however, that no such transfer may result in (A) the amount on deposit in a subaccount of the Debt Service Reserve Fund being reduced to an amount less than any minimum deposit specified in the Related Series Indenture or (B) a failure to meet the Related Class III Asset Requirement.

### **Class II Debt Service Fund**

Amounts in each subaccount of the Class II Debt Service Fund shall be used and withdrawn by the Trustee for transfer to the Paying Agent (i) on each Payment Date for the purpose of paying first the interest and then Principal Installments on the Related Class II Bonds as the same become due and payable (including accrued interest on any such Class II Bonds redeemed or purchased prior to maturity pursuant to the Indenture), (ii) on each Payment Date for the purpose of paying amounts due under Related Class II Auxiliary Obligations as the same shall become due and payable or (iii) on each purchase date for the purpose of paying the purchase price of Related Class II Bonds purchased in lieu of redemption by Class II Sinking Fund Installments.

Amounts remaining in each subaccount of the Class II Debt Service Fund after all the Related Class II Obligations have been paid or funds have been set aside and held in trust for such payment shall be transferred to the Related subaccount of the Revenue Fund.

### **Class III Debt Service Fund**

Amounts in each subaccount of the Class III Debt Service Fund shall be used and withdrawn by the Trustee for transfer to the Paying Agent (i) on each Payment Date for the purpose of paying first the interest and then Principal Installments on the Related Class III Bonds as the same become due and payable (including accrued interest on any such Class III Bonds redeemed or purchased prior to maturity pursuant to the Indenture), (ii) on each Payment Date for the purpose of paying amounts due under Related Class III Auxiliary Obligations as the same shall become due and payable or (iii) on each purchase date for the purpose of paying the purchase price of Related Class III Bonds purchased in lieu of redemption by Class III Sinking Fund Installments.

Amounts remaining in each subaccount of the Class III Debt Service Fund after all the Related Class III Obligations have been paid or funds have been set aside and held in trust for such payment shall be transferred to the Related subaccount of the Revenue Fund.

### **Class IV Debt Service Fund**

Amounts in each subaccount of the Class IV Debt Service Fund shall be used and withdrawn by the Trustee for transfer to the Paying Agent (i) on each Payment Date for the purpose of paying first the interest and then Principal Installments on the Related Class IV Bonds as the same become due and payable (including accrued interest on any such Class IV Bonds redeemed or purchased prior to maturity

pursuant to the Indenture), (ii) on each Payment Date for the purpose of paying amounts due under Related Class IV Auxiliary Obligations as the same shall become due and payable or (iii) on each purchase date for the purpose of paying the purchase price of Related Class IV Bonds purchased in lieu of redemption by Class IV Sinking Fund Installments.

Amounts remaining in each subaccount of the Class IV Debt Service Fund after all the Related Class IV Obligations have been paid or funds have been set aside and held in trust for such payment shall be transferred to the Related subaccount of the Revenue Fund.

### **Rebate Fund**

To the extent required by the Master Indenture, all amounts on deposit in the Related subaccounts of the Funds and Accounts with respect to Tax-exempt Bonds and all amounts pledged to Debt Service Payments on the Related Series of Tax-exempt Bonds pursuant to the Indenture, (i) shall be invested in compliance with the procedures established by the Related Series Indentures and Authority Certificates delivered in connection therewith, and (ii) to the extent required by such Authority Certificates, the investment earnings thereon shall be deposited from time to time into the Related subaccount of the Rebate Fund for timely payment of the Related Rebate Requirement. Amounts on deposit in the Rebate Fund shall not be subject to the lien and pledge of the Indenture to the extent such amounts constitute the Rebate Requirement. The Authority shall verify or cause to be verified at least annually from the date of delivery of each Series of Tax-exempt Bonds that (i) all of the requirements of this section have been met on a continuing basis, (ii) the proper amounts are deposited into each subaccount of the Rebate Fund, and (iii) the timely payment of the Rebate Requirement from each subaccount of the Rebate Fund has been made. Upon receipt of an opinion of Bond Counsel that the balance in any subaccount of the Rebate Fund is in excess of the amount required to be included therein, such excess shall be transferred to the Revenue Fund.

### **Excess Earnings Fund**

All amounts in a subaccount of the Excess Earnings Fund, including all investment earnings thereon, shall remain therein until transferred or paid by the Trustee to such other Fund or the United States Department of the Treasury or for such other purpose, as the Authority shall specify, upon receipt by the Trustee of (a) an Authority Request directing the Trustee to so transfer or pay a specified amount, and (b) a written opinion of Bond Counsel to the effect that any such transfer or payment, upon satisfaction of any conditions set forth in such opinion, would not cause interest on such Bonds to be includable in the gross income of the Owners thereof for federal income tax purposes. Upon receipt of an opinion of Bond Counsel that the balance in a subaccount of the Excess Earnings Fund is in excess of the amount required to be included therein, such excess shall be transferred to the Revenue Fund.

Moneys in a subaccount of the Excess Earnings Fund may be used to purchase Mortgage Loans in the Related subaccount of the Acquisition Account or the Loan Recycling Account, at a purchase price equal to the unpaid balances of the principal amounts of such Mortgage Loans plus accrued interest, if any, thereon, and any unamortized premium, and any such Mortgage Loans so purchased shall be credited to such subaccount of the Excess Earnings Fund. Mortgage Loans in a subaccount of the Excess Earnings Fund may be exchanged for Mortgage Loans in the Related subaccount of the Acquisition Account or the Loan Recycling Account having an aggregate principal balance not less than the aggregate principal balance of such Mortgage Loans in such subaccount of the Excess Earnings Fund, upon receipt by the Trustee of an Authority Request specifying the Mortgage Loans to be so exchanged.

If, on the final maturity of all of a Series, there is a balance in a subaccount of the Excess Earnings Fund which is allocated to payments related to such Series, and the Trustee has not received

directions meeting the requirements described above for the disposition of such balance, the Trustee shall obtain an opinion of Bond Counsel as to the purposes, if any, to which such balance may be applied without adversely affecting the federal income tax status of interest on such Bonds, and shall thereafter dispose of such balance in accordance with such opinion.

### **Application of Authority Payment Accounts**

If, following transfers made from the Revenue Fund and the Debt Service Reserve Fund, there are not sufficient moneys, or any moneys allocated, to pay all interest or any other required payment due and payable on any General Obligation or to pay any Principal Installment on any General Obligation, the Trustee shall immediately notify the Authority in writing of the amount of such insufficiency and shall request from the Authority an immediate deposit of legally available funds equal to such insufficiency. The Authority shall pay to the Trustee (from the Authority's other general revenues or moneys legally available therefor, subject only to agreements made or to be made with holders of notes, bonds or other obligations pledging particular revenues or moneys for the payment thereof) for deposit in the Related subaccounts of the Authority Payment Account the amount of such insufficiency. If the amount provided by the Authority is less than the amount of such insufficiency, any shortfall shall be allocated pro rata among the holders of the Related General Obligations in proportion to the amounts then due and payable on such Bonds.

Amounts deposited with the Trustee by the Authority as described above shall be deposited into the respective subaccounts of the Authority Payment Accounts for the General Obligations for which such amounts are provided. Amounts in such subaccounts shall only be used to pay interest or Principal Installments or other amounts due and payable on the Related General Obligations and may not be transferred to any Debt Service Fund for Bonds or Auxiliary Obligations which are not General Obligations or to any other Fund or Account for any reason.

### **Redemption Fund**

Moneys deposited in the subaccounts of the Redemption Fund shall be applied by the Trustee to the purchase or applied by the Paying Agent (if directed by the Trustee) to the redemption of Bonds in accordance with the provisions of the Master Indenture and each Related Series Indenture.

Except as set forth in the Master Indenture or in the Related Series Indenture, moneys deposited in a subaccount of the Class I Special Redemption Account pursuant to the Master Indenture or pursuant to the Related Series Indenture, shall be applied to the extent practicable by the Paying Agent on the earliest practicable date to redeem Related Class I Bonds. Any amounts remaining in such Class I Special Redemption Account after all Class I Bonds of the Related Series have been paid shall be transferred to the Related subaccount of the Revenue Fund.

Except as set forth in the Master Indenture or in the Related Series Indenture, moneys deposited in a subaccount of the Class II Special Redemption Account pursuant to the Master Indenture or pursuant to the Related Series Indenture shall be applied to the extent practicable by the Paying Agent on the earliest practicable date to redeem Related Class II Bonds. Any amounts remaining in such Class II Special Redemption Account after all Class II Bonds of the Related Series have been paid shall be transferred to the Related subaccount of the Revenue Fund.

Except as set forth in the Master Indenture or in the Related Series Indenture, moneys deposited in a subaccount of the Class III Special Redemption Account pursuant to the Master Indenture or pursuant to the Related Series Indenture shall be applied to the extent practicable by the Paying Agent on the earliest practicable date to redeem Related Class III Bonds. Any amounts remaining in such Class III

Special Redemption Account after all Class III Bonds of the Related Series have been paid shall be transferred to the Revenue Fund.

Except as set forth in the Master Indenture or in the Related Series Indenture, moneys deposited in a subaccount of the Class IV Special Redemption Account pursuant to the Master Indenture or pursuant to the Related Series Indenture shall be applied to the extent practicable by the Paying Agent on the earliest practicable date to redeem Related Class IV Bonds. Any amounts remaining in such Class IV Special Redemption Account after all Class IV Bonds of the Related Series have been paid shall be transferred to the Revenue Fund.

Notwithstanding anything contained in the Master Indenture to the contrary, the Authority may by the delivery of an Authority Request to the Trustee at any time prior to the mailing of notices of redemption, instruct the Trustee to transfer moneys on deposit in a subaccount of an Account in the Redemption Fund to another subaccount of the same Account in the Redemption Fund to be applied to the redemption of the same Class of Bonds of a different Series. Each such Authority Request (i) shall certify that it is consistent with the most recently filed Related Cash Flow Statement (which may, if necessary, link the Related Series) and not prohibited by the Related Series Indentures and (ii) shall be accompanied by evidence of the satisfaction of all Asset Requirements for the Related Series.

In addition, notwithstanding anything contained in the Master Indenture to the contrary, the Authority may by the delivery of an Authority Request to the Trustee at any time prior to the giving of notice of redemption, instruct the Trustee to transfer moneys on deposit in a subaccount of an Account in the Redemption Fund to a Related or an Unrelated subaccount of the Acquisition Account to be applied to make or purchase Mortgage Loans. Each such Authority Request (i) shall certify that it is consistent with the most recently filed Related Cash Flow Statement and not prohibited by the Related Series Indenture and (ii) shall be accompanied by evidence of the satisfaction of all Asset Requirements for the Related Series.

#### **Investment of Moneys Held by the Trustee; Limitation on Investment Yields**

Moneys in all Funds and Accounts held by the Trustee shall be invested to the fullest extent possible in Investment Securities, in accordance with directions given to the Trustee in an Authority Request or Certificate; provided that the maturity date or the date on which such Investment Securities may be redeemed at the option of the holder thereof shall coincide as nearly as practicable with (but in no event later than) the date or dates on which moneys in the Funds or Accounts for which the investments were made will be required for the purposes of the Indenture.

Amounts credited to any Fund or Account may be invested, together with amounts credited to one or more other Funds or Accounts, in the same Investment Security or Investment Securities, provided that each such investment complies in all respects with the provisions of the Master Indenture as they apply to each Fund or Account for which the joint investment is made, the Trustee maintains separate records for each Fund and Account and such investments are accurately reflected therein and amounts credited to the Rebate Fund and the Excess Earnings Fund may be invested together with amounts credited to any other Fund or Account. The maturity date or the date on which Investment Securities may be redeemed at the option of holder thereof shall coincide as nearly as practicable with (but in no event shall be later than) the date or dates on which moneys in the Funds or Accounts for which the investments were made will be required for the purposes provided in the Indenture.

Except as otherwise specifically provided for in the Indenture, the income or interest earned by, or gain to, all Funds and Accounts due to the investment thereof shall be transferred by the Trustee upon receipt thereof to the Related subaccount of the Revenue Fund, in accordance with the Indenture, except

that no such transfer shall be made from, and such income, interest or gain (as described above) shall be retained in, the Debt Service Reserve Fund, unless after giving effect to the transfer the amount therein at least equals the aggregate Debt Service Reserve Fund Requirement.

### **Program Covenants; Enforcement of Mortgage Loans and Servicing Agreements**

The Authority covenants in the Indenture that:

(a) It shall use and apply the proceeds of the Bonds and other moneys deposited in the Acquisition Account and any moneys deposited in the Loan Recycling Account for the purposes provided in the Indenture, and consistent with sound banking practices and principles shall do all such acts and things necessary to receive and collect Revenues and shall diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Authority for the enforcement of all terms, covenants and conditions of Mortgage Loans.

(b) It shall file with the Trustee with each direction to purchase Mortgage Loans, a schedule of Mortgage Loans to be made or purchased by the Trustee identifying the same by reference to the Authority loan number, the party (if applicable) from whom the Mortgage Loan will be purchased, the name of the Borrower, the principal amount due on the Mortgage Loan and the date through which the interest has been paid by the Borrower, the interest rate on the Mortgage Loan and the term of the Mortgage Loan.

(c) It shall maintain an account for each Mortgage Lender having entered into a Mortgage Purchase Agreement with the Authority and shall record therein a description of each Mortgage Loan purchased from such Mortgage Lender.

(d) It shall enforce diligently and take or cause to be taken all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of all Mortgage Loans consistent with sound lending practices and principles and applicable requirements under the Code, including the prompt payment of all Mortgage Repayments and all other amounts due the Authority thereunder. The Authority shall not without good cause release the obligations of any Borrower under any Mortgage Loan, or of the Servicer under the Servicing Agreement and shall not consent or agree to or permit any amendment or modification of the economic terms of any Mortgage Loan except with respect to a Mortgage Loan in default (or which, with the giving of notice or the passage of time or both, would be in default), and to the extent permitted by law, at all times shall defend, enforce, preserve and protect the rights and privileges of the Authority, the Trustee and the Bondowners under or with respect to all Mortgage Loans, the obligations evidencing such Mortgage Loans and the agreements securing such Mortgage Loans and the Servicing Agreement relating thereto; provided, however, that nothing in this subparagraph (d) or in subparagraph (e) or (f) below shall be construed to prevent the Authority from (i) settling a default on any Mortgage Loan on such terms as the Authority shall determine to be in the best interests of the Authority and the Bondowners; (ii) releasing any Borrower, Servicer or any other Person from, or waiving, any of such Person's obligations under the respective Mortgage Loan, any agreement with respect to security therefor or Servicing Agreement to the extent necessary to comply with the provisions of the Master Indenture or to the extent required by the governmental or private insurer or guarantor, if any, of such Mortgage Loan; or (iii) releasing any mortgagor in connection with an assumption of a Mortgage Loan as permitted in accordance with the requirements of any governmental or private insurer or guarantor.

(e) Whenever it shall be necessary in order to protect and enforce the rights of the Authority under a Mortgage Loan and to protect and enforce the rights and interests of the Trustee and Bondowners under the Indenture, the Authority shall take necessary actions to realize on any applicable mortgage insurance on such Mortgage Loan and to collect, sell or otherwise dispose of the property secured by the Mortgage and, if the Authority deems such to be advisable, shall bid for and purchase the property secured by the Mortgage at any sale thereof and take possession of such property. As an alternative to foreclosure proceedings, the Authority may take such other action as may be appropriate to acquire and take possession of the mortgaged property, including, without limitation, acceptance of a conveyance in lieu of foreclosure.

(f) It shall request payment of governmental insurance or guaranty benefits in cash and not in debentures of such governmental insurer or guarantor in any case where, under government regulations, it is permitted to request such debentures as payment with respect to a defaulted Loan, provided that the Authority may request payment in debentures if it files with the Trustee a Cash Flow Statement. The Authority shall take all necessary actions so as to receive payment from any governmental insurer or guarantor of the maximum amount of insurance or guaranty benefits on the earliest possible date.

### **Assignment or Disposition of Mortgage Loans; Amendment of Mortgage Loan**

Following the acquisition of a Mortgage Loan by the Trustee, the Authority shall not sell, assign, transfer, pledge or otherwise dispose of or encumber any Mortgage Loan or any of the rights of the Authority with respect to any Mortgage Loan or arising out of the Mortgage or the other obligations evidencing or securing any Mortgage Loan except a Mortgage Loan in default, unless the Authority determines that such sale, assignment, transfer or other disposition would not have a material adverse effect on the ability of the Authority to pay the principal of and interest on the Outstanding Bonds. No Bonds shall be redeemed from the proceeds of the sale of Mortgage Loans, other than Mortgage Loans in default, except in accordance with the optional redemption provisions with respect to such Bonds.

The Authority shall not consent or agree to or permit any amendment or modification of the financial terms of any Mortgage Loan in any manner which would have a material adverse effect on the ability of the Authority to pay the principal of and interest on the Outstanding Bonds.

### **Tax Covenants**

The Authority covenants for the benefit of the Owners of each Series of Bonds the interest on which is intended to be excluded from the gross income of the Owners thereof for federal income tax purposes that it will not take any action or omit to take any action with respect to such Bonds, the proceeds thereof, or any other funds of the Authority if such action or omission would cause the interest on such Bonds to lose its exclusion from gross income for federal income tax purposes under Section 103 of the Code, would subject the Authority to any penalties under Section 148 of the Code, or would cause such Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code. The foregoing covenants shall remain in full force and effect notwithstanding the payment in full or defeasance of such Bonds until the date all obligations of the Authority in fulfilling the above covenant under the Code have been met. The Authority shall execute and deliver from time to time such certificates, instruments and documents as shall be deemed necessary or advisable to evidence compliance by the Authority with said Sections and the regulations thereunder with respect to the use of the proceeds of such Bonds and any other funds of the Authority. Such certificates, instruments and documents may contain stipulations as shall be necessary or advisable in connection with the stated purpose of this section and the foregoing provisions hereof, and the Authority and the Trustee hereby covenant and agree to comply with the provisions of any such stipulation throughout the term of such Bonds.



## **Creation of Liens**

The Authority covenants that it shall not issue any bonds or other evidences of indebtedness, other than the Bonds and Auxiliary Obligations, secured by a pledge of the Revenues or of the moneys, securities, rights and interests pledged or held or set aside by the Authority or by any Fiduciary under the Indenture and shall not create or cause to be created, other than by the Indenture, any lien or charge on the Revenues or such moneys, securities, rights or interests; provided, however, that nothing in the Indenture shall prevent the Authority from issuing (i) evidences of indebtedness secured by a pledge of Revenues to be derived after the pledge of the Revenues provided in the Indenture shall be discharged and satisfied as provided in the Master Indenture; or (ii) notes or bonds or other obligations of the Authority not secured under the Indenture; or (iii) notes, bonds or other obligations which are general obligations of the Authority under the Act.

## **Events of Default**

Each of the following constitutes an "Event of Default" under the Indenture:

(a) The Authority shall fail to pay any Principal Installment of any Class I Bond when and as the same shall become due and payable, whether at maturity or by call for redemption or otherwise;

(b) The Authority shall fail to pay any installment of interest on any Class I Bond or fail to pay any Class I Auxiliary Obligation when and as the same shall become due and payable, and such failure shall continue for a period of 5 days;

(c) The Authority shall fail to pay any Principal Installment or interest on any Class II Bond or fail to pay any Class II Auxiliary Obligation when and as the same shall become due and payable, provided that sufficient moneys for such payment are available in the Class II Debt Service Fund;

(d) The Authority shall fail to pay any Principal Installment or interest on any Class III Bond or fail to pay any Class III Auxiliary Obligation when and as the same shall become due and payable, provided that sufficient moneys for such payment are available in the Class III Debt Service Fund;

(e) The Authority shall fail to pay any Principal Installment or interest on any Class IV Bond or fail to pay any Class IV Auxiliary Obligation when and as the same shall become due and payable, provided that sufficient moneys for such payment are available in the Class IV Debt Service Fund;

(f) The Authority shall fail to perform or observe any other covenant, agreement or condition on its part contained in the Indenture (except the requirement that a Cash Flow Statement satisfy the requirements of clause (b) of the definition thereof and the requirement that the Authority pay amounts to the Trustee from its other revenues, moneys or assets in connection with General Obligations), or in the Bonds and such failure shall continue for a period of 60 days after written notice thereof to the Authority by the Trustee or to the Authority and to the Trustee by the Owners of not less than 10% in Aggregate Principal Amount of the Bonds Outstanding; or

(g) The Authority shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State.

## **Remedies**

Upon the occurrence of an Event of Default, the Trustee may, and upon the written request of the Owners of not less than 25% in Aggregate Principal Amount of Outstanding Bonds following an Event of Default shall, give 30 days notice in writing to the Authority of its intention to declare the Aggregate Principal Amount of all Bonds Outstanding immediately due and payable. At the end of such 30-day period the Trustee may, and upon such written request of Owners of a majority (except as provided in the following paragraph) in Aggregate Principal Amount of Outstanding Bonds shall, by notice in writing to the Authority, declare the Aggregate Principal Amount of all Bonds Outstanding immediately due and payable; and the Aggregate Principal Amount of such Bonds shall become and be immediately due and payable, anything in the Bonds or in the Indenture to the contrary notwithstanding. In such event, there shall be due and payable on the Bonds an amount equal to the total principal amount of all such Bonds, plus all interest which will accrue thereon to the date of payment.

Notwithstanding the preceding paragraph, following an Event of Default described in paragraph (f) or (g) in "Events of Default" under this caption (except for a failure which could adversely affect the exclusion from gross income for federal income tax purposes of interest on any Tax-exempt Bonds), the Trustee shall not declare the Aggregate Principal Amount of all Bonds Outstanding immediately due and payable unless the Trustee is so directed by the written request of Owners of 100% in Aggregate Principal Amount of Outstanding Bonds.

At any time after the Aggregate Principal Amount of the Bonds shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Indenture, the Trustee may (and, at the direction of the Owners of a majority in Aggregate Principal Amount of the Outstanding Bonds, shall) annul such declaration and its consequences with respect to any Bonds not then due by their terms if (i) moneys shall have been deposited in the Revenue Fund sufficient to pay all matured installments of interest and principal or Redemption Price (other than principal then due only because of such declaration) of all Outstanding Bonds; (ii) moneys shall have been deposited with the Trustee sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee; (iii) all other amounts then payable under the Indenture as described in "Events of Default" under this caption, including amounts due pursuant to Auxiliary Agreements, shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every Event of Default known to the Trustee (other than a default in the payment of the principal of such Bonds then due only because of such declaration) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

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% in Aggregate Principal Amount of the Bonds Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Bondowners under the Act, the Bonds and the Indenture by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient.

Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Owners of not less than 25% in Aggregate Principal Amount of the Bonds then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Indenture by any acts which may be unlawful or in violation of the Indenture; or (ii) to preserve or protect the interests of the Bondowners and Auxiliary Agreement Providers, provided that such request is in

accordance with law and the provisions of the Indenture and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Owners of Bonds not making such request or the interests of Auxiliary Agreement Providers.

During the continuance of an Event of Default, the Trustee shall apply, or cause the Paying Agent to apply, all moneys and securities held in any Fund or Account (except the Rebate Fund, the Excess Earnings Fund, the Bond Purchase Fund, the Short Term Bond Account and, with respect to any Bonds or Auxiliary Obligations that are not General Obligations, any Authority Payment Account) (moneys and securities in the Short Term Bond Account and any Authority Payment Account are to be applied only to the payment of interest and Principal Installments on Bonds and payments on Auxiliary Obligations with respect to which such moneys and securities have been pledged), Revenues, payments and receipts and the income therefrom as follows and in the following order:

- (i) To the payment of the reasonable and proper Fiduciary Expenses;
- (ii) To the payment of the interest, Principal Installments and other amounts then due and payable on the Class I Obligations, subject to the provisions of the Master Indenture; as follows:

(A) Unless the Aggregate Principal Amount of all of the Class I Bonds shall have become or have been declared due and payable.

First: To the payment to the persons entitled thereto of all installments of interest then due and payable on the Class I Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid Principal Installments of any Class I Obligations and any other required payment on the Class I Obligations which shall have become due and payable, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the Class I Obligations due and payable on any date, then to the payment thereof ratably, according to the amounts of Principal Installments due on such date, to the persons entitled thereto, without any discrimination or preference.

(B) If the Aggregate Principal Amount of all of the Class I Obligations shall have become or have been declared due and payable, to the payment of the principal, interest and other amounts then due and unpaid upon the Class I Obligations without preference or priority of principal over interest or other amounts or of interest over principal or other amounts, or of other amounts over principal or interest or of any installment of interest over any other installment of interest, or of any Class I Obligation over any other Class I Obligation, ratably, according to the amounts due respectively for principal and interest and other amounts, to the persons entitled thereto without any discrimination or preference.

- (iii) To the payment of the Principal Installments of and interest and other amounts then due on the Class II Obligations in accordance with the provisions of paragraph (ii) above as if such paragraph referred to the Class II Obligations rather than the Class I Obligations.

(iv) To the payment of the Principal Installments of and interest and other amounts then due on the Class III Obligations in accordance with the provisions of paragraph (ii) above as if such paragraph referred to the Class III Obligations rather than the Class I Obligations.

(v) To the payment of the Principal Installments of and interest and other amounts then due on the Class IV Obligations in accordance with the provisions of paragraph (ii) above as if such paragraph referred to the Class IV Obligations rather than the Class I Obligations.

(vi) To the payment of the amounts required for reasonable and necessary Program Expenses.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Bondowners is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute (including the Act) on or after the date of adoption of the Indenture.

### **Majority Bondowners Control Proceedings**

If an Event of Default shall have occurred and be continuing, notwithstanding anything in the Indenture to the contrary, the Owners of at least a majority in Aggregate Principal Amount of Bonds then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Indenture or for the appointment of a receiver or to take any other proceedings under the Indenture, provided that such direction is in accordance with law and the provisions (in particular, those relating to the priority of the Class I Obligations over Class II, III and IV Obligations, Class II Obligations over Class III and IV Obligations and Class III Obligations over Class IV Obligations) of the Indenture (including indemnity to the Trustee as provided in the Master Indenture) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of Bondowners not joining in such direction and provided further that nothing shall impair the right of the Trustee in its discretion to take any other action under the Indenture which it may deem proper and which is not inconsistent with such direction by Bondowners.

### **General Obligation Bond Default**

If the Authority shall fail to pay interest on any General Obligation Bond when due or shall fail to pay any Principal Installment on any General Obligation Bond when due, provided that such failure shall not constitute an Event of Default under the Master Indenture, such failure is declared a "General Obligation Bond Default" under the Indenture. A General Obligation Bond Default shall not constitute an Event of Default under the Indenture and shall not affect the priority of the lien on and pledge granted to Owners of Bonds or Auxiliary Agreement Providers under the Indenture.

Upon the occurrence of a General Obligation Bond Default, the Trustee may and, upon the written request of the Owners of not less than 25% in Aggregate Principal Amount of Outstanding General Obligation Bonds shall, give 30 days notice in writing to the Authority of its intention to declare the Aggregate Principal Amount of all General Obligation Bonds Outstanding immediately due and payable. At the end of such 30-day period the Trustee may, and upon such written request of Owners of a majority in Aggregate Principal Amount of Outstanding General Obligation Bonds shall, by notice in writing to the Authority, declare the Aggregate Principal Amount of all General Obligation Bonds Outstanding immediately due and payable; and the Aggregate Principal Amount of such General Obligation Bonds shall become and be immediately due and payable. In such event, there shall be due

and payable on the General Obligation Bonds an amount equal to the total principal amount of all such Bonds, plus all interest which will accrue thereon to the date of payment.

At any time after the Aggregate Principal Amount of the General Obligation Bonds shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Indenture, the Trustee may (and, at the direction of the Owners of a majority in Aggregate Principal Amount of the Outstanding General Obligation Bonds, shall) annul such declaration and its consequences with respect to any General Obligation Bonds not then due by their terms if (i) moneys shall have been deposited in the Related Authority Payment Account sufficient to pay all matured installments of interest and principal or Redemption Price (other than principal then due only because of such declaration) of all Outstanding General Obligation Bonds; and (ii) moneys shall have been deposited with the Trustee sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee. No such annulment shall extend to or affect any subsequent General Obligation Bond Default or impair any right consequent thereon.

Upon the occurrence and continuance of a General Obligation Bond Default, the Trustee may, and upon the written request of the Owners of not less than 25% in Aggregate Principal Amount of the General Obligation Bonds Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce the rights of the General Obligation Bondowners under the Act, the General Obligation Bonds and the Indenture by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient and consistent with the limitations specified below, including but not limited to:

- (i) Suit upon all or any part of the General Obligation Bonds;
- (ii) Civil action to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of General Obligation Bonds; and
- (iii) Enforcement of any other right of the General Obligation Bondowners conferred by law or by the Indenture.

Regardless of the happening of a General Obligation Bond Default, the Trustee, if requested in writing by the Owners of not less than 25% in Aggregate Principal Amount of the General Obligation Bonds then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Indenture by any acts which may be unlawful or in violation of the Indenture; or (ii) to preserve or protect the interests of the Holders of the General Obligation Bonds, provided that such request is in accordance with law and the provisions of the Indenture and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Owners of General Obligation Bonds not making such request.

The rights and remedies of Owners of General Obligation Bonds upon the occurrence of a General Obligation Bond Default shall be limited to the enforcement of the Authority's general obligation covenant with respect thereto and to the disbursement of amounts available to Owners of General Obligation Bonds from time to time in the Related Debt Service Fund, the Related Special Redemption Account and the Related Debt Service Reserve Fund after provision is made for, and after taking into account the rights of, Owners of Bonds other than General Obligation Bonds and the rights of Auxiliary Agreement Providers as provided in the Indenture. The exercise of remedies upon the occurrence of a General Obligation Bond Default shall not in any manner affect, disturb or prejudice the security and rights of such Owners of Bonds or Auxiliary Agreement Providers under the Indenture.

If the Authority shall fail to pay any amount on any Auxiliary Obligation which constitutes a General Obligation when due, provided that such failure shall not also constitute an Event of Default under the Master Indenture, such failure shall not constitute an Event of Default under the Indenture and shall not affect the priority of the lien and pledge on the Trust Estate granted to Owners of Bonds or Auxiliary Agreement Providers under the Indenture. The rights and remedies of Auxiliary Agreement Providers having Auxiliary Obligations which constitute General Obligations shall be governed by the Related Auxiliary Agreement; however, such rights and remedies shall be limited to the enforcement of the Authority's general obligation covenant with respect thereto and to the disbursement of amounts available with respect to Related Auxiliary Obligations from time to time in the Related Debt Service Fund, the Related Special Redemption Account and the Related Debt Service Reserve Fund based on the lien priority of such Auxiliary Obligation after provision is made for, and after taking into account the rights of, Owners of Bonds or Auxiliary Agreement Providers having a prior lien on the Trust Estate as provided in the Indenture and such exercise of remedies upon shall not in any manner affect, disturb or prejudice the security and rights of such Owners of Bonds or such Auxiliary Agreement Providers under the Indenture.

### **Modification of Indenture and Outstanding Bonds**

The Indenture provides procedures whereby the Authority may amend the Indenture by execution and delivery of a Supplemental Indenture. Amendments that may be made without consent of Bondowners or the Trustee must be for only the following purposes: (a) to add to the covenants and agreements of the Authority in the Indenture, other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect; (b) to add to the limitations and restrictions in the Indenture, other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Indenture as theretofore in effect; (c) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by the Indenture of the Revenues or of any other moneys, securities or funds; (d) to modify any provisions of the Indenture in any respect whatever, provided that the modification, in the sole judgment of the Authority, is reasonably necessary to assure that the interest on Tax-exempt Bonds remains excludable from the gross income of the owners thereof for federal income tax purposes; or (e) to provide for the issuance of Bonds pursuant to the Indenture and to provide for the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed.

With the consent of the Trustee, a Supplemental Indenture may be executed and delivered by the Authority: (a) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Indenture, or to insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable, provided such action shall not adversely affect the interest of the Owners under the Indenture and are not contrary to or inconsistent with the Indenture theretofore in effect; (b) to grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee; (c) to add to the covenants and agreements of the Authority in the Indenture other covenants and agreements thereafter to be observed by the Authority; (d) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Indenture, provided that the loss of such right, power or privilege shall not adversely impact the Revenues available to pay the Outstanding Bonds; (e) to include as pledged revenues or money under, and subject to the provisions of, the Indenture any additional revenues or money legally available therefor; (f) to provide for additional duties of the Trustee in connection with the Mortgage Loans; (g) to modify any of the provisions of the Indenture in any respect whatever; provided, however, that (1) such modification shall be, and be expressed to be, effective only after all Bonds of any Series Outstanding at the date of the execution by the Authority of such Supplemental Indenture shall cease to be Outstanding, and (2) such Supplemental Indenture shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of

the execution by the Authority of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof; (h) to modify, eliminate and/or add to the provisions of the Indenture to such extent as shall be necessary to effect the qualification of the Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter enacted, and to add to the Indenture such other provisions as may be expressly permitted by said Trust Indenture Act of 1939; (i) to make any change as shall be necessary in order to maintain the rating(s) on any of the Bonds from any Rating Agency; or (j) to make any other amendment or change that will not materially adversely affect the interest of Owners of Outstanding Bonds.

Any modification or amendment of the Indenture and of the rights and obligations of the Authority and of the Bondowners, in any particular, may be made by a Supplemental Indenture, with the written consent given as provided in the Master Indenture of the Owners of at least a majority in Aggregate Principal Amount of the Bonds Outstanding at the time such consent is given. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owners of all such Bonds, or shall reduce the percentages of Bonds the consent of the Owners of which is required to effect any such modification or amendment without the consent of the Owners of all Bonds then Outstanding or shall change the provisions of the Indenture relating to the ability to declare the Aggregate Principal Amount of Bonds to be due and payable without the consent of the Owners of all Bonds then Outstanding or shall materially adversely affect the rights of the Owners of Class II Bonds without the consent of the Owners of a majority in Aggregate Principal Amount of Class II Bonds Outstanding, or shall materially adversely affect the rights of the Owners of Class III Bonds without the consent of the Owners of a majority in Aggregate Principal Amount of Class III Bonds then Outstanding, or shall materially adversely affect the rights of the Owners of Class IV Bonds without the consent of the Owners of a majority in Aggregate Principal Amount of Class IV Bonds then Outstanding; or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. If any such modification or amendment will, by its terms not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. The Trustee, relying upon a Counsel's Opinion, may determine whether or not in accordance with the foregoing powers of amendment Bonds of any particular maturity would be affected by any modification or amendment of the Indenture, and any such determination shall be binding and conclusive on the Authority and the Bondowners.

### **Defeasance**

If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Bondowners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture and if the Authority shall pay or cause to be paid to all Auxiliary Agreement Providers all amounts due and payable under all Auxiliary Agreements, then the pledge of any Revenues, and other moneys and securities pledged under the Indenture and all covenants, agreements and other obligations of the Authority to the Bondowners, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be requested by the Authority to be prepared and filed with the Authority and, upon the request of the Authority, shall execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to or upon the order of the Authority all moneys or securities held by them pursuant to the Indenture that are not required for the payment of principal, or Redemption Price, if applicable, of or interest on Bonds not theretofore surrendered to them for such payment or redemption. If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular Series, the principal or Redemption Price, if applicable, and interest

due or to become due thereon, such Bonds shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of the Authority to the Owners of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee or the Paying Agent (through deposit by the Authority of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the Master Indenture. Outstanding Bonds shall be deemed, prior to the maturity or redemption date thereof, to have been paid within the meaning and with the effect expressed in the Master Indenture if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Bond Registrar in form satisfactory to it irrevocable instructions to transmit a notice of redemption of such Bonds on said date; (ii) there shall have been deposited with the Trustee either moneys in an amount sufficient, or Defeasance Securities the principal of and the interest on which when due (whether at maturity or the prior redemption thereof at the option of the holder thereof) will provide moneys in an amount that, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price of and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given to the Bond Registrar in form satisfactory to it irrevocable instructions to transmit, as soon as practicable, a notice to the Bondowners of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price of and interest on said Bonds, and (iv) except in the event of a full cash defeasance or a current refunding of less than ninety days to maturity or redemption date, the sufficiency of such moneys or Defeasance Securities shall have been confirmed to the Authority in an opinion signed by a certified public accountant or firm of such accountants duly licensed to practice and practicing as such under the laws of the State, selected by the Authority.



## APPENDIX B-1

### The Outstanding Bonds and Auxiliary Obligations

#### The Outstanding Bonds

As of November 1, 2005, the Authority had issued the following Series of Bonds under the Master Indenture in the Classes as indicated:

<u>Title of Bonds</u>	<u>Principal Amount Issued</u>	<u>Outstanding Principal Amount (November 1, 2005)</u>
<b>2001 Series AA:</b>		
2001 Series AA-1 (Class I)	\$50,000,000	\$50,000,000
2001 Series AA-2 (Class I)	46,840,000	46,840,000
2001 Series AA-3 (Class I)	25,000,000	25,000,000
2001 Series AA-4 (Class II)	10,000,000	10,000,000
<b>2002 Series A:</b>		
2002 Series A-1 (Class I)	\$41,000,000	\$30,980,000
2002 Series A-2 (Class I)	12,990,000	5,115,000
2002 Series A-3 (Class I)	23,075,000	20,645,000
2002 Series A-4 (Class I)	4,545,000	4,545,000
2002 Series A-5 (Class II)	12,455,000	12,455,000
<b>2002 Series B:</b>		
2002 Series B-1 (Class I)	\$15,000,000	\$13,825,000
2002 Series B-2 (Class I)	60,000,000	47,660,000
2002 Series B-3 (Class I)	40,000,000	40,000,000
2002 Series B-4 (Class II)	5,000,000	5,000,000
2002 Series B-5 (Class III)	15,000,000	9,810,000
2002 Series B-6 (Class I)	44,340,000	--
<b>2002 Series C:</b>		
2002 Series C-1 (Class I)	\$30,000,000	\$29,770,000
2002 Series C-2 (Class I)	75,000,000	49,470,000
2002 Series C-3 (Class I)	40,000,000	40,000,000
2002 Series C-4 (Class II)	10,000,000	10,000,000
2002 Series C-5 (Class III)	17,000,000	13,310,000
2002 Series C-6 (Class I)	51,000,000	--
<b>2003 Series A:</b>		
2003 Series A-1 (Class I)	\$42,000,000	\$30,890,000
2003 Series A-2 (Class I)	20,000,000	20,000,000
2003 Series A-3 (Class II)	7,000,000	7,000,000
2003 Series A-4 (Class III)	9,000,000	7,775,000
2003 Series A-5 (Class I)	28,000,000	--
<b>2003 Series B:</b>		
2003 Series B-1 (Class I)	\$40,000,000	\$40,000,000
2003 Series B-2 (Class I)	80,000,000	66,945,000
2003 Series B-3 (Class I)	60,000,000	60,000,000
2003 Series B-4 (Class III)	20,000,000	15,765,000
2003 Series B-5 (Class I)	54,000,000	--

<u>Title of Bonds</u>	<u>Principal Amount Issued</u>	<u>Outstanding Principal Amount (November 1, 2005)</u>
<b>2003 Series C:</b>		
2003 Series C-1 (Class I)	\$70,000,000	\$62,380,000
2003 Series C-2 (Class I)	40,000,000	40,000,000
2003 Series C-3 (Class III)	13,000,000	11,850,000
2003 Series C-4 (Class I)	30,000,000	--
2003 Series C-5 (Class I)	70,275,000	--
<b>2004 Series A:</b>		
2004 Series A-1 (Class I)	\$60,000,000	\$55,055,000
2004 Series A-2 (Class I)	50,000,000	50,000,000
2004 Series A-3 (Class III)	13,000,000	11,820,000
2004 Series A-4 (Class I)	85,000,000	--
2004 Series A-5 (Class I)	104,000,000	--
<b>2004 Series B:</b>		
2004 Series B-1 (Class I)	\$50,000,000	\$46,870,000
2004 Series B-2 (Class I)	40,000,000	40,000,000
2004 Series B-3 (Class III)	11,000,000	11,000,000
2004 Series B-4 (Class I)	82,335,000	--
<b>2005 Series A:</b>		
2005 Series A-1 (Class I)	\$50,000,000	\$50,000,000
2005 Series A-2 (Class I)	40,000,000	40,000,000
2005 Series A-3 (Class III)	10,000,000	10,000,000
2005 Series A-4 (Class I)	11,300,000	11,300,000
2005 Series A-5 (Class I)	13,095,000	13,095,000
<b>2005 Series B:</b>		
2005 Series B-1A (Class I)	\$40,000,000	\$40,000,000
2005 Series B-1B (Class I)	40,000,000	40,000,000
2005 Series B-2 (Class I)	80,000,000	80,000,000
2005 Series B-3 (Class II)	20,000,000	20,000,000
2005 Series B-4 (Class I)	102,270,000	102,270,000
2005 Series B-5 (Class I)	36,230,000	36,230,000
<b>Total Class I Bonds:</b>	<b>\$1,862,900,000</b>	<b>\$1,328,885,000</b>
<b>Total Class II Bonds:</b>	<b>64,455,000</b>	<b>64,455,000</b>
<b>Total Class III Bonds:</b>	<b>108,000,000</b>	<b>91,330,000</b>
<b>Total Class IV Bonds:</b>	<b>None</b>	<b>None</b>

## The Outstanding Auxiliary Obligations

The Auxiliary Obligations under the Master Indenture are the obligations of the Authority for the payment of money under Interest Rate Contracts and Liquidity Facilities.

### *Outstanding Interest Rate Contracts*

In connection with the issuance of each series of outstanding Adjustable Rate Bonds under the Master Indenture, the Authority has entered into one or more interest rate swap agreements (an "**Interest Rate Contract**"). Any payments or receipts received by the Authority under the Interest Rate Contracts are pledged under the Master Indenture as Revenues, as described in "Part II – SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS – Revenues." The Authority's obligation to make regular interest payments to the counterparties under each of the Interest Rate Contracts constitutes a Class I Obligation under the Master Indenture, secured on parity with the lien on the Trust Estate of the other Class I Obligations. The Authority's obligation to make termination payments under each of the Interest Rate Contracts in the event of early termination is a general obligation of the Authority and not secured by the Trust Estate under the Master Indenture. See "Part II – COLORADO HOUSING AND FINANCE AUTHORITY – Long-Term Obligations of the Authority." See also footnote (5) to the 2004 and 2003 audited financial statements of the Authority included in this Official Statement as **Appendix G**.

### *Liquidity Facilities*

The Authority has previously entered into Standby Bond Purchase Agreements (constituting Liquidity Facilities under the Master Indenture) among the Authority, the Tender Agent and a Liquidity Facility Provider. The following table describes the Liquidity Facility currently in effect with respect to each outstanding Series of Adjustable Rate Bonds under the Master Indenture, the name of the Liquidity Facility Provider and the expiration date (unless extended or earlier terminated):

### Outstanding Liquidity Facilities

<u>Series of Adjustable Rate</u>	<u>Liquidity Facility Provider</u>	<u>Expiration Date</u>
2001AA	Landesbank Hessen-Thüringen Girozentrale	December 31, 2015
2002A	Federal Home Loan Bank of Topeka	April 25, 2007
2002B	Lloyds TSB Bank plc	May 2, 2010
2002C	Lloyds TSB Bank plc	May 2, 2010
2003A	Lloyds TSB Bank plc	May 2, 2010
2003B	JPMorgan Chase Bank	November 13, 2006
2003C-1	JPMorgan Chase Bank	November 12, 2006
2003C-2	Dexia Credit Local	November 13, 2012
2004A-1 and A-2	Dexia Credit Local	November 13, 2012
2004B-1 and B-2	Dexia Credit Local	November 13, 2012
2005A-1 and A-2	Dexia Credit Local	November 13, 2012
2005B-2	Dexia Credit Local	July 20, 2008

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**APPENDIX B-2**

**The Mortgage Loan Portfolio**

As of September 30, 2005, First Mortgage Loans with an outstanding aggregate principal balance of \$1,124,058,564 and Second Mortgage Loans with an outstanding aggregate principal balance of \$18,763,226 had been purchased or originated in the Acquisition Account as a part of the Trust Estate. The following information with respect to such outstanding Mortgage Loans has been provided as of the dates so indicated:

<b>INFORMATION CONCERNING THE MORTGAGE LOANS AS OF SEPTEMBER 30, 2005</b>								
<b>Series of Bonds</b>	<b>Outstanding Aggregate Principal Balance of First Mortgage Loans</b>	<b>Aggregate Number of Outstanding First Mortgage Loans</b>	<b>Average Principal Balance per First Mortgage Loan</b>	<b>Average Coupon of First Mortgage Loans</b>	<b>Weighted Average Maturity of First Mortgage Loans</b>	<b>Outstanding Aggregate Principal Balance of Second Mortgage Loans</b>	<b>Aggregate Number of Outstanding Second Mortgage Loans</b>	<b>Average Principal Balance per Second Mortgage Loan</b>
2001AA	\$106,167,391	1,213	\$87,525	6.75%	20.44	\$13,832,178	3,611	\$3,831
2002A	62,237,012	616	101,034	6.13	26.41	--	--	--
2002B	95,344,980	832	114,597	6.09	27.56	1,000,135	265	3,774
2002C	122,108,881	953	128,131	6.04	27.66	1,335,158	356	3,750
2003A	58,659,304	490	119,713	5.58	27.61	--	--	--
2003B	159,874,593	1,334	119,846	5.66	27.71	2,595,757	716	3,625
2003C	101,114,908	854	118,402	5.46	28.17	--	--	--
2004A	109,575,312	874	125,372	5.33	28.62	--	--	--
2004B	92,935,456	676	137,478	5.30	29.14	--	--	--
2005A	93,625,941	697	134,327	5.47	29.40	--	--	--
2005B	122,414,787	889	137,699	5.48	29.69	--	--	--
<b>Total</b>	<b>\$1,124,058,564</b>	<b>9,428</b>	<b>\$1,324,125</b>	<b>N/A</b>	<b>N/A</b>	<b>\$18,763,226</b>	<b>4,948</b>	<b>\$3,792</b>
<b>Average for Portfolio</b>	<b>\$102,187,142</b>	<b>857</b>	<b>\$120,375</b>	<b>5.75</b>	<b>27.49</b>	<b>\$1,705,748</b>	<b>450</b>	<b>\$1,362</b>

**MORTGAGE INSURANCE INFORMATION FOR FIRST MORTGAGE LOANS  
AS OF SEPTEMBER 30, 2005**

Type of Insurance	2001AA	2002A	2002B	2002C	2003A	2003B	2003C	2004A	2004B	2005A	2005B	Average for Portfolio
VA-Guaranteed	6%	5%	6%	7%	6%	4%	5%	6%	11%	N/A	N/A	6%
FHA - Insured	54	84	80	81	85	84	85	72	79	N/A	N/A	78
RHCDS - Guaranteed	11	4	6	2	2	5	3	8	3	N/A	N/A	5
Private Mortgage Insurance	19	4	5	7	4	4	3	8	5	N/A	N/A	7
Uninsured	10	3	3	3	3	3	4	6	2	N/A	N/A	4
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	N/A	N/A	100%

**INFORMATION CONCERNING PROPERTY TYPES  
FOR FIRST MORTGAGE LOANS  
AS OF SEPTEMBER 30, 2005**

Property Type	2001AA	2002A	2002B	2002C	2003A	2003B	2003C	2004A	2004B	2005A	2005B	Average for Portfolio
Single Family Detached	78%	76%	73%	70%	69%	72%	70%	72%	73%	N/A	N/A	73%
Condo/Townhome	14	22	24	27	28	26	25	24	22	N/A	N/A	24
Other	8	2	3	3	3	2	5	4	5	N/A	N/A	4
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	N/A	N/A	100%

**PAYMENT, FORECLOSURE AND DELINQUENCY STATISTICS  
FOR THE FIRST AND SECOND MORTGAGE LOANS(1)  
SEPTEMBER 30, 2005**

Property Type	2001AA	2002A	2002B	2002C	2003A	2003B	2003C	2004A	2004B	2005A	2005B
Loans Financed	6,891	1,204	1,732	1,991	671	2,472	947	904	685	N/A	N/A
Loans Prepaid in Full	2,010	561	602	589	165	407	87	31	9	N/A	N/A
Loans Foreclosed to Date	35	23	34	23	16	17	8	1	0	N/A	N/A
Real Estate Owned	7	3	5	1	3	1	0	0	0	N/A	N/A
Loans Outstanding	4,824	616	1,097	1,309	490	2,050	854	874	676	N/A	N/A
Delinquencies 30-90 Days	124	64	102	101	38	125	72	56	4	N/A	N/A
Percentage of Total Loans*	9.86%	9.99%	10.64%	9.47%	7.68%	8.36%	8.68%	6.21%	0.53%	N/A	N/A
Loans in Foreclosure	15	11	9	14	7	13	11	7	1	N/A	N/A
Percentage of Total Loans*	1.21%	1.86%	1.08%	1.59%	1.22%	1.03%	1.12%	0.54%	0.17%	N/A	N/A
Percentage of All Loans Delinquent*	10.95%	15.71%	9.19%	14.35%	13.67%	10.93%	11.45%	7.99%	23.90%	N/A	N/A

(1) Estimated

\*Percentages are based on outstanding principal amounts of Loans.

As of October 31, 2005, the following balances were held in the respective subaccounts under the Master Indenture:

<u>Accounts</u>	<u>Amounts on Deposit (as of October 31, 2005) (1)</u>
<u>2001AA Subaccount:</u>	
Loan Recycling Account	\$12,688,850
<u>2002A Subaccount:</u>	
Loan Recycling Account	52,417
<u>2002B Subaccount:</u>	
Loan Recycling Account	426,949
<u>2002C Subaccount:</u>	
Loan Recycling Account	3,039,284
<u>2003A Subaccount:</u>	
Loan Recycling Account	45,950
<u>2003B Subaccount:</u>	
Loan Recycling Account	4,624,639
Acquisition Account	133,908
<u>2003C Subaccount:</u>	
Acquisition Account	63,152
<u>2004A Subaccount:</u>	
Acquisition Account	3,174
<u>2004B Subaccount:</u>	
Acquisition Account	37,346,000
<u>2005A Subaccount:</u>	
Acquisition Account	23,300,640
<u>2005B Subaccount:</u>	
Acquisition Account	<u>46,163,972</u>
 Total	 <u>\$127,888,935</u>

- (1) As of October 31, 2005, first mortgage loans were being held and warehoused by the Authority with a principal balance of approximately \$46 million, some of which have been designated for purchase with amounts on deposit in the subaccounts of the Loan Recycling Account and the Acquisition Account.



## APPENDIX C

### Certain Terms of the Initial 2006A Liquidity Facility

This Appendix contains a brief summary of certain provisions of the Initial 2006A Liquidity Facility to be entered with the 2006A Liquidity Facility Provider, as well as certain defined terms used therein. Such summary does not purport to be comprehensive or definitive. All references in this Official Statement to the Initial 2006A Liquidity Facility are qualified by reference to the related documents. The Initial 2006A Liquidity Facility may be amended at any time without the consent of or notice to Bondholders. Any Alternate Liquidity Facility may have terms substantially different from those of the Initial 2006A Liquidity Facility.

*For information regarding the 2006A Liquidity Facility Provider, see Appendix D.*

Pursuant to the Initial 2006A Liquidity Facility, the 2006A Liquidity Facility Provider will agree, subject to the terms and conditions therein, to purchase the Adjustable 2006 Series A Bonds which are tendered by the owners thereof to the Tender Agent or are subject to mandatory purchase but are not remarketed by the Remarketing Agent. The Initial 2006A Liquidity Facility will expire January 18, 2009, unless extended or terminated as described therein.

#### Certain Definitions

"Available Commitment" as of any day means the sum of the Available Principal Commitment and the Available Interest Commitment, in each case, as of such day.

"Available Interest Commitment" means an amount equal to 183 days' interest on the Available Principal Commitment for the Adjustable 2006 Series A Bonds based upon an assumed rate of interest of 12.00% per annum (in the case of the Taxable Adjustable 2006 Series A-1 Bonds) and 10.00% per annum (in the case of the Adjustable 2006 Series A-2 Bonds and the Adjustable 2006 Series A-3 Bonds) and a 360-day year comprised of twelve 30-day months, as such amount shall be adjusted from time to time as follows:

(A) downward by an amount that bears the same proportion to such amount as the amount of any reduction in the Available Principal Commitment, in accordance with clause (a) or (b) of the definition of Available Principal Commitment, bears to the initial Available Principal Commitment; and

(B) upward by an amount that bears the same proportion to such amount as the amount of any increase in the Available Principal Commitment, in accordance with clause (c) of the definition of Available Principal Commitment, bears to the initial Available Principal Commitment.

"Available Principal Commitment" means initially the principal amount of the Adjustable 2006 Series A Bonds Outstanding (as detailed on the cover page hereof) and, thereafter, means such initial amount adjusted from time to time as follows:

(a) downward by the amount of any mandatory reduction of the Available Principal Commitment pursuant to the Initial 2006A Liquidity Facility;

(b) downward by the principal amount of any Adjustable 2006 Series A Bonds purchased by the 2006A Liquidity Facility Provider pursuant to the Initial 2006A Liquidity Facility; and

(c) upward by the principal amount of any Adjustable 2006 Series A Bonds theretofore purchased by the 2006A Liquidity Facility Provider pursuant to the Initial 2006A Liquidity Facility which are remarketed (or deemed to be remarketed) pursuant to such Initial 2006A Liquidity Facility by the Remarketing Agent and for which the Bank Owner has received immediately available funds equal to the principal amount thereof and accrued interest thereon;

*provided, however,* that the sum of (i) the Available Principal Commitment plus (ii) the aggregate principal amount of Bank Bonds shall never exceed the original principal amount of such Adjustable 2006 Series A Bonds. Any adjustment to the Available Principal Commitment as described in clause (a), (b) or (c) above shall occur simultaneously with the occurrence of the events described in such clauses.

"Commitment Period" means the period from the date of delivery of the Initial 2006A Liquidity Facility to and including the earliest of (i) January 18, 2009, (or to an extended date as may become effective under the Initial 2006A Liquidity Facility), (ii) the date on which no Adjustable 2006 Series A Bonds are outstanding, (iii) the close of business on the date on which the Adjustable 2006 Series A Bonds are converted to a Fixed Interest Rate or the SAVRS Rate, (iv) the close of business on the 30<sup>th</sup> day (or, if such day is not a Business Day, the next succeeding Business Day) following receipt by the Authority and the Tender Agent of a Notice of Termination Date, and (v) the date on which the Available Commitment has been reduced to zero or terminated in its entirety due to the redemption, repayment or other payment of all of the principal amount of the Adjustable 2006 Series A Bonds or due to the delivery of an Alternate Liquidity Facility.

"Purchase Date" means a Business Day on which the Adjustable 2006 Series A Bonds are subject to optional tender or mandatory purchase.

"Purchase Price" means, with respect to any Adjustable 2006 Series A Bond that is deemed an "Eligible Bond" under the Initial 2006A Liquidity Facility, 100% of the principal amount of such Adjustable 2006 Series A Bond plus (if the Purchase Date is not an Interest Payment Date) accrued and unpaid interest thereon to the Purchase Date, but in no event to exceed the Available Commitment; *provided, however,* if the Purchase Date for any Eligible Bond is also an Interest Payment Date for such Eligible Bond, the Purchase Price for such Eligible Bond shall not include accrued but unpaid interest on such Eligible Bond; and *provided, further,* in no event shall the Purchase Price of any Eligible Bond include any premium owed with respect to any Adjustable 2006 Series A Bond or any Defaulted Interest in the excess of any amount specified in the Initial 2006A Liquidity Facility.

**THE INITIAL 2006A LIQUIDITY FACILITY PROVIDES FUNDS ONLY FOR PAYMENT OF THE PURCHASE PRICE AS DESCRIBED ABOVE, DOES NOT SECURE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE ADJUSTABLE 2006 SERIES A BONDS, AND MAY BE TERMINATED OR SUSPENDED AS DESCRIBED BELOW.**

#### **Conditions Precedent to Obligations of 2006A Liquidity Facility Provider**

The obligation of the 2006A Liquidity Facility Provider to purchase the Adjustable 2006 Series A Bonds on any particular Purchase Date under the Initial 2006A Liquidity Facility is subject to the satisfaction of the following conditions, unless waived in writing by such 2006A Liquidity Facility

Provider: (i) that the 2006A Liquidity Facility Provider shall have timely received the Notice of Bank Purchase as provided in the 2006A Initial Liquidity Facility, and (ii) that no Special Event of Default or Suspension Event (each as defined below) shall have occurred and be continuing.

#### **Termination by 2006A Liquidity Facility Provider**

In the case of any of the following Events of Default (each a "**Special Events of Default**"):

(i) failure by the Authority to pay principal of, or interest on, the Adjustable 2006 Series A Bonds or any other Class I Bonds due to a default by the Authority under the Indenture;

(ii) (a) the Authority shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or seeking to declare a moratorium with respect to the Adjustable 2006 Series A Bonds, any other Bonds or General Obligations of the Authority, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets or for all or any portion of the Trust Estate, or the Authority shall make a general assignment for the benefit of its creditors; or (b) there shall be commenced against the Authority any case, proceeding or other action of a nature referred to in clause (a) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (c) there shall be commenced against the Authority, any case, proceeding or other action seeking, issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets or for all or any portion of the Trust Estate, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within 60 days from the entry thereof; or (d) the Authority shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (a), (b) or (c) above; or (e) the Authority shall generally not, or shall be unable to, or shall admit in writing, its inability to, pay its debts; or (f) a moratorium is declared with respect to payment of the Adjustable 2006 Series A Bonds, any other Bonds or General Obligations of the Authority;

(iii) (a) any material provision of the Initial 2006A Liquidity Facility or any Related Document shall at any time for any reason cease to be valid and binding on the Authority as a result of federal or state legislative or administrative action, or shall be declared, in a final nonappealable judgment by any court of competent jurisdiction over the Authority, to be null and void, invalid or unenforceable or (b) the validity or enforceability of the Initial 2006A Liquidity Facility, the Master Indenture or the 2006 Series A Indenture shall, in a judicial proceeding or any other official action commenced by the Authority, be contested by the Authority in said proceeding or action; or

(iv) the long-term ratings by S&P and Moody's of the Adjustable 2006 Series A Bonds or any other Bonds not supported by credit enhancement shall be withdrawn, suspended or reduced below "BBB-" by S&P and "Baa3" by Moody's, other than as a result of debt maturity, redemption, defeasance, non-application and non-provision of information;

then, in any such event, the Available Commitment shall immediately be reduced to zero, in which case the obligations of the 2006A Liquidity Facility Provider shall immediately terminate and expire without requirement of notice by the 2006A Liquidity Facility Provider. After such termination, the 2006A Liquidity Facility Provider shall deliver, within two (2) Business Days, to the Authority, the Trustee, the Tender Agent and the Remarketing Agent written notice of such termination or expiration; provided,

however, that failure to provide such written notice shall have no effect on the validity or enforceability of such termination or expiration.

In the case of a failure by the Authority to pay any principal of, or interest on, any Class II Bond, Class III Bond (including a Bank Bond) or any General Obligation of the Authority securing Bonds due to a default by the Authority under the Indenture (a "**Suspension Event**"), the obligation of the 2006A Liquidity Facility Provider to purchase Eligible Bonds under the Initial 2006A Liquidity Facility shall be immediately suspended without notice or demand and thereafter the 2006A Liquidity Facility Provider shall be under no obligation to purchase Eligible Bonds until the Available Commitment is reinstated as described below. Promptly upon the occurrence of any such Suspension Event, the 2006A Liquidity Facility Provider shall notify the Authority, the Trustee, the Tender Agent and the Remarketing Agent of such suspension in writing by facsimile, promptly confirmed by regular mail; provided, that the 2006A Liquidity Facility Provider shall incur no liability of any kind by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Available Commitment or its obligation to purchase Eligible Bonds pursuant to the Initial 2006A Liquidity Facility. If the Suspension Event created by the failure of the Authority to make a payment of any principal of, or interest on, any such Class II Bond, Class III Bond (including a Bank Bond) or any General Obligation of the Authority is not cured within thirty (30) days following such default, then the Available Commitment and the obligation of such 2006A Liquidity Facility Provider to purchase Eligible Bonds shall immediately terminate without notice or demand and thereafter the 2006A Liquidity Facility Provider shall be under no further obligation to purchase Eligible Bonds. If such default is remedied within thirty (30) days of the occurrence thereof and the Available Commitment has not otherwise expired or been suspended or terminated, then the Available Commitment and the obligation of the 2006A Liquidity Facility Provider to purchase Eligible Bonds shall be reinstated. In the case of each Suspension Event, the Trustee shall immediately notify all Bondholders of the suspension and/or termination of both the Available Commitment and the obligation of the 2006A Liquidity Facility Provider to purchase Eligible Bonds.

Upon the occurrence of other Events of Default not described as Special Events of Default or a Suspension Event above (including failure of the Authority to pay certain other amounts due to the 2006A Liquidity Facility Provider and the breach of covenants or representations made by the Authority in the Initial 2006A Liquidity Facility), such 2006A Liquidity Facility Provider may, among other remedies, give notice of such Event of Default and require the termination of the related Initial 2006A Liquidity Facility to the Trustee, which would constitute a Liquidity Expiration Event under the Indenture and result in a mandatory tender of the Adjustable 2006 Series A Bonds. See "Part I – TERMS OF THE 2006 SERIES A BONDS – Adjustable 2006 Series A Bonds – Mandatory Tender."

#### **Termination by Authority**

Upon (i) the withdrawal, suspension or reduction in the rating assigned to the 2006A Liquidity Facility Provider's senior unsecured short-term obligations by Moody's or S&P below "P-1" or "A-1," respectively, or the default by the 2006A Liquidity Facility Provider in honoring its payment obligations under the Initial 2006A Liquidity Facility or the 2006A Liquidity Facility Provider seeking recovery of amounts described in the Initial 2006A Liquidity Facility for certain specified reasons, (ii) the payment to the 2006A Liquidity Facility Provider of all fees, expenses and other amounts payable under the Initial 2006A Liquidity Facility, and (iii) the payment to the 2006A Liquidity Facility Provider of all principal and accrued interest owing on any Bank Bonds, the Authority may terminate the Initial 2006A Liquidity Facility. In the event of such termination, the Authority may be required to replace the Initial 2006A Liquidity Facility with an Alternate Liquidity Facility. See "Part II – SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS – Liquidity Facilities."

### **Alternate Liquidity Facility**

The Authority may replace the Initial 2006A Liquidity Facility with a new Liquidity Facility (an "**Alternate Liquidity Facility**") in accordance with the procedures set forth in the Indenture. See "Part II – SECURITY FOR THE BONDS AND AUXILIARY OBLIGATIONS – Liquidity Facilities."

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## APPENDIX D

### 2006A Liquidity Facility Provider

*The following information has been obtained from the 2006A Liquidity Facility Provider for inclusion herein. Such information is not guaranteed as to accuracy or completeness by the Authority or the Underwriters and is not to be construed as a representation by the Authority or the Underwriters. Neither the Authority nor the Underwriters have verified this information, and no representation is made by them as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to its date or the date hereof.*

#### **Dexia Credit Local**

Dexia Credit Local ("**Dexia**" or the "**2006A Liquidity Facility Provider**") is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border mergers. Dexia is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of over 19 billion euros as of December 31, 2004, the Dexia Group ranks in the top third of the Euronext 100 companies.

Dexia specializes in the Dexia Group's first line of business – public and project finance and financial services for the public sector. Dexia has recognized expertise in local public sector financing and project finance. It is backed by a network of specialized banks, which employ over 3,000 professionals. Through this network of subsidiaries, affiliates and branches, Dexia is present in almost all of the countries of the European Union as well as Central Europe, the United States of America and Canada. Dexia also has operations in Latin America, the Asian-Pacific Region including Australia, and the countries around the Mediterranean.

Dexia is a bank with its principal office located in Paris, France. In issuing the facility, Dexia will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of Dexia Credit Local, Paris. Dexia is the leading local authority lender in Europe, funding its lending activities in 2004 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2004, total funding raised by Dexia and Dexia Municipal Agency was 11.7 billion euros.

The Dexia Group is the owner of Financial Security Assurance Holdings Ltd. ("FSA Holdings"), the holding company for Financial Security Assurance Inc., a leading financial guaranty insurer.

As of December 31, 2004, Dexia had total consolidated assets of 206.0 billion euros, outstanding medium and long-term loans to customers of 168.13 billion euros and shareholders' equity of over 4.32 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 705 million euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia maintains its records and prepares its financial statements in euros. At December 31, 2004, the exchange rate was 1.0000 euro equals 1.3621 United States dollar. Such exchange rate fluctuates from time to time.

Dexia is rated Aa2 long-term and P-1 short-term by Moody's, AA long-term and A-1+ short-term by S&P, and AA+ long-term and F1+ short-term by Fitch.

Dexia will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Dexia Credit Local, New York Branch, 445 Park Avenue, 7th Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date.



## **APPENDIX E**

### **Form of 2006A Bond Counsel Opinion**

January 18, 2006

Colorado Housing and Finance Authority  
1981 Blake Street  
Denver, Colorado 80202

Colorado Housing and Finance Authority  
Taxable Single Family Mortgage Class I Bonds, 2006 Series A-1  
Single Family Mortgage Class I Adjustable Rate Bonds, 2006 Series A-2  
Single Family Mortgage Class I Adjustable Rate Bonds, 2006 Series A-3  
Single Family Mortgage Class II Bonds, 2006 Series A-4  
and  
Single Family Mortgage Class I Bonds, 2006 Series A-5

Ladies and Gentlemen:

We have acted as bond counsel to the Colorado Housing and Finance Authority (the "Authority"), in connection with the issuance of its Taxable Single Family Mortgage Class I Bonds, 2006 Series A-1 (the "Taxable 2006 Series A-1 Bonds"), Single Family Mortgage Class I Adjustable Rate Bonds, 2006 Series A-2 (the "2006 Series A-2 Bonds"), Single Family Mortgage Class I Adjustable Rate Bonds, 2006 Series A-3 (the "2006 Series A-3 Bonds"), Single Family Mortgage Class II Bonds, 2006 Series A-4 (the "2006 Series A-4 Bonds") and Single Family Mortgage Class I Bonds, 2006 Series A-5 (the "2006 Series A-5 Bonds" and, together with the Taxable 2006 Series A-1 Bonds, the 2006 Series A-2 Bonds, the 2006 Series A-3 Bonds and the 2006 Series A-4 Bonds, the "Bonds") in the aggregate principal amount of \$180,700,000. In such capacity, we have examined the Authority's certified proceedings and such other documents and such law of the State of Colorado and of the United States of America as we have deemed necessary to render this opinion letter. The Bonds are authorized and issued pursuant to the Master Indenture of Trust dated as of October 1, 2001, as amended (the "Master Indenture") as supplemented by the 2006 Series A Indenture dated as of January 1, 2006 (the "2006 Series A Indenture" and, together with the Master Indenture, the "Indenture") between the Authority and Zions First National Bank, as trustee (the "Trustee"). Capitalized terms used herein, unless parenthetically defined herein, have the meanings ascribed to them in the Indenture.

Regarding questions of fact material to our opinions, we have relied upon the certified proceedings and other representations and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon such examination, it is our opinion as bond counsel that:

1. The Bonds constitute valid and binding special, limited obligations of the Authority, payable solely from the Revenues and other assets pledged thereto under the Indenture.

2. The Indenture has been duly authorized by the Authority, duly executed and delivered by authorized officials of the Authority, and, assuming due authorization, execution and delivery by the Trustee, constitutes a valid and binding obligation of the Authority enforceable in accordance with its terms.

3. Interest on the 2006 Series A-2 Bonds, the 2006 Series A-3 Bonds, the 2006 Series A-4 Bonds and the 2006 Series A-5 Bonds is excluded from gross income under federal income tax laws pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Tax Code"); however, interest on the 2006 Series A-3 Bonds and the 2006 Series A-4 Bonds is an item of tax preference for purposes of calculating alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code, and interest on the 2006 Series A-2 Bonds and the 2006 Series A-5 Bonds is excluded from alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code except that such interest is required to be included in calculating the "adjusted current earnings" adjustment applicable to corporations for purposes of computing the alternative minimum taxable income of corporations. The opinions expressed in this paragraph assume continuous compliance with the covenants and representations contained in the Authority's certified proceedings and in certain other documents or certain other certifications furnished to us.

4. Interest on the Taxable 2006 Series A-1 Bonds is not excluded from gross income for federal income tax purposes. The opinion expressed in this paragraph was not written and cannot be used by any taxpayer for the purpose of avoiding penalties that may be imposed on any taxpayer by the Internal Revenue Service. This writing supports the promotion or marketing of the transactions or matters addressed herein. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

5. The Bonds and the income therefrom shall at all times be free from taxation by the State of Colorado under Colorado laws in effect as of the date hereof.

The opinions expressed in this opinion letter are subject to the following:

The obligations of the Authority pursuant to the Bonds and the Indenture are subject to the application of equitable principles, to the reasonable exercise in the future by the State of Colorado and its governmental bodies of the police power inherent in the sovereignty of the State of Colorado and to the exercise by the United States of America of the powers delegated to it by the Federal Constitution, including, without limitation, bankruptcy powers.

We understand that Dexia Credit Local, acting through its New York Branch, has delivered a Standby Bond Purchase Agreement with respect to the Taxable 2006 Series A-1 Bonds, the 2006 Series A-2 Bonds and the 2006 Series A-3 Bonds. We express no opinion as to the validity or enforceability of such Standby Bond Purchase Agreement or the security afforded thereby.

In this opinion letter issued in our capacity as bond counsel, we are opining only upon those matters set forth herein, and we are not opining upon the accuracy, adequacy or completeness of the Official Statement or any other statements made in connection with any sale of the Bonds or upon any federal or state tax consequences arising from the receipt or accrual of interest on or the ownership of the Bonds, except those specifically addressed herein.

This opinion letter is issued as of the date hereof and we assume no obligation to revise or supplement this opinion letter to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

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## APPENDIX F

### Class Asset Requirements for Bonds

The "*Class I Asset Requirement*" means the requirement that, as of any date of calculation, the sum of:

(a) amounts held in the related subaccount or subaccounts of the Acquisition Account, the related subaccount of the Loan Recycling Account, the related subaccount of the Class I Debt Service Fund (to the extent such amounts are required to be used to pay principal of the related series of Class I Bonds), the related subaccounts of the Redemption Fund (to the extent such amounts are required to be used to redeem the related series of Class I Bonds) and the related subaccount of the Debt Service Reserve Fund,

(b) in the case of certain series of Bonds, the amounts held in the respective subaccounts of the Accounts and Funds noted in clause (a) above that are unrelated to such series of Bonds (including amounts in such subaccounts of the Class I Debt Service Fund and the Redemption Fund only to the extent such amounts are required to be used to pay principal of or to redeem Class I Bonds) plus the aggregate unpaid principal balance of Mortgage Loans Unrelated to such series of Bonds to the extent the aggregate amount held in such subaccounts for each series of such Unrelated Bonds and the aggregate unpaid principal balance of such Mortgage Loans exceeds the percentage of the aggregate principal amount of the Class I Bonds of such series of Unrelated Bonds then Outstanding as shall be approved or required by each Rating Agency in writing, but only to the extent that such amounts have not been or are not being taken into account in satisfying the "Class I Asset Requirement" for any other series of Bonds Unrelated to such series of Bonds other than the Series of Bonds to which each respective "Class I Asset Requirement" relates, and

(c) the aggregate unpaid principal balance of Mortgage Loans Related to the related series of Bonds, be at least equal to the percentage set forth in the Series Indenture of the aggregate principal amount of related series of Class I Bonds then Outstanding, or such different percentage as shall be approved or required by each Rating Agency in writing.

The "*Class II Asset Requirement*" means the requirement that, as of any date of calculation, the sum of:

(a) amounts in the related subaccount or subaccounts of the Acquisition Account, the related subaccount of the Loan Recycling Account, the related subaccounts of the Class I Debt Service Fund and Class II Debt Service Fund (to the extent such amounts are required to be used to pay principal of the related series of Class I Bonds or Class II Bonds), the related subaccounts of the Redemption Fund (to the extent such amounts are required to be used to redeem the related series of Class I Bonds or Class II Bonds) and the related subaccount of the Debt Service Reserve Fund,

(b) the amounts held in the respective subaccounts of the Accounts and Funds listed in clause (a) above that are Unrelated to the such series of Bonds (including amounts in such subaccounts of the Class I Debt Service Fund, the Class II Debt Service Fund and the Redemption Fund only to the extent such amounts are required to be used to pay principal of or to redeem Class I Bonds or Class II Bonds) plus the aggregate unpaid principal balance of Mortgage Loans Unrelated to such series of Bonds to the extent the aggregate amount held in such

subaccounts for each series of such Unrelated Bonds and the aggregate unpaid principal balance of such Mortgage Loans exceeds the percentage of the aggregate principal amount of the Class I Bonds of such series of Unrelated Bonds then Outstanding plus the percentage of the aggregate principal amount of the Class II Bonds of such series of Unrelated Bonds then Outstanding as such percentages shall be approved or required by each Rating Agency in writing, but only to the extent that such amounts have not been or are not being taken into account in satisfying the "Class II Asset Requirement" for any other series of Bonds Unrelated to such series of Bonds other than the series of Bonds to which each respective "Class II Asset Requirement" relates, and

(c) the aggregate unpaid principal balance of Mortgage Loans Related to the related series of Bonds, be at least equal to the percentage set forth in the Series Indenture of the aggregate principal amount of the related series of Class I Bonds then Outstanding plus the percentage set forth in the Series Indenture of the aggregate principal amount of the related series of Class II Bonds then Outstanding, or such different percentages as shall be approved or required by each Rating Agency in writing.

The "*Class III Asset Requirement*" means the requirement that, as of any date of calculation, the sum of:

(a) amounts held in the related subaccount or subaccounts of the Acquisition Account, the related subaccount of the Loan Recycling Account, the related subaccount of the Class I Debt Service Fund, the related subaccount of the Class II Debt Service Fund (to the extent such amounts are required to be used to pay principal of related series of Class I Bonds and Class II Bonds) and the related subaccount of the Class III Debt Service Fund, the related subaccounts of the Redemption Fund and the related subaccount of the Debt Service Reserve Fund,

(b) the amounts held in the respective subaccounts of the Accounts and Funds listed in clause (a) above that are Unrelated to the such series of Bonds plus the aggregate unpaid principal balance of Mortgage Loans Unrelated to such series of Bonds to the extent the aggregate amount held in such subaccounts for each Series of such Unrelated Bonds and the aggregate unpaid principal balance of such Mortgage Loans exceeds the percentage of the aggregate principal amount of the Class I Bonds of such series of Unrelated Bonds then Outstanding plus the percentage of the aggregate principal amount of the Class II Bonds of such series of Unrelated Bonds then Outstanding plus the percentage of the aggregate principal amount of the Class III Bonds of such Series of Unrelated Bonds then Outstanding as such percentages shall be approved or required by each Rating Agency in writing, but only to the extent that such amounts have not been or are not being taken into account in satisfying the "Class III Asset Requirement" for any other series of Bonds Unrelated to such series of Bonds other than the series of Bonds to which each respective "Class III Asset Requirement" relates, and

(c) the aggregate unpaid principal balance of Mortgage Loans Related to the related series of Bonds, be at least equal to percentage set forth in the Series Indenture of the aggregate principal amount of the related series of Class I Bonds then Outstanding plus the percentage set forth in the Series Indenture of the aggregate principal amount of the related series of Class II Bonds then Outstanding plus the percentage set forth in the Series Indenture of the aggregate principal amount of the related series of Class III Bonds then Outstanding, or such different percentages as may be approved or required by each Rating Agency in writing.

The Class I Asset Requirement, Class II Asset Requirement and Class III Asset Requirement, respectively, with respect to a series of Bonds shall include the percentages set forth in the Related Series Indenture. The percentages for the Class Asset Requirements for each series of the Outstanding Bonds,

approved at this time by each Rating Agency are 111.5% for the Class I Asset Requirement, 105% for the Class II Asset Requirement and 102% for the Class III Asset Requirement (except, in each case, with respect to the Short-Term Bonds, for which the applicable Class Asset Requirement is 100%). These percentages are subject to change and reevaluation upon the issuance of each series of Bonds and from time to time as reviewed by the Rating Agencies.

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**APPENDIX G**

**Financial Statements for the Years  
ended December 31, 2004 and 2003  
and Independent Auditors' Reports**

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## independent auditors' report

The Board of Directors of  
Colorado Housing and Finance Authority  
Denver, Colorado

We have audited the accompanying statements of net assets of Colorado Housing and Finance Authority (the "Authority") as of December 31, 2004 and 2003, 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 financial statements based on our audits. We did not audit the financial statements of Hyland Park Centre Corporation, Tanglewood Oaks Apartments Corporation, and Village of Yorkshire Corporation, which statements reflect assets constituting 0.7% and 0.8%, respectively, of total assets at December 31, 2004 and 2003, and revenues constituting 4.2% and 4.6%, respectively, of total revenues for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Hyland Park Centre Corporation, Tanglewood Oaks Apartments Corporation, and Village of Yorkshire Corporation, are based solely on the reports of such other auditors.

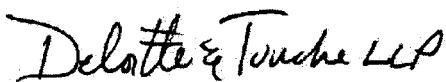
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and 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 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, based on our audits and the other reports of the other auditors, such financial statements present fairly, in all material respects, the financial position of the Authority, as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 1 through 6 are not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of management's discussion and analysis. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The accompanying Supplemental Statements of Net Assets by Program as of December 31, 2004, Supplemental Statements of Revenues, Expenses and Changes in Net Assets by Program and Supplemental Statements of Cash Flows by Program for the year ended December 31, 2004, are presented for the purpose of additional analysis and are not a required part of the 2004 financial statements of the Authority. These statements are the responsibility of the Authority's management. Such schedules have been subjected to the auditing procedures applied in our audit of the 2004 financial statements and, in our opinion are fairly stated in all material respects when considered in relation to the 2004 financial statements taken as a whole.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated June 24, 2005, on our consideration of the Authority's internal control over financial reporting and 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 *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.



Denver, Colorado  
June 24, 2005

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## management's discussion and analysis

December 31, 2004 (unaudited)

This section of the Colorado Housing and Finance Authority's (the "Authority") annual financial report presents management's discussion and analysis of the financial position and results of operations at and for the fiscal year ended December 31, 2004. This information is being presented to provide additional information regarding the activities of the Authority and to meet the disclosure requirements of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government*. This analysis should be read in conjunction with the Independent Auditors' Reports, the audited financial statements and accompanying notes. The Authority is entirely self – funded and does not draw upon the general taxing authority of the State of Colorado.

### Financial Position and Results of Operations

- > Net assets as of December 31, 2004, were \$227.5 million, an increase of \$17.8 million, or 8.5%, compared to net assets of \$209.8 million as of December 31, 2003.
  
  - > As reflected in the Statements of Revenues, Expenses and Changes in Net Assets, the change in net assets of \$17.8 million for 2004 represents a 54.8% increase over the change in net assets for 2003 of \$11.5 million. This was primarily due to a net increase of \$1.2 million in the fair market value of long-term securities in 2004 compared to a net decrease of \$3.6 million in 2003. Also contributing to the increase was a decline of \$1.1 million, or 30.8%, in the provision for loan and other real estate owned losses. Profitability, as measured by return on average net assets, was 8.12% in 2004 compared to 5.62% in 2003. Excluding the effect of the change in fair market value of long-term securities, the return on average net assets was 7.56% in 2004 and 7.37% in 2003.
  
  - > Total loans receivable as of December 31, 2004, were \$1.9 billion, an increase of \$184.0 million, or 10.6%, compared to the amount outstanding as of December 31, 2003.
  
  - > The increase in loans receivable was funded by an increase in bonds and notes payable. As of December 31, 2004, bonds and notes payable were \$2.6 billion, an increase of \$193.9 million, or 8.1%, compared to the balance at December 31, 2003.
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## management's discussion and analysis

December 31, 2004 (unaudited)

### Overview of the Financial Statements

The financial statements consist of three sections: management's discussion and analysis, the financial statements with notes, and supplementary schedules. The Authority, a corporate body and political subdivision of the State of Colorado, is a public purpose financial enterprise and therefore follows enterprise fund accounting. The financial statements offer information about the Authority's activities and operations.

The Statement of Net Assets includes all of the Authority's assets and liabilities, presented in order of liquidity. The resulting net assets presented in these statements are displayed as restricted or unrestricted. Under GASB Statement No. 34, assets are restricted when their use is subject to external limits such as bond resolutions, legal agreements or statutes. Assets falling outside this category are characterized as unrestricted. Please note, however, that unrestricted assets include assets that have been committed by the Authority for specific uses, but for which an agreement may not yet be in place.

All of the current year's revenues and expenses of the Authority are recorded in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the activities of the Authority's operations over the past year, and presents the income (loss) or change in net assets. Change in net assets is calculated as revenues less expenses.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments and net changes in cash resulting from operating, non-capital financing, investing and financing activities and provides information regarding the sources and uses of cash and the change in the cash balance during the reporting period.

Financial statements by program are presented as supplementary schedules. These statements separate the financial statements into three segments: Single Family Bond Programs, Multi-Family Bond Programs, and the General Fund, which includes all other Authority activities.

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## management's discussion and analysis

December 31, 2004 (unaudited)

### Statements of Net Assets

December 31, 2004 compared to December 31, 2003

The table on the following page presents condensed information about the financial position of the Authority as of December 31, 2004 and 2003, and changes in the balances of selected items during the fiscal year ended December 31, 2004.

Long-term investment securities increased \$33.4 million, or 21.4%, compared to year-end 2003. This increase is the result of required debt service reserves arising from new debt issues and the reinvestment of the proceeds of certain maturing short-term securities in long-term securities.

Total loans receivable increased \$184.0 million, or 10.6%, during the current year, of which the non-current portion of the increase was \$177.8 million. The change is largely due to new loan purchases of approximately \$526.1 million, offset by loan repayments and prepayments that resulted in total principal reductions of \$330.1 million. This growth in loans receivable was funded by increases in bonds and notes payable, discussed further below.

New loan production, as measured by total loans funded, of \$526.1 million was \$109.6 million, or 17.2%, less than 2003 production. This decrease is primarily due to a decline in multi-family loan production due to adverse conditions affecting the rental market during 2004 and certain nonrecurring loan production activity during 2003. In addition, single family loan production decreased compared to 2003. Single family production in 2003 was at record levels due to historically low mortgage interest rates. Although production levels declined in 2004 compared to 2003, they were approximately 5% higher than 2002 production levels. Partially offsetting these decreases was an increase in business finance loan production.

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## management's discussion and analysis

December 31, 2004 (unaudited)

	as of December 31,		\$ Change	% Change			
	in thousands	2004			2003		
<b>Assets</b>							
<b>Current Assets</b>	\$	734,781	\$	744,457	\$	(9,676)	(1.3)%
<b>Noncurrent Assets:</b>							
Long-term investment securities		189,702		156,290		33,412	21.4 %
Loans receivable, net		1,851,859		1,674,010		177,849	10.6 %
Property and equipment, net		39,813		34,358		5,455	15.9 %
Other assets		29,245		26,613		2,632	9.9 %
<b>Total Noncurrent Assets</b>		<b>2,110,619</b>		<b>1,891,271</b>		<b>219,348</b>	<b>11.6 %</b>
<b>Total Assets</b>	\$	<b>2,845,400</b>	\$	<b>2,635,728</b>	\$	<b>209,672</b>	<b>8.0 %</b>
<b>Liabilities</b>							
<b>Current Liabilities</b>	\$	421,361	\$	393,524	\$	27,837	7.1 %
<b>Noncurrent Liabilities:</b>							
Bonds and notes payable, net		2,196,136		2,032,075		164,061	8.1 %
Deferred fee income		382		362		20	5.5 %
<b>Total Noncurrent Liabilities</b>		<b>2,196,518</b>		<b>2,032,437</b>		<b>164,081</b>	<b>8.1 %</b>
<b>Total Liabilities</b>		<b>2,617,879</b>		<b>2,425,961</b>		<b>191,918</b>	<b>7.9 %</b>
<b>Net Assets</b>							
Invested in capital assets, net of related debt		7,093		6,636		457	6.9 %
Restricted		91,042		78,563		12,479	15.9 %
Unrestricted		129,386		124,568		4,818	3.9 %
<b>Total Net Assets</b>		<b>227,521</b>		<b>209,767</b>		<b>17,754</b>	<b>8.5 %</b>
<b>Total Liabilities and Net Assets</b>	\$	<b>2,845,400</b>	\$	<b>2,635,728</b>	\$	<b>209,672</b>	<b>8.0 %</b>

The accompanying notes are an integral part of these statements

The Authority's property and equipment includes land, buildings, office and computer equipment used both in its corporate activities and in its Rental Acquisition Program ("RAP"). The Authority owns 15 RAP multi-family rental properties which provide affordable housing to low and moderate income families. Total property and equipment increased \$5.5 million, or 15.9%, during 2004. This increase was primarily the result of the acquisition of an additional RAP property during 2004. See Note (1)(k) to the financial statements for more details.



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## management's discussion and analysis

December 31, 2004 (unaudited)

Current liabilities increased \$27.8 million, or 7.1%, over 2003. Of this total increase, \$17.4 million was due to an increase in current maturities of bonds payable. In addition, notes payable increased \$12.5 million, primarily as a result of a higher level of borrowings under the Authority's line of credit for funding of loan purchases by the General Fund.

Bonds and notes payable increased \$193.9 million, or 8.1%, over 2003, of which the non-current portion of the increase was \$164.1 million. This increase was primarily the result of the issuance of \$584.5 million in debt pursuant to the Authority's single family and multi-family/project bond programs. In addition, approximately \$49.3 million in debt was issued pursuant to various private placements through the Authority's General Fund. This increase in debt outstanding was largely offset by repayments and early redemptions. More detail on the Authority's debt is presented in Note (4) to the financial statements.

Restricted net assets were \$91.0 million as of December 31, 2004. The use of these amounts, recorded as net assets of the single family and multi-family bond funds, are directed by the related bond resolutions and trust indentures.

Total net assets of the Authority climbed \$17.8 million, or 8.5%, to \$227.5 million as of December 31, 2004, as a result of positive operating results for the year, discussed in more detail below and the footnotes to the financial statements beginning on page 15.

December 31, 2003 compared to December 31, 2002

The table on the following page presents condensed information about the financial position of the Authority as of December 31, 2003 and 2002, and changes in the balances of selected items during the fiscal year ended December 31, 2003.

Current assets increased \$35.9 million, or 5.1%, largely due to an increase in refunding activity and the reinvestment of the proceeds for purposes of preserving tax-exempt bond issuance capacity. A total of \$268.1 million of line-of-credit borrowings and short-term debt obligations were outstanding related to the volume capacity preservation activity as of December 31, 2003.

Total loans receivable increased \$147.9 million, or 9.3%, during 2003, of which the non-current portion increase was \$142.9 million. The change was largely due to new loan purchases of approximately \$635.8 million, offset by loan repayments and prepayments that resulted in total pay downs of \$470.0 million. The ability to increase the loan portfolio in a year of rapid loan repayment activity was funded by the issuance of \$642.5 million in new bond issues in 2003.

Current liabilities increased \$66.7 million, or 20.4%, over 2002 primarily as a result of bond issuances raising the current bonds payable balance from \$176.1 million as of year end 2002 to \$273.0 million as of year end 2003, partially offset by the decrease of \$31.0 million in notes and accrued interest payable. Notes payable decreased \$26.8 million to \$86.6 million from \$113.4 million as a result of fewer borrowings from the lines of credit. Accrued interest payable decreased \$4.2 million to \$22.9 million from \$27.1 million due to a significant increase in the level of low current rate variable bonds outstanding in 2003.

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## management's discussion and analysis

December 31, 2004 (unaudited)

Noncurrent liabilities payable increased \$109.9 million, or 5.7%, over 2002 principally due to the issuance of \$642.5 million in new single family and multi-family bond issues, partially offset by repayments and early redemptions of \$425.1 million as a result of a high level of loan prepayments. More detail on the Authority's debt is presented in Note 4 to the financial statements.

in thousands	as of December 31,		\$ Change	% Change
	2003	2002		
<b>Assets</b>				
<b>Current Assets</b>	\$ 744,457	\$ 708,512	\$ 35,945	5.1 %
<b>Noncurrent Assets:</b>				
Long-term investment securities	156,290	147,092	9,198	6.3 %
Loans receivable, net	1,674,010	1,531,076	142,934	9.3 %
Property and equipment, net	34,358	33,658	700	2.1 %
Other assets	26,613	27,380	(767)	(2.8)%
Total Noncurrent Assets	1,891,271	1,739,206	152,065	8.7 %
<b>Total Assets</b>	\$ 2,635,728	\$ 2,447,718	\$ 188,010	7.7 %
<b>Liabilities</b>				
<b>Current Liabilities</b>	\$ 393,524	\$ 326,841	\$ 66,683	20.4 %
<b>Noncurrent Liabilities:</b>				
Bonds and notes payable, net	2,032,075	1,922,221	109,854	5.7 %
Deferred fee income	362	358	4	1.1 %
Total Noncurrent Liabilities	2,032,437	1,922,579	109,858	5.7 %
<b>Total Liabilities</b>	<b>2,425,961</b>	<b>2,249,420</b>	<b>176,541</b>	<b>7.8 %</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	6,636	5,327	1,309	24.6 %
Restricted	78,563	75,323	3,240	4.3 %
Unrestricted	124,568	117,648	6,920	5.9 %
Total Net Assets	209,767	198,298	11,469	5.8 %
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,635,728</b>	<b>\$ 2,447,718</b>	<b>\$ 188,010</b>	<b>7.7 %</b>

The accompanying notes are an integral part of these statements

Total net assets of the Authority climbed \$11.5 million, or 5.8%, to \$209.8 million as a result of positive operating results for the year ending December 31, 2003, primarily due to revenues resulting from higher loan production volumes and other factors discussed below.

## management's discussion and analysis

December 31, 2004 (unaudited)

**Statements of Revenues, Expenses and Changes in Net Assets**

Year ending December 31, 2004 compared to year ending December 31, 2003

The table below presents condensed statements of revenues, expenses and changes in net assets for the years ended December 31, 2004 and 2003, and the change from the prior year.

Interest earned on loans of \$99.5 million, interest income on investments of \$23.9 million and interest expense on bonds and notes of \$98.3 million are the primary components of total revenues and expenses of the Authority.

	years ended December 31,		\$ Change	% Change
	in thousands	2004		
<b>Operating Revenues:</b>				
Interest on loans receivable	\$ 99,482	\$ 93,861	\$ 5,621	6.0 %
Investment income	23,881	23,804	77	0.3 %
Net increase (decrease) in the fair market value of long-term investment securities	1,233	(3,578)	4,811	nm
Rental operations	10,279	9,549	730	7.6 %
Other revenues	12,756	14,058	(1,302)	(9.3) %
<b>Total Operating Revenues</b>	<b>147,631</b>	<b>137,694</b>	<b>9,937</b>	<b>7.2 %</b>
<b>Operating Expenses:</b>				
Interest expense on bonds and notes	98,257	92,629	5,628	6.1 %
Salaries and related benefits	10,668	11,545	(877)	(7.6) %
General operating	14,227	14,411	(184)	(1.3) %
Other interest expense	1,711	1,688	23	1.4 %
Depreciation	2,574	2,694	(120)	(4.5) %
Provision for losses	2,455	3,550	(1,095)	(30.8) %
<b>Total Operating Expenses</b>	<b>129,892</b>	<b>126,517</b>	<b>3,375</b>	<b>2.7 %</b>
<b>Total Operating Income</b>	<b>17,739</b>	<b>11,177</b>	<b>6,562</b>	<b>58.7 %</b>
<b>Nonoperating Revenues</b>	<b>15</b>	<b>292</b>	<b>(277)</b>	<b>(94.9) %</b>
<b>Change in Net Assets</b>	<b>17,754</b>	<b>11,469</b>	<b>6,285</b>	<b>54.8 %</b>
<b>Net Assets:</b>				
Beginning of year	209,767	198,298	11,469	5.8 %
End of year	\$ 227,521	\$ 209,767	\$ 17,754	8.5 %

The accompanying notes are an integral part of these statements

## management's discussion and analysis

December 31, 2004 (unaudited)

Total operating revenues were \$147.6 million in 2004, an increase of \$9.9 million, or 7.2%, compared to 2003. Interest on loans climbed \$5.6 million over the 2003 amount, primarily the result of lower levels of amortization of capitalized down payment assistance balances and deferred fees. Amortization of these items was unusually large in 2003 due to the high levels of early payoffs of single family mortgage loans during that year. Excluding amortization of deferred loan fees and origination costs, in 2004 interest on loans increased \$0.9 million, or 0.9%, compared to 2003. This relatively small increase, in light of a 10.6% increase in loans, is the result of early payoffs of loans with higher coupon rates as borrowers took advantage of historically low mortgage rates during 2003 and 2004.

The fair market value of long-term investment securities increased \$1.2 million in 2004 compared to a \$3.6 million decrease in 2003. This \$4.8 million swing in the fair market value of long-term investment securities was the result of an increase in interest rates in the second half of 2003, followed by a slight decrease in long-term rates during 2004.

Rental operations revenue of \$10.3 million was generated from the Authority's RAP operations. As discussed above, during 2004 the Authority purchased an additional RAP property, increasing its holdings to 15 properties with 1,586 units. Rental operations revenue was 7.6% above the 2003 level of \$9.5 million, primarily due to the acquisition of the new RAP property during 2004.

Partially offsetting these positive changes was a \$1.3 million, or 9.3%, decrease in other revenues. This decrease was primarily the result of certain nonrecurring income in 2003 and the end of a program in 2003 in which the Authority participated with the U.S. Department of Housing and Urban Development (HUD) in savings from refinancing debt that had been used to fund various mortgage loans subject to a HUD assistance program.

Total operating expenses of \$129.9 million for 2004 increased \$3.4 million, or 2.7%, compared to 2003. The rise was largely attributable to a \$5.6 million, or 6.1%, increase in interest expense on bonds and notes. Partially offsetting this increase was a decrease in salaries and related benefits of \$0.9 million, or 7.6%, as a result of reduced staffing levels. In addition, the provision for loan and other real estate owned losses decreased \$1.1 million, or 30.8%, to \$2.5 million in 2004 compared to 2003.

Year ending December 31, 2003 compared to year ending December 31, 2002

The table on the following page presents condensed statements of revenues, expenses and changes in net assets for the years ended December 31, 2003 and 2002 and the change from the prior year.

Interest earned on loans of \$93.9 million, interest income on investments of \$23.8 million and interest expense on bonds and notes of \$92.6 million were the primary components of total revenues and expenses of the Authority.

Total operating revenues were \$137.7 million, which is \$0.3 million, or 0.2%, greater than 2002. Interest on loans climbed \$6.9 million, or 7.9%, as a result of the increase in loans held by the Authority, partially offset by declining interest rates and the effect of high single family loan prepayments, which increased amortization of capitalized fees and

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## management's discussion and analysis

December 31, 2004 (unaudited)

down payment assistance balances. The Authority put more of its monies in short-term investments resulting in an increase of investment income of \$0.3 million, or 1.2%, over the prior year. However, the increase in interest rates in the last six months of 2003 was responsible for the net decrease in the fair market value of long-term investment securities of \$3.6 million, compared to a \$3.9 million net increase in the fair market value of investment securities experienced in 2002. Additionally, other revenue grew \$1.6 million, or 13.2%, to \$14.1 million as a result of increased loan service fees due to higher loan levels and increases in certain program fees earned.

Rental Operations revenue of \$9.5 million was generated primarily from the Authority's Rental Acquisition Program ("RAP"). Rental operations revenue was 10.4% below the 2002 level of \$10.6 million due to lower revenue per rental unit realized and relatively high vacancy rates as a result of the economic downturn in the state throughout 2003.

	years ended December 31,		\$ Change	% Change			
	in thousands	2003			2002		
<b>Operating Revenues:</b>							
Interest on loans receivable	\$	93,861	\$	86,960	\$	6,901	7.9 %
Investment income		23,804		23,521		283	1.2 %
Net increase (decrease) in the fair market value of long-term investment securities		(3,578)		3,904		(7,482)	(191.6) %
Rental operations		9,549		10,569		(1,020)	(9.7) %
Other revenues		14,058		12,422		1,636	13.2 %
<b>Total Operating Revenues</b>		<b>137,694</b>		<b>137,376</b>		<b>318</b>	<b>0.2 %</b>
<b>Operating Expenses:</b>							
Interest expense on bonds and notes		92,629		90,852		1,777	2.0 %
Salaries and related benefits		11,545		10,869		676	6.2 %
General operating		14,411		10,278		4,133	40.2 %
Other interest expense		1,688		1,715		(27)	(1.6) %
Depreciation		2,694		2,246		448	19.9 %
Provision for losses		3,550		4,147		(597)	(14.4) %
<b>Total Operating Expenses</b>		<b>126,517</b>		<b>120,107</b>		<b>6,410</b>	<b>5.3 %</b>
<b>Total Operating Income</b>		<b>11,177</b>		<b>17,269</b>		<b>(6,092)</b>	<b>(35.3) %</b>
<b>Nonoperating Revenues</b>		<b>292</b>		<b>222</b>		<b>70</b>	<b>31.5 %</b>
<b>Change in Net Assets</b>		<b>11,469</b>		<b>17,491</b>		<b>(6,022)</b>	<b>(34.4) %</b>
<b>Net Assets:</b>							
Beginning of year		198,298		180,807		17,491	9.7 %
End of year	\$	209,767	\$	198,298	\$	11,469	5.8 %

The accompanying notes are an integral part of these statements

## management's discussion and analysis

December 31, 2004 (unaudited)

Total operating expenses of \$126.5 million increased \$6.4 million, or 5.3%, from the \$120.1 million incurred in 2002. The rise was largely attributable to high rates of prepayments of single family loans, increasing the amortization of deferred expenses of \$2.8 million included in general operating costs, and an increase in interest expense of \$1.8 million over the previous year as a result of higher bonds and notes payable balances.

### **Economic Outlook**

The Authority was created for the purpose of increasing the availability of affordable, decent, and accessible housing for low and moderate income Coloradans and strengthening the state's economy by providing financial assistance to businesses. Its primary business is funding the purchase of single family and the origination of multi-family home mortgages; however, the Authority also owns multi-family rental properties and provides loans for new construction and rehabilitation of existing facilities. In addition, the Business Finance Division provides a wide variety of programs, including loan programs specific to businesses located in rural communities, women- and minority-owned businesses, manufacturers in the state, and nonprofit organizations committed to better serving the needs of Colorado citizens.

The ability to provide funding is dependent upon the Authority's financing activities, which are sensitive to the level of interest rates, the spread between the rate available on Authority loans and conventional mortgages offered in the Colorado market and the availability of affordable housing. Other key elements include the availability of tax-exempt financing on favorable terms and the budget appropriations from the U.S. Department of Housing and Urban Development, as contained in the federal budget for related program activities.

Despite historically low interest rates and a sluggish economy, the Authority has maintained an active and continuous lending program with record production levels in recent years. The low interest rates provided more opportunities for those in the rental market to purchase their first home. The Authority remains committed to its business activities despite the current economic conditions.

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## statements of net assets (in thousands)

	2004	December 31, 2003
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and interest bearing accounts	\$ 8,750	\$ 8,300
Short-term investment securities (at amortized cost which approximates market)	635,805	647,147
Loans receivable	63,857	57,725
Accrued interest receivable	19,028	19,539
Deferred debt financing costs	640	662
Other assets	4,756	9,160
Federally assisted program advances	1,945	1,924
<b>Total Current Assets</b>	<b>734,781</b>	<b>744,457</b>
<b>Noncurrent Assets:</b>		
Long-term investment securities - restricted (at fair value)	187,561	149,461
Long-term investment securities - unrestricted (at fair value)	2,141	6,829
Loans receivable, net	1,851,859	1,674,010
Property and equipment, net		
Corporate facilities	5,883	5,625
Rental operations	33,930	28,733
Other real estate owned, net	6,601	5,772
Deferred debt financing costs, net	11,529	11,923
Other assets	11,115	8,918
<b>Total Noncurrent Assets</b>	<b>2,110,619</b>	<b>1,891,271</b>
<b>Total Assets</b>	<b>\$ 2,845,400</b>	<b>\$ 2,635,728</b>
<b>Liabilities</b>		
<b>Current Liabilities:</b>		
Bonds payable	\$ 290,370	\$ 272,954
Notes payable	99,060	86,594
Accrued interest payable	22,147	22,882
Accounts payable and other liabilities	7,658	7,267
Federally assisted program advances	1,945	1,924
Refundable deposits	181	1,903
<b>Total Current Liabilities</b>	<b>421,361</b>	<b>393,524</b>
<b>Noncurrent Liabilities:</b>		
Bonds payable, net	2,183,137	2,024,838
Notes payable	12,999	7,237
Deferred fee income	382	362
<b>Total Noncurrent Liabilities</b>	<b>2,196,518</b>	<b>2,032,437</b>
<b>Total Liabilities</b>	<b>2,617,879</b>	<b>2,425,961</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	7,093	6,636
Restricted	91,042	78,563
Unrestricted	129,386	124,568
<b>Total Net Assets</b>	<b>227,521</b>	<b>209,767</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,845,400</b>	<b>\$ 2,635,728</b>

The accompanying notes are an integral part of these statements

statements of revenues, expenses and changes in net assets  
(in thousands)

	years ended December 31,	
	2004	2003
<b>Operating Revenues:</b>		
Interest on loans receivable	\$ 99,482	\$ 93,861
Investment income	23,881	23,804
Net increase (decrease) in the fair market value of long-term investment securities	1,233	(3,578)
Rental operations	10,279	9,549
Other revenues	12,756	14,058
<b>Total Operating Revenues</b>	<b>147,631</b>	<b>137,694</b>
<b>Operating Expenses:</b>		
Interest expense on bonds and notes	98,257	92,629
Salaries and related benefits	10,668	11,545
General operating	14,227	14,411
Other interest expense	1,711	1,688
Depreciation	2,574	2,694
Provision for losses	2,455	3,550
<b>Total Operating Expenses</b>	<b>129,892</b>	<b>126,517</b>
<b>Total Operating Income</b>	<b>17,739</b>	<b>11,177</b>
<b>Nonoperating Revenues:</b>		
Grant income	15	292
Federal grant receipts	87,473	83,210
Federal grant payments	(87,473)	(83,210)
<b>Total Nonoperating Revenues</b>	<b>15</b>	<b>292</b>
<b>Change in Net Assets</b>	<b>17,754</b>	<b>11,469</b>
<b>Net Assets:</b>		
Beginning of year	209,767	198,298
End of year	\$ 227,521	\$ 209,767

The accompanying notes are an integral part of these statements



## statements of cash flows (in thousands)

	years ended December 31,	
	2004	2003
<b>Cash Flows from Operating Activities:</b>		
Interest received on loans receivable	\$ 105,523	\$ 100,535
Receipts from principal payments on loans	330,062	469,979
Interest received from investment securities	23,378	24,290
Receipts from rental operations	10,233	9,577
Receipts from other program revenues	12,521	14,233
Receipts from sales of other real estate owned	4,717	2,040
Receipts from loan fundings	1,963	3,248
(Payments) receipts from accounts payable and federally assisted programs	(1,449)	969
Payments for loan fundings	(526,149)	(635,780)
Interest paid on bonds and notes	(104,947)	(105,796)
Payments for salaries and related benefits	(10,511)	(11,323)
Payments for general operating expenses	(12,275)	(10,319)
Payments for other interest	(1,711)	(1,688)
Payments for loan funding fees	(866)	(2,483)
Payments from other assets	(1,238)	(4,818)
Net Cash Used in Operating Activities	(170,749)	(147,336)
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from issuance of notes	4,097,670	3,416,716
Proceeds from issuance of bonds	633,821	642,488
Receipts from grants	15	292
Receipts from federal grant programs	87,473	83,210
Payments for federal grant programs	(87,473)	(83,210)
Payments for notes	(4,079,442)	(3,440,106)
Payments for bonds	(449,080)	(425,058)
Payments for debt financing costs	(2,527)	(2,747)
Payments for bond call premiums	—	(227)
Net Cash Provided by Noncapital Financing Activities	200,457	191,358
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Sale of property and equipment - corporate facilities	6	—
Sale of property and equipment - rental operations	—	5
Purchase of property and equipment - corporate facilities	(1,235)	(875)
Purchase of property and equipment - rental operations	(6,927)	(2,575)
Net Cash Used in Capital and Related Financing Activities	(8,156)	(3,445)
<b>Cash Flows from Investing Activities:</b>		
Proceeds from maturities and sales of long-term investment securities	42,805	78,828
Purchase of long-term investment securities	(75,249)	(91,552)
Net Cash Used in Investing Activities	(32,444)	(12,724)
Net increase (decrease) in cash and cash equivalents	(10,892)	27,853
Cash and cash equivalents at beginning of year	655,447	627,594
Cash and cash equivalents at end of year	\$ 644,555	\$ 655,447

(continued)

The accompanying notes are an integral part of these statements

## statements of cash flows (in thousands)

	years ended December 31,	
	2004	2003
<b>Reconciliation of Operating Income to Net Cash Used in Operating Activities:</b>		
Operating income	\$ 17,739	\$ 11,177
<b>Adjustments to reconcile operating income to net cash used in operating activities:</b>		
(Increase) decrease in fair value of investments	(1,233)	3,578
Depreciation expense	2,574	2,694
Loss on sale of property and equipment	124	51
Accretion of capital appreciation term bonds	596	641
<b>Amortization of:</b>		
Deferred debt financing costs	3,444	5,278
Premiums and discounts on bonds, net	(9,994)	(14,911)
Premiums and discounts on long-term investment securities, net	265	(51)
Deferred fee income	(1,233)	(2,406)
Deferred cash assistance expense	5,995	11,500
Service release premium expense	1,845	4,352
Provision for losses	2,455	3,550
Principal repayments on loans receivable	330,062	469,978
Sale of other real estate owned	4,717	2,040
New loan fundings	(526,149)	(635,781)
Deferred fee income	1,963	3,247
Deferred cash assistance expense	(866)	(2,484)
<b>Changes in assets and liabilities:</b>		
Accrued interest receivable	511	(1,882)
Other assets	(1,540)	(4,548)
Accrued interest payable	(736)	(4,175)
Accounts payable and federally assisted programs	(1,288)	816
<b>Net Cash Used in Operating Activities</b>	<b>\$ (170,749)</b>	<b>\$ (147,336)</b>
<b>Supplemental schedule of non-cash operating, noncapital financing, capital and related financing and investing activities:</b>		
Transfer of loans receivable to other real estate owned	5,545	2,432
Transfer of loans receivable to (from) other assets	(1,880)	1,803
Transfer of loans receivable to deferred debt financing	129	—
	(Concluded)	

The accompanying notes are an integral part of these statements

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

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

#### (a) Authorizing Legislation

Colorado Housing and Finance Authority (the "Authority") is a corporate body and a political subdivision of the State of Colorado established pursuant to the Colorado Housing and Finance Authority Act, Title 29, Article 4, Part 7 of the Colorado Revised Statutes, as amended (the "Act"). The Authority is not a state agency and is not subject to administrative direction by the State. The governing body of the Authority is its board of directors. Operations of the Authority commenced in 1974.

The Authority was created for the purpose of making funds available to assist private enterprise and governmental entities in providing housing facilities for low and moderate income families. Under the Act, the Authority is also authorized to finance project and working capital loans to industrial and commercial enterprises of small and moderate size.

In 2001, the Colorado state legislature repealed the limitation on the amount of debt that the Authority can issue as well as removed the moral obligation of the State of Colorado on future debt issues of the Authority. The bonds, notes and other obligations of the Authority do not constitute debt of the State of Colorado.

In 1992, Colorado voters approved an amendment to the State Constitution, Article X, Section 20 which, among other things, imposes restrictions on increases in revenue and expenditures of state and local governments. In the opinion of its bond counsel, the Authority qualifies as an enterprise under the amendment and therefore is exempt from its provisions.

#### (b) Reporting Entity

In accordance with governmental accounting standards applicable to the reporting entity, the Authority has included related entities in its financial statements. The reporting entity definition is based primarily on the concept of financial accountability. The Authority is financially accountable for those units that make up its legal entity as well as its legally separate organizations, because they have the same board of directors and management personnel, and their surplus

assets are relinquished to the Authority.

Tanglewood Oaks Apartments Corporation ("Tanglewood"), Hyland Park Centre Corporation ("Hyland Park"), and Village of Yorkshire Corporation ("Yorkshire") have been designated as blended component units and included in the Authority's financial statements. Tanglewood, Hyland Park and Yorkshire are public, non-profit instrumentalities of the Authority, each of which owns and operates a single, separate multi-family rental housing project. Financial information pertaining to the blended component units is presented later in Note (1)(k). Separate financial statements for the individual component units may be obtained through the Authority.

Management also has concluded that the Authority is not a component unit of any other entity.

#### (c) Fund Accounting

The financial activities of the Authority are recorded in the funds ("Bond Funds") established under various bond resolutions and in various subfunds established in connection with the administration of the Authority's programs. All activities of the Authority not performed pursuant to the Single Family and Multi-Family Funds are recorded in the General Fund. These Funds are combined for financial reporting purposes.

The Authority acts as a contract administrator of the U.S. Department of Housing and Urban Development's ("HUD") Section 8 subsidy program, administering the Housing Assistance Payments ("HAP") contracts for developments in the Authority's loan portfolio. Under the Section 8 subsidy program, tenants pay 30% of their income toward rent and the balance is paid by federal subsidy. Federally-assisted program accounts have also been established to record activities directly related to the federal Section 8 HAP program and other related programs funded by HUD. These accounts are primarily used for housing assistance pass-through funds and for properties owned and utilized in affordable housing programs, which are dependent on budget appropriations from HUD as contained in the Federal budget.

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(1) Organization and Summary of Significant Accounting Policies****(c) Fund Accounting**  
(continued)

The financial statements of the Authority are presented on the basis of the proprietary fund accounting concept. The Authority's Board of Directors (the "Board") has designated certain amounts of the unrestricted net assets of the General Fund as of December 31, 2004 and 2003, for various purposes, as indicated in the following table. These designations of net assets are not binding, and can be changed by the Board.

The amounts restricted for single and multi-family bonds are for the payment of principal, redemption premium, if any, or interest on all outstanding single family and multi-family bond issues, in the event that no other monies are legally available for such payments. The Board may withdraw all or part of this restricted balance if (1) the Authority determines that such monies are needed for the implementation or maintenance of any duly adopted program of the Authority; and (2) no default exists in the payment of the principal, redemption premium, if any, or interest on such bonds.

Revenues and expenses are recognized on an accrual basis. The Authority distinguishes operating revenues and expenses from non-operating

items. Operating revenues and expenses generally result from providing services in connection with the Authority's ongoing operations. The principal operating revenues of the Authority are interest income on loans and investment income. The Authority also recognizes revenues from rental operations and other revenues, which include loan servicing fees and other administrative fees. Operating expenses include interest expense, administrative expenses, depreciation, and the provision for losses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

As permitted by 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 adopt Financial Accounting and Standards Board statements and interpretations issued after November 30, 1989, unless so directed by the GASB.

	2004	2003
<b>Appropriations for Loan Programs:</b>		
Housing Opportunity loans	\$ 27,002	\$ 29,458
Housing loans	949	2,555
Business finance loans	15,080	17,975
<b>Total Appropriations</b>	<b>43,031</b>	<b>49,988</b>
<b>Designations:</b>		
General obligation bonds	15,861	18,939
General operating and working capital	35,170	14,300
Unrealized appreciation of investments	257	642
Single and multi-family bonds	35,067	40,699
<b>Total Designations</b>	<b>86,355</b>	<b>74,580</b>
<b>Total General Fund Unrestricted Net Assets</b>	<b>\$ 129,386</b>	<b>\$ 124,568</b>

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## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

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

#### (d) Budget Policies and Procedures

The Authority's budget year is the calendar year. A budget committee consisting of Finance and the Executive Committee reviews the initial draft, makes necessary changes and presents the budget to the Executive Director for further review and approval. The Board is typically presented with a draft in November, and a public hearing is conducted. Modifications are made reflecting Board and public input, and the final version is typically adopted by the Board in December. The Board may modify the budget at any point during the fiscal year, but has chosen to do so only twice in its history, in 1992 and in 2000. The budget is developed on a full accrual basis with estimations of revenue by source and expenses by object.

#### (e) Cash

Cash at December 31, 2004 and 2003, primarily includes money market interest accounts of which approximately \$1,785,000 and \$1,423,000, respectively, is designated for various General Fund program purposes.

#### (f) Investment Securities

The Authority is authorized by means of a Board-approved investment policy to invest in notes, bonds and other obligations issued or guaranteed by the U.S. government and certain governmental agencies. Additionally, the Authority is permitted to invest, with certain restrictions as to concentration of risk, collateralization levels, maximum periods to maturity, and/or underlying rating levels applied, in revenue or general obligations of states and their agencies, certificates of deposits, U.S. dollar denominated corporate or bank debt, commercial paper, repurchase agreements backed by U.S. government or agency securities, money market mutual funds and investment agreements. Each of the trust indentures established under the Authority's bond programs contains requirements as to permitted investments of bond fund proceeds, which may be more or less restrictive than the Authority's investment policy for General Fund monies.

Investments generally consist of unexpended bond proceeds, debt service reserve funds and revenue funds established under the provisions of various trust indentures, and investments of the Authority's General Fund.

In connection with the Authority's bond programs, unexpended bond proceeds are maintained in trust, put in various types of investments until such time as the proceeds can be used to purchase specific types of loans. As noted above, investments are subject in some cases to minimum collateralization levels. For uncollateralized investments, including guaranteed investment contracts, appropriate credit ratings are generally required.

The Authority accounts for its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which establishes accounting and financial reporting standards for investments held by governmental entities. GASB Statement No. 31 requires most investments to be recorded at fair value and the recognition of unrealized gains and losses in the statement of revenue and expenses. GASB Statement No. 31 allows money market investments and participating interest earning investment contracts that have a remaining maturity at the time of purchase of one year or less to be recorded at amortized cost. The net increase (decrease) in the fair value of long-term investment securities for 2004 and 2003 is reflected in the statements of revenues, expenses, and changes in net assets for the years presented.

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## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(1) Organization and Summary of Significant Accounting Policies (continued)****(g) Loans Receivable**

Mortgage loans are carried net of deferred down payment assistance expense, deferred fee income and allowance for loan losses. Generally, single family first mortgage loans bear interest at rates ranging from 4.625% to 10.00% per annum, payable monthly over 30 years. Single family mortgage loans are collateralized by first liens on the related properties, except for \$18.1 million of 0% second-lien mortgages at December 31, 2004, issued under the Authority's buyer assistance program. Generally, multi-family and business finance loans bear interest at rates ranging from 1.00% to 12.00% per annum, payable over terms from 7 to 40 years. Servicing of mortgage loans is provided by the Authority and various approved and qualified private lending institutions, on behalf of the Authority. The Authority services approximately 98% of its loans directly.

**(h) Fee Income and Expense**

Loan and commitment fees, net of related costs, are deferred and amortized into interest income using the effective interest method over the lives of the loans. Under the Authority's Single Family Bond Program, the borrower could choose a loan that provided a cash assistance payment of generally 3% of the loan amount. This program ended in 2003. These payments were deferred and are amortized into interest income using the effective interest method over the lives of the loans.

**(i) Compensated Absences**

Full-time employees accrue paid time off at the rate of between nineteen and twenty-nine days per year, depending on length of service. Partial full-time employees accrue vacation at 80% of full time employees, while part-time employees accrue vacation at 50%. The liability for compensated absences is based on current salary rates, and is included in the financial statements.

**(j) Allowances for Losses**

The allowances for losses on loans, other real

estate owned and other assets are provided through charges against current operations based on management's periodic review of the loan and other real estate owned portfolios. This review considers such factors as the payment history of the loans, the projected cash flows of the borrowers, estimated value of the collateral, subsidies, historical loss experience for each type of insurance or guarantee (for losses particular to other real estate owned), additional guarantees provided by the borrowers and economic conditions. When this review determines that an exposure to loss is probable and can be reasonably estimated, a provision against current operations is made in the amount quantifiable. Loans receivable, other real estate owned and other assets are shown net of allowances for losses of \$20,112,000, \$1,038,000 and \$0, respectively, for 2004, and \$19,091,000, \$1,601,000, and \$40,000, respectively, for 2003.

**(k) Property, Equipment and Rental Real Estate Operations**

Office buildings, furniture and equipment used in the Authority's corporate operations are carried at \$5,883,000 and \$5,625,000 (net of accumulated depreciation) at December 31, 2004 and 2003, respectively.

The Authority commenced its Rental Acquisition Program ("RAP") in 1988, when the Board authorized the acquisition, rehabilitation and operation of multi-family properties to provide affordable housing to low and moderate income families. The Authority has acquired and rehabilitated these properties with a combination of funds, including (1) general obligation and multi-family bond proceeds, (2) seller-carry notes, and (3) contributions from the General Fund. As a policy matter, the Authority sells these properties from time to time to qualified non-profit sponsors. Further, it is the policy of the Authority to distribute excess surplus net assets from the component units semiannually. These distributions are reflected in the component unit's net assets. As of December 31, 2004, the Authority owned a total of 15 RAP projects, including its three component units, containing 1,586 units.

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

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

Selected balance sheet items of the RAP are presented below.

	2004	2003
<b>RAP Combined, Including Component Units:</b>		
Property, net of accumulated depreciation of \$14,507 and \$12,777	\$ 33,930	\$ 28,733
Total assets	41,169	35,437
Total liabilities	28,225	23,120
Net assets	12,944	12,317
<b>RAP Component Units Only:</b>		
Property, net accumulated depreciation of \$8,573 and \$7,676	\$ 16,745	\$ 17,315
Total assets	19,914	20,594
Total liabilities	16,379	16,785
Net assets	3,535	3,809

All revenue and expenses of these properties, including depreciation and interest, are reflected in the operating results of the Authority's General Fund. RAP revenues are recorded as components of rental operations and other revenues, which include RAP interest income. Operating and other expenses are recorded in general operating expenses, and interest expense on notes payable and general obligation bond proceeds used to acquire the properties is recorded in other interest expense.

The following is a summary of the operating results of the RAP properties on a stand-alone basis before elimination of intercompany transactions.

	2004	2003
<b>RAP Combined, Including Component Units:</b>		
Rental operations	\$ 10,279	\$ 9,549
Other revenues	68	57
General operating expenses	(5,716)	(4,544)
Depreciation expense	(1,730)	(1,920)
Interest expense	(1,711)	(1,688)
Net Income	\$ 1,190	\$ 1,454
<b>RAP Component Units Only:</b>		
Rental operations	\$ 6,190	\$ 6,241
Other revenues	26	41
General operating expenses	(3,097)	(2,585)
Depreciation expense	(897)	(1,227)
Interest expense	(1,210)	(1,229)
Net Income	\$ 1,012	\$ 1,241

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

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

The Authority uses the straight-line method of depreciation with estimated useful lives of three to thirty years. The capitalization threshold for corporate and RAP capital assets for 2003 was

\$1,000 and \$500, respectively. As of January 1, 2004, the capitalization thresholds increased to \$2,500 for corporate assets and \$1,500 for RAP assets.

A summary of corporate and RAP property and equipment follows:

	Balance Dec 31, 2003	Additions	Disposals	Transfers	Balance Dec 31, 2004
<b>Corporate</b>					
Computer equipment/software	\$ 1,377	\$ 652	\$ (214)	\$ —	\$ 1,815
Office equipment	2,369	54	(1,630)	33	826
Furniture and fixtures	1,624	—	(768)	(116)	740
Buildings	3,377	—	(37)	83	3,423
Land	1,573	—	—	—	1,573
Construction in progress	152	529	—	—	681
Sub-Total	10,472	1,235	(2,649)	—	9,058
Accumulated Depreciation	(4,847)	(844)	2,516	—	(3,175)
Net Book Value	5,625	391	(133)	—	5,883
<b>Rental Operations</b>					
Computer equipment/software	71	13	—	—	84
Office equipment	3,271	193	—	—	3,464
Furniture and fixtures	3,039	120	—	—	3,159
Buildings	30,673	5,068	—	—	35,741
Land	4,456	1,500	—	—	5,956
Construction in progress	—	33	—	—	33
Sub-Total	41,510	6,927	—	—	48,437
Accumulated Depreciation	(12,777)	(1,730)	—	—	(14,507)
Net Book Value	28,733	5,197	—	—	33,930
Consolidated Net Book Value	\$ 34,358	\$ 5,588	\$ (133)	\$ —	\$ 39,813
	Balance Dec 31, 2002	Additions	Disposals	Transfers	Balance Dec 31, 2003
<b>Corporate</b>					
Computer equipment/software	\$ 965	\$ 564	\$ —	\$ (152)	\$ 1,377
Office equipment	2,286	33	(14)	64	2,369
Furniture and fixtures	1,604	2	(260)	278	1,624
Buildings	3,443	276	—	(342)	3,377
Land	1,573	—	—	—	1,573
Construction in progress	—	—	—	152	152
Sub-Total	9,871	875	(274)	—	10,472
Accumulated Depreciation	(4,299)	(774)	226	—	(4,847)
Net Book Value	5,572	101	(48)	—	5,625
<b>Rental Operations</b>					
Computer equipment/software	61	10	—	—	71
Office equipment	2,980	291	—	—	3,271
Furniture and fixtures	2,854	185	—	—	3,039
Buildings	28,592	2,089	(8)	—	30,673
Land	4,456	—	—	—	4,456
Sub-Total	38,943	2,575	(8)	—	41,510
Accumulated Depreciation	(10,857)	(1,920)	—	—	(12,777)
Net Book Value	28,086	655	(8)	—	28,733
Consolidated Net Book Value	\$ 33,658	\$ 756	\$ (56)	\$ —	\$ 34,358



## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

### (1) Organization and Summary of Significant Accounting Policies (continued)

#### (l) Deferred Debt Financing Costs and Bond Discounts and Premiums

Costs of debt issuance are deferred and amortized over the expected average lives of the bond issues using the effective interest method. Discounts and premiums on bonds payable are amortized over the expected average lives of the respective bond issues using the effective interest method.

#### (m) Other Real Estate Owned

Other real estate owned represents real estate acquired through foreclosure and in-substance foreclosures. Other real estate owned is initially recorded at the lower of the investment in the loan or the estimated net realizable value.

#### (n) Other Assets

Included in other assets are unamortized costs of mortgage servicing rights and amounts held by the Authority related to its multi-family programs.

#### (o) Federally Assisted Program Advances

In accordance with and pursuant to contracts between the Authority and HUD, the Authority administers federally assisted programs in certain areas of the State of Colorado. Under these programs, housing assistance payments are made to the owners of rental housing developments on behalf of tenants of low and moderate income who meet the eligibility requirements. HUD advances funds to the Authority for the housing assistance payments and, for the majority of these developments, pays a monthly fee to the Authority for its administration of the subsidy contracts. The advanced funds held by the Authority are \$1,945,000 and \$1,924,000 for 2004 and 2003, respectively. The administrative fees for these federally assisted programs were approximately \$3,644,000 and \$3,663,000 in 2004 and 2003, respectively.

#### (p) Interest Rate Swap Agreements

The Authority enters into interest rate swap agreements with rated swap counterparties in order to: (1) provide lower cost fixed rate financing for its loan production needs through synthetic fixed rate structures; and (2) utilize synthetic fixed rate structures with refunding bonds in order to generate cash flow savings. The interest differentials to be paid or received under such swaps are recognized as an increase or decrease in interest expense of the related bond liability. Additional information about the swap agreements is described in Note (5).

#### (q) Other Revenue and Other Interest Expense

Other revenue includes administrative fees from federally assisted programs, tax credit program fees, mortgage loan servicing fees, and reimbursements and fees from other programs. Other interest expense includes interest costs on debt incurred to finance RAP properties.

#### (r) Debt Refunding

For current and advance refundings resulting in defeasance of debt reported by the Authority, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old or new debt, whichever is shorter, using the effective interest method. The deferred refunding amounts are classified as a component of bonds payable in the financial statements.

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(1) Organization and Summary of Significant Accounting Policies (continued)****(s) Risk Management**

The Authority has a risk management program under which the various risks of loss associated with its business operations are identified and managed. The risk management techniques utilized include a combination of standard policies and procedures and purchased insurance. Commercial general liability, property losses, business automobile liability, worker's compensation and public officials' liability are all managed through purchased insurance. Through the end of 2003, for excess risk exposure, all employee medical claims in excess of \$30,000 per individual and \$896,000 aggregate per year were also covered by the purchase of stop-loss insurance. The Authority was partially self-insured to cover claims that fell below these limits.

Effective January 1, 2004, the Authority elected to discontinue the self-insured medical claims approach and the related stop-loss insurance was discontinued. Coverage has been moved to a fully-insured plan underwritten and administered by a major insurance underwriter. Under the new plan, periodic premiums are shared between the Authority and employees who elect to be covered under the plan.

The claim liability for the years ended December 31, 2004 and 2003, which is included in accounts payable and other liabilities, was as follows:

	2004	2003
Beginning Claims Liability	\$ 76	\$ 157
Period claims	—	1,045
Estimated accrual changes, adjustments	(11)	(90)
Claims payments	(65)	(1,036)
Ending Claims Liability	\$ —	\$ 76

**(t) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

**(u) Mortgage Escrows**

Escrow funds held by the Authority on behalf of others of approximately \$11,940,000 and \$10,810,000 at December 31, 2004 and 2003, respectively, are not reflected in the accompanying balance sheets. The Authority is accountable for escrow funds and is contingently liable for them in the event of loss, but the funds are the assets of the parties that provided them. All escrow funds are held in financial institutions that are subject to the Public Deposit Protection Act and, as a result, are fully collateralized.

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## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

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

#### (v) Reclassifications

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation.

#### (w) New Accounting Pronouncements

In March 2003, GASB issued GASB Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*. GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. GASB Statement No. 40 is required to be adopted for periods beginning after June 15, 2004. In management's opinion, it does not appear that GASB Statement No. 40 will have a material impact on the financial position, results of operations or cash flows of the Authority.

In November 2003, GASB issued GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this statement are effective for fiscal periods beginning after December 15, 2004. Management believes that GASB Statement No. 42 will not have a material impact on the financial position, results of operations or cash flows of the Authority.

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## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(2) Cash and Investment Securities**

Investment of the Authority's monies is made in accordance with the Authority's investment guidelines, which have been approved by the Board and are in compliance with the Act and the laws of the State of Colorado. Permitted investments under these guidelines include obligations of the U.S. government, its agencies and instrumentalities, commercial paper rated A-1 or P-1, certificates of deposit, repurchase agreements, money market mutual funds and investment agreements.

The Authority categorizes its cash into three categories as to their risk. Category 1 includes insured deposits or deposits fully collateralized with securities held in the Authority's name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution, or by its trust department or agent, in the Authority's name. Category 3 includes uninsured and uncollateralized cash and deposits. All Category 2 deposits are collateralized in accordance with the Public Deposit Protection Act.

At December 31, 2004, the Authority's deposits are categorized as follows:

Risk Category	2004 Carrying Balance	2004 Bank Balance	2003 Carrying Balance
1	\$ 571	\$ 607	\$ 531
2	8,146	6,186	7,371
3	33	33	398
Total	\$ 8,750	\$ 6,826	\$ 8,300

In the following table, the Authority's investment securities (excluding money market mutual funds, certificates of deposit and uncollateralized investment agreements) are also categorized into three categories to provide an indication of the level of risk assumed as of December 31, 2004 and 2003, as follows. Category 1 includes those investments which are insured, or registered securities held by the Authority or its trustee in the Authority's name. Category 2 includes those investments which are uninsured and unregistered, with securities held by the counterparty's trust department or its agent in the Authority's name.

Category 3 includes those investments which are uninsured and unregistered, with securities held by the counterparty or its agent, but not in the Authority's name. Amounts not subject to categorization include money market mutual funds and uncollateralized investment agreements because securities are not issued as evidence of these investments. Short-term investment securities are carried at amortized cost, which approximates market. Long-term investment securities are carried at fair value.

Investment Type	Risk Category	2004	2003
Categorized:			
U.S. Government & agency obligations	1	\$ 159,518	\$ 156,118
State & political subdivision obligations	1	10,859	10,759
Repurchase agreements	2	29,193	28,264
Uncategorized:			
Money market mutual funds		38,301	36,213
Certificates of deposit		—	34,060
Uncollateralized investment agreements		587,636	538,023
Total		\$ 825,507	\$ 803,437

Investment agreements meet the requirements of the rating agency providing the rating on the related debt issue, and of the Board, in accordance with the Act. Investment agreements generally provide for collateralization of balances in the event of a rating agency downgrade of the institution below certain rating requirements.

The repurchase agreements reflected in the table above, while legally structured as repurchase agreements, are in effect collateralized investment agreements. These investments are subject to long-term agreements with the counterparty with fixed rates of return.

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(3) Loans Receivable**

Loans receivable at December 31, 2004 and 2003, consist of the following:

	2004	2003
General Fund	\$ 272,127	\$ 181,232
Single Family bond programs:		
Taxable Revenue	2,446	3,289
Revenue	630	759
Program	9,268	11,290
Program Senior and Subordinate	187,209	276,922
Revenue Refunding	—	167
Mortgage	888,385	707,690
Total Single Family Bond Program Loans	1,087,938	1,000,117
Multi-Family bond programs:		
Housing Insured Mortgage Revenue	204,794	228,409
Mortgage Revenue	—	1,170
Project	367,003	329,944
Total Multi-Family Bond Program Loans	571,797	559,523
Total Loans Receivable	1,931,862	1,740,872
Deferred cash assistance expense	13,661	18,919
Deferred fee income	(9,695)	(8,965)
Allowance for loan losses	(20,112)	(19,091)
Total Loans Receivable, Net	\$ 1,915,716	\$ 1,731,735

General Fund loans are made up of single family, multi-family and business finance loans acquired under various programs of the General Fund, warehoused loans to be acquired by the Bond Funds, loans held as investments, and loans backed by bonds within the General Fund. These loans are typically collateralized by mortgages on real property and improvements. At December 31, 2004 and 2003, \$9,783,000 and \$7,504,000 of these loans, respectively, are secured by first liens ahead of second liens from the Small Business Administration. Additionally, at December 31, 2004 and 2003, \$23,632,000 and \$19,136,000 of these loans, respectively, are secured by a guarantee of the Small Business Administration or Consolidated Farm Services, formerly the Farmers Home Administration.

Single family bond program loans are collateralized by first mortgages on applicable real property, and in the case of loans with a loan-to-value ratio of 80% or more, are either insured by private mortgage insurance or the Federal

Housing Administration or guaranteed by the Veterans Administration or Rural Economic and Community Development Department.

Multi-family bond program loans are collateralized by first mortgages on applicable real estate, and, in some cases, are further insured by an agency of the United States government.

At December 31, 2004 and 2003, the amounts available in the Bond Funds for additional investments in new loans are as follows:

	2004	2003
Single Family mortgage programs*	\$ 168,436	\$ 148,956
Multi-Family mortgages and projects	31,291	42,388
Total	\$ 199,727	\$ 191,344

\* These amounts will be used to acquire single family mortgage loans warehoused in the Authority's General Fund of \$154,611,000 and \$64,092,000 at December 31, 2004 and 2003, respectively.

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(4) Bonds and Notes Payable**

The aggregate principal amounts of bonds and notes payable at December 31, 2004 and 2003, are shown on the following pages. Interest is payable semi-annually unless otherwise noted.

Description and Due Date	Interest Rate (%)	2004	2003	
<b>Bonds Payable:</b>				
<b>General Fund:</b>				
General Obligation Bonds:				
1992 Series A	2005-2030	9.125	\$ 3,220	\$ 3,245
1998 Series A	2005-2017	4.55 to 5.25	1,280	1,345
Total General Obligation Bonds			4,500	4,590
Business Finance:				
ACCESS Program:				
1995 Series A	2005-2015	7.67	443	2,485
1997 Series A		7.22	—	1,854
1999 Series A	2005-2018	6.49	615	2,168
Total ACCESS Program			1,058	6,507
QIC Program: (*principal and interest payable monthly)				
1999 Series A	2005-2024	5.71	2,073	2,971
2000 Series A	2005-2025	6.755	300	329
2003 Series A	2005-2023	5.004	4,192	4,853
2004 Series A	2005-2024	4.62	4,940	—
2004 Series B*	2005-2024	4.88	9,832	—
Total QIC Program			21,337	8,153
Total Business Finance			22,395	14,660
Single Family:				
Taxable Mortgage Revenue: (principal and interest payable monthly)				
2000 Series A	2005-2020	6.914	1,615	2,716
2000 Series B	2005-2020	6.675	817	1,413
2001 Series AP	2005-2021	6.135	3,576	5,372
2001 Series AV	2005-2021	6.625	1,350	2,167
2002 Series AP	2005-2021	5.662	1,455	2,400
2004 Series A	2005-2024	4.95	2,010	—
2004 Series B	2005-2035	4.98	5,000	—
2004 Series CV	2005-2035	5.14	4,500	—
Total Single Family			20,323	14,068
Multi-Family:				
Smart Program: (*principal and interest payable monthly)				
2000 Series A	2005-2020	6.152	5,227	8,234
2004 Series A*	2005-2024	4.90	13,374	—
Total Smart Program			18,601	8,234
Taxable Rental Project Revenue (principal and interest payable monthly)				
2002 Series AV	2005-2022	5.55	6,692	6,893
2003 Series AV	2005-2024	5.19	3,946	3,987
2004 Series AP	2005-2024	4.90	8,183	—
Total Taxable Rental Project Revenue			18,821	10,880
Total Multi-Family			37,422	19,114
<b>Total General Fund</b>			<b>84,640</b>	<b>52,432</b>

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(4) Bonds and Notes Payable (continued)**

Description and Due Date	Interest Rate (%)	2004	2003	
<b>Single Family Fund:</b>				
Taxable Single Family Mortgage Revenue Bonds:				
1998 Issue I	2005-2018	6.65	430	2,315
Single Family Revenue Bonds:				
1985 Series A	2005-2009	11.125	618	777
1985 Series B	2007	8.75	345	885
1993 Refunding Series A	2005-2008	7.00	3,003	3,925
Total Single Family Revenue Bonds			3,966	5,587
Single Family Program Bonds:				
1998 Series C	2005-2029	4.70 to 5.625	9,202	11,740
Single Family Program Senior and Subordinate Bonds:				
1994 Series B	2005-2024	6.125 to 7.50	495	715
1994 Series C	2005-2024	6.25 to 7.90	140	335
1994 Series D-I		5.90 to 8.00	—	290
1994 Series D-II		6.125 to 8.125	—	130
1994 Series F		6.75 to 8.625	—	125
1995 Series A		5.90 to 8.00	—	2,110
1995 Series B	2005-2025	5.90 to 7.90	265	1,740
1995 Series C	2005-2025	5.30 to 7.65	545	2,870
1995 Series D	2005-2026	5.20 to 7.38	5,940	10,745
1996 Series A	2005-2027	5.20 to 7.40	3,330	6,640
1996 Series B	2005-2027	5.40 to 7.65	2,860	5,385
1996 Series C	2005-2027	5.40 to 7.55	4,135	5,945
1997 Series A	2005-2027	4.85 to 7.25	5,530	9,055
1997 Series B	2005-2028	5.00 to 7.00	3,750	6,845
1997 Series C	2005-2028	5.00 to 6.875	4,880	8,295
1998 Series A	2005-2029	4.75 to 6.60	10,060	16,060
1998 Series B	2005-2029	4.625 to 6.55	10,164	16,289
1998 Series D	2005-2029	4.25 to 6.35	12,950	21,145
1999 Series A	2005-2030	4.375 to 6.45	14,405	20,965
1999 Series B	2005-2030	4.875 to 6.80	12,505	20,155
1999 Series C	2005-2031	4.70 to 7.20	16,235	24,625
2000 Series A	2005-2031	5.75 to 7.50	6,385	11,575
2000 Series B	2005-2031	5.35 to 7.25	7,155	12,425
2000 Series C	2005-2031	5.70 to 8.40	9,280	17,795
2000 Series D	2005-2032	5.40 to 7.43	10,225	17,305
2000 Series E	2005-2032	5.375 to 7.10	8,115	15,915
2001 Series A	2005-2032	5.00 to 6.50	15,165	27,280
2001 Series B	2005-2033	5.00 to 6.55	18,415	32,800
2001 Series C	2005-2033	5.90 to 6.60	24,350	41,835
Total Single Family Program Senior and Subordinate Bonds			207,279	357,394

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(4) Bonds and Notes Payable (continued)**

Description and Due Date			Interest Rate (%)	2004	2003
Single Family Revenue Refunding Bonds:					
1994 Series A			5.00 to 5.30	—	35
Single Family Mortgage Bonds					
2001 Series AA	2005-2041	Variable & 5.25		131,840	131,840
2002 Series A	2005-2032	Variable & 4.55 to 5.65		84,855	90,305
2002 Series B	2005-2032	Variable & 4.80 to 5.40		129,655	135,000
2002 Series C	2005-2036	Variable & 4.40 to 4.95		169,900	172,000
2003 Series A	2005-2032	Variable & 4.75 to 5.15		76,350	106,000
2003 Series B	2005-2033	Variable & 5.00		198,260	254,000
2003 Series C	2005-2032	Variable & 5.00		121,695	223,275
2004 Series A	2005-2034	Variable & 1.75 to 5.25		312,000	—
2004 Series B	2005-2034	Variable & 1.99 to 5.25		183,335	—
Total Single Family Mortgage Bonds				1,407,890	1,112,420
Total Single Family				1,628,767	1,489,491
Multi-Family Fund:					
Multi-Family Housing Insured					
Mortgage Revenue Bonds:					
1995 Series A	2005-2037	5.90 to 6.80		11,380	11,495
1995 Series B	2005-2037	5.70 to 6.75		13,735	13,840
1995 Series C	2005-2015	5.30 to 6.50		12,520	12,615
1996 Series A	2005-2037	5.20 to 7.20		21,435	21,900
1996 Series B	2005-2037	5.75 to 8.00		8,510	8,605
1996 Series C	2005-2038	5.40 to 8.10		14,780	14,895
1997 Series A	2005-2038	4.90 to 7.125		10,505	12,715
1997 Series B	2005-2038	4.80 to 7.25		22,715	22,925
1997 Series C	2005-2039	4.90 to 6.75		28,565	36,650
1998 Series A	2005-2039	5.35 to 6.70		19,975	20,145
1998 Series B	2005-2040	5.45 to 7.00		7,195	7,220
1999 Series A	2005-2041	4.15 to 6.65		33,590	33,950
1999 Series B	2005-2041	5.25 to 5.85		5,435	5,475
1999 Series C	2005-2041	5.05 to 7.10		16,215	16,350
2002 Series AA	2005-2030	Variable		74,370	75,285
Total Multi-Family Housing Insured				300,925	314,065
Multi-Family Mortgage Revenue Bonds: (principal and interest payable monthly)					
Series 1978-3			6.50	—	1,170
Multi-Family/Project Bonds: (*principal and interest payable quarterly on some of the bonds)					
2000 Series A	2005-2032	Variable & 6.15		64,530	64,530
2000 Series B*	2005-2042	Variable & 5.90 to 6.10		30,950	31,175
2001 Series A	2005-2043	3.50 to 5.65		28,310	37,670
2002 Series A	2005-2042	Variable & 3.60 to 5.70		33,810	41,720
2002 Series B	2005-2032	Variable		13,260	57,295
2002 Series C	2005-2042	Variable & 2.85 to 5.30		142,645	142,720
2003 Series A	2005-2033	Variable		48,780	48,780
2004 Series A	2005-2045	Variable & 1.70 to 4.80		89,115	—
Total Multi-Family/Project Bonds				451,400	423,890
Total Multi-Family Fund				752,325	739,125
Total Bonds Payable				2,465,732	2,281,048



## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(4) Bonds and Notes Payable (continued)**

Description and Due Date	Interest Rate (%)	2004	2003
<b>Notes Payable:</b>			
<b>Line of Credit:</b>			
January 7, 2005	2.12 and 2.24	98,945	85,821
<b>Mortgage Notes Payable:</b>			
November 30, 2005	—	10	30
January 2, 2006	Variable	6,000	—
November 16, 2008	6.40	4,813	—
July 1, 2014	4.50	672	693
September 4, 2020	1.00	713	755
June 16, 2024	—	247	—
June 22, 2025	1.00	659	687
September 12, 2007	6.50	—	1,679
January 3, 2008	7.25	—	4,166
<b>Total Mortgage Notes Payable</b>		<b>13,114</b>	<b>8,010</b>
<b>Total Notes Payable</b>		<b>112,059</b>	<b>93,831</b>
<b>Total Bonds and Notes Payable</b>		<b>2,577,791</b>	<b>2,374,879</b>
Discounts/premiums, net		15,210	24,553
Deferred losses on refunding amounts		(7,435)	(7,809)
<b>Total Bonds and Notes Payable, Net</b>		<b>\$ 2,585,566</b>	<b>\$ 2,391,623</b>

Included in several of the bond issues in the previous table are Capital Appreciation Term Bonds. The principal amounts of these bonds appreciate based on semiannual compounding of the original principal balances at the interest rates specified.

The appreciated balances of these bonds at maturity, and as reflected in the accompanying Statements of Net Assets at December 31, 2004 and 2003, are as follows:

Description and Due Date	Interest Rate (%)	Maturity	Appreciated Balances	
			2004	2003
<b>Single Family Revenue Bonds:</b>				
1985 Series A      2005-2009	11.125	\$ 793	\$ 618	\$ 777
1993 Refunding Series A      2005-2008	7.00	3,402	3,003	3,925
<b>Single Family Senior and Subordinate Bonds:</b>				
1998 Series B      2025-2029	5.5	6,053	1,804	1,709
<b>Single Family Program Bonds:</b>				
1998 Series C      2020-2029	5.625	12,265	4,107	3,885

Also included in the table of bonds and notes payable outstanding on the preceding pages are certain Single Family and Multi-Family bonds which carry the Authority's general obligation pledge. These bonds have been issued as subordinate debt or Class III obligations and are presented in the table on the following page:

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(4) Bonds and Notes Payable (continued)**

Description	2004	2003
Single Family Program Subordinate Bonds	\$ 4,695	\$ 8,860
Single Family Mortgage Bonds, Class III	98,000	74,000
Multi-Family/Project Bonds, Class III	21,100	34,320
Total	\$ 123,795	\$ 117,180

Bonds and notes payable activity for the years ended December 31, 2004 and 2003, were as follows:

Description	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004
Bonds payable	\$ 2,281,048	\$ 633,764	\$ 449,080	\$ 2,465,732
Notes payable*	93,831	4,097,670	4,079,442	112,059
Unamortized premium/discount	24,553	652	9,995	15,210
Deferred losses on refunding	(7,809)	—	(374)	(7,435)
Total	\$ 2,391,623	\$ 4,732,086	\$ 4,538,143	\$ 2,585,566

Description	Balance December 31, 2002	Additions	Reductions	Balance December 31, 2003
Bonds payable	\$ 2,064,424	\$ 641,682	\$ 425,058	\$ 2,281,048
Notes payable*	117,222	3,416,715	3,440,106	93,831
Unamortized premium/discount	38,016	1,448	14,911	24,553
Deferred losses on refunding	(7,937)	(227)	(355)	(7,809)
Total	\$ 2,211,725	\$ 4,059,618	\$ 3,879,720	\$ 2,391,623

\* Amounts include the Authority's two lines of credit for 2004 and 2003

Bonds and notes payable sinking fund installments and maturities subsequent to December 31, 2004, are as follows:

	General Fund Bonds		Single Family Bonds		Multi-Family Bonds		Notes Payable	
	Principal	Interest	Principal*	Interest	Principal	Interest	Principal	Interest
2005	\$ 46	\$ 682	\$ 3,827	\$ 23,939	\$ 1,255	\$ 61,082	\$ 99,060	\$ 571
2006	171	4,518	282,904	44,801	8,635	120,321	6,107	403
2007	183	4,562	6,483	42,593	9,120	112,526	108	348
2008	190	4,552	6,478	42,277	9,595	103,622	4,924	346
2009	202	4,542	6,739	41,898	9,845	93,349	112	36
2010-2014	1,677	22,475	75,585	203,249	57,200	278,972	992	145
2015-2019	3,450	21,731	39,400	187,143	86,960	112,471	459	24
2020-2024	23,902	18,807	195,216	166,229	120,900	94,676	263	7
2025-2029	42,099	4,745	311,006	125,985	142,010	70,446	34	—
2030-2034	3,220	2,989	421,900	69,905	192,035	43,061	—	—
2035-2039	9,500	461	242,210	13,122	80,325	17,179	—	—
2040-2045	—	—	50,000	2,420	34,445	3,541	—	—
Total	\$ 84,640	\$ 90,064	\$ 1,641,748	\$ 963,561	\$ 752,325	\$ 1,111,246	\$ 112,059	\$ 1,880

\* Includes \$13.0 million of future accretion of principal value on capital appreciation bonds

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

### (4) Bonds and Notes Payable (continued)

Assets of the various Bond Funds are pledged for payment of principal and interest on the applicable bonds. In addition, certain assets are further restricted by bond resolutions for payment of interest on and/or principal of bonds in the event that the related debt service funds and other available monies are insufficient. Such assets are segregated within the various Bond Funds and are held in cash or investment securities. At December 31, 2004 and 2003, these assets were at least equal to the amounts required to be restricted.

The Authority has an agreement with the Federal Home Loan Bank of Topeka (FHLB) for borrowings of up to \$280,000,000. Amounts drawn under the agreement bear interest at the same rates charged by the FHLB to its member banks and are collateralized by certain mortgage loans and/or investment securities. There are no commitment fees associated with this agreement. As of December 31, 2004 and 2003, the outstanding borrowings under this agreement were \$98,945,000 and \$85,821,000, respectively.

The Authority also has a revolving, unsecured, commercial bank line of credit for borrowings of up to \$20,000,000. Amounts drawn under the agreement bear interest fixed at 0.55% per annum above the London Interbank Offered Rate (LIBOR). This line of credit agreement terminates on July 25, 2005. The Authority pays an unused line fee at the rate of 0.15% per annum, payable in arrears on the last day of each calendar quarter until the Maturity Date, and on the Maturity Date. The fee is based upon the amount by which the daily average of the aggregate principal amount of the borrowings outstanding is less than the line of credit. As of December 31, 2004 and 2003, the Authority had no outstanding borrowings under this agreement.

The Authority has issued certain conduit bonds, the proceeds of which were made available to various developers and corporations for rental housing and commercial purposes. As of December 31, 2004, the amount outstanding on these bonds was \$281,830,000. The corresponding amount outstanding as of December 31, 2003, was \$277,792,000. The bonds are payable

solely from amounts received by the trustees from the revenue earned by the developers and corporations. Loan and corresponding debt service payments are generally guaranteed by irrevocable direct-pay letters of credit, or other credit enhancement arrangements. The faith and credit of the Authority is not pledged for the payment of the principal or interest on the bonds. Accordingly, these obligations are excluded from the Authority's financial statements.

### (5) Interest Rate Swaps

#### Swaps in effect as of December 31, 2004

#### Objective

The Authority has entered into pay-fixed receive-variable interest rate swaps in order to: (1) provide lower cost fixed rate financing for its production needs through synthetic fixed rate structures and (2) utilize synthetic fixed rates with refunding bonds in order to generate cash flow savings.

#### Summary of Swap Transactions

The terms, including the fair values of the outstanding swaps as of December 31, 2004, are shown in the following table. In no case do the notional amounts of the swaps exceed the principal amounts of the associated debt. Except as discussed under amortization risk, the authority's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

## (5) Interest Rate Swaps (continued)

Associated Bond Issue	Current Notional Amount	Effective Date	Termination Date	Fixed Rate Paid	Variable Rate Received (*)	Embedded Option	Fair Value (**)
Single Family 2001AA	\$ 37,115	10/04/01	11/01/13	5.290%	VRDO's Rate		\$ (1,711)
Single Family 2001AA	46,840	10/04/01	05/01/31	4.600%	VRDO's Rate, with tax event language		(3,135)
Single Family 2002A	36,685	04/25/02	11/01/13	5.499%	VRDO's Rate		(1,862)
Single Family 2002A	19,090	04/25/02	11/01/21	4.749%	VRDO's Rate		(1,699)
Single Family 2002B	14,620	10/24/02	05/01/22	5.529%	VRDO's Rate		(939)
Single Family 2002B	45,035	07/18/02	11/01/13	5.285%	VRDO's Rate		(1,925)
Single Family 2002B	40,000	07/18/02	11/01/21	4.506%	VRDO's Rate, with tax event language		(2,636)
Single Family 2002C	30,000	10/24/02	11/01/32	5.350%	VRDO's Rate	(1)	(658)
Single Family 2002C	57,900	10/24/02	11/01/11	4.362%	VRDO's Rate		(2,030)
Single Family 2002C	40,000	10/24/02	05/01/22	4.422%	VRDO's Rate, with tax event language		(1,815)
Single Family 2003A	11,400	08/01/03	05/01/11	3.390%	LIBOR, plus .05%		150
Single Family 2003A	18,950	02/26/03	11/01/11	4.008%	LIBOR, plus .05%		(62)
Single Family 2003A	20,000	02/26/03	11/01/21	4.160%	VRDO's Rate, with tax event language		(616)
Single Family 2003B	40,000	08/01/03	11/01/26	4.851%	LIBOR, plus .05%	(2)	393
Single Family 2003B	58,260	08/01/03	05/01/12	3.665%	LIBOR, plus .05%		505
Single Family 2003B	60,000	07/09/03	11/01/26	4.384%	BMA, plus .15%	(3)	(1,904)
Single Family 2003C	58,695	12/03/03	05/01/12	4.033%	LIBOR, plus .05%		(252)
Single Family 2003C	40,000	11/13/03	11/01/26	4.595%	BMA, plus .15%	(4)	(2,040)
Single Family 2004A	47,000	09/01/04	05/01/12	4.460%	LIBOR, plus .05%		(795)
Single Family 2004A	50,000	07/28/04	11/01/26	4.369%	Trigger, BMA, plus .15% or 68% LIBOR	(5)	(2,580)
Single Family 2004B	40,000	12/01/04	05/01/12	4.052%	Trigger, BMA, plus .15% or 68% LIBOR		(105)
Single Family 2004B	40,000	11/10/04	11/01/26	4.122%	BMA, plus .15%	(6)	(1,115)
Multi-Family/Project 2000A	12,750	03/21/00	10/01/20	5.235%	VRDO's Rate, with tax event language		(1,800)
Multi-Family/Project 2000A	18,500	03/21/00	04/01/25	5.225%	VRDO's Rate, with tax event language		(2,181)
Multi-Family/Project 2000A	11,545	02/01/00	04/01/15	5.800%	VRDO's Rate		(1,788)
Multi-Family/Project 2000B	7,225	10/19/00	07/01/20	7.390%	LIBOR, plus .25%		(1,334)
Multi-Family/Project 2002A	9,410	01/29/03	10/01/22	5.100%	VRDO's Rate		(1,283)
Multi-Family 2002AA	33,650	07/03/02	10/01/23	6.068%	VRDO's Rate		(6,571)
Multi-Family/Project 2002C	10,845	04/01/03	10/01/32	6.129%	VRDO's Rate	(7)	(903)
Multi-Family/Project 2002C	70,715	10/01/03	10/01/32	5.124%	VRDO's Rate, with tax event language	(8)	(7,841)
Multi-Family/Project 2002C	31,960	10/01/03	10/01/32	5.044%	VRDO's Rate, with tax event language	(9)	(3,267)
Multi-Family/Project 2003A	25,495	10/01/03	04/01/26	4.555%	LIBOR, plus .05%	(10)	994
Multi-Family/Project 2004A	51,100	11/01/04	10/01/25	5.528%	LIBOR, plus .05%	(11)	(2,128)
Multi-Family/Project 2004A	10,785	09/22/04	04/01/45	4.884%	BMA, plus .15%	(12)	(529)
<b>Total</b>	<b>\$ 1,145,570</b>						<b>\$ (55,462)</b>

(\*) VRDO indicates a Variable Rate Demand Obligation and is the actual rate paid to bondholders. BMA is the Bond Market Association Municipal Swap Index. LIBOR is the London Interbank Offered Rate.

(\*\*) The fair value of the outstanding swaps are presented for informational purposes only and do not impact the financial statements. All fair values have been calculated using the mark-to-market or par value method and include the valuation of any related embedded option. Additionally, eight of the tax-exempt swap agreements contain language which transfer the risk of tax event to the Authority. The fair value of these swaps if a tax event had occurred on the valuation date would be an additional \$17,841,208 negative.

(1) The Authority has the right to terminate the swap at no expense on or after 11/1/17 up to \$21,765,000

(2) The Authority has the right to terminate the swap at no expense on or after 5/1/15 up to \$27,305,000

(3) The Authority has the right to terminate the swap at no expense on or after 5/1/15 up to \$43,170,000

(4) The Authority has the right to terminate the swap at no expense on or after 5/1/15 up to \$28,780,000

(5) The Authority has the right to terminate the swap at no expense on or after 5/1/15 up to \$35,970,000

(6) The Authority has the right to terminate the swap at no expense on or after 5/1/15 up to \$28,780,000

(7) The Authority has the right to terminate the swap at no expense from 10/1/12 to 4/1/15 up to \$4,375,000; 4/1/15 to 4/1/18 up to \$6,575,000; and from 4/1/18 to 10/1/32 up to the remaining notional balance

(8) The Authority has the right to terminate the swap at no expense on or after 4/1/18 up to \$59,340,000

(9) The Authority has the right to terminate the swap at no expense on or after 4/1/18 up to \$26,785,000

(10) The Authority has the right to terminate the swap at no expense on or after 10/1/09 up to \$16,576,000

(11) The Authority has the right to terminate the swap at no expense on or after 10/1/14

(12) The Authority has the right to terminate the swap at no expense on or after 10/1/19

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

### (5) Interest Rate Swaps (continued)

As of December 31, 2003, the current notional amount of swaps outstanding was \$929,460,000 with a fair value of (\$49,552,000) as of the same date.

#### Swap Payments and Associated Debt

Using interest rates as of December 31, 2004, debt service requirements of the Authority's outstanding hedged variable-rate debt and net swap payments are as follows. As rates vary, variable interest rate payments on the bonds and net swap payments will vary.

Year Ending December 31,	Principal	Interest	Swaps, Net	Total
2005	\$ 56,655	\$ 26,201	\$ 24,786	\$ 107,642
2006	72,170	21,239	26,644	120,053
2007	73,160	19,527	25,056	117,743
2008	67,705	18,125	23,226	109,056
2009	62,820	16,893	21,458	101,171
2010-2014	244,240	68,922	85,132	398,294
2015-2019	238,900	45,596	55,065	339,561
2020-2024	190,705	22,372	25,837	238,914
2025-2029	95,050	8,411	8,576	112,037
2030-2034	39,480	1,610	1,960	43,050
2035-2039	1,720	295	545	2,560
2040-2045	2,965	151	304	3,420
Total	\$ 1,145,570	\$ 249,342	\$ 298,589	\$ 1,693,501

### Risk Disclosure

#### Credit Risk

Because all of the Authority's swaps rely upon the performance of the third parties who serve as swap counterparties, the Authority is exposed to credit risk (i.e., the risk that a swap counterparty fails to perform according to its contractual obligations). The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the columns labeled "Fair

Value" in the table of outstanding swaps. As of December 31, 2004, the Authority was not exposed to credit risk on any of its outstanding swaps as the net exposure to each counterparty, based on the fair value of the related swaps, was negative. However, should interest rates change and the fair values of the swaps increase, the Authority would be exposed to credit risk in the amount of any positive net fair value exposure to each counterparty. To mitigate credit risk, the Authority maintains strict credit standards for swap counterparties. All swap counterparties must be rated in the double-A or higher category by either Moody's or Standard & Poor's at the time the contract is entered into.

Although the Authority executes swap transactions with various counterparties, 26 swaps, representing approximately 73% of the notional amount of swaps outstanding, are held with two separate Aaa/AAA rated (Moody's and Standard & Poor's, respectively) special purpose vehicles, which are bankruptcy remote, both of which are affiliates of the same parent company (49% of the notional amount outstanding are held with a special purpose vehicle with a continuation structure and 24% are held with a special purpose vehicle with a terminating structure). The bankruptcy-remote nature of these special purpose vehicles makes them bankruptcy remote from each other as well as from their parent company. Thus they should be viewed as discrete credits. Of the remaining swaps, the Authority holds 8 agreements, representing approximately 27% of the notional amount outstanding, with four counterparties, three of which are rated AAA/Aaa (one of which operates as a special purpose vehicle with a terminating structure) and one rated Aa2/AA+. Subsequent to December 31, 2004, one of the Aaa/AAA counterparties to four swap transactions, approximating 13% of the notional amount outstanding, was downgraded to Aa/AA.

## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(5) Interest Rate Swaps (continued)****Basis Risk**

The Authority is exposed to basis risk when the variable interest rate paid to the holders of its variable rate demand obligations ("VRDO's") is not equivalent to the variable interest rate received from its counterparties on the related swap agreements. When exposed to basis risk, the net interest expense incurred on the combination of the swap agreement and the associated variable rate debt may be higher or lower than anticipated. The Authority's tax-exempt variable-rate bond interest payments are substantially equivalent to the BMA rate (plus a trading spread). For the swaps in which the Authority is receiving its actual VRDO rate from the counterparty, the Authority is not exposed to basis risk. For the swaps in which the Authority can only receive a rate indexed on BMA, it is only exposed to basis risk to the extent that the Authority's bonds diverge from their historic trading relationship with BMA. Certain tax-exempt swaps, as indicated in the table of swaps outstanding, contain tax risk language where in the occurrence of a tax event as described in the underlying contracts, the Authority would receive an alternative variable rate pegged at a percentage of LIBOR. For those tax-exempt swaps containing tax event language for which the Authority could receive a variable-rate payment other than actual or BMA, the Authority would then be negatively exposed to basis risk should the relationship between LIBOR and BMA converge. Certain tax-exempt swaps, as indicated in the table of swaps outstanding, contain a trigger feature in which the Authority receives a rate indexed on BMA should LIBOR be less than a predetermined level (the trigger level), or a rate pegged at a percentage of LIBOR should LIBOR be equal to or greater than the predetermined trigger level. For these swaps, the Authority will be negatively exposed to basis risk during the time period it is receiving the rate based on a percentage of LIBOR should the relationship between LIBOR and BMA converge.

The Authority's taxable variable-rate bond interest payments are substantially equivalent to LIBOR (plus a trading spread). The Authority is receiving LIBOR (plus a trading spread) for all of its taxable swaps and therefore is only exposed to basis risk

to the extent that the Authority's bonds diverge from their historic trading relationship with LIBOR.

**Termination Risk**

The Authority's swap agreements do not contain any out-of-the-ordinary termination events that would expose it to significant termination risk. In keeping with market standards, the Authority or the counterparty may terminate each swap if the other party fails to perform under the terms of the contract. In addition, the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. The Authority views the likelihood of an occurrence of such events to be remote at this time. If at the time of the termination a swap has a negative value, the Authority would be liable to the counterparty for a payment equal to the fair value of such swap.

There are certain termination provisions relevant to the Authority's counterparties operating as Special Purpose Vehicles ("SPV") with a terminating structure. In the case of certain events including the credit downgrade of the SPV or the failure of the parent company to maintain certain collateral levels, the SPV would be required to wind up its business and terminate all of its outstanding transactions with all clients, including the Authority. All such terminations would be at mid-market pricing. In the event of such termination, the Authority would be exposed to the risk of market re-entry and the cost differential between the mid-market termination and the offered price upon re-entry.

**Rollover Risk**

The Authority is exposed to rollover risk only on swaps that mature or may be terminated at the counterparty's option prior to the maturity of the associated debt. As of December 31, 2004, the Authority is not exposed to rollover risk.

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## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

### (5) Interest Rate Swaps (continued)

#### Amortization Risk

The Authority is exposed to amortization risk in the event that the swap amortization schedules fail to match the actual amortization of the underlying bonds as a result of loan prepayments which significantly deviate from expectations. If prepayments are significantly higher than anticipated, the Authority would have the option of reinvesting or recycling the prepayments, or calling bonds which are not swapped. Alternatively, if the Authority chose to call bonds associated with the swap, the Authority could elect an early termination of the related portions of the swap at a potential cost to the Authority.

If prepayments are significantly lower than anticipated and the associated bonds remained outstanding longer than the relevant portion of the swap, the Authority could experience an increase in its exposure to unhedged variable rate bonds. Alternatively, the Authority could choose to enter into a new swap or an extension of the existing swap. If interest rates are higher at the time of entering into a new swap or swap extension, such action would result in a potential cost to the Authority.

#### (6) Debt Refundings

On September 22, 2004, the Authority issued its Multi-Family/Project Bonds 2004 Series A in the aggregate principal amount of \$89,115,000. Proceeds of the bonds and other surpluses were used to refund the Authority's outstanding Project Loan Participation Purchase Bonds 1997 Series A in the amount of \$1,730,000. Included in the refunding bond issue are variable rate bonds with interest rates during 2004 ranging from a weekly high of 2.42% which could result in a decrease in aggregate debt service requirements of \$673,000 and an approximate economic gain to the Authority of \$583,000, to a weekly low of 1.82% which could result in a decrease in aggregate debt service requirements of \$761,000 and an approximate economic gain to the Authority of \$680,000. At the time of this refunding there were no remaining deferred issuance costs on the 1997 Series A bonds.

On September 24, 2003, the Authority issued its Multi-Family/Project Bonds 2003 Series A in the aggregate principal amount of \$48,780,000. Proceeds of the bonds and other surpluses were used to refund its outstanding Multi-Family Housing Insured Mortgage Revenue Bonds 1993 Series A in the amount of \$11,365,000. Included in the refunding bond issue are variable rate bonds with interest rates during 2003 ranging from a weekly high of 1.25% which could result in a decrease in aggregate debt service requirements of \$6,302,000 and an approximate economic gain to the Authority of \$6,770,000, to a weekly low of 1.09% which could result in a decrease in aggregate debt service requirements of \$6,866,000 and an approximate economic gain to the Authority of \$7,187,000. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, \$227,000 was deferred and is being amortized over the estimated remaining life of the old debt.

Economic gain or loss is calculated as the difference between the present value of the old debt service requirements and the present value of the new debt service requirements less related upfront costs of issuance, bond call premiums and bond insurance premiums, discounted at the effective interest rate.

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## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

**(7) Retirement Plans**

Employees of the Authority are members of the Public Employees' Retirement Association of Colorado ("PERA"), which is a cost-sharing multi-employer public employee retirement system plan.

Generally all employees are required to participate in PERA. Under the plan, State statute provides that members are eligible for full retirement benefits at age 50 with at least 30 years of service with a participating employer, at age 55 with at least 25 years of service, at age 65 with at least 5 years of service, or by earning 35 or more years of credited service. Reduced retirement benefits are available at age 50 with at least 25 years service, at age 55 with at least 20 years of service, and at age 60 with at least 5 years of service. Additionally, disability and survivors benefits are available. Benefits are vested after five years of service.

On May 6, 1997, the Governor signed into law House Bill 97-1082, which changed the benefit formula for each year of service over 20 from 1.5 percent of Highest Average Salary per year to 2.5 percent with a 100 percent maximum. All current benefit recipients with more than 20 years of service had their benefit recalculated. Benefit payments dated July 31, 1997, and later reflect this new calculation. The legislation also establishes a two-tier disability retirement program applicable to members who apply for disability on or after January 1, 1999.

House Bill 00-1458, passed in the 2000 legislative session, changed the retirement eligibility for members who are 55 years of age or older and retiring June 1, 2000, or later, with age plus years of service totaling 80 or more. These members may retire without a reduction for early retirement. The reduction for early retirement for some members with age plus years of service totaling less than 80 was also lowered. In addition, beginning March 1, 2000, the annual increase for PERA benefits was changed to 3.5 percent compounded annually, and was no longer tied to the Consumer Price Index.

Under the plan, State statute required the Authority and participating employees to contribute 10.0% and 8.0%, respectively, for 2004, and 9.6% and 8.0%, respectively, for 2003, of the employees' gross salaries, as defined by the plan. The Authority's total eligible payroll for participating employees was \$7,849,000 and \$8,497,000 for 2004 and 2003, respectively. Contributions by the Authority and employees approximated \$792,000 and \$630,000, respectively, for 2004, while for 2003 the amounts were \$816,000 and \$685,000, respectively.

The pension benefit obligation, which is the actuarial measure of the present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users of the Authority's financial statements assess PERA's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERA and other pension programs and among employees. As of December 31, 2003, the date of the latest available audited information, the total accrued liability and total net assets available for benefits of the Municipal Division of PERA, in which the Authority's pension contributions and benefits are included, were \$2,379,229,000 and \$1,819,240,000, respectively. The unfunded actuarial accrued liability in the Municipal Division as of December 31, 2003, was \$471,443,000.

PERA, as a separate entity, issues its own annual financial statements, included in which is historical ten-year trend information for all contributions to the retirement system.

Included in bonds and notes payable are bonds payable to PERA of \$47,509,000 and \$29,941,000 at December 31, 2004 and 2003, respectively, that carry the Authority's general obligation pledge.



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## notes to financial statements

years ended December 31, 2004 and 2003 (amounts for all notes in tabular format are in thousands)

### **(7) Retirement Plans (continued)**

An additional benefit offered to eligible Authority employees through PERA is a Voluntary Investment Program, established under Section 401(k) of the Internal Revenue Code. Participants may invest a percentage of their annual gross salaries up to the annual IRS limit of their gross salaries. The Authority contributes 1% of each participating employee's salary as part of the 401(k) Match and, in addition to the 1% contribution, the Authority matches half of the employee's 401(k) contribution up to 5% of the participating employee's gross salary. The Authority's match is a maximum of 3.5%, which includes the 1% contribution. Prior to 2004, the Authority participated in PERA's MatchMaker Program, which used a portion of the employer's contributions as a dollar-for-dollar match to the 401(k) plan, not to exceed 2% of the employee's gross salary. This program was discontinued by PERA in 2004. Contributions to the MatchMaker program were \$29,000 and \$141,000 for 2004 and 2003, respectively.

The Authority also offers a deferred compensation plan for the purpose of providing retirement income for employees. This defined contribution plan is qualified under Section 457 in the Internal Revenue Code. The Authority does not contribute to this plan. Any changes or modifications to the deferred compensation plan must be approved by the Board. The plan is administered by an independent trustee.

### **(8) Contingencies**

There are a limited number of claims or suits pending against the Authority arising in the Authority's ordinary course of business. In the opinion of the Authority's management and counsel, any losses that might result from these claims and suits are either covered by insurance or, to the extent not covered by insurance, would not materially affect the Authority's financial position as of December 31, 2004 and December 31, 2003.

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## supplemental information

as of December 31, 2004 with comparative totals for 2003 (in thousands)

## Statements of Net Assets by Program

	General Fund	Single Family	Multi-Family	Eliminations	2004	2003
<b>Assets</b>						
<b>Current Assets:</b>						
Cash and interest bearing accounts	\$ 8,750	\$ —	\$ —	\$ —	\$ 8,750	\$ 8,300
Short-term investment securities	43,391	497,766	94,648	—	635,805	647,147
Loans receivable	8,681	36,659	19,054	(537)	63,857	57,725
Accrued interest receivable	1,874	11,244	6,010	(100)	19,028	19,539
Deferred debt financing costs	22	488	130	—	640	662
Other assets	4,756	—	—	—	4,756	9,160
Federally assisted program advances	1,945	—	—	—	1,945	1,924
Due to (from) other programs	(19,822)	23,815	(3,993)	—	—	—
<b>Total Current Assets</b>	<b>49,597</b>	<b>569,972</b>	<b>115,849</b>	<b>(637)</b>	<b>734,781</b>	<b>744,457</b>
<b>Noncurrent Assets:</b>						
Long-term investment securities - restricted	524	77,605	109,432	—	187,561	149,461
Long-term investment securities - unrestricted	2,141	—	—	—	2,141	6,829
Loans receivable, net	251,735	1,063,123	552,563	(15,562)	1,851,859	1,674,010
Property and equipment, net						
Corporate facilities	5,883	—	—	—	5,883	5,625
Rental operations	33,930	—	—	—	33,930	28,733
Other real estate owned, net	3,814	2,787	—	—	6,601	5,772
Deferred debt financing costs, net	400	8,783	2,346	—	11,529	11,923
Other assets	11,115	—	—	—	11,115	8,918
<b>Total Noncurrent Assets</b>	<b>309,542</b>	<b>1,152,298</b>	<b>664,341</b>	<b>(15,562)</b>	<b>2,110,619</b>	<b>1,891,271</b>
<b>Total Assets</b>	<b>\$ 359,139</b>	<b>\$ 1,722,270</b>	<b>\$ 780,190</b>	<b>\$ (16,199)</b>	<b>\$ 2,845,400</b>	<b>\$ 2,635,728</b>
<b>Liabilities</b>						
<b>Current Liabilities:</b>						
Bonds payable	\$ 166	\$ 283,019	\$ 7,185	\$ —	\$ 290,370	\$ 272,954
Notes payable	99,060	—	—	—	99,060	86,594
Accrued interest payable	716	12,388	9,143	(100)	22,147	22,882
Accounts payable and other liabilities	6,638	196	824	—	7,658	7,267
Federally assisted program advances	1,945	—	—	—	1,945	1,924
Refundable deposits	181	—	—	—	181	1,903
<b>Total Current Liabilities</b>	<b>108,706</b>	<b>295,603</b>	<b>17,152</b>	<b>(100)</b>	<b>421,361</b>	<b>393,524</b>
<b>Noncurrent Liabilities:</b>						
Bonds payable, net	84,474	1,360,026	738,637	—	2,183,137	2,024,838
Notes payable	29,098	—	—	(16,099)	12,999	7,237
Deferred fee income	382	—	—	—	382	362
<b>Total Noncurrent Liabilities</b>	<b>113,954</b>	<b>1,360,026</b>	<b>738,637</b>	<b>(16,099)</b>	<b>2,196,518</b>	<b>2,032,437</b>
<b>Total Liabilities</b>	<b>222,660</b>	<b>1,655,629</b>	<b>755,789</b>	<b>(16,199)</b>	<b>2,617,879</b>	<b>2,425,961</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	7,093	—	—	—	7,093	6,636
Restricted	—	66,641	24,401	—	91,042	78,563
Unrestricted	129,386	—	—	—	129,386	124,568
<b>Total Net Assets</b>	<b>136,479</b>	<b>66,641</b>	<b>24,401</b>	<b>—</b>	<b>227,521</b>	<b>209,767</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 359,139</b>	<b>\$ 1,722,270</b>	<b>\$ 780,190</b>	<b>\$ (16,199)</b>	<b>\$ 2,845,400</b>	<b>\$ 2,635,728</b>

See the Independent Auditors' Reports, the audited financial statements and accompanying notes

## supplemental information

for the year ended December 31, 2004 with comparative totals for 2003 (in thousands)

**Statements of Revenues, Expenses and Changes in Net Assets by Program**

	General Fund	Single Family	Multi-Family	Eliminations	2004	2003
<b>Operating Revenues:</b>						
Interest on loans	\$ 10,454	\$ 55,653	\$ 34,585	\$ (1,210)	\$ 99,482	\$ 93,861
Investment income	1,744	14,488	7,649	—	23,881	23,804
Net increase (decrease) in FMV of long-term investment securities	(392)	1,419	206	—	1,233	(3,578)
Rental operations	10,279	—	—	—	10,279	9,549
Other revenues	12,756	—	—	—	12,756	14,058
<b>Total Operating Revenues</b>	<b>34,841</b>	<b>71,560</b>	<b>42,440</b>	<b>(1,210)</b>	<b>147,631</b>	<b>137,694</b>
<b>Operating Expenses:</b>						
Interest expense on bonds and notes	5,799	58,354	35,699	(1,595)	98,257	92,629
Salaries and related benefits	10,668	—	—	—	10,668	11,545
General operating	13,462	560	205	—	14,227	14,411
Other interest expense	1,326	—	—	385	1,711	1,688
Depreciation	2,574	—	—	—	2,574	2,694
Provision for losses	(816)	(18)	3,289	—	2,455	3,550
<b>Total Operating Expenses</b>	<b>33,013</b>	<b>58,896</b>	<b>39,193</b>	<b>(1,210)</b>	<b>129,892</b>	<b>126,517</b>
<b>Total Operating Income</b>	<b>1,828</b>	<b>12,664</b>	<b>3,247</b>	<b>—</b>	<b>17,739</b>	<b>11,177</b>
<b>Nonoperating Revenues:</b>						
Grant income	15	—	—	—	15	292
Federal grant receipts	87,473	—	—	—	87,473	83,210
Federal grant payments	(87,473)	—	—	—	(87,473)	(83,210)
<b>Total Nonoperating Revenues</b>	<b>15</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>15</b>	<b>292</b>
<b>Income Before Transfers</b>	<b>1,843</b>	<b>12,664</b>	<b>3,247</b>	<b>—</b>	<b>17,754</b>	<b>11,469</b>
<b>Transfers (To) From Other Programs</b>	<b>(3,432)</b>	<b>3,554</b>	<b>(122)</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Change in Net Assets</b>	<b>5,275</b>	<b>9,110</b>	<b>3,369</b>	<b>—</b>	<b>17,754</b>	<b>11,469</b>
<b>Net Assets:</b>						
Beginning of year	131,204	57,531	21,032	—	209,767	198,298
End of year	\$ 136,479	\$ 66,641	\$ 24,401	\$ —	\$ 227,521	\$ 209,767

See the Independent Auditors' Reports, the audited financial statements and accompanying notes

## supplemental information

for the year ended December 31, 2004 with comparative totals for 2003 (in thousands)

## Statements of Cash Flows by Program

	General Fund	Single Family	Multi-Family	Eliminations	2004	2003
<b>Cash Flows From Operating Activities:</b>						
Interest received on loans receivable	\$ 9,823	\$ 60,638	\$ 36,272	\$ (1,210)	\$ 105,523	\$ 100,535
Receipts from principal payments on loans	27,549	232,537	69,976	—	330,062	469,979
Interest received from investment securities	1,815	14,261	7,302	—	23,378	24,290
Receipts from rental operations	10,233	—	—	—	10,233	9,577
Receipts from other program revenues	12,521	—	—	—	12,521	14,233
Receipts from sales of other real estate owned	4,717	—	—	—	4,717	2,040
Receipts from loan fundings	1,963	—	—	—	1,963	3,248
(Payments) receipts from accounts payable and federally assisted programs	(1,956)	10	497	—	(1,449)	969
Payments for loan fundings	(480,056)	26	(46,119)	—	(526,149)	(635,780)
Interest paid on bonds and notes	(6,208)	(65,611)	(34,723)	1,595	(104,947)	(105,796)
Payments for salaries and related benefits	(10,511)	—	—	—	(10,511)	(11,323)
Payments for general operating expenses	(11,510)	(560)	(205)	—	(12,275)	(10,319)
Payments for other interest	(1,326)	—	—	(385)	(1,711)	(1,688)
Payments for loan fundings fees	(874)	8	—	—	(866)	(2,483)
Payments from other assets	(1,238)	—	—	—	(1,238)	(4,818)
Cash due to (from)	355,505	(319,091)	(36,414)	—	—	—
Net Cash Used in Operating Activities	(89,553)	(77,782)	(3,414)	—	(170,749)	(147,336)
<b>Cash Flows From Noncapital Financing Activities:</b>						
Proceeds from issuance of notes	4,097,670	—	—	—	4,097,670	3,416,716
Proceeds from issuance of bonds	48,719	495,974	89,128	—	633,821	642,488
Receipts from grants	15	—	—	—	15	292
Receipts from federal grants programs	87,473	—	—	—	87,473	83,210
Equity transfers	3,432	(3,554)	122	—	—	—
Payments for federal grant programs	(87,473)	—	—	—	(87,473)	(83,210)
Payments for notes	(4,079,442)	—	—	—	(4,079,442)	(3,440,106)
Payments for bonds	(16,510)	(356,655)	(75,915)	—	(449,080)	(425,058)
Payments for debt financing costs	—	(2,147)	(380)	—	(2,527)	(2,747)
Payments for bond call premiums	—	—	—	—	—	(227)
Net Cash Provided by Noncapital Financing Activities	53,884	133,618	12,955	—	200,457	191,358
<b>Cash Flows From Capital and Related Financing Activities:</b>						
Sale of property and equipment - corporate facilities	6	—	—	—	6	—
Sale of property and equipment - rental operations	—	—	—	—	—	5
Purchase of property and equipment - corporate facilities	(1,235)	—	—	—	(1,235)	(875)
Purchase of property and equipment - rental operations	(6,927)	—	—	—	(6,927)	(2,575)
Net Cash Used in Capital and Related Financing Activities	(8,156)	—	—	—	(8,156)	(3,445)
<b>Cash Flows From Investing Activities:</b>						
Proceeds from maturities and sales of long-term investment securities	10,427	25,107	7,271	—	42,805	78,828
Purchase of long-term marketable securities	(6,118)	(22,658)	(46,473)	—	(75,249)	(91,552)
Net Cash Provided by (Used in) Investing Activities	4,309	2,449	(39,202)	—	(32,444)	(12,724)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(39,516)</b>	<b>58,285</b>	<b>(29,661)</b>	<b>—</b>	<b>(10,892)</b>	<b>27,853</b>
Cash and Cash Equivalents at Beginning of Year	91,657	439,481	124,309	—	655,447	627,594
Cash and Cash Equivalents at End of Year	\$ 52,141	\$ 497,766	\$ 94,648	\$ —	\$ 644,555	\$ 655,447

See the Independent Auditors' Reports, the audited financial statements and accompanying notes

(continued)

## supplemental information

for the year ended December 31, 2004 with comparative totals for 2003 (in thousands)

**Statements of Cash Flows by Program (continued)**

	General Fund	Single Family	Multi-Family	Eliminations	2004	2003
<b>Reconciliation of Operating Income to Net Cash Used in Operating Activities:</b>						
Operating income	\$ 1,828	\$ 12,664	\$ 3,247	\$ —	\$ 17,739	\$ 11,177
Adjustments to reconcile operating income to net cash used in operating activities:						
(Increase) decrease in fair value of investments	392	(1,419)	(206)	—	(1,233)	3,578
Depreciation expense	2,574	—	—	—	2,574	2,694
Loss on sale of property and equipment	124	—	—	—	124	51
Accretion of capital appreciation term bonds	—	596	—	—	596	641
Amortization of:						
Deferred debt financing costs	17	3,025	402	—	3,444	5,278
Premiums and discounts on bonds, net	—	(9,993)	(1)	—	(9,994)	(14,911)
Premiums and discounts on long-term investment securities, net	7	147	111	—	265	(51)
Deferred fee income	(1,017)	—	(216)	—	(1,233)	(2,406)
Deferred cash assistance expense	150	5,845	—	—	5,995	11,500
Service release premium expense	1,845	—	—	—	1,845	4,352
Provision for losses	(816)	(18)	3,289	—	2,455	3,550
Principal repayments on loans receivable	27,549	232,537	69,976	—	330,062	469,978
Sale of other real estate owned	4,717	—	—	—	4,717	2,040
New loan fundings	(480,056)	26	(46,119)	—	(526,149)	(635,781)
Deferred fee income	1,963	—	—	—	1,963	3,247
Deferred cash assistance expense	(874)	8	—	—	(866)	(2,484)
Changes in assets and liabilities:						
Accrued interest receivable	298	(1,232)	1,445	—	511	(1,882)
Other assets	(1,540)	—	—	—	(1,540)	(4,548)
Accrued interest payable	(427)	(884)	575	—	(736)	(4,175)
Accounts payable and federally assisted programs	(1,792)	7	497	—	(1,288)	816
Cash due to (from)	355,505	(319,091)	(36,414)	—	—	—
<b>Net Cash Used in Operating Activities</b>	<b>\$ (89,553)</b>	<b>\$ (77,782)</b>	<b>\$ (3,414)</b>	<b>\$ —</b>	<b>\$ (170,749)</b>	<b>\$ (147,336)</b>
Supplemental schedule of non-cash operating, noncapital financing, capital and related financing and investing activities:						
Transfer of loans receivable to other real estate owned	81	1,187	4,277	—	5,545	2,432
Transfer of loans receivable to (from) other assets	(102)	(1,778)	—	—	(1,880)	1,803
Transfer of loans receivable to deferred debt financing	129	—	—	—	129	—

See the Independent Auditors' Reports, the audited financial statements and accompanying notes

(concluded)

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independent auditors' report on internal control over financial reporting and compliance and other matters based upon the audit performed in accordance with *Government Auditing Standards*

To the Board of Directors of  
Colorado Housing and Finance Authority  
Denver, Colorado

We have audited the financial statements of Colorado Housing and Finance Authority (the "Authority") as of and for the year ended December 31, 2004, and have issued our report thereon dated June 24, 2005. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audits, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and the use of the Board of Directors, 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.

*Deloitte & Touche LLP*

Denver, Colorado  
June 24, 2005

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## APPENDIX H

### Book-Entry System

*The following information in this section regarding DTC and the book entry system is based solely on information provided by DTC. No representation is made by the Authority or the Underwriters as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities, registered in the name of Cede & Co., DTC's partnership nominee ("Cede") or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of the Bonds, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants (the "Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct in Participants' accounts. This eliminates 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 a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiary of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede, or such other name as may be requested by

an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

Principal and interest payments on the Bonds will be made to Cede, or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on a payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Tender Agent, the Remarketing Agent, the Liquidity Facility Provider 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 Cede, or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Trustee or the Authority, 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.

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

THE AUTHORITY, THE TRUSTEE, THE TENDER AGENT, THE LIQUIDITY FACILITY PROVIDER, AND THE REMARKETING AGENT SHALL HAVE NO RESPONSIBILITY OR OBLIGATION WITH RESPECT TO THE ACCURACY OF THE RECORDS OF DTC, CEDE & CO. OR ANY DTC PARTICIPANT WITH RESPECT TO ANY OWNERSHIP INTEREST IN THE BONDS, THE DELIVERY TO ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OR ANY OTHER PERSON, OTHER THAN CEDE & CO., AS NOMINEE OF DTC, AS SHOWN ON THE BOND REGISTER, OF ANY NOTICE WITH RESPECT TO THE BONDS, INCLUDING ANY

NOTICE OF REDEMPTION, THE PAYMENT TO ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OR ANY OTHER PERSON, OTHER THAN CEDE & CO., AS NOMINEE OF DTC, AS SHOWN ON THE BOND REGISTER, OF ANY AMOUNT WITH RESPECT TO PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE BONDS OR ANY CONSENT GIVEN BY CEDE & CO., AS NOMINEE OF DTC. SO LONG AS CERTIFICATES FOR THE BONDS ARE NOT ISSUED PURSUANT TO THE INDENTURE AND THE BONDS ARE REGISTERED TO DTC, THE AUTHORITY, THE LIQUIDITY FACILITY PROVIDER, THE TENDER AGENT, THE REMARKETING AGENT AND THE TRUSTEE SHALL TREAT DTC OR ANY SUCCESSOR SECURITIES DEPOSITORY AS, AND DEEM DTC OR ANY SUCCESSOR SECURITIES DEPOSITORY TO BE, THE ABSOLUTE OWNER OF THE BONDS FOR ALL PURPOSES WHATSOEVER, INCLUDING WITHOUT LIMITATION (1) THE PAYMENT OF PRINCIPAL AND INTEREST ON THE BONDS, (2) GIVING NOTICE OF REDEMPTION AND OTHER MATTERS WITH RESPECT TO THE BONDS, (3) REGISTERING TRANSFERS WITH RESPECT TO THE BONDS AND (4) THE SELECTION OF BONDS FOR REDEMPTION.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority, the Trustee and the applicable Liquidity Facility Provider. The Authority may decide to discontinue use of the system of book-entry transfer through DTC (or a successor depository). In that event, Bond certificates will be printed and delivered.

According to DTC, the foregoing information with respect to DTC has been provided to the Industry for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

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## APPENDIX I

### Insurance and Guarantee Programs; Foreclosure

*The Mortgage Loans are required by the Master Indenture to be subject to mortgage insurance or guaranty to the extent required by any Series Indenture. For a description of the requirements of a particular Series Indenture, see "Part I – CERTAIN PROGRAM ASSUMPTIONS." The following is a description of the various insurance and guarantee programs which may be applicable in connection with certain Mortgage Loans. The following also includes a description of the Colorado foreclosure procedures which may apply to a Mortgage Loan in the case of a Mortgagor default.*

#### **FHA Insurance**

The National Housing Act (the "NHA") of 1934, as amended, provides for various FHA mortgage insurance programs. The regulations governing the single family programs under which the FHA-insured Mortgage Loans are insured provide that a Mortgage Loan will be considered to be in default if the Mortgagor fails to make any payment or perform any other obligation under the Mortgage, and such failure continues for a period of thirty days. Insurance benefits are payable to the Mortgagee upon acquisition of title (through foreclosure or otherwise) and conveyance of the Eligible Property to HUD.

HUD requires Mortgagees to explore alternatives to foreclosure. These may include a forbearance, a forbearance with a partial claim, or modification agreement, a pre-foreclosure sale, or a deed in lieu of foreclosure. Utilization of certain alternatives to foreclosure may result in quicker receipt of the FHA insurance claim because the time required to complete a foreclosure is eliminated. Attempts to utilize alternatives to foreclosure which are unsuccessful may delay receipt of the FHA insurance claim due to a delay in commencement of foreclosure proceedings.

The FHA insurance claim for a Mortgage Loan will be paid in an amount equal to the outstanding principal balance plus allowable interest and, in most cases, approximately seventy-five percent (75%) of the permitted costs and expenses of acquiring title to the Eligible Property. Interest is allowed (except for two months which is disallowed) at the HUD debenture rate which may be less than the Mortgage Loan interest rate.

Payment for insurance claims may include reimbursement to the Mortgagee for tax, insurance, and similar advances made by the Mortgagee, as well as deductions for amounts received or retained by the Mortgagee after default. Under most FHA insurance programs for single-family residences, the Federal Housing Commissioner has the option of paying insurance claims in cash or in debentures. The HUD debenture rate may be less than the interest rate on the Mortgage Loans, and any debentures would mature 20 years after the date of issue, pay interest semiannually and may be redeemable at par at the option of HUD. Current FHA policy, which is subject to change at any time, is to pay insurance claims in cash.

Except in limited circumstances as approved by HUD properties conveyed to HUD upon completion of the foreclosure process or other acquisition of title must be conveyed vacant. In some circumstances it may be necessary to evict a tenant or Mortgagor upon the completion of the foreclosure proceedings before the Eligible Property can be conveyed to HUD and the FHA insurance claim can be filed.

FHA insurance claims may be denied or curtailed in limited circumstances. An FHA insurance claim may be denied if there was fraud in the origination of the Mortgage Loan or if the Mortgagee is unable to deliver marketable title to HUD. Claims may be curtailed if the Authority, as servicer of the Mortgage Loans, fails to process the foreclosure in accordance with the FHA requirements or fails to adequately protect the Eligible Property. The Authority relies on the warranties and representations of the originating Mortgage Lenders with respect to proper origination of the Mortgage Loans. If an insurance claim is denied or curtailed due to an error of the Mortgage Lender, the Authority would have recourse to such Mortgage Lender for reimbursement. See "Part II – THE SINGLE FAMILY MORTGAGE PROGRAM." The Authority's ability to collect claims for reimbursement may depend in part on the Mortgage Lender's financial condition at the time the claim arises.

### **VA Guaranty**

The Veteran's Benefits Act of 1957, Public Law 85-857, as amended, permits a veteran (or in certain circumstances a veteran's spouse) to obtain a mortgage loan guaranty to finance the purchase of a one-to-four unit family dwelling at interest rates permitted by the VA.

Claims for the payment of a VA guaranty may be submitted when any default of the Mortgagor continues for a period of three months. A guaranty may be paid without the Mortgagee instituting foreclosure proceedings or otherwise acquiring title. A Mortgagee intending to institute foreclosure proceedings cannot do so until 90 days after notifying the Administrator of Veteran Affairs of this intention by registered mail. The guaranty provisions for mortgage loans generally are as follows: (i) for home and condominium loans of \$45,000 or less, 50% of the loan is guaranteed; (ii) for home and condominium loans above \$45,000 but not more than \$56,250, \$22,500 of the loan is guaranteed; (iii) for home and condominium loans above \$56,250 but not more than \$144,000, the lesser of \$36,000 or 40% of the loan is guaranteed; and (iv) for home and condominium loans above \$144,000, the lesser of \$50,750 or 25% of the loan is guaranteed. The liability on the guaranty is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness. Notwithstanding the dollar and percentage limitations of the guaranty, a Mortgagee will ordinarily suffer a monetary loss only when the difference between the unsatisfied indebtedness and the proceeds of any foreclosure sale of an Eligible Property 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 the Mortgagee's obtaining title and assigning it to the VA.

In the case of a Mortgage Loan originated by a Mortgage Lender, the Authority relies on the originating Mortgage Lender for proper origination of such Mortgage Loan. If a guaranty claim is denied or curtailed due to the error of the Mortgage Lender, the Authority would have recourse to such Mortgage Lender for reimbursement. See "Part II – THE SINGLE FAMILY MORTGAGE PROGRAM." The Authority's ability to collect claims for reimbursement may depend in part on the Mortgage Lender's financial condition at the time the claim arises.

### **Rural Housing Service Guarantee**

Under the Rural Housing Service's Rural Housing Loan Guarantee Program, a Mortgagor may obtain a Mortgage Loan guaranteed by the Rural Housing Service ("RHS") covering mortgage financing of the purchase of an Eligible Property located in a RHS-designated rural area at interest rates permitted by the RHS. The RHS Rural Housing Loan Guarantee program will be limited to only certain rural areas of the State. Mortgagor and Mortgage Loan eligibility for such guarantees is subject to certain income, purchase price and other limitations in addition to the limitations applicable to all Mortgagors and Mortgage Loans.

The amount of the RHS loan guarantee is 90% of the principal amount of the mortgage loan. The maximum loss payment under the RHS guarantee will be the lesser of: (i) any loss of an amount equal to 90% of the principal amount actually advanced to the Mortgagor, or (ii) any loss sustained by the Mortgagee of an amount up to 35% of the principal amount actually advanced to the Mortgagor, plus any additional loss sustained by the Mortgagee of an amount up to 85% of the remaining 65% of the principal amount actually advanced to the Mortgagor. Loss includes only: (a) principal and interest evidenced by the promissory note; (b) any Mortgage Loan subsidy due and owing; and (c) any principal and interest indebtedness on RHS-approved protective advances for protection and preservation of the Eligible Property. Interest (including any subsidy) will be covered by the RHS guarantee to the date of the final loss settlement when the Mortgagee conducts liquidation of the Eligible Property in an expeditious manner in accordance with RHS regulations.

When a Mortgage Loan becomes three payments delinquent, the Mortgagee may proceed with foreclosure of the Mortgage Loan unless extenuating circumstances exist. The RHS requires Mortgagees to explore an acceptable alternative to foreclosure, although incentives are not paid to mortgagees to implement the alternatives. Acceptable foreclosure alternatives include forbearance modifications, pre-foreclosure sales and deeds in lieu of foreclosure. If the Mortgagee proposes a method of liquidation other than foreclosure, then the Mortgagee must obtain RHS's approval of such method.

Payment of loss is made within 60 days after the Mortgagee files a claim. A claim must be filed within 30 days after liquidation of the Eligible Property. Loss is determined by the difference between the unpaid principal balance of the mortgage loan, unpaid interest and advances approved by RHS and net proceeds from the Eligible Property. Normal costs of liquidation are also included in the loss payment. If the Mortgagee acquires title to the Eligible Property from the foreclosure sale, the Mortgagee must submit a disposition plan to RHS for RHS concurrence. The Mortgagee has six months from the date of the foreclosure sale to sell the Eligible Property. If the Eligible Property is sold in accordance with the plan, the actual net proceeds from the sale of the Eligible Property will be used to calculate the loss payment. If the Eligible Property is not sold within 6 months from the sale date (which period may be extended for 30 days with RHS approval to permit the closing on an offer received near the end of the 6 month period) RHS will obtain a liquidation value appraisal of the Eligible Property which will be used to determine net proceeds for calculation of the loss payment.

If a third party acquires title to the Eligible Property from the foreclosure sale or as a result of a sale by the Mortgagor to cure or avoid a default, the actual net proceeds from the sale will be used to calculate the loss payment. In some circumstances, the Mortgagee may be required to enforce a deficiency judgment against the Mortgagor before the loss payment will be paid. This may substantially delay payment. Any recovery on the mortgage loan by the Mortgagee after receipt of a loss payment must be shared with RHS in proportion to the loss borne by RHS and the Mortgagee.

RHS claims may be denied or curtailed in limited circumstances. A claim may be denied if there was fraud or misrepresentation that the Mortgagee knew about, participated in or condoned. Claims may be curtailed as a result of violation of usury laws, negligent servicing or failure to obtain required collateral.

In the case of a Mortgage Loan originated by a Mortgage Lender, the Authority relies on the originating Mortgage Lender for proper origination of such Mortgage Loan. If a guaranty claim is denied or curtailed due to the error of the Mortgage Lender, the Authority would have recourse to such Mortgage Lender for reimbursement. See "Part II – THE SINGLE FAMILY MORTGAGE PROGRAM." The Authority's ability to collect claims for reimbursement may depend in part on the Mortgage Lender's financial condition at the time the claim arises.

## **Private Mortgage Insurance and Uninsured Mortgage Loans**

### *Private Mortgage Insurance*

Under each Series Indenture, the Authority is authorized in certain circumstances to purchase PMI Mortgage Loans which are insured by a private mortgage insurance company approved by the Authority, which is qualified to do business in the State and qualified to provide insurance on mortgages purchased by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association and which is rated by the agency then rating the Bonds at least as high as the rating on the Bonds at the time the Mortgage Loan is purchased.

The amount of private mortgage insurance plus the Eligible Borrower's down payment must at least equal the amount by which the PMI Mortgage Loan exceeds 80% of the appraised value (at the time of origination) or purchase price, whichever is less, of the mortgaged property securing such PMI Mortgage Loan. Federal law requires the Authority to terminate private mortgage insurance in the following circumstances. If requested by the mortgagor, the Authority shall terminate insurance on the date when, based on the original amortization schedule, the principal balance of the Mortgage Loan is scheduled to be reduced to 80% of the original value of the mortgaged property, provided the Mortgagor has a "good" payment history and the value of the mortgaged property has not declined. The Authority will be required to automatically terminate private mortgage insurance, on the date when, based on the original amortization schedule, the principal balance of the Mortgage Loan is scheduled to reach 78% of the original value of the mortgaged property if the mortgagor is current on the Mortgage Loan. In addition to the foregoing, the Authority will be required to terminate private mortgage insurance, if not already terminated, on the first day of the month immediately following the midpoint of the amortization period for the Mortgage Loan if the mortgagor is current. Mortgage insurance premiums, which are generally  $\frac{1}{4}$  of 1% of the outstanding principal balance of the PMI Mortgage Loan, are payable periodically by the mortgagee, who may be reimbursed therefore by the mortgagor.

Generally, delinquencies must be reported to the Private Insurer within three months of default, and proceedings to recover title are required to commence within six months of default. It is also required that prior to presenting a claim under the PMI, title to the mortgaged property, free and clear of all liens and encumbrances, including any right of redemption by the mortgagor, must be acquired and tendered to the Private Insurer. Private mortgage insurance policies may provide that the Private Insurer, upon taking title to the mortgaged property securing a PMI Mortgage Loan, must pay the mortgagee the unrecovered balance of its loss but may permit mortgagee to retain such title and pay a claim equal to the difference between the original principal amount of such Mortgage Loan and 75% of the appraised value (at the time of origination) or purchase price of such mortgaged property, whichever is less. The amount of the claim payable also generally consists of usual and customary attorneys' fees, real estate taxes, hazard and private mortgage insurance premiums necessarily advanced by the insured, expenses incurred in preservation and maintenance of the mortgaged property, and other costs and expenses incurred to acquire the mortgaged property. Private Insurers may require or permit the mortgagee to forbear from foreclosing a defaulted Mortgage Loan, offer a preforeclosure sale or deed in lieu of foreclosure, or enter into an agreement modifying the terms of a Mortgage Loan in certain circumstances.

In the case of a Mortgage Loan originated by a Mortgage Lender, the Authority relies on the originating Mortgage Lender for proper origination of such Mortgage Loan. If an insurance claim is denied or curtailed due to the error of the Mortgage Lender, the Authority would have recourse to such Mortgage Lender for reimbursement. See "Part II – THE SINGLE FAMILY MORTGAGE PROGRAM." The Authority's ability to collect claims for reimbursement may depend in part on the Mortgage Lender's financial condition at the time the claim arises.



### *Uninsured Mortgage Loans*

Each Series Indenture also permits the Authority in certain circumstances to make or purchase Uninsured Mortgage Loans which are neither governmentally-guaranteed or insured nor insured by a private mortgage insurance company, as long as the outstanding principal balance of each such Uninsured Mortgage Loan is less than or equal to 80% of the appraised value (at the time of origination of such Mortgage Loan) or the purchase price, whichever is less, of the mortgaged property securing such Uninsured Mortgage Loan.

### **Colorado Foreclosure Law and Procedure**

The Mortgage Loans are evidenced by promissory notes and secured by deeds of trust encumbering the mortgaged property. The Colorado form of deed of trust is a unique three-party instrument that involves a public rather than a private trustee. The parties to a deed of trust are the borrower (i.e., the mortgagor), the public trustee of the county in which the mortgaged property is located and the Mortgage Lender (generally referred to in a deed of trust as the beneficiary and herein as the mortgagee). A deed of trust creates a lien in favor of the mortgagee to secure repayment of the debt.

The public trustee's duties are generally limited to foreclosure of the deed of trust, issuance of certificates of purchase and deeds following foreclosure, release of deeds of trust, and related matters. The public trustee will rarely have notice of a deed of trust until the mortgagee elects to have the public trustee foreclose the deed of trust. Public trustees do not have discretionary or decision-making authority like judges. Rather, they perform the ministerial and procedural acts necessary to complete foreclosures in accordance with Colorado law.

A mortgagor's failure to perform a material covenant of the deed of trust (like failure to pay taxes or failure to pay the debt) generally constitutes a default entitling the mortgagee to accelerate the debt and foreclose. To start foreclosure proceedings, the mortgagee must present to the public trustee the original promissory note or evidence of debt (or a lost instruments bond if the note or evidence of debt has been lost), the original or certified copy of the deed of trust and a Notice of Election and Demand for Sale. Certain types of mortgagees, which include the Authority, may commence foreclosure by presenting a copy of the original evidence of debt instead of the original instrument or a bond. If the mortgagee presents a copy of the evidence of debt, the mortgagee is liable to a person incurring a loss if the original evidence of debt is subsequently presented for payment. The mortgagee or its attorneys must also prepare and submit to the public trustee other required notices, certificates and affidavits and a mailing list for the notices. The public trustee must record the Notice of Election and Demand for Sale in the appropriate clerk and recorder's office within ten working days after receipt. The public trustee then causes a Notice of Sale to be published and posted. The Notice of Sale must be published once a week for five successive weeks in a newspaper of general circulation in the county where the mortgaged property is located. Copies of the published Notice of Sale must be sent to the persons designated by statute within twenty days after the first publication.

The mortgagee may elect to preserve certain junior interests (like easements or leases) that would otherwise be extinguished by the foreclosure by omitting them from the mailing list for the Notice of Sale and filing a Notice to Affirm prior to the expiration of the owner's redemption period.

Within twenty days after recording the Notice of Election and Demand for Sale, the public trustee must also mail a notice of Right to Redeem and Cure to the persons designated by statute. A right to redeem inures to the owner of the mortgaged property, certain holders of recorded junior interests, and any other person liable for a deficiency. A right to cure inures to the owner of the mortgaged property, parties liable on the debt and, with respect to deeds of trust recorded on or after October 1, 1990, junior

lienholders, lessees, easement holders and installment land contract buyers. For deeds of trust recorded prior to October 1, 1990, cure rights inure only to owners and parties liable on the debt.

Unless the mortgagee requests a postponement, a public trustee foreclosure sale must occur no less than 45 days and no more than 60 days after the date of recording the Notice of Election and Demand for Sale. Prior to the foreclosure sale the mortgagee must obtain an Order Authorizing Sale in an appropriate Colorado District Court pursuant to Rule 120 of the Colorado Rules of Civil Procedure. Notice of a Rule 120 hearing must be provided to the persons designated by statute. The hearing must be scheduled not less than 20 nor more than 30 days after filing the Notice. The hearing must also be at least 16 days prior to the date of the foreclosure sale or the mortgagee must continue the sale. An order authorizing the public trustee foreclosure sale will be issued if the court determines there is a reasonable probability that a default has occurred and no interested party is entitled to protection of the Servicemembers' Civil Relief Act of 1940, as amended (the "Relief Act"). The scope of the Rule 120 hearing is limited to determining the reasonable probability that a default has occurred, whether under the deed of trust foreclosure is authorized and determination of issues related to the Relief Act.

Mortgagors called to active duty after obtaining a Mortgage Loan are entitled to benefit of the Relief Act. Under the Relief Act a mortgagor may be granted certain relief from the mortgage obligations during active military service. Such relief includes: (i) reduction of the Mortgage Loan interest rate to six percent (6%); (ii) a stay of foreclosure proceedings; and (iii) a stay of the redemption period. Such relief may reduce revenues received by the Authority during such period.

When foreclosure is initiated due to the nonpayment of sums due under the promissory note or deed of trust (such as principal, interest or real estate taxes), parties entitled by statute to cure who wish to exercise such cure rights must preserve the right to cure by filing a Notice of Intent to Cure with the public trustee at least fifteen days prior to the date of the foreclosure sale. The Public Trustee is then required to promptly request the amount required to cure the default from the mortgagee. If the mortgagee does not provide the amount required to cure by noon on the 7<sup>th</sup> calendar day prior to the sale the foreclosure will be postponed for one or two weeks and thereafter from week to week. The party wishing to cure the default must pay the public trustee all delinquent principal, interest and other amounts due plus the costs and expense of the foreclosure, including attorneys' fees, on or before noon of the day prior to the foreclosure sale to effectuate the cure. After the default is cured the mortgagee must terminate the foreclosure proceedings. The mortgagee may but is not obligated to accept a cure and terminate the foreclosure proceedings even if the statutory requirements are not met.

If the Mortgage Loan is not cured, the public trustee will sell the mortgaged property at the foreclosure sale to the highest bidder. Anyone may bid at the sale. There is no obligation for the mortgagee to bid any amount in excess of the outstanding debt. Any bid by the mortgagee which is less than the outstanding debt must be a good faith estimate of the fair market value of the mortgaged property (less unpaid taxes, the amount of senior liens and estimated reasonable costs and expenses net of income, of holding, marketing and selling such property). The failure of the mortgagee to bid a good faith estimate of the fair market value of the mortgaged property will not affect the validity of the foreclosure sale but may be raised as a defense by a person sued on a deficiency. The public trustee will issue a Certificate of Purchase to the successful bidder.

The owner of the mortgage property and anyone liable on the Mortgage Loan have a right to redeem it from the foreclosure sale for a period of 75 days after the sale if the mortgaged property is non-agricultural property. If the mortgaged property is agricultural property the owner's redemption period is six months. "Non-agricultural property" is property any part of which on the date the deed of trust was recorded or on the date of the foreclosure sale had one or more of the following characteristics: (i) it is located in a platted subdivision, (ii) is located within an incorporated city or town, or (iii) it is not valued

and assessed as agricultural land. If the owner or other person liable on the Mortgage Loan does not redeem, the most senior junior lienholder may redeem within ten days after expiration of the owner's redemption period and each subsequent junior lienholder has (in order of priority of the liens) five days to redeem. If more than three consensual liens are recorded after recording of the notice of election and demand and not less than 15 calendar days prior to the end of the owners redemption period, only the holders of the three most senior liens are entitled to redeem. To preserve the right to redeem, a junior lienholder must file a notice of intent to redeem and other documents with the public trustee more than 15 calendar days prior to the expiration of the owner's redemption period. If no redemption is made by the owner or a junior lienholder, title will vest in, and the public trustee will issue a deed to, the holder of the Certificate of Purchase. The public trustee's deed will convey the mortgaged property free of all junior interests except junior interests the mortgagee elected to affirm or which were not sent proper notices of the foreclosure as required by statute. Special rules apply with respect to junior liens which are held by the IRS or other federal agencies.

Judicial foreclosure may be required or advisable in certain circumstances including where there are defects in title, where there is a need to reform the Mortgage Loan documents to correct an error or where there is a dispute about the priority of the deed of trust. Generally a judicial foreclosure will take substantially longer and be significantly more expensive than a public trustee's foreclosure.

In addition to the statutory requirements with respect to a foreclosure in Colorado, other restrictions may be imposed by the Mortgage Loan documents or by the VA, FHA, RHS or a Private Insurer. VA and FHA encourage Mortgage Lenders to avoid foreclosure wherever possible. VA, FHA and RHS also have special programs for certain borrowers whose defaults are caused by circumstances outside of their control, as described in "VA Guaranty," "Rural Housing Service Guarantee" and "FHA Insurance" under this caption. Certain loan documents for the Mortgage Loans may incorporate restrictions from the FNMA/FHLMC Colorado Uniform Security Instrument which require the mortgagee to give the Mortgagor thirty days' notice prior to accelerating the Mortgage Loan unless the default is violation of the due-on-sale clause.

In the event a Mortgagor files a bankruptcy petition, the foreclosure proceedings are automatically stayed until the mortgagee is granted relief from stay or the bankruptcy action is dismissed. The mortgagee may not be granted relief from stay in certain cases. If a bankruptcy petition is filed after all publications of notice of the sale as required by Colorado law have been completed, the Mortgagee may continue the sale for as long as the automatic stay is in effect. Upon obtaining relief from stay or upon dismissal of the bankruptcy, the sale can be held at the next available sale date. If a bankruptcy petition is filed prior to completion of the publication of all notices of the sale as required by Colorado law, the remaining notices must be cancelled. If the mortgagee obtains relief from stay or the bankruptcy is dismissed, the mortgagee must re-record the Notice of Election and Demand for Sale and all required notices must be given before a foreclosure sale may be held.

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## APPENDIX J

### Form of Continuing Disclosure Undertaking

#### CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Disclosure Certificate") is executed and delivered by the COLORADO HOUSING AND FINANCE AUTHORITY, a body corporate and political subdivision of the State of Colorado (the "Authority"), in connection with the issuance of the Authority's Single Family Mortgage Bonds, \_\_\_\_ Series \_\_\_\_ (the "Series Bonds"). The Series Bonds are being issued pursuant to a Master Indenture of Trust dated as of October 1, 2001, as amended (the "Master Indenture") and pursuant to a \_\_\_\_ Series \_\_\_\_\_ Indenture dated as of \_\_\_\_\_ 1, 200\_\_ (the "Series Indenture" and, together with the Master Indenture, the "Indenture") between the Authority and Zions First National Bank, Denver, Colorado, as trustee. The Authority may issue additional series of bonds under the Master Indenture upon satisfaction of the conditions set forth in the Master Indenture. All bonds issued under the Master Indenture, including the Series Bonds are referred to herein as the "Bonds." Capitalized terms used but not defined herein shall have meanings ascribed thereto in the Indenture. The Authority covenants and agrees as follows:

#### BACKGROUND

1. The Series Bonds are being issued to provide funds to be used to pay at maturity or redeem prior to maturity certain outstanding obligations of the Authority, to provide funds to finance the purchase of mortgage loans under the Authority's Single Family Mortgage Program (as defined in the Official Statement), to establish necessary reserves, and to otherwise attain the goals of the Authority pursuant to the Colorado Housing and Finance Authority Act.
2. In order to allow the Participating Underwriters (as defined in the Rule defined below) of the Series Bonds to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities and Exchange Act of 1934 (17 CFR § 240.15c2-12) as amended to the date hereof (the "Rule" or "Rule 15c2-12"), the Authority has agreed to make certain continuing disclosure undertakings for the benefit of owners (including beneficial owners) of the Series Bonds.
3. This Disclosure Certificate is intended to satisfy the requirements of said Rule 15c2-12, as in effect on the date hereof.

#### AUTHORITY COVENANTS AND AGREEMENTS

##### Section 1. Definitions.

(a) "Annual Financial Information" means the financial information or operating data with respect to the Authority and any loan program financed under the Master Indenture, delivered at least annually pursuant to Sections 2(a) and 2(b) hereof, substantially similar to the type set forth in the final Official Statement as described in Exhibit A hereto, including but not limited to such financial information and operating data set forth in (i) "Part I – CERTAIN PROGRAM ASSUMPTIONS," **Appendix B-1** – "THE OUTSTANDING BONDS AND AUXILIARY OBLIGATIONS" and **Appendix B-2** – "THE MORTGAGE LOAN PORTFOLIO," and (ii) the section of the final Official Statement captioned "Part II – COLORADO HOUSING AND FINANCE AUTHORITY."

(b) "Audited Financial Statements" means the annual financial statements for the Authority, prepared in accordance with generally accepted accounting principles consistently applied, as in effect from time to time, audited by a firm of certified public accountants.

(c) "Events" means any of the events listed in Section 2(d) hereof.

(d) "MSRB" means the Municipal Securities Rulemaking Board. The current address of the MSRB is 1900 Duke Street, #600, Alexandria, Virginia 22314; fax: 703-797-6700.

(e) "National Repository" means, at the Authority's option, either (i) each Nationally Recognized Municipal Securities Information Repository (collectively, the "NRMSIRs") recognized by the Securities and Exchange Commission from time to time for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time, or (ii) any other filing system approved by the Securities and Exchange Commission for transmission of continuing disclosure filings under said Rule 15c2-12(b)(5) for submission to the NRMSIRs (without also separately submitting such filings to the NRMSIRs and any applicable State Information Depositories by some other means), including without limitation the central post office known as DisclosureUSA, managed by the Municipal Advisory Council of Texas and located at the website [www.DisclosureUSA.org](http://www.DisclosureUSA.org).

(f) "Official Statement" means the Official Statement delivered in connection with the original issue and sale of the Series Bonds.

(g) "Repository" means each such National Repository and any SID.

(h) "Rule 15c2-12" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended (17 CFR § 240.15c2-12), as the same may be amended from time to time.

(i) "SEC" means the Securities and Exchange Commission.

(j) "Senior Manager" means Lehman Brothers Inc., 4<sup>th</sup> Floor, 745 Seventh Avenue, New York, New York 10019.

(k) "SID" means any State Information Depository operated or designated by the State of Colorado that receives information from all issuers within the State. As of the date of this Disclosure Certificate, no SID exists for the State.

(l) "State" means the State of Colorado.

## Section 2. Provision of Annual Information and Reporting of Events.

(a) Commencing with the fiscal year ending December 31, 200\_\_ and annually while the Bonds remain outstanding, the Authority agrees to provide or cause to be provided annually each Repository (with a copy, upon request, to the Senior Manager) the following information:

- i. Annual Financial Information; and
- ii. Audited Financial Statements, if prepared.

(b) Such Annual Financial Information shall be provided not later than 240 days after the end of each fiscal year for the Authority (i.e., each December 31). If not provided at the same time as the Annual Financial Information, the Audited Financial Statements will be provided when available.

(c) The Authority may provide Annual Financial Information and Audited Financial Statements by specific reference to other documents, including information reports and official statements relating to other debt issues of the Authority, which have been submitted to each Repository; provided, however, that if the document so referenced is a final official statement within the meaning of Rule 15c2-12, such final official statement must also be available from the MSRB. The Authority shall clearly identify each such other document so incorporated by cross-reference.

(d) At any time the Series Bonds are outstanding, the Authority shall provide, in a timely manner, to the MSRB and any SID, with a copy to the Senior Manager, notice of the occurrence of any of the following Events with respect to the Series Bonds, if material (provided, that any event under clauses (ix) or (xi) will always be deemed to be material):

- i. Principal and interest payment delinquencies with respect to the Series Bonds;
  - ii. Non-payment related defaults with respect to the Series Bonds;
  - iii. Unscheduled draws on debt service reserves reflecting financial difficulties;
  - iv. Unscheduled draws on credit enhancements reflecting financial difficulties;
  - v. Substitution of credit or liquidity providers, or their failure to perform;
  - vi. Any event adversely affecting the tax-exempt status of the Series Bonds;
  - vii. Modifications to the rights of the owners of the Series Bonds;
  - viii. Bond calls (other than mandatory sinking fund redemption);
  - ix. Defeasance;
  - x. Release, substitution or sale of property securing repayment of the Series Bonds;
- and
- xi. Rating changes.

(e) At any time the Series Bonds are outstanding, the Authority shall provide, in a timely manner, to the MSRB and any SID, with a copy to the Senior Manager, notice of any failure of the Authority to timely provide the Annual Financial Information as specified in Sections 2(a) and 2(b) hereof.

Section 3. Method of Transmission. Subject to technical and economic feasibility, the Authority shall employ such methods of electronic or physical information transmission as is requested or recommended by the Repositories or the MSRB unless otherwise required by law.

Section 4. Enforcement. The obligations of the Authority hereunder shall be for the benefit of the owners (including beneficial owners) of the Series Bonds. The owner or beneficial owner of any

Series Bonds is authorized to take action to seek specific performance by court order to compel the Authority to comply with its obligations under this Disclosure Certificate, which action shall be the exclusive remedy available to it or to any other owners or beneficial owners of the Series Bonds; provided, that any owner or beneficial owner of Series Bonds seeking to require the Authority to comply with this Disclosure Certificate shall first provide at least 30 days' prior written notice to the Authority of the Authority's failure, giving reasonable detail of such failure following which notice the Authority shall have 30 days to comply. Any such action shall be brought only in a court of competent jurisdiction in the City and County of Denver, Colorado. Breach of the obligations of Authority hereunder shall not constitute an Event of Default under the Trust Document and none of the rights and remedies provided by the Trust Document shall be available to the owners of the Series Bonds or the Trustee therein appointed.

Section 5. Additional Information. Nothing in the Disclosure Certificate shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other annual information or notice of occurrence of an event which is not an Event, in addition to that which is required by this Disclosure Certificate; provided that the Authority shall not be required to do so. If the Authority chooses to include any annual information or notice of occurrence of an event in addition to that which is specifically required by this Disclosure Certificate, the Authority shall have no obligation under this Disclosure Certificate to update such information or include in any future annual filing or Event filing.

Section 6. Term. This Disclosure Certificate shall be in effect from and after issuance and delivery of the Bonds and shall extend to the earliest of (i) the date all principal and interest on the Series Bonds shall have been deemed paid or legally defeased pursuant to the terms of the Indenture; (ii) the date that the Authority shall no longer constitute an "obligated person" with respect to the Series Bonds within the meaning of Rule 15c2-12; or (iii) the date on which those portions of Rule 15c2-12 which require this Disclosure Certificate are determined to be invalid by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Series Bonds, the determination of (i), (ii) or (iii) herein to be made in any manner deemed appropriate by the Authority, including by an opinion of counsel experienced in federal securities law selected by the Authority.

Section 7. Amendments and Waivers. Notwithstanding any other provision of the Disclosure Certificate, the Authority may amend this Disclosure Certificate from time to time, and any provision of this Disclosure Certificate may be waived, without the consent of the owners or beneficial owners of the Series Bonds upon the Authority's receipt of an opinion of counsel experienced in federal securities laws to the effect that such amendment or waiver will not adversely affect compliance with Rule 15c2-12. Any Annual Financial Information containing amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. If an amendment changes the accounting principles to be followed in preparing financial statements, the Annual Financial Information for the year in which the change is made will 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. The Authority shall provide notice of such amendment or waiver to each Repository and the Senior Manager.



Section 8. Beneficiaries. The Disclosure Certificate shall inure solely to the benefit of the Authority, the Participating Underwriter and the owners (including beneficial owners) from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated as of \_\_\_\_\_, 200\_\_.

COLORADO HOUSING AND FINANCE  
AUTHORITY

By: \_\_\_\_\_  
Executive Director

## EXHIBIT A

The Authority's Annual Financial Information shall contain or include by reference tables setting forth the following information, as of the end of the Authority's fiscal year (December 31):

(i) For each maturity of each series of Bonds outstanding under the Master Indenture: (i) the maturity date of such Bonds, Bond type (serial or term), the interest rate on such Bonds, principal redemptions, original aggregate principal amount of such Bonds and the principal amount of such Bonds remaining Outstanding; and (ii) a list of unscheduled redemptions including the date of call, amount and type of call.

(ii) During the period for the acquisition of Mortgage Loans with the proceeds of the Series Bonds, the original amount of funds available for the acquisition of Mortgage Loans, the total amount of funds committed by the Authority for individual Mortgage Loans, and the total principal amount of Mortgage Loans purchased by the Authority. This information will not be provided after the period for the acquisition of Mortgage Loans with the proceeds of the Series Bonds.

(iii) The amount and type of assets (and, if applicable, the rate and maturity date of such assets) credited to the Acquisition Account, the Revenue Account, the Loan Recycling Account, the Class I Debt Service Fund, the Class II Debt Service Fund, the Class III Debt Service Fund, the Class IV Debt Service Fund (as applicable), the Redemption Fund, the Short Term Bond Account and the various subaccounts in each of the above-referenced funds or accounts; and the current amount of assets credited to the Debt Service Reserve Fund and its various subaccounts.

(iv) With respect to each Series of Bonds, the outstanding aggregate principal balance of Mortgage Loans, the aggregate number of outstanding Mortgage Loans, the average principal balance per Mortgage Loan, average coupon and weighted average maturity.

(v) With respect to each Series of Bonds, a breakdown of the type of housing, expressed as a percentage of Mortgage Loans outstanding, showing the extent to which: (i) the housing is single family detached, condominium/townhomes or other (specify); (ii) the housing is new construction or existing homes; and (iii) the housing is insured by the FHA, insured by private mortgage insurance, insured by the Rural Housing Service, guaranteed by the VA or uninsured.

(vi) With respect to each Series of Bonds, the number of loans financed, the number of loans prepaid in full, the number of loans foreclosed to date, the number of loans outstanding, the number of delinquent 30-90 days, the percentage of total loans delinquent 30-90 days, the number of delinquencies 90 or more days, the percentage of total loans delinquent 90 or more days, the number of loans in foreclosure, the percentage of total loans in foreclosure and the percentage of all loans delinquent.

(vii) With respect to each Series of Bonds, the amount of total assets, the amount of total liabilities and the amount of surplus or deficit.



